Grant Thornton

Reporting Entity Sector Profiles

Money laundering and terrorist financing vulnerability assessments

Prepared for FINTRAC | March 31, 2014

Contents

1. Introduction

Grant Thornton was retained by FINTRAC to conduct an information and intelligence gathering exercise, in relation to industry sectors covered by the Proceeds of Crime (Money-Laundering) and Terrorist Financing Act (the "PCMLTFA") and regulations, in order to assist in preparing sector risk profiles for money laundering and terrorist financing, including Grant Thornton providing a comparative analysis of the sector risks.

The purpose of the exercise was to enable FINTRAC to have a better understanding of the sectors and with a focus more on the structure of each sector in the identification and assessment of risk.

Our work involved accessing a number of different information sources, including obtaining privileged insights and information from knowledgeable industry insiders and other sector experienced and expert individuals. FINTRAC provided a prioritized list of the sectors and this was utilized to organize our efforts. This prioritized list is detailed below:

- Real Estate
- Dealers in Precious Metals & Stones (DPMS)
- Securities Dealers
- Accountants
- Life Insurance
- British Columbia Notaries (BC Notaries)
- Credit unions
- Casinos
- Financial Entities
- Lawyers
- Money Service Businesses (MSB's)

This was not an exercise to simply document how money laundering was, or may be, occurring in each sector; while in some cases we did seek and receive the opinions of persons we interviewed on this, the work effort undertaken was broader. We really attempted to obtain a deeper understanding of how individuals and companies within the sectors worked as potentially related to risk areas. The resulting sector profiles report reflects our prioritized efforts, meaning simply that we conducted more interviews with people for the higher prioritized sectors and this accordingly provided us with a greater amount of privileged insights and information. As well, interviews resulted from the people available and willing to speak with us.

We understand that this resulting report will inform the work that FINTRAC does in several areas, including possibly their work with each sector specifically.

1.1 Methodology and approach

1.1.1 Information gathering: Methodology and approach

Our methodology involved information gathering from four primary sources:

1. Review of relevant authoritative anti-money laundering ("AML") guidance, e.g. Financial Action Task Force ("FATF") sector guidance; other country sector risk assessments;

2. Public records research including news media, Statistics Canada, market and sector economic data industry statistics, etc.;

3. Interviews with Grant Thornton Canadian sector and international AML specialists; and

4. Interviews with industry insiders in each of the ten sectors.

1.1.2 Compilation and review of relevant authoritative AML materials

We conducted a detailed search and review of contemporary authoritative AML materials focusing on surveys, case studies, typology studies, risk assessments and other reports in order to facilitate our development of a 'Discussion Tool' to assist our interviews. We collected an extensive range of materials from around the world in order to guarantee a broad reach and coverage in this aspect of the research; the materials were not restricted to Canada.

1.2 Public records research undertaken

Our public records research included the use of a range of specific tools which were used in a number of ways to maximize coverage for each of the research phases. We conducted searches within Canada and also internationally. Phase one of our research focused on identifying relevant information to build out data for each of the following reported on sections:

- General sector profile;
- Economic and financial statistics;
- Structure of sector;
- Size and segmentation of sector;
- Entity population, primary and secondary;
- Regulatory environment of sector; and
- Description of any associations that exist.

Phase two of our research was more focused and concentrated on the following:

- Products and services offered, including consideration for more cash intensive products/services;
- Delivery channels;
- Emerging trends, new products and services in future;
- Types of customer, including consideration for proportion of high risk customers; and
- Geographic considerations (operations, where business is conducted, where there is a presence (direct and indirect), international transactions).

Phase three of our research really focused on developing further the data obtained from the other research sources, including determining:

- Any other relevant information;
- Commonly understood money laundering and terrorist financing risk and vulnerabilities;
- Typologies including: use of agents, brokers, cross border movement of funds, current vulnerabilities and emerging/potential vulnerabilities; and
- Understanding further any specific regulations/guidelines in place, market entry barriers and controls.

These research topics mirrored closely the areas requested by FINTRAC and the section headings delivered in our final sector profiles report. The research tools used were as follows:

- News media databases (Factiva, Lexis and Infomart);
- Corporate information databases (OneSource, Factiva, Dun & Bradstreet);
- Litigation databases (Quicklaw);
- Industry classification codes and related tools;
- Internet based research including, Statistics Canada, market and sector economic data websites, trade and industry publications, regulators and sector associations etc.; and
- Library research (various ML/TF related books).

1.3 Experienced sector knowledge

We were fortunate to be able to have discussions with many individuals who spoke freely and frankly with us and who provided valuable insights into the work and reality of the sector they were involved with. These individuals understood that we were undertaking research on the sectors in regards to money laundering and terrorist financing risks and that we would keep their input anonymous. We completed 57 interviews as follows:

Sector	Number of Interviews
Real Estate	7
DPMS	6
Securities	10
Accountants	5
Life Insurance	2
BC Notaries	1
Credit Unions	7
Casinos	2
Financial Entities (other than credit unions)	6
Lawyers	6
MSBs	5

1.4 Risk factor identification and assessment

Based on the research completed, we developed and documented specific risk factors for each of the sectors. The factors were determined in large part from the interviews undertaken, our own experiences with different clients, projects and investigations within the sectors and our review of the other sector profile information. We had the opportunity in some cases to review the risk factors initially identified with sector expertise, specifically we were able to have Grant Thornton sector experts review the risk factors developed to obtain their further input.

The risk factors identified were generally organized into the following headings for each sector:

- General market;
- Product and service;
- Delivery channel;
- Geography;
- Business relationships/linkages with other sectors;
- Transaction methods and types; and
- For Accountants and Lawyers, as service providers to other sectors, client type and characteristics.

Once identified, the risks by sector, grouped according to the list above, were pulled together in a schedule format for further review and to assist with the assessment and comparative analysis. At this point we then conducted a global review of the identified sector risk factors and this level of review enabled us to identify risk factors which had been identified specifically in one sector and were also applicable to others.

Based primarily on the privileged insights information gathered through the interviews and our own experiences, each risk factor grouping was rated. A four point scale (low, medium, high, and very high) was used for the rating; the rating was determined primarily through the consideration of the probability or likelihood that the risk would materialize and the impact of it materializing. Our assessment, while subjective, was based on the information known and available to us and we exercised our professional judgment.

2. Key risk factors identified and assessment

As indicated, key risk factors were identified for each of the sectors researched and we then determined a rating for each risk factor grouping by sector and this is documented in the attached Table 1. A number of our observations are noted below.

2.1 General market and delivery channel risk factors

Market competitiveness and the structures in place to support the quality of services provided and the ethics of individual persons working within the sector are of critical importance. This became clear both as a general market condition and when trying to understand how the size of the party within the sector impacted their vulnerability to abuse for money laundering and terrorist financing. Based on the research performed, these areas are of critical importance for the real estate and money service businesses sectors. Our research indicates that at the smaller end of the market there is often no quality and ethics infrastructure in place for these sectors. This is also the case for the securities, accountants, lawyers and credit union sectors except that while there is no or limited infrastructure in place at the smaller end of the market, there is a regulated environment for these sectors which to some extent mitigates the vulnerability.

These factors were given a higher weighting for the determination of risk for these sectors.

2.2 Geography risk factors

The purchase of Canadian real estate assets with offshore money and/or by offshore persons was noted as a significant risk factor. Similarly, the purchase of investment assets whether the Canadian or other markets, through Canadian securities firms with offshore money, particularly through the use of off shore companies, in some cases institutional accounts, was noted as a significant risk. These factors were given higher weighting in the determination of risk.

The ability to access global markets through Canadian sector participants, particularly via dealers in precious metals, credit unions, financial entities and MSBs was rated higher for money laundering and terrorist financing vulnerability risks.

2.3 Business relationships/linkages risk factors

The use of legal trust accounts was noted specifically as an area of concern, particularly for the real estate, accounting and legal sectors.

The concept of the 'gatekeeper role' came through in our research for each of securities, accounting, life insurance, MSB's and the legal sectors.

These factors were given higher weighting in the consideration of risk.

2.4 Transaction methods & types risk factors

The use of corporate vehicles was specifically noted as a higher risk factor in the real estate and securities sectors and is generally seen as a method to conceal ownership, source and purpose of funds/transaction and adds to the opacity of the environment. Given the lack of accessible resources in the Canadian market (to research corporate ownership) this was assessed as a higher risk factor.

2.5 Customer types and characteristics risk factors

This category and grouping of risk was seen as generally applicable across all sectors and it was not one we concentrated on in conducting the research as the focus was intended to be more on the structured risk of the sector rather than the user of sector services. However, in reviewing the sectors researched, it was noted that the accounting and legal sectors are both ones which provide professional services across and within markets and also to participants of the other sectors researched. For each of these two sectors, our knowledge and experience indicates a wide range of customer due diligence and acceptance policies and procedures and that at the smaller end of the market, practices varied considerably. Accordingly, these risk factors were rated higher when assessing risk.

3. Comparative analysis

The focus of our work prior to the completion of the comparative analysis was the identification and assessment of risk factors, and was aimed at understanding and assessing the inherent risk of each of the risk factors.

In performing the comparative analysis we have tried to consider further elements, including:

- Levels of awareness within each sector of money laundering and terrorist financing issues and compliance activity/engagement with the PCMLTFA;
- Interplay and linkages between the sectors including awareness of risk and consideration of this by other sectors of sector participants;
- Sectors where the participants have gatekeeper roles;
- Attractiveness to potential money launderers; and
- To some degree, (based on our knowledge and experience) the mitigating controls in place by sector participants, and in some cases, controls which are starting to be viewed as "best practices". A best practice example would be a financial institution's requirement for, and review of, other entities' independent compliance regime review reports.

Accordingly, this analysis provides a comparative rating of the unmitigated risk, as either higher, medium or lower. Provided below is an outline of our reasoning as to the sector ratings.

3.1 Sectors rated with higher comparative risk

3.1.1 Real Estate

This sector is rated as higher as it is our understanding that significant portions of the sector are apparently unengaged (specifically the smaller end of the market) in AML compliance, and other sectors (e.g. banking and securities) are not sufficiently viewing this sector as one with higher risk transactions, meaning that higher degrees of scrutiny are not being applied.

Of concern was an example shared by an interviewee wherein Canadian banks would not be involved in transactions between parties and accordingly, transaction activity could not be identified and monitored by Canadian regulated entities even though Canadian real estate was involved.

There are many participants in the marketplace and they are not necessarily seen by other sectors as high risk or having the potential for high risk; e.g. real estate companies, realtors, property owners and finance companies.

In general, it is understood that real estate transactions involve lawyers and their trust accounts, and this assistance can knowingly or unknowingly provide legitimacy and/or obscure the source of illegally sourced funds. As well, at the smaller end of the market there reportedly continues to be a high number of cash transactions.

3.1.2 DPMS

This sector is similarly rated as higher, as the levels of awareness and AML compliance engagement by sector participants was cited as lower. As well, there reportedly continues to be a high number of cash transactions and a higher number of smaller players.

The barriers to entry are generally low, except for the diamond industry, and can attract illicit funding. While it is evolving in the right direction, scrutiny of this sector's participants and transactions has not been as rigorous by the banking sector as it has been with other sectors (e.g. MSBs).

3.1.3 Securities

This sector is rated as higher as the exempt market products and dealers were cited as significant risk areas for illegal funds; and as well, it is our understanding that other sectors (e.g. banking) are not sufficiently viewing transactions within this sector as having the potential for higher risk.

Specifically, while the larger and/or bank-owned participants are highly regulated, by other regulators (e.g. IIROC, provincial securities commissions), one particular segment exposes the entire sector – the exempt market. Exempt market dealers can access capital funding privately and often these transactions are not scrutinized as high risk by other participants in the securities sector and by banks and other financial institutions. While there is high interaction amongst participants (e.g. a securities broker can be a client of another broker), the market does not generally see this as a risk, as there is an expectation that other sector participants and regulators are doing the work that needs to be done (background checks and other know your client procedures for example). The focus of know your client is primarily to support investor protection and not on the risks of money laundering and terrorist financing.

Transactions in this sector can involve large dollar amounts, conducted by accredited investors who are typically individuals with a high net worth. Clients may be international and the transactions activity, movement of funds are not always well understood.

3.1.4 Accountants

Risk for this sector is rated higher given the breadth of services provided, the value of the services to facilitate the movement of funds and particularly the inherent risk at the smaller end of the market. While PCMLTFA regulated activities performed by accountants are considered fewer (as a portion of the activities of accountants as a whole) and are not expected to occur on a large scale; the accountant in the gatekeeper role is a higher risk. Accountants, through association, are often perceived to provide legitimacy to transactions and the individuals and organizations involved with the transactions and businesses; most of the services provided by accountants to their clients are not subject to PCMTLFA regulations.

The sector self-regulation is seen as a mitigating control, although these primarily consider professional standards and the delivery of client work as opposed to the risks of money laundering and terrorist financing.

Effectiveness of the sector's self-regulation is understood to be dependent upon the sector being well aware of its vulnerability to money laundering and terrorist financing risks and abuses. While some are aware conceptually of the risk of how a gatekeeper role might assist money laundering and terrorist financing objectives, this is not generally considered or well understood, except where there are specific client acceptance procedures designed to address this. We note that while there are some cases of specifically designed procedures, this is not understood to be occurring generally throughout the sector.

3.1.5 Lawyers

Risk was rated higher for this sector. Not only was the use of a lawyers' trust account cited as a risk factor for this sector (this was expected and generally is a known risk factor), the use of legal trust accounts, sometimes in conjunction with solicitor/client privilege, came up in our research of the banking and accounting sectors.

Specifically, individuals interviewed as part of the research conducted, shared that they had been confronted with the challenge of not being able to obtain further factual information about the source and use of funds when funds were being transacted through legal trust accounts.

The services of lawyers are fundamental to many real estate transactions, however the level of a lawyer's client due diligence is often self-determined. Our experience is that the risk of the legal gatekeeper role being abused by those with money laundering goals are not generally reviewed for, or considered in this sector. Even if a lawyer were to identify illegal activity, professional standards often prevent disclosure. However, similar to the accounting sector, the level of client due diligence is often correlated with the size of the market participant (independent lawyer versus larger firms managing reputational risk). Notwithstanding this, we are aware of instances where larger firms had client relationships, minimal client due diligence had been performed and specific risk factors were present.

Larger, international law firms expose the Canadian market to foreign, higher risk clients.

3.1.6 BC Notaries

Similar to lawyers, BC Notaries were rated higher risk due to their gatekeeper role, and that they can act in conjunction with bankers, accountants and lawyers. It is noted as a smaller sector and risk is therefore limited given their size and scope (less potential impact). The use of the notary trust account is understood to be the main risk factor.

3.2 Sectors rated with medium and lower comparative risk

The sectors which were rated medium and lower were found to be ones where individuals working within the industry have a higher degree of knowledge and awareness of money laundering and terrorist financing risk factors and generally sectors where anti-money laundering compliance activity is more entrenched. For example, in industries with larger players and better knowledge, we have assessed the comparative risk as lower given that demonstrated, more comprehensive and more effective anti-money laundering programs and continued vigilance is higher. The reasons for this entrenchment are noted as primarily the effect of other regulators (in the case of financial entities, credit unions and casino sectors) or other business partner scrutiny (e.g. MSB sector).

Our more detailed observations are provided below.

It continues to be imperative that the medium and lower rated sectors remain vigilant in their anti-money laundering efforts as the inherent risks are in many cases, high and very high.

3.2.1 Life Insurance

This sector has been rated as lower comparative risk. In our experience the products are not as easily utilized or targeted by money launderers, however, we have seen instances were life insurance products were used for fraud and money laundering.

The sector is dominated by larger players, which means that broadly there is funding for anti-money laundering compliance structures, programs and positions. Although money laundering may be a lower risk in the insurance industry, there are some indications that when the sector is targeted, it is done so by more sophisticated criminals and schemes. Once again, continued vigilance and focused learning from actual sector examples are required.

3.2.2 Credit Unions

We rated this sector with a medium comparative risk rating. While credit unions have a large exposure to potential money laundering and terrorist financing, serve a wide customer base and offer a multitude of various financial products, our research and discussions generally found the industry to be well informed of the requirements and in general, their exposure. The industry is going through some consolidation and this will evolve to provide the larger credit unions with more resources to implement the necessary controls.

Higher risk areas include where a credit union has other lines of businesses including insurance and wealth management products as these have not yet been made subject to the same level of control and monitoring that the core business areas have.

Credit unions generally serve a local community or region and their exposure to international markets would be less than those of Canada's large banks.

The credit union system nationally continues to be fragmented, with a high number of smaller organizations, often working together in smaller groups and/or receiving support from provincial centrals to deal with and address compliance issues. This results in inconsistencies and does not deliver the level of effectiveness that could be achieved if the system worked together to address as a whole. The size of the credit union/caisse populaire sector across the country is generally understood to be equivalent to the size of one of Canada's large banks.

3.2.3 Casinos

While casinos have traditionally been viewed as a higher risk industry internationally for money laundering, in Canada the risk is seen to be lower as Canada is not viewed as an attractive market for gambling. The Canadian casino sector serves mainly local clients. We rated this sector as lower comparatively.

There are a higher number of larger operators, heavy regulation on the sector, and focused police monitoring within the local communities. However, the gaming sector broadly is evolving to much more of an online platform, supporting online payments and transaction processing, new technologies, involvement of operators and suppliers out of the country and these are all serving to increase the risks of abuse for money laundering purposes. While online gaming is not PCMLTFA regulated, it has received some scrutiny from the banking sector; however this appears to have simply moved operators to offshore locations.

3.2.4 Financial Entities

While the inherent risks are very high for many of the products and services, particularly the access to international markets, ability to move money across currencies and countries, we have rated this sector comparatively lower.

Particularly for the larger institutions, the level of resourcing and focus on compliance program objectives is high and entrenched. This considers client due diligence and transaction monitoring, that inherent risk in many ways have been identified and are well understood and being managed, even if not also being effectively mitigated.

The regulatory regime requirements of both OSFI and FINTRAC are understood to have resulted in a higher level of overall awareness and appreciation for what needs to be done to comply with requirements. While the sector serves a diverse background of clients domestically and internationally and through significant foreign operations, compliance departments have in many cases identified these as risk areas and are in the process of monitoring or developing controls to monitor, especially in light of infractions by other banks internationally. AML professionals within this sector, in many cases, are starting to see and deal with issues beyond regulatory compliance. For example, there is a better understanding (not yet a solution) of the consequences of de-marketing/terminating relationships, the desire and need to work with FINTRAC, other intelligence and police agencies to make the whole regime work, not only nationally but internationally as well.

Certainly for smaller financial institutions, which have higher inherent risk (pressure to book business), less resources available, the risk is sees as comparatively higher. However, these organizations tend to be more niche market and thus the compliance program can be more focused and this can in turn support effectiveness.

In many cases it appears that where the banking sector has executed on money laundering risk mitigation effort, this has resulted in significant change within a sector; for example, the banking sectors' consideration and scrutiny of the MSB sector. However, the converse is also true, where there has not been a focused level of risk identification and monitoring, there has correspondingly been less movement towards anti-money laundering compliance broadly within the sector. Also, sectors where transactions are conducted where alternatives to banking are available have more risk.

3.2.5 Money Service Businesses

Money Service Businesses have been higher risk in the past but are viewed currently as a medium risk. The sector has been the subject of significant scrutiny by their banking partners and there have been definite improvements in anti-money laundering compliance across the sector. Although this is positive news, there is no room for complacency as generic factors including global money flows, immigration and economic patterns still mean that there is considerable risk.

This is another sector where the market has few larger players and the smaller businesses struggle with funding for compliance structures and adequate transaction monitoring. The experiences in Quebec and other locations have shown that regulation and enforcement have driven some rogue players underground but they are still to be found on the internet. The recent development of an active industry association is one example of how further gains can be made to increase awareness, and raise the bar as the sector evolves. There is opportunity for strategic level initiatives to have a significant impact on the sector as a whole in helping it to further reduce risks.

The market is highly fragmented and knowledge and awareness of money laundering risks is at time perceived not to be high in certain subsectors. However, this is the exception, the larger players in the sector are knowledgeable and the compliance resources and regimes are becoming more sophisticated. Again, given the less complex services offerings of many of these organizations, the opportunity exists for transaction monitoring and compliance regimes to be highly effective.

Higher risk areas include MSBs that don't have bank accounts or that work exclusively with foreign financial institutions. We are aware of cases where there is significant reliance on foreign financial institutions, to

comply with rules and report in the foreign jurisdiction, as well as reliance on alternative banking service providers; e.g. other MSBs.

The attached Table 1 documents the "overall comparative risk rating" as determined for each sector and should be considered only in conjunction with this report.

Grant Thornton

Reporting Entity Sector Profile: Real estate

Money laundering and terrorist financing vulnerability assessments

Prepared for FINTRAC | March 31, 2014

Contents

1. General sector profile

Canada's real estate market is known for its maturity and stability which continues to attract buyers from both domestic and international markets. Over the past two decades, it has also seen significant growth, over 130% since 1975 and 49% in the last ten years[1]. National geography is an important factor in the size and vibrancy of market sectors with the largest and most active elements in the major urban centres.

Urbanization continues to be the major trend in development with both new and redevelopment projects including mixed use projects. Retail markets remain active and house prices and the availability of homes continue to be significant topics of discussion at all levels.

Canada is also a world leader in the development of major assets through Public Private Partnerships ("PPP").

The market is divided into a number of segments: residential and commercial (office, retail, industrial, residential) brokers and agents, construction, developers, building managers and mortgage brokers.

There are over 538,000 reporting entities (including employers and others including individual agents) in the sector. The construction and real estate segments together, representing the whole sector, account for almost 20% of the Canadian economy.[2]

A significant number of risk factors have been identified and these are detailed later in this document, some of the key factors are listed below:

- Use of foreign money to purchase real estate
- Quality of the real estate property including higher end residential properties, lower dollar value commercial properties, type and location of the property
- High level of accepted cash transactions
- Private lending and the 'legitimizing' use of lawyers trust accounts
- Broker/realtor oversight (relative lack of)
- Discrepancies in AML awareness and compliance across the sector

1 The Economist – Global interactive house price guide
2 Industry Canada, Canadian Industry Statistics - http://www.ic.gc.ca/eic/site/cd-dgc.nsf/eng/home

2. Structure, size and segmentation, reporting entity population

The Canadian real estate industry is structured on a traditional model with developers and builders creating new stock, brokerages and agencies selling it, and managers operating buildings of all types. Mortgage brokers are a segment dealing in only a specific area but many mortgage brokers are also licensed as real estate agents too.

The SIC codes for the industry contain 14 sub-codes as outlined at Appendix A.

The Canadian industry has also seen a significant rise in the creation and growth of Real Estate Investment Trusts in the past four years.

Statistics Canada provides some high level information on the major segments. The smaller segments are more difficult to define and statistical data is scarce. The Statistics Canada breakdown of the major segments is as follows:

Segment	Employers	Non-employers Indeterminate	Total	Notes
Construction	127,255	151,203	278,458	60% are the micro category (1-4 employees)
Real Estate	46,773*	213,237	260,010	75% are in the micro category
Totals	174,028	365,440	538,468	

See detailed charts and statistics at Appendix A[3]

The segments that we have identified as significant are as follows:

- Real estate sales (commercial and residential)
- Construction
- Developers
- Property managers (including rentals/leasing)
- Mortgage Brokers
- REITS (a category of real estate owners but a potential point of entry for ML/TF)

[3] Industry Canada, Canadian Industry Statistics - http://www.ic.gc.ca/eic/site/cd-dgc.nsf/eng/home

Statistics from industry and other relevant sources also provide some statistical information on the sector:

- *Real Estate Brokerages:* There are over 10,000 Real Estate Brokerages in Canada.[4]
- *Real Estate Agents:* There are approximately 100,000 realtors nationally (includes brokers, agents and sales persons).
- *Real Estate Boards:* There are approximately 100 boards nationally, Ontario has 40; the Toronto Real Estate Board alone has approximately 45,000 realtors; British Columbia has 11 boards with approximately 18,000 realtors5; Quebec has 12 boards with 12,000+ realtors[6] and Alberta has 10 boards and 10,000+ realtors[7].
- *Mortgage Brokers:* The Canadian Association of Accredited Mortgage Professionals is a national association that represents Canada's mortgage industry. CAAMP has over 12,000 members, comprising mortgage lenders, brokers, insurers and other industry stakeholders. In 2010 it was reported that there were between 18,000 and 20,000 people who held mortgage agent and/or mortgage broker licenses in Canada. This number accounts for about 10,000 in Ontario and a total of 6,000 in BC and Alberta. (Source: CAAMP)[8]
- *Property Managers:* Statistics Canada figures for this segment number 5,235 employers and 16,582 non employers/indeterminate participants for a total of 21,817. The Building Owners and Managers Association (BOMA) of Canada is has "over 3,200 members in regional associations across Canada"[9]. Other research has identified 1,139 property managers classified under NAICS 53131.
- *REITS:* There are 49 REITs listed on the TSX and TSXV; there are also private REITS.

In a number of places in this report, we have referred to "the lower end" and "the higher end" of the market and of certain groups and segments. It has proven difficult to quantify these categories but the NAICS table for real estate at Appendix A speaks to this based on number of employees in companies in the "employer" category, and the breakdown of these companies by number of employees.

[4] Canadian Real Estate Association - http://www.crea.ca/
[5] British Columbia Real Estate Board - http://www.bcrea.bc.ca/
[6] Quebec Federation of Real Estate Boards - http://www.fciq.ca/
[7] Alberta Real Estate Association - http://www.abrea.ab.ca/
[8] Canadian Association of Accredited Mortgage Professionals - http://www.caamp.org/
[9] The Building Owners and Managers Association of Canada - http://www.bomacanada.ca/

3. Economic and financial statistics

According to Statistics Canada, from January to November 2013, construction contributed $113.4 billion ($113,464,000,000) or 7.06% of Canada's economic output as measured by GDP. This data is similar to the full previous year where construction represented 7.22% of 2012's GDP.[10]

Real Estate (sales) contributed $190 billion ($190,392,000,000) or 11.84% during the same period. This data is similar to the full previous year where Real Estate represented 11.83% of 2012's GDP.[11]

The Canadian real estate sector avoided the worst of the 2008 downturn and continues to show good potential as both the local and US economy improve. The market is very stable and there is generally believed to be little or no oversupply. Expansion is expected to continue with some commentators predicting plateauing in the residential market 2014 and the layoff of workers.

Returns on commercial properties are high and the investment prospects for the real estate market are good with various capital sources for mortgage borrowing also available. Construction in this sector is also predicted to remain strong.

In the commercial segment, capital investment in buildings was relatively stable from 2007 – 2011. Capital investment averaged about $21 billion per year during this period, declining in 2009-2010 period primarily due to the decline in new building construction. Capital investment in the commercial sector in 2011 totalled $21.6 billion.[12]

Canada's commercial property market is estimated to be worth about $1-trillion (U.S.) compared with $11-trillion for the U.S. market. The total annual economic activity for the commercial real estate sector in 2011 is estimated at $63.3 billion.[13]

Capital investment in renovation has been steady. Ongoing operations of commercial buildings generated $3.5 billion in building management fees in 2011 and almost the same amount in commercial brokerage fees.[14]

Total revenues for the residential segment nationally are hard to come by but we have identified some statistics for recent volumes in home sales, by month in major cities. The full table is at Appendix A. The statistics available are for November 2013 and November 2012 for 13 urban centres including the Vancouver area, Calgary, Regina,

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[10] Statistics Canada - http://www.statcan.gc.ca/start-debut-eng.html
[11] Ibid
[12] Altus Group Economic Consulting - The Contribution of the Commercial Real Estate Sector to the Canadian Economy, September 2012 - http://c.ymcdn.com/sites/www.realpac.ca/resource/resmgr/research/altus_report_2012.pdf
[13] Ibid
[14] Ibid

Toronto, Ottawa, Montreal and Halifax. They indicate that in 2012 total November home sales for the areas listed equalled $6,887,800,000. The figure for 2013 was $8,487,100,000.[15]

A detailed analysis by The Economist shows that Canada is the most expensive property market globally, with the highest "price to rent" and "price to average income" ratios. Only two countries are higher than Canada for "real terms" pricing and only one country has shown more "percentage growth" than Canada since 1975.[16] A review of historical material from this source indicates that these analytical factors were successfully used to predict market corrections in the USA, Spain and other countries. The Economist has made similar predictions for the Canadian market but despite the figures moving ever higher, this still has not happened. Full details of this analysis are at Appendix A.

[15] Canadian Real Estate Association
[16] The Economist House Price Index - http://www.economist.com/

4. Regulation of the real estate sector

In both the retail and commercial sales segments of the industry, participants belong to the Canadian Real Estate Association (CREA), a national organization which sets the standards of professional conduct for its over 100,000 members who include real estate brokers, agents and salespeople working through 100 real estate Boards and Associations across Canada.

Each province has passed real estate legislation which is in turn managed by provincial and territorial real estate associations. For example, the Real Estate Business and Brokers Act of Ontario and its associated regulations are administered by the Ontario Real Estate Association (OREA) on behalf of the Ontario provincial government. Similar associations exist in the other provinces and territories to govern industry professionals in the real estate, mortgage broker, and real estate appraisal industries under the various provincial Real Estate Acts.

The construction industry is one of the most highly regulated industries in the world. Under Canadian law the regulation of buildings is a provincial responsibility and is carried out through various laws, Acts, codes and regulations, often administered at the municipal level.

Provincial legislation empowers government agencies or departments to regulate a variety of aspects of buildings. For example, laws protecting the safety and health of building occupants. Examples of other relevant legislation are the National Building Code of Canada (NBC) 2010 (design, construction and renovation) and the Ontario Building Code.[17]

In addition to building codes, various miscellaneous Acts cover specific building types or services within buildings, for example; liquor-licensing, hotel, theatre and factory Acts. Fire-prevention bylaws or fire codes also regulate the ongoing safety of existing buildings. Provincial Workplace Safety and Health Acts and municipal codes and city by-laws also impact the industry and more recently, AML/TFD law and regulations allows Fintrac oversight for brokers, agents and developers.

We have not identified any law or oversight mechanism relating to the purchase of Canadian real estate by non-residents. We do note however that Section 116 of the Income Tax Act creates a requirement for non-resident vendors of certain types of Canadian real estate assets to notify the Canada Revenue Agency (CRA) about their disposition and may be responsible for withholding a portion of the proceeds of the sale to cover potential taxes owing by the vendor.[18]

[17] The Canadian Encyclopedia – Building Codes and Regulations
[18] Income Tax Act (R.S.C., 1985, c.1 –s 116 – disposition by non-resident person of certain property - http://laws-lois.justice.gc.ca/eng/acts/I-3.3/section-116.html

5. Educational and licensing requirements

Provincial regulators are charged with establishing the educational and licensing requirements for participants in the real estate industry. Licensing requirements vary across Canada, but all provinces and territories require prospective salespeople and brokers to pass a written exam. The courses offered cover the rules and regulations associated with the real estate profession, and the laws governing the sale and acquisition of property. In addition, they explore the ethical and practical guidelines to working in the profession.

Continuing education is also required in many provinces for real estate professionals to maintain their licenses by staying up to date about current developments in the profession and industry. Once a person is licensed through the provincial regulator they are then able to become a member of a local Board and CREA and ultimately practice as a realtor.

In Manitoba, the real estate division of the Manitoba Securities Commission is responsible for administering The Real Estate Brokers Act and The Mortgage Brokers Act. Similar to the other provincial associations, this division registers real estate brokers, salespersons, and mortgage brokers, monitors brokers' trust accounts, and investigates complaints against real estate brokers, salespersons and mortgage brokers.[19]

At the market level, local real estate boards (e.g. Toronto Real Estate Board, Real Estate Board of Greater Vancouver, REALTORS® Association of Grey Bruce Owen Sound) are responsible for processing membership, and the recording and collection of dues. They also operate the Multiple Listing Service® that in turn provides data for display on either the residential or commercial properties web site. The local board develops and implements the regulations that support CREA's national policies, and is responsible for the enforcement of the Code of Ethics and the Standards of Business Practice.

In general, mortgage brokers in Canada are licensed at the Provincial level (e.g. in Ontario with the Financial Services Commission of Ontario and in BC with the BC Financial Services Commission). Mortgage Brokers are governed by the relevant provincial legislation (Ontario – Mortgage Brokers, Lenders and Administrators Act, 2006 and British Columbia Mortgage Brokers Act). To earn a license one must complete the requisite education provided by accredited education providers on a Provincial level.

[19] The Manitoba Securities Commission –http://www.msc.gov.mb.ca/real_estate/index.html

6. Constraints

None identified at this point.

7. Description of sector associations

Our research has identified the following Canadian real estate related associations:

- *CREA – Canadian Real Estate Association –* membership includes more than 100,000 real estate brokers, agents and salespeople, working through 100 real estate Boards and Associations across Canada. Assists realtor members to better serve their clients and represents the interests of its members to the federal government and its agencies on existing or proposed legislation that will affect those members, and/or impact homeownership.

- *BOMA - Building Owners and Managers Association Canada –* is the voice of the Canadian commercial real estate industry. BOMA Canada addresses issues of national concern, and promotes excellence in the industry through information, education advocacy and recognition on behalf of the building owners, managers, developers, facilities managers, asset managers, leasing agents, brokers, and the product and service providers to over 2.1 billion square feet of commercial real estate in Canada.

- *REALpac - Real Property Association of Canada –* Canada's senior national industry association for owners and managers of investment real estate. Members include publicly traded real estate companies, REITs, private companies, pension funds, banks and life insurance companies with investment real estate assets each in excess of $100 million.

- *CCA – Canadian Construction Association –* an association of construction practitioners who join CCA through their local or provincial construction association. CCA gives voice to the public policy, legal and standards development goals of contractors, suppliers and allied business professionals working in, or with, Canada's non-residential construction industry.

- *CHBA – Canadian Home Builders Association –* is an association representing the residential construction industry.

- *NAIOP - National Association of Industrial and Office Properties –* Trade association for developers, owners and investors in industrial, office and related commercial real estate.

- *RECO – Real Estate Council of Ontario –* regulates real estate trade on behalf of the Ontario government.

- *SIOR – Society of Industrial and Office Realtors*

- *REIC – Real Estate Institute of Canada* is a not for profit organization that has been educating and certifying specialists in real estate since 1955.

- *UDI – Urban Development Institute –* The UDI is a national non-profit association of the development industry and its related professions that is non-partisan in its activities, dedicated to fostering effective communication between the industry, government, and the public and also serves as the public voice of the real estate development industry, communicating with the media on a number of issues.

- *AOLE – Association of Ontario Land Economists*
- *CORENET Global –* is the world's leading association for corporate real estate (CRE) and workplace professionals, service providers and economic developers.
- *Independent RE Brokers Association*
- *Mortgage Brokers* (each province has an association) they include:
    - Canadian Association of Accredited Mortgage Professionals
    - Mortgage Brokers Association of BC
    - Independent Mortgage Brokers Association of Ontario
    - Alberta Mortgage Brokers Association
- *CREW –* is a nation organization dedicated to providing knowledge, connections and support for women throughout their commercial real estate careers. It has local and regional chapters throughout the country.

8. Emerging business trends

- Foreign investment in the real estate sector is likely to remain strong and is supported by the depreciation of the Canadian dollar and relative market stability.
- Indicators of potential new models for property sales including "virtual real estate agents" and the use of auctions to complete sales to make the competitive bid process more open.
- Private residential sales
- Investment climate and stability
- Projected rise in mortgage rates in later 2014 will increase the costs of owning a home compared to household income. This will make housing less affordable.
- Immigration is towards major centres across the country resulting in in-fill and condominium projects which further result in significant transit issues.
- Macro geopolitical events such as the "Arab Spring" and increased anti-corruption efforts in China for example have led to significant inflow of people and funds, much of it into the real estate sector.
- The recent termination of the federal immigrant investment program is likely to impact the real estate market. The program remains active in Quebec.
- Trends in the growth of the Canadian Construction industry point towards strong non-residential markets and stable residential markets. By 2021, expanding activity is forecast to add 44,000 jobs in non-residential construction, while an estimated 8,000 jobs are estimated to be lost in residential.[20]
- Construction activity will rise significantly over the next few years in the industrial and office sectors, with developers hoping a stronger economy will see these properties leased quickly. The ongoing delivery of new supply in the nation's major downtown office nodes could lead to increased vacancy and downward pressure on rents, if demand fails to keep pace over the next few years.
- CMHC expects total housing starts to remain stable over the next couple of years. With a relatively high number of units under construction in some local markets, builders are expected to adjust the pace of activity in order to manage their inventory levels.[21]
- Existing home sales are expected to rise moderately along with economic conditions in 2014-2015.
- Resale prices are expected to remain in or near balanced market conditions with the average MLS price expected to grow at a rate near inflation over the forecast horizon.

[20] Construction Sector Council – Construction Looking Forward: 2013-2021 Key Highlights - http://www.buildforce.ca/
[21] Canada Mortgage and Housing Corporation - http://www.cmhc.ca

9. Products and services offered

The essential services in the sector cannot really be changed or replaced as they involve the development of land, the creation of buildings and their sale. Models of building and real estate ownership have seen little change; timeshares and REITS being two more recent exceptions.

In the sales segment, there is some discussion within the real estate sector regarding the replacement of real estate agents by "virtual agents" but there is no clear picture of how this would actually work. Similarly we have seen examples of sales by open auction rather than by the standard closed offer process but this is again merely a variant on the method of transaction and does not impact the underlying details.

Delivery channel(s) in the real estate sector are limited because of the service based and geographical nature of the offerings. Segments from residential and commercial brokerage to development and construction are delivered directly to clients in an essentially face to face mode. Some aspects of the sales side of the industry have been supplemented by use of Internet based tools, but at the present time these are not seen as being capable of providing much more than electronic brochures. An exception to this is the use of lawyers as an access channel to purchase Canadian real estate assets.

"Do it yourself" services for home sellers have appeared but the essential elements of the transaction including the use of lawyers and other professional to effect changes to title etc. remain in place and so such transactions do not disappear from view. Such services still involve the use of brokers who work on a flat fee basis and essentially remove the percentage based commissions of standard broker managed sales.

There are two primary links to other products and services in the real estate sector:

- *Financial entities,* especially mortgages and loans secured by title.
- *Legal services –* lawyers remain a key element of all real estate transactions in all market segments. Our research has indicated that this can in some cases add to the risk (abuse of trust accounts, lawyers acting as agents and nominees to hide the identity of true beneficial owners). In BC notaries are also involved in real estate transactions and mortgages.

10. Type of customer(s)

10.1 Business versus individual

In the residential market, buyers are by definition, almost exclusively individuals buying a home in which they will then live. The same generally applies to single dwelling recreational properties.

In the commercial property market, the nature of the customer is significantly tied to the size and scope of the property in question. Although small lower end strip malls and condominium or apartment buildings may belong to individuals, it is more common to see them purchased or developed by corporations of one type or another.

It is generally true that the larger and more valuable the property and the closer it is to an urban center, the less likely it is to be owned by an individual. Generally, multi-unit residential and commercial properties are owned and managed by specialist companies, the largest of which are publicly traded. The high end commercial and retail properties are the exclusive domain of large developers and property/asset managers as well as institutional investors. At this level, both the nature of the players as well as the scale of the financial aspects makes ML problems far less likely to occur.

10.2 Canadian residents/non-residents

There is no doubt that the majority of Canadian properties are owned locally by Canadian nationals or residents and Canadian companies. Despite this, the Canadian real estate sector has long been a magnet for overseas investment and immigration. Interestingly, Canadians and Canadian companies have also become the largest buyers of overseas property in the world. Our research indicates that all aspects of the Canadian sector have exposure to foreign buyers, with a particular focus on high end residential properties and lower end to mid-level commercial, revenue generating properties. Our research has also identified a short list of countries from where a high proportion of the foreign buyers come and it is clear that much of this investment money is closely tied to the politics and security situation in these countries. They are; China, Russia, Middle Eastern Countries (especially Egypt, Iran, Syria), Mexico, USA, the United Kingdom and Australia.[22]

10.3 Geographic area

As outlined in the following section, real estate buyers in Canada are very significantly bound by the location of the property. This means that a significant majority of buyers will already be in the market where they are buying and will be dealing with a local market participant. At the high end of the commercial, and to some degree the residential markets, there are buyers who deal with national and international participants. This would include offshore buyers. Our research indicates that offshore buyers of residential properties still quite often deal with participants in the local market who have the language and social tools to attract them in their home locations.

[22] Sotheby's International Realty Canada – Top Tier Trends Report: A Comparative Survey of Canada's Luxury Real Estate Market

11. Geographic considerations

Whilst the regulations and associations for the real estate sector are primarily provincial, the real estate industry is heavily geographically subdivided into natural market areas at the retail level as typified by the real estate boards of which there are approximately 100 across the country. These subdivisions are significantly, but not entirely based upon urban centres and their surrounding catchment areas.

In the large commercial and development segment of the sector, companies tend to be regional or national in their coverage and in some cases, the market players are global entities (for example engineering and other similar segments). Developers in the residential and low end commercial property space tend to be local to their market and in some cases regional.

Canada is attracting a lot of overseas buyers in a number of market segments. According to the Association of Foreign Investors in Real Estate's 2013 Foreign Investment Survey, Canada ranks second to the USA as a stable and secure country for investing in commercial real estate. Canada was ranked 6th, and is regarded as highly transparent, on Jones Lang LaSalle's Real Estate Transparency Index, which aims to help players in the real estate industry understand important differences when transacting, owning and operating real estate in foreign markets.

12. Any other relevant information on the sector

Our research indicates that the high end residential market in specific areas of Canada is a prime focus of non-residents, both from an investment and a living perspective. Markets such as Vancouver (40%), Montreal (49%) and Toronto (25%) have a significant proportion of home sales in this category to foreign investors/buyers.

Real estate has a number of inherent characteristics which make it both an attractive and effective tool for those wishing to launder funds, these characteristics include:

- A real estate investment can also be used as a residence, to project prestige and power or an effective base from which continuing criminal or terrorist operations can be conducted.
- As a means of laundering money, the cost of laundering is low or zero, a significant advantage over other forms or laundering.
- A real estate investment may increase in value over time.
- The standards of AML due diligence and compliance are low and are not an effective barrier, even for notorious criminals.
- The use of nominees, including professional nominees such as lawyers and accountants, or holding companies is not uncommon in real estate transactions making concealment of beneficial ownership easy.
- Both residential and commercial properties can produce income and or allow the comingling of illicit funds.
- Mortgages are very common and using front companies or individuals to create fake mortgages is straightforward and effective.
- The true value of a property can fluctuate significantly easily allowing over and under-pricing to enable money laundering.
- The use of cash payments, especially in the construction, renovation and upgrading of real estate assets is very common allowing illicit cash into the system.

13. Key points from interviews

13.1 Sector Background

1. The sector focus generally is on the quality of the property for sale, not the quality of the buyer and their funds.

2. Any real estate transactions that involve cash: means that the buyer is getting a deal and the funds will not be reported for tax purposes. This is happening in new construction, e.g. buy a home/condo but it is not quite finished, so the unit is purchased at a discounted price and the finishing and/or any upgrades are all done for cash and the cash is unreported. The transaction amount that is reported is what gets used to determine land transfer taxes etc. There are views that this is happening significantly, across most players.

3. Commercial transactions over $1M are usually tracked in RealNet. RealNet is an online database of historical real estate transactions over $1M. Transaction details are listed for various commercial sectors (office, industrial, retail, residential, hotels, ICI land, residential land, residential lots). RealNet used to be partially owned by CBRE. It is one of the very few commercial real estate transaction databases in existence in Canada.

4. Yes there are cash deals. Sometimes a builder of say 600 units will sell 20 out of the 600 for cash and this just gets buried and not reported. The cash received is often used to finance a personal second/cottage type property. One example provided of the buyer bringing in the cash funds from Manila. Usually there is no bank financing involved in these types of deals, and therefore no Altus type verification audits. Estimate provided that at this level of the market (smaller project construction, 30 condos or townhouse projects for example) that 25% of the activity could be like this (illicit, no questions asked etc.)

5. Banks are currently not dealing with the smaller developers. This segment of the market however is active. Where does the financing coming from? It was noted that there are many 'private bank/consortium' opportunities, this means that the projects are getting financed and done, usually 10-15% profitable, funds are then 'legitimized' through the profitable project completion, and the money is then subsequently getting banked.

6. For deals that require any kind of bank financing, the banks and lawyers are all over the details of the deal, checking and verifying the information. Includes groups like Altus doing verification audits on costs.

7. Many foreign buyers are not worried about making any return on investment or rental money in the market; they simply want a safe, stable place to invest or 'bank' the funds.

8. Many foreign buyers are using Canadian family or friends to be the local purchaser. Funds are actually from the foreign individual but seen to come from the local person when the deal actually closes. The sector at this level (smaller project builders) is not asking what the source of the money is.

9. There have been instances where third parties are involved – this is especially seen in cases where foreign parents are purchasing houses for children – however, agents should be performing background checks to understand source of funds. Realtors would also rely on foreign lawyers to get a better understanding of client.

10. Realtors need to be licensed but background checks are not necessarily performed. Accordingly, there is a large spectrum of realtors in marketplace.

11. With franchised realty companies, the business owner/broker is responsible for their own local operations and is concerned about reputation damage and therefore requires understanding of clients – conducting background checks. However, there is uncertainty as to whether this occurs broadly in marketplace.

12. The broker community is essentially unregulated. It is the broker who sees the buyer first hand, who has direct and significant access to the deal. It needs oversight.

13. While lawyers are part of most purchase and sale agreements, lawyers can be unfamiliar with source of funds – there have been instances where nominee buyers are involved to knowingly/unknowingly assist with money laundering; buyers purchase property with source of funds from a third party deposited into the lawyer's trust account. The mortgage is paid off quickly and/or the property is sold for a profit and the money launderer now has legitimate source of funds.

13.2 AML Compliance

14. Larger commercial real estate firms are aware of the AML regulations and reportedly have strict regimes in place including customer identification, training and reporting of suspicious transactions. Some have procedures including that agents cannot receive their commission until all of the correct AML documentation and procedures have been completed. This information is consistent with the information received regarding larger developers.

15. Larger firms tend to be risk averse and in any case where they are uncomfortable or the client refuses to provide the required AML information, they send an STR to FINTRAC.

16. Larger commercial real estate firms deal with companies a lot, we do not know the percentage but probably above 80%. Companies have to be properly identified including proof that the individual can bind the corporation. Firms do corporate searches themselves to verify details. When companies are overseas, the real estate firm works with a local affiliate in the overseas location or with a law firm to obtain the necessary documentation and proof.

13.3 Trends

17. The level of the Canadian dollar clearly has an impact on the volume of foreign money. Real estate firms generally do not track which countries buyers are coming from.

18. There is a significant volume of flight of capital purchasing- individuals moving money out of at risk countries by investing in Canadian real estate.

13.4 Risk areas

19. One person interviewed cited the top risks for AML as foreign buyers and deals where the money comes into the trust account and the deal never closes so the money goes straight back out (and that this was an automatic flag for an STR).

20. Type of assets is also seen as a risk factor - investing in asset classes which are less conventional and generally shunned by institutional investors, for example, bowling alleys, strip clubs, etc.

21. Location of assets as a risk factor - transactions in areas which are outside of the downtown core/urban area, more remote; these assets are comparatively harder to sell.

22. Transactions financed by offshore banks are seen as riskier - this type of purchaser might not go to a traditional lender and is seen as a risk for illegal funds.

23. Any real estate transactions that involves cash. There are views that cash transactions are happening significantly, across most players.

24. Yes there are cash deals. Sometimes a builder of say 600 units will sell 20 out of the 600 for cash and this just gets buried and not reported. The cash received is often used to finance a personal second/cottage type property. One example provided of the buyer bringing in the cash funds from Manila. Usually there is no bank financing involved in these types of deals, and therefore no Altus type verification audits. Estimate provided that at this level of the market (smaller project construction, 30 condos or townhouse projects for example) that 25% of the activity could be like this (illicit, no questions asked etc.)

25. Many foreign buyers are using Canadian family or friends to be the local purchaser. Funds are actually from the foreign individual but seen to come from the local person when the deal actually closes. The sector at this level (smaller project builders) is not asking what the source of the money is.

26. Some sales to foreign purchasers are possibly settled offshore, meaning that the seller receives the funds in offshore accounts and the money to buy Canadian real estate never enters Canada.

27. Smaller project builders often have more money in the deal and less or no need of bank financing. These self-financed projects are where there is risk. Smaller project builders are often directly involved in the sale of units. Smaller assets (condos or blocks of condos, small commercial premises such as strip malls and small office buildings etc.) are often of interest to overseas buyers with significant but not very large sums of money to invest ($2-$5 million).

28. Banks are currently not dealing with the smaller developers. This segment of the market however is active. Where does the financing coming from? It was noted that there are many 'private bank/consortium' opportunities, this means that the projects are getting financed and done, usually 10-15% profitable, funds are then 'legitimized' through the profitable project completion, and the money is then subsequently getting banked.

29. There is significant competition at the individual agent level; agents include a wide range of people, with varying education/levels of sophistication and there is inherent risk here. At the

realty/brokerage/agency level there is still inherent risk, but the size of the operation means that attention is paid to reputational risk.

30. While lawyers are part of most purchase and sale agreements, lawyers can be unfamiliar with source of funds – there have been instances where nominee buyers are involved to knowingly/unknowingly assist with money laundering; buyers purchase property with source of funds from a third party deposited into the lawyer's trust account. The mortgage is paid off quickly and/or the property is sold for a profit and the money launderer now has legitimate source of funds.

31. Higher end real estate deals are seen as very low money laundering or terrorist financing risk because there are only a few players who are involved at these very higher dollar amounts.

32. The leasing market is seen as low risk but they were aware of one case where [redacted] to launder funds. They got caught when trying to pay for leasehold improvements with cash.

14. Risk factors

14.1 General market factors

14.1.1 Comparative level of stability of the Canadian market

The comparative level of stability of the Canadian real estate market versus other parts of the globe is a risk factor which impacts the level of foreign funds which find their way into Canadian market. Theory is that the Canadian real estate market is safe and stable, easily accessed, and this would include for funds which may be from illicit activities.

14.1.2 Market competitiveness at agent level/minimal level of regulation and/or oversight

The competitiveness of the market and sheer number of agents puts pressure on individual agents to secure deals. Agents operating in the sector who are smaller, more independent have less infrastructure to ensure appropriate KYC and support to do any deal due diligence.

The smaller agent has more incentive to ignore due diligence/AML requirements, inherent risk.

Agents include a wide range of people with varying education and levels of sophistication. There is relative ease of access to agent licensing; new immigrants who obtain licensing can become conduits for foreign networks.

While brokers and realtors need to be licensed, research indicates that background checks are not necessarily being performed and that oversight is minimal to none in many cases. Competition and inherent risk to transact is high.

With franchised realty companies, the business owner/broker is responsible for their own local operations and is concerned about reputation damage and therefore requires understanding of clients – conducting background checks. However, there is uncertainty as to whether this occurs broadly in marketplace.

14.2 Product and service factors

14.2.1 Sale of higher end residential properties

($2.5 million and above: Dollar value depends on geography, generally speaking for the GTA for example, this might be properties in the range of $5M and higher)

Single family homes are the prime target; there are both historical (Beare report 72.3%)[23] and also current indications.

International organized crime groups and figures buying Canadian properties. Some examples of this include senior foreign organized crime figures such as:

[23] Beare, Margaret and Schneider, Stephen. Money Laundering in Canada; Chasing Dirty and Dangerous Dollars. University of Toronto Press, 2007.

- Rakesh Saxena – Indian banker who fled Thailand after a major fraud
- Lai Changxing – Chinese smuggler
- Lai Tong Sang – Dragon head of the Shui Fong Triad from Macao
- Stanley Ho – Asian gambling magnate with proven ties to organized crime
- Rustem Tursunbayev – Former Kazakhstani fugitive accused of embezzling $20m
- Alex Shnaider – Billionaire businessman with extensive former Soviet Union ties
- LEE Chau-ping – The "Ice Queen" head of the world's largest crystal meth trafficking syndicate from Hong Kong.

Articles on these cases are at Appendix B.

Indications that cash deals within the real estate sector are financing higher end second residential/cottage properties. See Appendix B.

14.2.2 Sale of lower dollar value commercial properties

(Dollar value depends on geography; examples provided included 30 unit condominium/townhouse projects and small commercial buildings)

Investments in asset classes which are less conventional and generally shunned by institutional investors. For example, bowling alleys, strip clubs, etc. are seen by industry insiders as less risky for illegal funds.

Lower rent level commercial properties which generate revenue are also popular (Salim Damji fraud case in Canada included both a high end condo and a strip mall in Toronto). We have identified numerous cases of fraudsters and corrupt officials from China using their illicit proceeds to buy homes and other real estate in Canada. News media items detailing some of these cases are at Appendix B.

Smaller project builders may have more money in the deal and less or no need of bank financing. These self-financed projects are where there is risk as the ability to transact in cash funds is easier. Smaller project builders are often directly involved in the sale of units.

14.2.3 Type and location of real estate asset

Transactions in areas which are outside of a downtown or urban core, more remote, are seen as harder to sell compared to conventional assets. To the extent these properties are selling for higher values and/or there is a higher turnover of ownership these are red flags.

14.2.4 Characteristics of real estate investment and transactions

Real estate has a number of inherent characteristics which make it both an attractive and effective tool for those wishing to launder funds, these characteristics include:

- A real estate investment can also be used as a residence, to project prestige and power or an effective base from which continuing criminal or terrorist operations can be conducted

- As a means of laundering money, the cost of laundering is low or zero, a significant advantage over other forms or laundering

- A real estate investment may even increase in value over time

- The standards of AML due diligence and compliance are low and are not an effective barrier, even for notorious criminals
- The use of nominees including professional nominees such as lawyers and accountants or holding companies is not uncommon in real estate transactions making concealment of beneficial ownership easy
- Both residential and commercial properties can produce income and or allow the comingling of illicit funds
- Mortgages are very common indeed and using front companies or individuals to create fake mortgages is straightforward and effective
- The true value of a property can fluctuate significantly easily allowing over and under-pricing to enable money laundering
- The use of cash payments, especially in the construction, renovation and upgrading or real estate assets is very common allowing illicit cash into the system

14.3 Delivery channel factors

14.3.1 Property purchased through a local (Canadian) agent

Foreign buyers are using Canadian agents to purchase property. Indications that some of these deals are done legitimately and other indications that some of these deals are done with no questions asked as to source of funds. Agents can include law firms, immigration lawyers/networks, and individuals. The Montreal condo article at Appendix B highlights this issue.

14.4 Geography Factors

14.4.1 Use of foreign money to purchase real estate asset

Including purchases by PEFPs and their networks, foreign purchaser money which takes a circuitous route into Canada, purchases which include funds loaned by foreign lenders, Canadian purchasers using offshore funds to purchase within Canada.

- Research has identified Canadian markets where up to 50% of all buyers of high end homes are foreign.
- Appendix B contains a series of news media and other articles which indicate real examples of this trend re offshore money.
- Section 116 of the Canadian tax law requires the reporting of taxes on the sale of property belonging to foreign residents but there is no tracking of purchases by foreign buyers.
- Flight of capital purchasing- there is a significant volume of individuals moving money out of at risk countries by investing in Canadian real estate.
- There are indications of the use of Canadian agents (family members, friends and other proxies) by overseas buyers to represent them either formally or informally, which obscures the real details of the foreign buyers

and the source of the funds. Research indicates that the sector at this level is not asking about the source of the funds.

- An article regarding Chinese condo buyers in Montreal, and data on high end Canadian residential sales from Sotheby's both underline this issue. See Appendix B.

- Research indicates that many foreign buyers are not worried about making returns on investment; they are looking for a safe, stable place to 'store' funds.

- Sales to foreign purchasers are possibly settled offshore, meaning that the seller receives the funds in offshore accounts and the money to buy Canadian real estate never enters Canada.

Similarly, we have seen a number of cases where politically exposed foreign persons including those involved in corruption and asset stripping have been found to have accessed the Canadian real estate market. They include:

- Zine el Adbidene Ben Ali – former President of Tunisia
- Belhassen Trabelsi – a relative of Zine el Abdidene
- Saadi Gaddafi – Son of former Libyan dictator Muammar Gaddafi

14.4.2 Use of offshore financing

Transactions financed by offshore banks are seen as riskier - this type of purchaser might not go to a traditional lender and is seen as a risk for illegal funds.

14.4.3 Real estate investments in emerging markets

Hiding illegally obtained funds in real estate in emerging markets could be easier for money launderers due to minimal or limited AML/ATF legislation, less sophisticated banking and financial sectors, lack of training of competent authorities, and higher corruption in developing economies.

14.5 Business relationships/linkages with other sectors

14.5.1 Use of lawyers and their trust accounts

All or most real estate transactions involve a lawyer at some point in a variety of functions. Multiple Canadian cases show that drug traffickers and others have used law firms and their trust accounts to receive cash proceeds and bank them as well as to assist in the purchase of real estate and the creation of companies to own property and make false mortgage loans.

Research also indicates that some sophisticated offshore buyers also use lawyers to funnel funds into the Canadian real estate sector.

14.6 Transaction methods and types

14.6.1 Use of cash in real estate transactions

Examples include:

- Partial cash payments for assets like condominium or townhouse units/multiple unit purchases.
- Properties being sold in unfinished state so that buyer can use cash to pay the trades for the completion/finishing work.
- Real estate developer using cash received to build personal property assets.
- Smaller amounts of cash given to lawyers to deposit into trust account, once funds sufficiently accumulated, real estate transactions undertaken.
- Rental market: privately owned buildings, less to minimal regulation, cash payments from tenants provide explanation for source of cash funds when deposited to accounts. Who looks at the books/accounting? No one required to. Comingling possible and also possible there are no 'legitimate' tenants.

Use of cash for real estate purchase transactions represents circumvention of the financial services sector, comments and indicators received indicate that cash is highly accepted with the residential and smaller building market and that this is happening significantly across most players at the smaller end of the market.

14.6.2 Incomplete real estate deals

Purchase funds are received into legal firm trust and/or brokerage accounts; when the deal falls through/does not close, funds are returned.

One person interviewed cited the top risks for AML as foreign buyers and deals where the money comes into the trust account and the deal never closes so the money goes straight back out.

14.6.3 Use of corporate entities to purchase residential real estate

Use of corporate entities for residential property purchases provides opportunity to hide beneficial ownership; seen as a risk factor, of course there is volume of legitimate purchases which are done this way. Appendix B contains a number of examples of such cases.

14.6.4 Corporate vehicles: Shell companies and property management companies

Corporate vehicles are legal persons of all types including trusts that are particularly used in countries where the opacity of corporations can be exploited to obscure beneficial owners and the origin and destination of funds.

Shell companies are companies that have no operations and/or assets in the jurisdiction where they are registered. In addition they may be owned by a legal entity which makes it harder to identify the individuals that own or control the company.

Property management companies may be used to manage/rent properties that are built/purchased with illegally obtained funds. The rental income generated by these properties provides the appearance of a legal origin of funds, especially when landlord and tenant are located in different jurisdictions. When property management companies are controlled by criminal organizations they can be used to mingle cash with legitimate funds.

14.6.5 Private mortgages and private lending

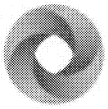
Private mortgages are generally not sourced from traditional lenders; often the mortgage is with an individual or a smaller company. There is a risk that these are fake mortgages and that registration on title provides credibility. A registered mortgage makes the deal look like it was financed and provides source of funds for property purchase explanation. Could also be funds sourced from illegal activity and/or funds evading tax, and the lender of these funds privately to buyers of real estate is not concerned with KYC/AML regulations and the form of repayment (e.g. likely to accept repayments in cash).

Note that vendor take back mortgages are fairly well accepted in the private market and represent the payment over time by the buyer to the seller.

Several case examples of this issue are at Appendix B including a drug trafficker who arranged multiple fake mortgages using a lawyer who set up front companies to make the "loans".

Private lending is active in the smaller developer segment of the market. Interviews reported that banks are not financing these projects and so 'private banks/consortiums' opportunities are sought and there is no oversight on

the source of the funds. Any illegal funds are then 'legitimized' through profitable project completion and the money is then subsequently getting banked.



Grant Thornton

Reporting Entity Sector Profile: Dealers in precious metals and stones

Money Laundering and terrorist financing vulnerability assessments

Prepared for FINTRAC | March 31, 2014

Contents

1. General sector profile

Canada's Dealers in Precious Metals and Stones ("DPMS") sector has a broad range of players primarily focused on their own segment although some work in more than one, for example jewellery manufacturers and retailers and retail jewellery stores.

The sector includes both regulated and unregulated segments with the activities of mining companies, smelters, refiners, cutters and polishers being unregulated under the PCMLTFA in Canada. Manufacturers are also not generally captured by the reporting requirements but may be if they are involved in transactions beyond the manufacturing of jewellery. The regulated industry segments include: dealers and traders including the Royal Canadian Mint ("RCM") and jewellery retailers. Pawnshops are not specifically regulated under the PCMLTFA but many are involved in significant retail jewellery transactions.

A number of factors specific to this sector make quantification of the sector reporting entity population difficult. These include industry players operating in more than one segment or role. It should also be noted that the nature of statistical reporting for certain segments in the industry includes a broad range of players, some of which are not part of this specifically defined sector, an example of this is the metal dealers which cover a wide range of materials, many of which do not fit in the "precious metals" category.

Another significant factor is that the sector is highly fragmented; a 2009 RCMP intelligence report stated that there are approximately 6,500 dealers of precious metals and stones within Canada[1]. A review of Industry Canada and other statistical sources provides a range of entities from 2,700 to 4,500 for the DMPS sector. In addition, the diamond wholesale business has historically been dominated by certain ethnic groups and in some cases certain families. Entry into parts of the market has therefore been difficult and the industry is still opaque in some respects.

Some evidence of the use of diamonds and precious metals for money laundering has been identified in Canada. A significant number of risk factors have been identified and these are detailed later in this document, some of the key factors are listed below:

- Product characteristics including being easily transportable, highly liquid, highly concentrated, bearer forms of wealth combined with the global nature of the trade and available markets. Use of precious metals and stones as currency by organized crime groups and individuals.
- High level of cash transactions.
- Uncertified stones and metals, primarily gold and diamonds entering the legitimate production and sales pipeline, including blood diamonds or conflict minerals.
- Ease of smuggling and difficulty in cross border monitoring of precious stones and metals. E.g. smuggling of precious metals and stones across borders.

[1] Financial Post – "RCMP issues warning on Diamonds", August 10, 2011

- Manipulation of the prices of specific shipments of stones; sometimes combined for example with transnational smuggling to effect trade based money laundering.

- Supplier/counterparty risk- as all activity is trade-related, both the supply of the product and the sale of the product must be considered when assessing risk.

2. Structure, size and segmentation and reporting entity population

We have focused in this report on the segments which are regulated in the Canadian DPMS sector. Broadly speaking, this includes dealers in both the precious metals and the stones markets at both the wholesale and the retail level. It also includes jewellery and precious metal retailers.

The segments that we have identified as significant are as follows:

- Precious metals dealers; bullion and/or coins; dealing with refiners and other dealers and/or with the general public;
- Precious coins dealers; smaller local coin stores, online dealers, usually offering products ranging from collectible to investment-grade coins to retail customers;
- Precious stones dealers trading both diamonds and other stones with other dealers, jewellery manufacturers and retail customers;
- Jewellery wholesalers; dealing in metals, stones and finished jewellery at the wholesale level. Some also manufacture jewellery and deal directly with retail customers;
- Jewellery designers and manufacturers; dealing with dealers and/or retail customers;
- Jewellery retailers (small to large) dealing with retail customers;
- Pawnshops dealing with retail customers and dealers; and
- Precious metals recycling dealers; dealing primarily with non-precious scrap metals e.g. copper, brass, aluminum, etc. for recycling but can include precious metals such as dental scrap; trading with dealers and the general public

The industry is highly fragmented with a wide range of participants from very small, one person independent operations, to large multinational companies. In some segments the participants are attached to or affiliated with other sectors such as bullion and coin dealers being attached to Canada's largest banks and also national retailers for jewellery, like Walmart.

It is also useful to consider the complete life cycle of these commodities in order to develop a better understanding of where the various segments fit in.

The DPMS cycle begins with the mining of precious metals and stones and ends with the retail sale of products and can be divided into the following steps:

1. The mining and extraction of the precious metal or stone from the ground. Once extracted, these commodities are sold to refineries for processing; often the mining company itself is involved to further refine the metal or stone.

2. The refinement of the metals or stones. Metals are refined and used for manufacturing processes or processed into refined bars and coins. Rough stones are sorted and then cut and polished.

3. *Wholesale metal sales* – dealers purchase the coins, or refined bars and these dealers in turn distribute their products to other dealers, jewellery manufacturers and/or for sale to the public. The RCM has a specific list of dealers which it sells to and also buys from.

4. *Jewellery manufacturing* – manufacturers of jewellery work with designers, often one and the same, and produce jewellery which will eventually be sold to the public.

5. Jewellery wholesalers deal in both stones and precious metals and are part of a maze of middle men in the process. Some of them also manufacture jewellery and deal directly with retail clients.

6. *Retail sales* – finished jewellery products and precious metals are acquired by jewellery stores and dealers to sell to consumers. Retail points of sale include – jewellery stores, coin stores, online jewellers and precious metals dealers, and coin and jewellery conventions.

7. Diamonds and other precious stones are traded through a more complex process known as the "diamond pipeline" as shown below. The process is unusual, primarily because of its history, which derives from a time when DeBeers, the world oldest and largest diamond producer controlled the global market. This continued until the 1980s, more recently, alternative diamond sources have developed in Russia, Canada and Australia and a number of other global mining companies such as Rio Tinto, Alrose, BHP Billiton and Harry Winston have also eroded DeBeers' market control.

8. The original DeBeers monopoly was secured by their unique business model, in which rough diamonds from all of its mines located throughout the globe, are brought to England for production sorting and aggregation. The diamonds are then aggregated and split into appropriate types and quantities to be sold to clients. The clients are called sightholders, of which there are 78 in the world including one in Canada.

9. When DeBeers controlled the global trade, only sightholders had access to raw diamonds and they had to be purchased according to the strict DeBeers rules. Several other trading oddities still remain in the industry including the practice of "handshake deals" between individuals who have known each other for decades and sometimes generations and loans of diamonds using the "memo transaction or consignment" system. This together with the use of cash to settle diamond deals makes the true state of affairs rather opaque and the tracking of deals particularly difficult. These elements of trust and specialist expertise built up in close knit cliques make market entry very difficult and also significantly increase the risks that this sector is abused by money launderers and terrorist financing.

10. This complexity was further exaggerated because the diamond trade was controlled by a small tight knit group who operated out of Belgium and Israel where most of the global diamond cutting and polishing took place. As new diamond producers have entered the market, these patterns have

changed too and DeBeers now only control approximately 40% of the global diamond market[2]. Similarly, diamond cutting and polishing has now significantly migrated to India and China and so global diamond trading patterns have changed significantly.

11. The market has also been significantly impacted by the Kimberly Process, a global initiative of governments, industry and civil society, developed to stem the flow of conflict diamonds and help to end wars funded by their illicit trade.[3]

There is significant overlap within these steps as companies and individuals often have operations across a number of the steps, for example, wholesale and retail jewellers might also design and manufacture the jewellery that they sell to their customers. Also, some mining companies extract and refine the metals while others might just extract and then sell and send them to be refined elsewhere.

The diagrams below outline the process and different stages underlying the diamond jewellery supply chain. It is important to note the multiple levels of diamond trading as these segments create significant risks.

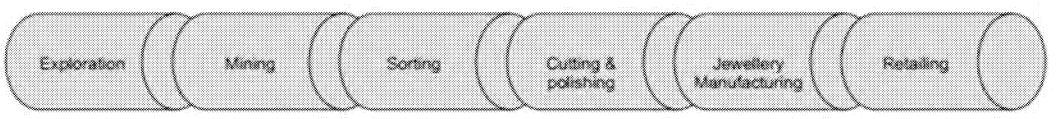
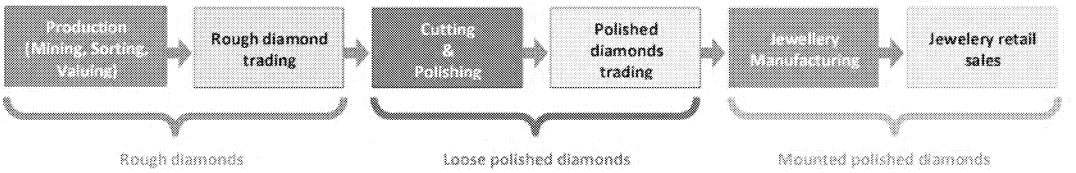


Figure 1: **Diamond pipeline diagram**



Note: This only represents this licit diamond trade.

Source: FATF – Money Laundering and Terrorist Financing through Trade in Diamonds, October 2013

The sector is captured across a range of SIC and NAICS codes, many of which include other sectors and segments not relevant to this report. We have therefore broken out specific numbers where possible or have otherwise identified other sectors that are included in the statistics. See Appendix A.

2.1 Precious metals dealing

This segment is primarily the activity of established and reputable metals dealers selling "recognized bars", which are sourced from certified refiners. A recognized bullion bar is one that was minted by a major refinery that is very well known and may have international locations or presence, such as the Royal Canadian Mint, Johnson-Matthey, Engelhard and Credit Suisse/PAMP. The purity of the bullion of unrecognized bullion products may be the same but they will not be accepted by major financial institutions. Recognized bullion products ultimately fetch higher prices as a result of the confidence instilled as a result of their status.

[2] First Research Industry Profile – Jewellery Stores, February 2, 2014
[3] Kimberley Process - http://www.kimberleyprocess.com/

The London Bullion Market Association produces a list of accredited smelters and assayers whose gold and silver bars they would automatically accept in settlement against transactions conducted between each other and with other acceptable counterparts; these bars earn the distinction of London Good Delivery status.[4]

True bullion coins are minted with designs but are traded primarily for their gold content, such as the USA Gold Eagle and Buffalo, the Canadian Maple Leaf, the South African Krugerrand, and the Chinese Panda.

2.2 Precious stones dealing

As outlined above, this segment consists of dealers in two parts of the market, dealers in rough diamonds, i.e. before they have been cut and polished and dealers in polished diamonds. The diamond trade is dominated by a relatively small group of participants ranging from international corporations to small but well-connected companies and individuals, many of which have long histories in the industry including family businesses. The trade in rough diamonds is global, and the licit market primarily conducts its transactions through the 29 bourses around the world. Bourses are private organized markets with membership generally restricted to individuals; their purpose is to act as a commodity exchange where buyers and sellers can meet.

In Canada there is one bourse, The Diamond Bourse of Canada which is located in Toronto and has 14 founding members. Total membership exceeds 66 companies. The membership is primarily Canadian but includes companies from the US and India, some of the members are the Canadian offices of international companies.[5] Not all members are diamond traders, for example the Ontario Ministry of Northern Development & Mines is a member. In addition to providing a market, the bourse also offers other value added services such as gem lab services, deposit boxes and a customs bonded warehouse. The trade in Canadian sourced diamonds is governed by the Canadian Diamond Code of Conduct a voluntary standard that provides assurance of the authenticity of Canadian diamonds. The code establishes a record of origin for each diamond sold as "Canadian" from one of the four Canadian diamond mines.

2.3 Diamond production and trading

Canada was the fifth largest diamond producer in the world by volume in 2012 and the third by value, producing US$2.1 billion of diamonds and has been a significant producer for a number of years now. Despite this, Canada is not one of the primary global trade centres for rough diamonds of which there are five; Antwerp, London, New York, Tel Aviv, Dubai in the United Arab Emirates ("UAE") India and China are also growing quickly. These centres provide a link between diamond producers and the cutting and polishing centres.[6]

The Diamond Bourse of Canada was established in 2008, in Toronto, in response to the dramatic growth of diamond production in Canada over the past decade. It joined 28 other bourses around the world. The national bourse, located in Toronto's financial district, is entirely dedicated to the business of diamond trading, merchants now use the bourse to meet for the purpose of buying or selling rough and polished diamonds, and take advantage of other services and amenities such as the Kimberley Process certification.

In 2012, Canada issued 280 Kimberly Process Certificates ("KPCs") for exports to 11 locations with the European Community comprising 53% of the total. India, Israel and the USA accounted for a further 33%. Canada also

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[4] The London Bullion Market Association - http://www.lbma.org.uk
[5] Diamond Bourse of Canada - http://diamondbourse.ca/
[6] FATF – Money Laundering and Terrorist Financing Through Trade in Diamonds, October 2013 - http://www.fatf-gafi.org/media/fatf/documents/reports/ML-TF-through-trade-in-diamonds.pdf

received 269 foreign KPCs in 2012 from 10 locations, once again the European Community led with 46% and the US, with 35%.[7] The complete table for diamond production is at Appendix A.

The statistics for 2012 for Canada look like this:[8]

	Volume (carats)	Value (USD)
Production	10.45 Million	$2.01 billion
Import	0.76 Million	$0.16 billion
Export	11.12 Million	$2.16 billion

The United States is the top exporter of jewellery to Canada and the trade has increased significantly, but other countries such as China, India, Israel and Italy are also major exporters of jewellery and silverware to the Canadian market.

Canada does not feature on tables displaying the top rough diamond import, export and trade figures or those relating to diamond export, import, cutting and polishing. Canada is not a major diamond cutting and polishing centre, this work is now mainly concentrated in India and China although Belgium and some African countries are still significant players. Despite this, the development of the Canadian diamond mining industry has been followed by early efforts to stimulate activity in this segment. The agreements which led to Ontario's first diamond mine opening also included clauses allocating 10% of its production for cutting and polishing in Ontario, and centres were established in Vancouver and Sudbury which produce high end loose polished diamonds. See charts at Appendix A.

Canada now has only one remaining diamond cutting and polishing company still in operation, Crossworks Manufacturing which is headquartered in Vancouver and has production facilities in Yellowknife and Sudbury, close to two significant diamond mines. The Sudbury facility is one of the largest in North America with 32 employees.[9] Canadian mined and polished diamonds, especially those from Ontario's Victor, mine are of exceptionally high quality and sell at premium prices around the globe.

2.4 Jewellery

Canada does not have a major jewellery manufacturing segment, although it is a significant market for both fine and costume jewellery. Although the US is the largest global market for fine jewellery, Canadians have, for example, the highest diamond engagement ring acquisition rate in the world at 85 percent. In 2008, the total value of the jewellery industry in Canada was estimated to be $1.7 billion. This figure includes the non-PCMLTFA regulated segments such as jewellery manufacturing and gem polishing and cutting.

Statistics Canada data for 2012 identifies 890 establishments in Canada under NAICS code 33991 Jewellery and Silverware Manufacturing. A full breakdown of the NAICS code is at Appendix A.

The Canadian precious metals & minerals market experienced growth and expansion between 2009-2012 with forecasts maintaining growth in value terms between 2013 and 2017.

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[7] Canada Report on the Implementation of the Kimberley Process Certification Scheme, 2012 - http://www.kimberleyprocess.com
[8] FATF – Money Laundering and Terrorist Financing Through Trade in Diamonds, October 2013 - http://www.fatf-gafi.org/media/fatf/documents/reports/ML-TF-through-trade-in-diamonds.pdf
[9] Northern Ontario Business – "Crossworks Manufacturing is the largest cutting and polishing manufacturer in North America", February 17, 2011

Table 2-1 - Market value
CA$ million 2008-2012
Canada precious metals and minerals (includes mining and refining)

Year	US$ million	% Growth
2008	6,557.5	
2009	5,921.3	(9.7%)
2010	7,809.0	31.9%
2011	11,554.6	48.0%
2012	10,724.6	(7.2%)

Table 2-2 - 2012 Market value
Breakdown by metal

Category	2012	%
Gold	5,664.4	52.8%
Industrial & gem-quality diamonds	3,889.0	36.4%
Silver	511.2	4.8%
Platinum	361.3	3.4%
Palladium	259.0	2.4%
Rhodium	29.7	0.3%
Total	10,724.6	100%

Source: MarketLine – Precious Metals & Minerals in Canada, October 2013

Gold is the largest segment of the Canadian precious metals & minerals market, accounting for 52.8% of the total market value in 2012. The industrial & gem quality diamonds segment accounts for 36.4% of the market.

Canada accounted for 21.5% of North America's precious metals & minerals market value in 2012[10].

[10] Ibid

Table 2-3 - Market geography segmentation
US$ million, 2012
Canada precious metals and minerals

Geography	2012	%
United States	$14,236.1	28.5%
Canada	10,724.7	21.5%
Mexico	8,930.7	17.9%
Rest of the Americas	15,999.2	32.1%
Total	49,890.7	100.0%

Source: MarketLine – Precious Metals & Minerals in Canada, October 2013

2.5 Reporting entity population

The following Statistics Canada data gives an idea of the reporting entity data for a number of relevant segments. In each case, the statistics include several key segments with no further breakdown.

- Jewellery, Watch, Precious Stone, and Precious Metal Merchant Wholesalers: 667 (Onesource)
- Jewellery & silver manufacturing: 890 organizations or individuals
- Mineral ore and precious metal wholesalers/distributors: 122
- Jewellery stores: 2,619
- Securities and commodities exchanges: 263
- Gold and silver miners: 210
- Nonferrous metal smelters & refiners: 39
- Pawnshops – NAICs is too imprecise to identify

The total organizations and individuals identified through the Statistics Canada data review is 4,810. The SIC codes for the seven relevant codes are detailed at Appendix A.

3. Economic and financial statistics

In 2011 the value of jewellery imports reached its highest level in five years, at $1.1 billion. This was partly a result of the increased cost of raw materials such as gold and silver. Retail sales of jewellery and watches in Canada in 2011 amounted to $630 million, $138 million of which was sold in December during the Christmas and New Year's holiday season.[11]

A 2011 Statistics Canada report stated that there were five importers of worked, unset industrial diamonds. The total value of these imports by these five companies totalled C$481,569. The similar figure for worked, unset non-industrial diamonds indicated 83 importers and a total value of imports for 2011 of C$404,845,700. Figures for precious stones (other than diamonds) - unworked indicated 28 importers and a total value of imported goods of C$781,366. Precious stones (other than diamonds) – worked, 62 importers and a total value of imports of C$8,785,498. Rubies, sapphires and emeralds – worked, 26 importers and a total value of imports of C$8,254,092. The report also contains figures for synthetic or reconstructed precious/semi-precious stones – worked with 22 importers and a total value of imports of C$2,676,812. The figures for gold in semi-manufactured form (non-monetary) show 4 importers and a total value of C$30,135,550 no figures for monetary gold are available.[12]

The value of jewellery and watches sold at retailers in Canada in 2012 totalled $3.34 billion. Retail sales of jewellery and watches sold at large Canadian retailers in December 2012 were $138.8 million, an increase of 18% from average monthly sales of $135.6million in 2012 and up 60% from November in the same year.[13]

[11] TFO Canada - http://www.tfocanada.ca/
[12] Statistics Canada – Canadian Importers Database
[13] Statistics Canada - http://www.statcan.gc.ca

4. Regulation of the DPMS sector

The primary legislation in the DPMS sector is the Export and Import of Rough Diamonds Act (EIRDA) which came into force on January 1, 2003. This Act provides for controls on the export and import of rough diamonds and for a certification mechanism for the trade in rough diamonds, namely the Kimberley Process Certification Scheme. The Act also has a series of regulations, the Export and Import of Rough Diamonds Regulations (SOR/2003-15).

There are also a number of other Federal and provincial laws which govern the sector:

- Metal Mining Effluent Regulations (SOR/2002-222) - http://laws-lois.justice.gc.ca/eng/regulations/SOR-2002-222/
- Precious Metals Marking Act (R.S.C., 1985, c. P-19) - http://laws-lois.justice.gc.ca/eng/acts/P%2D19/
- Base Metal Coins Regulations, 1996 (SOR/96-194) - http://laws-lois.justice.gc.ca/eng/regulations/SOR%2D96%2D194/page-1.html
- Royal Canadian Mint Act (R.S.C., 1985, c. R-9) - http://laws-lois.justice.gc.ca/eng/acts/R%2D9/page-1.html
- Ontario Pawnbrokers Act – RSO 1990, Chapter P.6 - http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_90p06_e.htm

There are also a number of other voluntary compliance type guidelines such as:

- The Canadian Diamond Code of Conduct
- Canadian Guidelines for Gemstones - Canadian Guidelines with Respect to the Sale and Marketing of Coloured Gemstones & Pearls – Revised edition 2013
- Jewellery Appraisal Guidelines – Minimum Acceptable Standards – Revised Edition 2010

Other laws governing some aspects of the sector come from the municipal level such as those governing pawnbroker and precious metals trading licences. There are also a number of global agreements and treaties governing the trade in conflict minerals and diamonds etc. aimed at reducing the ability of rebel groups in war torn countries from funding their military activities through the trade in illicitly obtained supplies.

The trading of metals futures is governed under the rules of the Investment Industry Regulatory Organization of Canada ("IIROC") Regulatory Margin Requirements for Precious Metals. Dealer Member Rules 100.2, 100.20 and 400.4, and Form 1 are designed to allow gold and silver precious metals bullion to be margined like their respective certificates.

5. Constraints

None identified at this point other than the regulations as described above.

6. Description of sector associations

Our research has identified the following Canadian and International DPMS related associations:

- *World Gold Council* – "The World Gold Council is the market development organization for the gold industry. With our unique insight into the global gold market, we see unrealized potential for gold across society and intervene to create new possibilities. Working with world-class organizations across the supply chain, we stimulate demand, develop innovative uses of gold and take new products to market. As the global authority on gold, we offer comprehensive analysis of the industry, giving decision makers unparalleled information and insight into the drivers of gold demand." www.gold.org

- *World Federation of Diamond Bourses* – "The object of the World Federation of Diamond Bourses is to protect the interests of affiliated bourses and their individual members, and to further the amicable settlement or arbitration of differences and disputes between the individual members of the affiliated bourses and between the affiliated bourses. In furtherance of this object, it is the aim of the world federation to participate in the promotion of world trade and to encourage the establishment of bourses, with the view of eventual affiliation of all centres where diamonds are actively traded. Members of the bourses affiliated to the World Federation of Diamond Bourses pledge themselves to uphold the traditions, principles of mutual trust, consideration and friendship which prevail among the members of the bourses world-wide. They pledge themselves to abide by and hand down these principles and to ensure that they will forever serve as a basis in business relations between members of the affiliated bourses world-wide."

- *International Precious Metals Institute* – "… the largest and most well-known association focused on precious metals in the world. IPMI is an international association of producers, refiners, fabricators, scientists, users, financial institutions, merchants, private and public sector groups, and the general precious metals community formed to provide a forum for the exchange of information and technology. IPMI seeks and promotes the efficient and environmentally sound use, reuse, and recycling of precious metals from both primary and secondary sources." https://www.ipmi.org/about/index.cfm

- *Jewellers Ethics Association (US)* - JEA works towards promoting and supporting ethical business practices within the jewellery and gemstone industry by providing its members with information, education, conflict resolution and support to increase confidence in the products they buy and sell. - http://jewelersethicsassociation.com/

- *London Bullion Market association* - The LBMA is the international trade association that represents the market for gold and silver bullion, which is centred in London but has a global client base, including the majority of the central banks that hold gold, private sector investors, mining companies, producers, refiners and fabricators. http://www.lbma.org.uk

- *Gold Anti-Trust Action Committee* – was organized back in 1998 in order to expose, oppose, and litigate against collusion to control the price and supply of gold and related financial instruments http://www.gata.org/

- *Alliance for Responsible Mining – ARM* "…is an independent, global-scale, pioneering initiative established in 2004 to enhance equity and wellbeing in artisanal and small-scale mining (ASM) communities through improved

social, environmental and labour practices, good governance and the implementation of ecosystem restoration practices." http://www.communitymining.org/

- *Professional Numismatists Guild* - a non-profit organization composed of the world's top rare coin dealers, paper money and precious metals dealers and numismatic experts. PNG members must follow a strict Code of Ethics in the buying and selling of numismatic merchandise. http://www.pngdealers.org/

- *Numismatic Guaranty Corporation* - Coin collectors often join large coin collecting groups such as the NGC and trade coins at group meetings or at coin collecting conventions.

- *Jewelers Circular Keystone* - is the jewellery industry's leading trade publication and jewellery industry authority. http://www.jckonline.com/about

- In the mining sector, the largest and oldest group is the *Prospectors & Developers Association of Canada.* There is also a Mining Association of Canada and multiple similar bodies at the provincial level.

- *Canadian Jewellers Association* - The CJA is the voice of the Canadian jewellery industry, providing leadership in ethics, education and communication. This association has some provincial level groups as well.

- *Jewellers Vigilance Canada* - An Independent, non-profit association to advance ethical practices, establish a level playing field for the Canadian jewellery and watch industry and provide crime prevention education for our industry. In full partnership with the RCMP and Jewellers Mutual Insurance Company.

- *Canadian Diamond Code of Conduct* - The Code establishes a minimum standard based on records and a chain of warranties required to validate a Canadian diamond claim. Retailers who abide by the Code demonstrate to consumers their commitment to ensure the authenticity of Canadian diamond claims.

- *Canadian Gemmological Association* - is a non-profit, membership association and educational institute providing education in the field of gemmology and provides a forum for Canadian gemmologists to meet and share knowledge and experiences

- *American Gem Society* - American Gem Society is a jewellery association comprised of the top jewellers in the United States and Canada offering diamond education and other services to consumers. http://www.americangemsociety.org/

- *Gemological Institute Of America* - The Gemological Institute of America, GIA, is the world's foremost authority in gemmology, diamond grading, jewellery education, gemology research, diamond and gemstone grading reports and laboratory services. http://www.gia.edu/

- *National Jeweler* – the industry's only news analysis publication which covers all the topics of importance to the retail community and is the leader in conducting and disseminating trade and consumer research and identifying the trends that shape the industry. http://www.nationaljeweler.com/

7. Emerging business trends

Our research has identified a number of macro trends that are affecting this sector. In particular, as outlined above, the diamond industry is undergoing significant change with the emergence of new diamond producers and the migration of diamond cutting and polishing centres to China and India. The DeBeers' monopoly has been significantly degraded and its market share fell from as high as 90% in the 1980s to less than 50% in 2012.[14] The development of the Canadian diamond industry played a role in this change.

Similarly, the global movement to stamp out the trade in conflict diamonds and minerals, especially the Kimberly Process, has significantly altered the global market place for the sector. Although in theory, trade in these materials is decreasing, in reality, it has been driven underground and this factor alone has significantly increased the risk of money laundering in the sector globally. As a more current example, there are media reports involving dealers in Dubai who have apparently been involved in significant numbers of cash transactions which does not allow for any effective monitoring as to the origin of the metals (gold). Strict standards for requirements to determine the sourcing of the metal (similar to the Kimberly Process) are now starting to be applied/called for. Articles related to this are attached at Appendix B.

Formation of wealth management type companies focused on investments in precious metals and stones is another emerging trend. The trend is that these organizations are presented to the public more along the lines of securities firms. However, these organizations appear, given the sector they focus on, to be unregulated with respect to investor protection regulations. An example is the following: http:/ s.20(1)(c)

The retailing of diamonds and jewellery has also begun to see significant changes over the past few years with the internet and mass merchants such as Walmart beginning to gain market share. Although the numbers here are changing, there is little doubt that the high end of the market is still dominated by the traditional sector participants such as specialty jewellery stores. Research indicates that specialty jewellery stores now account for only about 40 percent of all jewelry sales in the US. It is reported that Wal-Mart's success in selling jewelry stems partly from consumer perception that it has the lowest prices.

- *Synthetic Diamonds* – In the past the processes which had been developed for the synthetic creation of diamonds could only produce very small gems that were suitable only for industrial processes such as drill bits and cutting blades. In the last 20 years, a number of different technologies for creating diamonds have been developed and gemstone quality synthetic diamonds are now a reality. Although chemically identical to geological diamonds, their physical properties are different and they can be distinguished using optical analysis techniques. Despite this, the traditional diamond industry has in the past few years reacted strongly to the discovery of synthetic diamonds in parcels of geological stones. The full impact of these developments is not

[14] Kitco – "A diamond market no longer controlled by DeBeers", June 6, 2013

yet apparent but the traditional industry is pushing for laws preventing the identification of synthetic diamonds as genuine, an act they see a fraud.

- *3D Printing* – Market research reports indicate that more jewellers and jewellery designers are turning to 3D printers to give customers a greater number of customization options and a quicker turnaround time; that the 3D technology may allow designers to bring more affordable versions of their products to customers and that the printers could increase consumer demand for custom-designed jewelry and allow jewelers to provide a level of customization previously not possible.[15][16]

- *Public Mistrust of Jewellers* – research of the sector also indicates that the public is wary of, and intimidated by, jewelers, a perception "not unfounded given the average 100 percent price markup in the industry and the difficulty consumers have assessing product quality." These factors may be behind the trend towards retail internet jewellery sales.

There are some indications of a consolidation in the Canadian retail jewellery market. One example of this is the recent merger of two of the biggest diamond sellers in the US, Signet Jewelers Ltd and Zale Corp. Zale Corp, is the owner of Canada's People's Jewellery and Mappins, the new combined entity is now therefore the leading jewellery retailer in Canada. The deal was described as: "The latest sign of industry consolidation as chains and mom-and-pop shops increasingly battle on-line upstarts for customers."[17]

[15] First Research Industry Profile – Jewellery Stores, February 2, 2014
[16] First Research Industry Profile – 2-10-2014
[17] Financial Post February 20, 2014

8. Products and services offered

The products and services offered in the DPMS sector have remained stable over time although some delivery methods have changed as outlined above. At the production end of the spectrum, the mining and refining of both precious metals and stones is largely unchanged but the participants in these aspects have seen considerable change. Canada is a major player in the global mining industry and has become a major diamond producer. The jewellery manufacturing segment in Canada is not large and is a net importer of finished jewellery.

At the wholesale level, Canada has participants who refine and trade in both precious metals and gems and are traders of both bullion and coins and finished diamonds. Bullion dealer services include assaying, storing and shipping.

At the retail level, polished stones, metal and jewellery are sold both through traditional bricks and mortar retail establishments and a growing internet market. Online, the public are able to purchase bullion products, gems and jewellery from a range of companies. For bullion, players like Sprott, Kitco and the Bullion Exchange are examples. For gems and jewellery, examples range from the largest, Blue Nile and industry leaders like Tiffany's to smaller players such as budgetdiamondsonline.com. There is also an informal portion of this market where individuals sell such items for cash. Other sector products include:

- *Bullion Investment Funds* – an alternative way to invest in physical gold, platinum and silver bullion, on a Canadian dollar-hedged basis. Investors hold an interest in physical gold, silver and platinum bullion by buying units of the Fund directly on the TSX. Like any other exchange-traded securities, fund units are traded through investment dealers. (Examples in Canada include Brompton Precious Metals Bullion Trust, Sprott Physical Gold Trust, and Royal Canadian Mint Exchange Traded Receipts.)

- *Precious Metals certificates* – can be bought and sold at the prevailing spot price for the metal. Certificates carry no storage charges and bar charges are only applicable if the certificate is exchanged for physical bullion.

- *Exchange Traded Funds* – allowing consumers to purchase shares in a fund which purchases and holds physical precious metals or future contracts.

- *Stock market investments*- Investors can invest directly in mining and exploration companies by purchasing stocks or bonds or investing in mutual funds that purchase tangible precious metals.

9. Type of customer(s)

To a significant extent, the products included in this sector are personal items. With the exception of bulk purchases of precious metals by businesses and governments for investment purposes and the jewellery industry itself, customers are individuals buying jewellery and precious metals or stones for investment.

Institutional precious metals and base metals dealers like ScotiaMocatta are international buyers and sellers of gold, silver, platinum and palladium. The company acts as a clearing house to move billions of dollars of gold to settle daily trades. The company is also a conduit for gold going into India, the largest market for physical gold in the world, and is also one of the largest purchasers of metal from South Africa, the world's number one gold producing country. ScotiaMocatta connects industrial users and the big investors and the producers of precious metals. The company also stores vast amounts of metals in their vaults which can be shipped around the world at a moment's notice.[18]

[18] ScotiaMocatta - http://www.scotiamocatta.com/

10. Geographic considerations

The geographical picture behind the DPMS sector is a complex one for a number of reasons. Although there is local supply of both precious metals and stones in Canada, most of the product sold here has been sourced or manufactured overseas. As outlined above, Canada does not have significant assets or participants in the diamond trading and polishing segments or in the supply of precious metals from this country.

The diamond trade itself is a very global one and although Canada has become a significant supplier, only approximately ten percent of this product is destined for the local market. As a new player in this market, Canada is still developing the systems and controls to ensure adherence to the global set of laws and agreements that keep the industry clean. The nature of both the products and the global trading system through which they are sold both represent significant risk factors for money laundering and terrorist financing.

11. Any other relevant information on the sector

11.1 Product characteristics

As pointed out in the 2013 FATF paper on the diamond industry, diamonds have a number of inherent properties which make them especially useful for money laundering and terrorist financing. Although the same applies to other gemstones, their relatively small market as compared to the vast scope of the diamond industry makes them a less important tool for the money launderer. Diamonds have the ability to earn, move and store value, they are a liquid and transferable asset with unique physical and commercial properties which carry value in small, easily transportable quantities allowing their easy movement and therefore their suitability for the concealment and storage of the proceeds of crime. Diamonds are:

- Very high value
- Low weight/mass and size
- High value to mass ratio unlike metals
- Highly durable
- Stable prices and can retain value of long periods
- Hard to detect and therefore easy to smuggle
- Untraceable
- Easy to buy and trade outside the formal system
- Mostly unmarked (Many Canadian diamonds are an exception to this)
- Diamonds range significantly in a number of ways and therefore cover a very wide range of prices allowing price manipulation
- Diamonds can also be a useful tool for fraud as substitution of different quality products or synthetic diamonds can be hard to detect.
- Diamonds can also be used as a currency in themselves and have characteristics similar to cash

A number of aspects of the diamond trade also provide similar benefits for money laundering and terrorist financing:

- The global nature of the trade.
- The varied nature of participants from large to small and from modern and sophisticated to traditional and informal trading.
- Significant parts of the diamond trade are undocumented, unaudited and untraceable.
- The combination of the factors outlined above make diamonds an ideal tool for trade based money laundering. "The Financial Action Task Force (FATF) has recognised misuse of the trade system as one of the main methods by which criminal organisations and terrorist financiers move money for the purpose of disguising its origins and integrating it into the formal economy. As the anti-money laundering (AML) and counter-terrorist financing (CFT) standards that have been applied to other ML techniques have become

increasingly effective, such abuse of the trade system is expected to become increasingly attractive". This statement is very relevant to the trade in diamonds. One of the main methods through which trade based money laundering is conducted is by way of over or under valuation. The diamond industry is tremendously vulnerable to this primarily because of the high subjectivity in the valuation of diamonds, the ability of diamonds to change their form, the trade based and global nature of the diamond market, and the long production chain involving many actors.

11.2 Business challenges

- *Influence of De Beers* - World diamond supply and pricing are strongly affected by De Beers, the South African group, which controls 40 percent of the world's rough diamond supply. However, De Beers faces increased competition from Canada, Australia, Angola, and Russia, and has encountered legal obstacles in the US and the EU because of its business practices.

- *Crime Exposure* - The small and expensive nature of the merchandise makes jewelry a target for potential thieves. The Jewelers Security Alliance of the USA reported 1,478 crimes against the jewelry industry in 2011, with losses totaling $85 million. Crimes include thefts in stores and off premises, such as robberies of traveling salespeople.[19]

11.3 Industry opportunities

- *Private Credit Cards* - Jewelers offering private credit cards have targeted promotional materials to customers to enhance connection with the store; some have also been able to sell other types of merchandise to them. Zale Corporation markets insurance and credit insurance to its credit card customers, about 35 percent of whom buy some form of insurance product from the company.[20]

- *Internet Sales* - Luxury jewelry giant Tiffany and many other jewelers have set up websites to sell jewelry. Internet sales accounted for 5 percent of Zale's revenue in fiscal 2012,[21] and the company has added e-commerce capabilities to its various brands to boost online sales. Tiffany markets its products through catalogs as well as its website.

- *Branding* - To increase consumer confidence, retailers and manufacturers are trying to establish brand names. While branding has been successful for signature pieces from famous retailers like Tiffany, gemstone branding has so far had little impact. Branding has been most successful for watches.[22]

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[19] First Research Industry Profile – Jewellery Stores, February 2, 2014
[20] Ibid
[21] Ibid
[22] Ibid

12. Key points from interviews

12.1 Sector Background

1. One viewpoint was that there was ease of entry to the market and that this was an opportunity for criminal funds, "…entry costs are no different than opening a restaurant for example".

2. Another view was that there was a cost of getting in and out, and that it is within the range of 30 to 50%. This was thought to be significant, "too large a drop", and that the legitimate mark-ups and profit margins are low. In the past few years, there has been a trend towards diminished margins; diamond prices have become more transparent due to the internet. For retailers however, there are lower barriers to entry due to use of consignment sales.

3. Huge range of players within the sector; there are many one man shops, an individual who has a connection to source of diamonds/gems for example, who then sells to their own personal network, minimal to no oversight on any of these transactions. Then there are the other players: jewellery manufacturers, dealers and retailers; metals dealers, refiners; bullion dealers, suppliers, refiners; diamonds; some pawn shops. In major cities there are thousands of 'dealers' from small to large.

4. Subdividing the sector, one way to look at it:

   a) Buying jewellery from the public
   b) Buying and selling physical bars
   c) Retail jewellery sales
   d) Precious stones

5. Is there a high proportion of cash transactions? Yes.

6. Bullion Supply: if you are sourcing in Canada, this Canadian source is normally from the US and likely has come through at least a couple of wholesalers. When are buying from the US you are buying closer to the source. Unless you are one of the distributors that the Royal Canadian Mint works with for bullion.

7. Established and reputable bullion/metals dealers are selling "recognized bars", this means that the source is from a certified refiner. What does it mean to be certified? There are several listings… one is the London Bullion Market Association and if a refiner is on their list this means it is recognized, follows certain guidelines, is subject to testing etc. It was noted that these guidelines were not about AML but that they were some form of industry regulation.

8. All reputable dealers sell "recognized bars" and they do not go underground.

9. The Royal Canadian Mint has a distributor list: it is short and no more are being added to the list. The Mint has two sides: Numismatics (collector coins) and the Bullion side (The Mint has a FAQ section on its website).

10. The Mint relies on their distributors to distribute to the smaller shops. These distributors though, also have a retail side so they are in essence also competing with the smaller shops. In Canada, there are no non-retail distributors; the market is not big enough. In the US for example, there are distributors who do not have a retail presence; usually these are private companies.

11. The Mint does not regulate their distributors; it is a partnership. For example, when they buy from the Mint they are not asked any questions about the source of the money they bring forward; their business has never received a question from the Mint about whether or not they have an AML compliance program in place and if their dealer activities are reviewed for example.

12. There are metal bars in the market which are made from smaller (not certified) refineries, these are not "recognized".

13. Dealers will buy in gold, silver (in whatever form) from the general public or whatever source they have, they will either melt themselves and/or send to a refiner to do (this could result in bars which are not "recognized"). Then, for example, Royal Canadian Mint will take this refined "unrecognized" metal and will then process it and put out to market as "recognized". It was noted by this dealer that they were not aware of any AML procedures applied to any of this.

14. The Mint does refine gold for others as a service, putting it into any form they request.

15. If a dealer ships 100 ounces to a refinery, the refiner comes back and says 98 ounces of it was pure gold. Do you want it back, pay the refiner fee or do you want to swap? Swap means I take equivalent value in whatever bullion product I want and they supply. Anyone can be a refiner, but there are groups that provide certifications, so some refiners are certified and others are not.

16. Gold and silver metals are always traded in US dollars and always settle in US dollars. So, even if buy from the Canadian Mint, you pay in US price in US dollars. Would some distributors accept other currencies? Maybe, doesn't know, this particular dealer would not.

17. Retailers who are exposed to the public are seen as having a higher risk of exposure to money laundering, they do not really know their client. Wholesalers, and KYC is done at this level, have a better understanding of who the clients are. Typically there is an established client relationship at the wholesale level and transactions are not with one time clients.

18. When purchasing diamonds, this stones dealer looks for an originating invoice from a Debeers sightholder. It is estimated that 80 to 85% of the market originates this way. The secondary market, diamond producing which is non-DeBeers, is where it is thought that illegal transactions may exist. The secondary market can be riskier; the Debeers sight holders have more to lose, more to protect.

19. The industry is based on trust and that customers act honestly.

20. Metals don't actually move that much anymore particularly in large quantities. There is a very strong chain of custody at the higher levels and they doubt that conflict metals are getting into the system in North America. More likely it is going to markets much nearer to the original source.

21. In relation to the Dubai case, this proves that the global auditing process is working and this supplier has now been exposed, there is not risk of the metal entering Canada from this source as it is too far

away and the cost of moving it here is too high. Also believes that if you shut one door another one opens and they will always find a way.

22. Experience at the top end of the industry where dealing with most reputable dealers, there are lots of prohibitions. The background checks done are extensive and very thorough. This has been strengthened in the last few years by new OECD rules.

12.2 AML Compliance

23. There are minimal KYC requirements. Are there procedures being done to 'know your client'? Some dealers perform procedures but that is almost entirely because this dealer has an MSB business as well and are therefore aware and have been trained, have implemented a program because "it is the right thing to do". Generally, there is not much if anything done in the sector in this regard.

24. Industry players are not really at all in any way attuned to the AML rules, the rules have been in place only since 2008. Rules are very loose, most don't care. Has been no education.

25. Where does the industry need to get to? Needs to start by applying the MSB rules to DPMS. Need to think about supply/source as well, not just customers.

26. Some larger organizations deter cash from coming in, they promote bank drafts, but this comes with AML awareness and deciding to not accept cash off the street.

27. The new legislation came in in 2008 and at first it was very difficult to get people to understand why it was important to practice KYC due diligence and the learning curve was steep. Took a lot of effort to get people to understand and get on board.

28. In Canada the AML thinking is now there and there are good compliance processes. People are asking the right questions except at the retail level where they are still a bit reticent. The effort now needs to be on training and getting it out there to help them understand why it is important. Sharing knowledge, learnings and intelligence can help with this process.

29. There are global groups that meet with others in the industry and related groups to discuss what is going on in the market and share knowledge. One such group is the responsible metals forums. Some of these information exchanges are helping to bring AML standards up to the level of the securities industry.

30. The regulators could do more to share information and intelligence with industry to help educate them.

12.3 Trends

31. Do players in this sector ever get into securities type transactions (hedging using metals trading) and do these transactions receive any securities regulation type oversight? Yes, this happens. Not aware of any securities oversight.

32. Companies selling precious metals and stones for investment purposes, wealth management services, such as [redacted] was communicated as a trend. **s.20(1)(c)**

33. In regards to whether or not this type of business is currently or should be regulated by securities regulators: If the client takes possession of the specific bars or stones than securities registration is probably not required as there is no security, it is simply the sale of the underlying asset. If the client receives an 'interest' in unspecified bars or diamonds, then registration is probably required because those interests would be securities. Generally speaking, securities regulators have not seen registration from these types of businesses.

12.4 Risk areas

34. Need to consider the sourcing side of the business as well as the sales side.

35. Cash transactions.

36. Retail sales as the client and the source of funds is basically unknown. Also, if the main business is buying jewellery/gold product from the public, this is seen as very high risk. How does the dealer do any checks on where the jewellery came from? Or the silver? Possibly are feeding cash to organized property theft groups and/or groups that move money this way.

37. The non-Debeers diamond market; more risk for illegal activity here.

38. There is a lot of shadiness in the sector. Hard for the smaller shops to stay in business and stay clean. If are larger and of size, can manage the costs of choosing clean business. Pawnshops are the shadiest out there.

39. Online businesses are seen as risk area; not sure about the source of the diamonds. Diamonds identified as investments, such as [redacted] which was communicated as a trend (above), are seen as a risk area as the source of the diamonds is not clear.

40. The North American market for bullion is very well controlled and believe that the risk of any conflict metals getting into the system is low to moderate.

41. It is the other end of the supply chain where there could be problems, 3 to 7 layers down from the mint as the refineries and the wholesalers are very reputable and are doing a lot of compliance work, due diligence and KYC work to ensure the quality of their sources.

42. The mom and pop stores are a bigger risk because the due diligence efforts and the training are just not there. Anyone dealing with the larger entities is forced to maintain high standards in order to do so.

43. Gold lends itself to money laundering because its form can be changed very easily making it hard to trace.

44. Is aware of cases where the criminals use metals to launder funds and in many cases, gold and gold jewellery are found in police raids but they have been bought as finished products rather than being evidence of money laundering in the production system or supply chain.

45. Everyone in the industry has to do their part including the low end retailers.

13. Risk factors

It is essential to understand for this sector, that because all activity is trade-related, both the supply of the product and the sale of the product must be considered when assessing risk.

13.1 General Market

13.1.1 Ease of entry to the market

There appears to be relative ease to enter parts of the sector, e.g. metals trading, the requirement simply being sufficient initial capital outlay. During some interviews, it seemed that the only measure preventing dealing with illegally sourced funds was reputational. For specific segments, e.g. jewellery, there appears to be lots of competition, low margins and AML compliance is not an issue or seen as a concerning risk area for companies.

For other segments, e.g. diamonds trading, research indicates that there are barriers to entry including that the market is significantly reliant on trust and established relationships.

13.1.2 No cross border controls/reporting

While there is currently a declaration required for the transport across border for currency or monetary instruments this is not required for precious metals or stones.

Smuggling of precious metals and stones across borders; on February 3, 2014 a woman arriving from Trinidad and Tobago was arrested at Toronto's Pearson airport for smuggling over 10,000 diamonds hidden inside her body.[23]

13.1.3 Fragmentation of the sector/minimal regulation

No formalized industry oversight or regulation. Traditionally the sector has regulated itself, e.g. DeBeer sightholders, bourses, reliance on trust and established relationships. The lack of formalized oversight and regulation makes the sector vulnerable to money laundering and terrorist financing. Research indicates that markets have formed outside of away from and broadening beyond the traditional markets as more players become established.

13.1.4 Trade Based Money Laundering (TBML)

Manipulation of the prices of specific shipments of stones; sometimes combined for example with transnational smuggling to effect trade based money laundering. This is one of the most common methods used by criminals to launder illegally gained funds. The specific characteristics of diamonds as a commodity and the significant proportion of transactions related to international trade make the diamonds trade vulnerable to the different laundering techniques of TBML in general and over/under valuation in particular. This should be viewed in light

[23] Globe and Mail – "Woman arrested at Toronto airport had 10,000 diamonds hidden in body" Tu Thanh Ha, February 21, 2014

of the significant world annual trade volume which includes rough diamonds, polished diamonds and diamond jewellery[3].

13.1.5 Level of awareness of law enforcement and AML / CFT authorities (including FIU awareness)

Research indicated that the awareness of potential ML/TF schemes through trade in diamonds is low in most countries and trade transactions. The opaque and closed nature of the diamond industry are also obstacles to investigations of ML/TF by law enforcement agencies, which in many cases are unaware of the benefit and the possibilities for money laundering which diamonds may allow.

13.2 Products and Services

13.2.1 General product characteristics

Precious metals, precious stones, and jewels are easily transportable, highly liquid, highly concentrated bearer forms of wealth. They serve as international mediums of exchange and can be converted into cash anywhere in the world. In addition, precious metals, especially gold, silver, and platinum, have a readily, actively traded market, and can be melted into various forms, thereby obliterating refinery marks and leaving them virtually untraceable.

Criminal use of diamonds and gold as a form of currency due to the product characteristics; provides anonymity to transactions.

Apart from the retail sector, trade in diamonds, jewels and precious metals is traditionally private, as a matter of commercial protection or security. Dealers have traditionally protected their counterparties, their materials, and their business practices from public knowledge, in the interest of protecting themselves from criminal activity, and from potential independent interaction by competitors with their customers and counterparties or suppliers. Trust based on personal contact is an essential element of conducting business, and such trust and personal contact can assist in lowering counterparty risk. Each industry has trade resources, such as trade associations and directories, with which to establish some background and credit information and these can be consulted. Checks should be made of any new counterparty that is unknown. A counterparty, who proposes a transaction, should have the knowledge, experience and capacity, financial and technical background, to engage in that transaction, if not than the risk for money laundering and/or terrorist financing is assessed as higher.

Unless transactions involve very large quantities, lower value products are likely to carry less risk than higher value products. However, we need to be aware that values are volatile depending on supply and demand. The relative values of some materials can vary dramatically between different countries, and over time.

The physical characteristics of the products are also a factor to consider. For example, products that are more easily transported (e.g. jewellery) and which are unlikely to draw the attention of law enforcement, are at greater risk of being used in cross border money laundering.

Stolen or fraudulent products- as with all valuable objects, precious metals are attractive to thieves, and dealers need to be aware of the risks of trading in stolen product.

13.2.2 Product characteristics – precious metals, primarily gold

While not easy to transport in large quantities due to weight, the gold and silver markets are attractive due to the market stability and the international standard of measure. There is a relatively ready market for gold in Canada and internationally. While some bullion has serial numbers, this is not used to monitor and track source.

Depending on the nature of the transaction, counterparties, and quantities, gold is seen as the higher risk metal. Pure gold, or relatively pure gold, is the same substance worldwide, with a worldwide price standard published daily, and it can also be used as currency itself, e.g. by hawalas. Gold is available in a variety of forms, e.g. bars, coins, jewellery, or scrap, and trades internationally in all of these forms. We have seen a number of cases where funds stolen in frauds and other cases were used to purchase gold and exported, see articles at Appendix B.

Unrecognized bars are at higher risk for illegal funds. Interviewees reported that reputable dealers deal in "recognized bars". Although interviewees also identified instances where "recognized bars" purchased with fraudulent funds were liquidated into cash to hide the origin of the funds.

13.2.3 Product characteristics – diamonds

While traditionally there is the primary market for stones from DeBeers sightholders (and this is changing as more diamond producers establish themselves in the market), there is more risk in the non-DeBeers market as it is less regulated. This was confirmed by interviewees who stated that the non-Debeers diamond market was more at risk for illegal activity in part because there was no originating invoice available from a Debeers sightholder.

- *High value* – cases show that the trade in diamonds can reach tens of millions to billions of US dollars. This has bearing on the potential to launder large amounts of money through the diamond trade and also on the level of risks of the diamond trade. The value of diamonds is high and their source is hard to trace; source of stones can be easily masked through recutting.

- *Pricing* – there is no standard valuation of precious stones, including diamonds; while in principal pricing is based on several determinant factors, the value of precious stones can be highly judgmental among experts and also depending on the purpose of the value – i.e. whether the precious stone is wholesale, market, appraised value. Accordingly, the declared value of precious stones is vulnerable to deliberate under or over valuing for trade-based money laundering on a larger scale. Mitigating factors to consider is the lack of local marketplace in Canada to liquidate diamonds and there is a large loss in margin (30% to 50%).

- *Terrorist Financing* - There are cases, even though relatively few, indicating that the diamonds trade has also been used for TF during the last 10 to 15 years.[24]

According to the RCMP's 2009 Project SHYNE report[25], Canada's diamond industry is at serious risk for money laundering by organized crime and terrorists. "The Canadian diamond industry remains largely unregulated," and leaves dealers vulnerable to money laundering and a law enforcement system ill-equipped to handle the problem. There are 6,500 dealers of precious metals and stones in Canada's highly fragmented market. The jewellery business is often a family affair and fuelled by personal contacts, and as a result it is so much harder for police to access. A major problem is the "value manipulation" of diamonds. Dealers can alter the jewellery's price by falsifying documents, or by not declaring the nature of diamonds at the point of sale. As well, retailers now often buy more diamonds from underground markets than from legitimate wholesale dealers, perhaps partly due to more jewellery store robberies across Canada, which has helped lead to "the growth of a parallel, illicit market among dealers."

[24] FATF – Money Laundering and Terrorist Financing Through Trade in Diamonds, October 2013 -
[25] Financial Post – "RCMP issues warning on Diamonds", August 10, 2011

13.2.4 Uncertified stones and metals

Primarily gold and diamonds entering the legitimate production and sales pipeline e.g. blood diamonds or conflict minerals.

13.3 Delivery Channels

13.3.1 Size of the dealer

Interviewees indicated that it was harder for the smaller shops to stay in business and stay clean. Larger operations are of size and can manage the costs of choosing 'clean' business.

13.3.2 On-line sales

The source of product for some of these groups was questioned by interviewees.

13.3.3 Pawnshops

Many of the transactions are understood to be mainly cash based. Some research indicates that up to 90% of the items pledged are gold. Interviewees indicated that they considered significant risk to be attached to many of the higher value transactions.

13.4 Geography

13.4.1 Global nature of trade

The supply and customer markets are transnational and complex, thus convenient for ML/TF transactions that are, in most cases, multijurisdictional in nature. This, in turn, creates difficulties for national law enforcement to conduct investigations and necessitates international cooperation between law enforcement agencies across countries in which the trade is taking place.

Research indicates that this industry, while there have been efforts to reduce such trade practices, is based on traditional ethics of trust and that this is an integral part of the trade culture and that record keeping is minimal.

More recent reports around major centres, e.g. Dubai, indicate that their ability to monitor and prevent the infiltration of conflict stones and metals into the legitimate market is weak/vulnerable and published examples show this. See Appendix A.

13.5 Business relationships/linkages with other sectors

13.5.1 Dealer customer risk

Retail customers are typically individuals purchasing gold and silver bullion as a safekeeping asset and for investment purposes. Transactions with individuals where purchases are shipped to addresses outside of Canada and/or to PO Boxes are seen as higher risk; also higher volumes and possibly structured transactions.

Purchases of bullion (or diamonds) back from retail clients and non-clients (rather than traditional supply sources); particularly where the origin of the product is unknown is seen as higher risk.

Research indicates that retailers dealing with the public really did not know their clients or the source of the funds and that accordingly, are seen as having a higher risk of exposure to money laundering. Wholesalers were understood to perform 'KYC' procedures and to have a better understanding of who they were dealing with. Typically at the wholesale level there is an established client relationship and transactions are not one-offs.

13.5.2 Dealer supply/counterparty risk

Level of transparency around gold (or diamonds) origination.

Supplier or counterparty that is not knowledgeable of the applicable local laws, regulations and rules, as well as the structure and extent of regulatory oversight is seen as high risk. The level of government regulation of counterparty's business and accounting practices is also relevant. Companies and their wholly owned subsidiaries that are publicly owned and traded on a regulated exchange, or that have publicly issued financial instruments, generally pose less money laundering risks. We note that this is not always true; some publicly traded companies may be established by money launderers.

The nature and extent of banking involvement. In general, a lower risk level is present where a transaction is entirely financially settled, both at the side of the dealer and the counterparty, through a banking institution that is situated in an FATF member country and that is known to be actively involved in payment flows and financing arrangements in the particular trade, provided the transaction is generally routine (including payment that closely follows routine trade flows) and that the documentation contains adequate identification of all parties concerned.

Higher risk counterparties/transactions include:

- Does not understand the industry in which they propose to deal, or does not have a place of business or equipment or the finances necessary and appropriate for such engagement, or does not seem to know the normal financial terms and conditions.
- Proposes a transaction that makes no sense, or that is excessive, given the circumstances, in amount, or quality, or potential profit.
- Has significant and unexplained geographic distance from the dealer in precious metals.
- Uses banks that are not specialized in or do not regularly provide services in such areas, and are not associated in any way with the location of the counterparty and the products.
- Makes frequent and unexplained changes in bank accounts, especially among banks in other countries.
- Involves third parties in transactions, either as payers or recipients of payment or product, without apparent legitimate business purpose.
- Will not identify beneficial owners or controlling interests, where this would be commercially expected.
- Seeks anonymity by conducting ordinary business through accountants, lawyers, or other intermediaries.

13.5.3 Dealers providing wealth management services

Emerging trend was reported that there were some dealers in precious metals and stones who were positioning themselves to the public market more along the lines of wealth management and/or securities advising services. While this is perhaps less a risk factor for money laundering, it is an important public protection risk factor.

Securities firms are highly regulated with significant focus on investor protection and suitability requirements for the advisor and representatives. Dealers in the DPMS sector have no such regulation.

13.6 Transaction methods/types

13.6.1 Cash transactions

Interviewees reported that there continues to be a high level of cash transactions in this sector within Canada.

Recent media on case in Dubai for example, report on high volumes of cash transactions which effectively mean that the origin of the product (gold) is unknown.

Grant Thornton

Reporting Entity Sector Profile: Securities dealers

Money laundering and terrorist financing vulnerability assessments

Prepared for FINTRAC | March 31, 2014

Contents

1. General sector profile

Canada's security sector is an integral part of the financial services industry and plays a key role in the capital markets. It serves investors, businesses and governments by providing expertise to raise debt and equity capital and allows investors to trade with confidence in open and fair capital markets. Brokers and investment dealers act as intermediaries by matching investors with the users of capital.

The securities sector is regulated at the provincial and territorial level and the securities regulators are assisted by self-regulating organizations ("SROs"). The regulators collectively monitor the markets to ensure fairness and transparency and they also enforce the rules that govern market activity.

Canada has no national securities regulator and this has frequently been identified as a weakness and a hindrance to the Canadian markets. Several provincial bodies are currently working on an agreement to operate together in simulation of a (semi) national entity and all of them cooperate through the Canadian Securities Administrators (CSA).

The products and services offered by the sector cover a very wide scope, and range from straightforward retail offerings to complex instruments and services for specialist traders and investors. The regulatory environment is therefore complex with both geographical and product/service based requirements and implications. Accordingly, securities firms are often regulated by multiple organizations.

The Canadian market is relatively small with a total of approximately 200+ firms operating in the primary segment of brokerage firms and investment dealers and over 2,000 reporting entities in other segments. The entire Canadian securities industry is eclipsed in size by several individual U.S. and Japanese securities firms. In spite of its comparatively small size, the industry has provided Canada with a capital market that is one of the most sophisticated and efficient in the world. These qualities are measured in terms of the variety and size of new issues brought to the market and the depth and liquidity of secondary market trading.

Securities firms vary in size and assets under management and generally comprise of the following three structures:

- Integrated firms that serve institutional and retail clients and offer a full spectrum of investment products and services. There are eight in Canada.
- Institutional firms are usually smaller, boutique-style operations that serve institutional clients such as pension funds, insurance companies, mutual fund organizations, banks and trust companies, endowments, charitable foundations, family trusts/estates and corporate treasuries.
- Retail firms serve retail investors and include both full-service firms and discount brokers.

The eight largest Canadian securities firms follow the integrated model and are mainly represented by the securities divisions of domestic tier one banks. They offer full investment services and discount brokerage services. Other firms in the securities industry range from boutique firms that specialize in a particular niche to firms that cater to high net worth clients providing a range of services. Differentiation within the industry is generally accomplished through three factors: investment approach and performance, quality of service, and pricing. (Seamark AIF)

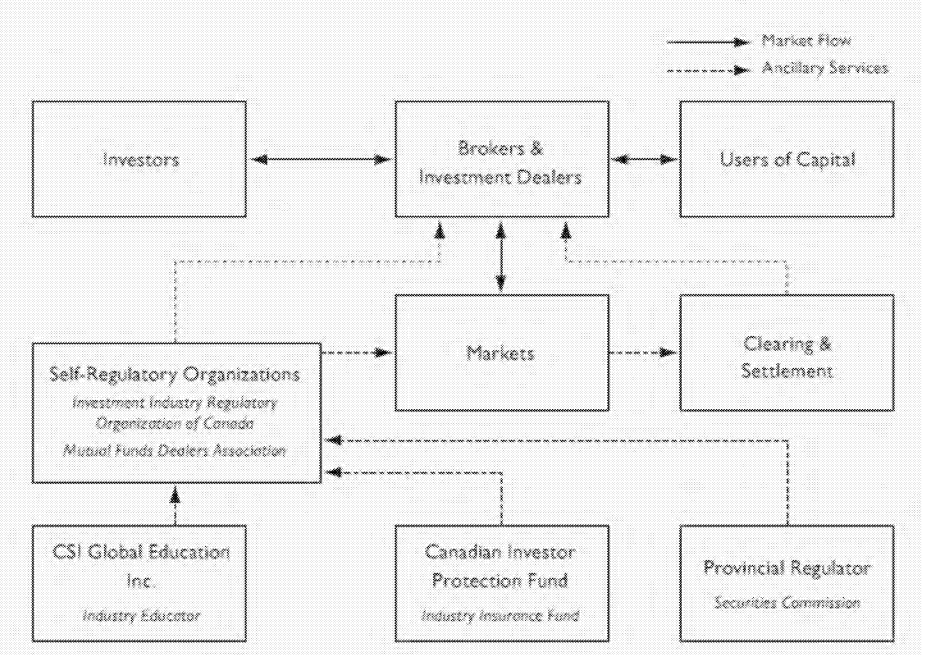
While the industry is highly regulated, the following key risk factors for money laundering have been identified:

- An environment that is highly focused on profitability and investor protection/suitability as opposed to money laundering and terrorist financing risks;
- Securities fraud as a vehicle to generate potential proceeds of crime. This would include market manipulation by clients, manipulation by securities professionals;
- The exempt market and off book transactions; and
- Fragmented industry that services high net worth clients and the involvement of international sources of funds.

2. Structure, size and segmentation, reporting entity population

Many securities firms operate in multiple jurisdictions and provide services that are regulated by more than one regulator. In total, the CSA identifies over 2,000 registrants that operate in the securities industry. The following diagram identifies the primary participants and their roles and interdependencies in the industry.

Figure 2-1 - Securities Industry Flowchart



Source: CSI Global Education Inc. (2013)

2.1 Brokerage firms and investment advisors/dealers

In 2013 there were just over 200 firms registered with IIROC that facilitate the buying and selling of financial securities for retail and institutional clients. The member firms range from full service firms to discount brokerages. Large full service brokers of banks and credit unions provide securities services through multiple divisions including private client services, institutional services, corporate finance and economic research. In 2013, the ten largest firms, eight of which belong to banks and credit unions, conducted 85% of the industry's sales in Canada.[1]

Client transactions are driven either by client-directed orders or by discretionary management – where investment decisions are made by portfolio managers. Compensation for brokerages includes a fee for transaction, as a percentage of the size of the portfolio or a fixed fee.

2.2 Mutual fund dealers

The members of the MFDA are organizations that distribute mutual funds and represent over $300 billion in mutual fund assets under management. The MFDA has 100+ member firms. Data from Investor Economics indicates that the value of assets under management in the mutual fund industry grew from less than $100 billion before 1993 to $920 billion in May 2013. It is estimated that the mutual fund industry directly contributed $5.8 billion to Canada's economy in 2012, up from an estimated $4.5 billion in 2005. Research by the Conference Board reveals that the total economic footprint of the mutual fund industry—including supply chain and induced impacts—was $17 billion in 2012. Directly and indirectly, the industry supports 192,600 jobs while creating $12.6 billion in primary household income and $2.3 billion in corporate profits.[2]

2.3 Exempt market dealers (EMD)

EMDs are securities dealers which trade in securities that are exempted from the rigorous requirements of the public capital markets by specific provincial exemption rules and some national instruments. EMD's are registered under provincial securities legislation in one or more jurisdictions in Canada and may act as a dealer or an underwriter for any securities which are prospectus exempt. They may also act as a dealer for any securities, including investment funds which are prospectus qualified (mutual funds) or prospectus exempt (pooled funds), provided they are sold to clients who qualify for the purchase of exempt securities.

The exempt securities market products are alternative investments that are not available through typical stock exchanges or mutual funds. Products may only be sold to a specific category of investors who are generally financially well off and knowledgeable about the products they invest in. There are approximately 880 registered EMDs in Canada belonging to the two primary associations.[3] The industry is still developing and varies province by province as the provincial exemption rules are not harmonized nationally.

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1 Source: Retirement Quebec
2 Conference Board of Canada report
3 Canadian Securities Association/ Ontario Securities Commission; Exempt Market Dealers Association of Canada/National Exempt Market Association

2.4 Venture capital and private equity

Canada's 100+ Venture capital (VC) firms typically invest in early-stage or pre-revenue companies that do not have ready access to funding and receive investments through capital for equity deals. In 2012, $1.5 billion was invested by venture capitalists in Canada. As in other regions around the world, Canada's VC investment is mostly placed in its largest urban areas and in technology sectors with 49% invested in the IT sector, 25% in life sciences firms, and 10% in the energy and environmental technologies sector.[4]

Private equity (PE) firms typically invest in mature companies utilizing capital and debt. Through restructuring and reorganization, PE firms operate and manage the company to be more profitable. The PE fund management industry oversaw a capital pool that Thomson Reuters estimates to be $105.4 billion at the end of 2012. By far, the largest portion of this capital pool ($87.7 billion or 83 per cent of total assets) was managed by 172 Canadian firms active in buyout, mezzanine, and related PE segments of the market.[5]

2.5 Portfolio managers

These firms are registered with securities commissions as portfolio managers and are regulated by them. Most portfolio managers in these firms hold the Chartered Financial Analyst designation and abide by a strict code of ethics. Their only business is the discretionary management of investment portfolios for individuals, estates and trusts, charitable foundations, corporations, pension funds and endowment funds. Investment counsel fees are limited, in most cases, to a percentage of the assets under management. Investment counsel and portfolio managers also offer pooled funds to clients with smaller amounts to invest than the minimum for segregated accounts. These firms provide segregated accounts, usually with a minimum account size of $500,000 to the several million dollars range. They also provide pooled funds which require a minimum investment of $150,000 and disclosure is in the form of an information circular as opposed to a prospectus. Portfolio managers are also known as: Investment counsel or Investment Counsellors, Asset managers, Investment managers, and Wealth Managers.

2.6 Hedge funds

Hedge funds are commonly described as lightly regulated pools of investment capital that have greater flexibility in their investment strategies. They are a form of alternative investment that utilize advanced investment strategies in order to deliver higher returns and generally cater to sophisticated investors. Some hedge funds are conservative, others are more aggressive. Despite the popular name, some funds do not hedge their positions at all and they are best thought of as a type of fund structure rather than a particular investment strategy. Popular awareness of hedge funds in Canada is recent and has grown since 2001, despite several high-profile hedge fund failures, hedge fund assets continue to grow.

Hedge funds are less regulated, less controlled and less standardized than the majority of investments, but they also offer significant opportunities including flexibility compared to the more heavily regulated other types of fund. Other investment types are also not able to replicate the complex and sometimes expensive strategies that hedge funds use. Hedge finds differ in size but the primary differentiator is the strategy that they employ. Canadian hedge funds are estimated to have grown from approximately $12 billion in 2004 to over $30 billion in 2012.

Despite highly publicized failures in Canada and elsewhere, in recent years, significant progress has been made in the industry, especially in operations, governance, risk management, separation of duties and transparency. A

[4] CVCA/Industry Canada
[5] Conference Board of Canada

number of Canadian managers are ranked on a global basis as top quality managers – from both an infrastructure point of view and a return/risk point of view.[6]

2.7 Statistics

Statistics Canada provides some high level information on the major segments in this industry:

- Investment banking and Securities Dealing: 2,529
- Securities Brokerage: 1,619
- Securities and Commodities Exchanges: 263
- Portfolio Management: 18,830
- Investment Advice: 8,124

Statistics from industry and other relevant sources also provide some statistical information on the sector which has been included in the segment description sections of this report. Full details are at Appendix A.

[6] AIMA Handbook

3. Economic and financial statistics

In 2011, more than $320 billion in new financing was issued through Canadian securities markets, including more than $201 billion in new federal, provincial and municipal debt securities, $77 billion in corporate debt securities, and $42 billion in corporate equities. In 2011, more than $2,380 billion in equity securities and more than $9,340 billion in debt securities changed hands in Canada's secondary markets.[7]

In 2012, Canada's investment industry raised $32 billion in equity capital and helped the federal and provincial governments raise $161 billion to build infrastructure and provide services to Canadians. In the first nine months of 2013 operating profit in the securities industry grew 27% to $4.8 billion in 2012, with the eight integrated firms accounting for nearly all of the earnings gains, increasing on average 43% in the last five years.[8]

The past five years have been typified by increasingly divergent results between the integrated firms and the retail and boutique operations, while the large firm increased profits by 43% the retail side is struggling to survive with their profits declining by 39%. For the 58 domestic boutique firms, profits declined 67% over this period and with capital requirements rapidly increasing this is likely to continue.[9]

[7] Investment Industry Association of Canada website, September 2012
[8] http://iiac.ca/wp-content/uploads/IIAC-Letter-from-the-President-Volume-691.pdf
[9] Ibid

4. Regulation of the securities dealers sector

In Canada the regulation of the securities industry is a provincial responsibility, each province and territory is responsible for its own legislation and regulations. The bodies that carry out this mandate are all members of the CSA and are:

- Alberta Securities Commission
- Autorité des marchés financiers
- British Columbia Securities Commission
- Financial and Consumer Affairs Authority of Saskatchewan
- Financial and Consumer Services Commission (New Brunswick)
- Manitoba Securities Commission
- Northwest Territories Securities Office
- Nova Scotia Securities Commission
- Nunavut Securities Office
- Office of the Superintendent of Securities (Prince Edward Island)
- Office of the Superintendent of Securities (Yukon Territory)
- Office of the Superintendent of Securities Service Newfoundland and Labrador
- Ontario Securities Commission

Together, the provinces and territories work together through the Canadian Securities Administrators (CSA). The major provincial securities regulators also participate in various international co-operative organizations and arrangements.

The industry has also been allowed to govern its own activities to some degree and a number of SROs including the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association (MFDA) are important players in this role. SROs are private industry organizations that have been granted the privilege of regulating their own members by the provincial regulatory bodies. SROs are responsible for enforcement of their members' conformity with securities legislation and have the power to prescribe their own rules of conduct and financial requirements for their members.

SROs are delegated regulatory functions by the provincial regulatory bodies, and SRO by-laws and rules are designed to uphold the principles of securities legislation. The provincial securities commissions monitor the conduct of the SROs. They also review the rules of the SROs in the province to ensure that the SRO rules do not conflict with securities legislation and are in the public's interest. SRO regulations apply in addition to provincial regulations. If an SRO rule differs from a provincial rule, the most stringent rule of the two applies.

When the Investment Dealers Association and Market Regulation Services were combined to create IIROC in 2006, the professional association was separated from the SRO function and a new association was created, the Investment Industry Association of Canada (IIAC). The IIAC is a member-based professional association that

represents the interests of market participants. The IIAC provides support and services that contribute to the success of their members. It also represents the investment industry's views and interests to federal and provincial governments and their agencies, and to other SROs.

4.1 Investor protection funds

The securities industry offers the investing public protection against loss due to the financial failure of any firm in the self-regulatory system. To foster continuing confidence in the firm customer relationship, the industry created the Canadian Investor Protection Fund (CIPF) in 1969 and the Mutual Fund Dealer Association Investor Protection Corporation (MFDA IPC) in 2005.

4.1.1 Canadian Investor Protection Fund

The primary role of the CIPF is investor protection and its secondary role is overseeing the self-regulatory system. The secondary role provides a mechanism to help CIPF contain the risk associated with its primary role. The Fund protects eligible customers in the event of the insolvency of an IIROC dealer member. The CIPF is sponsored solely by IIROC and funded by quarterly assessments on dealer members.

4.1.2 Mutual Fund Dealers Association Investor Protection Corporation

The MFDA Investor Protection Corporation (MFDA IPC) provides protection for eligible customers of insolvent MFDA member firms. The IPC does not cover customers' losses that result from changing market values, unsuitable investments, or the default of an issuer of a mutual fund. The coverage provided is limited to $1,000,000 per customer account for losses related to securities, cash balances, segregated funds, and certain other property held in the account of an MFDA member firm. The MFDA is not recognized as a self-regulatory organization in the province of Québec; consequently, the MFDA IPC coverage is not currently available to customers with accounts held in Québec MFDA member firms.

4.1.3 Other Regulations

Other forms of regulation relating to global efforts to combat corruption and bribery such as the Corruption of Foreign Public Officials Act and the Extractive Industries Transparency Initiative are impacting the sector. These are particularly relevant when a securities form is involved to underwrite a new issue, particularly where there are foreign operations.

5. Educational and licensing requirements

5.1 Brokerages

- Members of stock exchanges and regulated by IIROC
- Securities Commissions
- CSA
- Independent brokerage firms have very little representation with IIROC

5.2 Portfolio Managers

- IIROC
- CSA

5.3 Mutual Fund Dealers

- MFDA – The Mutual Funds Dealers Association

5.4 Investment Dealers

- Members of stock exchanges and regulated by IIROC
- Securities Commissions
- CSA

5.5 Venture Capital Firms

- The 13 securities commissions governing Canadian provinces and territories
- The CSA, the Canadian Securities Association – the association of the 13 security commissions in Canada
- IIROC – Investment Industry Regulatory Organization of Canada

5.6 Exempt Market Dealers

- The regulatory framework for EMDs is set out in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations which applies in every jurisdiction across Canada.
- The qualification criteria for exempt purchasers and exempt securities are found in National Instrument 45-106 Prospectus and Registration Exemptions.

6. Constraints

Because of the increasingly global nature of global commerce, including the capital markets, the Canadian industry is becoming more closely impacted by international markets and their regulations and requirements. In many situations, this means that other regulatory and compliance issues may have an impact on transactions being conducted in Canada.

Specifically, the Foreign Account Tax Compliance Act (FATCA) (US) and the Foreign Corrupt Practice Act (FCPA) (US as well as other similar international laws, particularly regarding underwriting).

7. Description of sector associations

Our research has identified the following Canadian securities dealer related associations.

7.1 Portfolio Managers

- *PAC – Portfolio Management Association of Canada* - is a forum for Investment Management Firms to share best practices and industry knowledge.
- *Exempt Market Dealers Association of Canada* - a not-for-profit association whose members firms are active in the exempt securities market. Recently this group has changed their name to PMAC, the Private Market Association of Canada.
- *National Exempt Market Association* – based in Calgary, the NEMA works with both regulators and stakeholders on developing a practical regulatory framework that fosters development of the exempt market by allowing entrepreneurs to efficiently raise capital and investors to participate in a broader range of investment options while being adequately protected.
- *AIMA Canada - National Group of the Alternative Investment Management Association in Canada* – AIMA members include hedge fund managers, institutional investors, pension fund managers and consultants, administrators, auditors, lawyers, prime brokers and other service providers
- *Managed Funds Association* - The Managed Funds Association (MFA) represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets.
- *CVCA – Canadian Venture Capital Association* - represents the majority of private equity companies in Canada, with over 2000 members. The CVCA is a leading source for advocacy, networking, information and professional development for venture capital and private equity professionals.
- *VCMA – Venture Capital Markets Association* - The VCMA represents public companies seeking a Canadian regulatory environment offering access to speculative investment opportunities and capital through fair securities markets that warrant public trust. It seeks to influence improvement in regulations to ensure that they are clear and easily understood and that they allow for effective policing and enforcement.
- *Federation of Mutual Fund Dealers* - is an association of Canadian mutual fund dealers and affiliates whose members have been working to be the voice of independent mutual fund dealers.
- *IFIC – Investment Funds Institute of Canada* - IFIC members include fund managers, distributors and the many professional and back office firms that support the sector. IFICs principal role is to advocate on behalf of the industry and its investors – ensuring their voices are heard by regulators and public policy makers considering the framework of rules that govern investment funds.

- *IIROC- Investment Industry Regulatory Organization of Canada* - is the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada.

- *IIAC – Investment Industry Association of Canada* - is the national association representing the investment industry's position on securities regulation, public policy and industry issues on behalf of our 166 IIROC-regulated investment dealer Member firms in the Canadian securities industry.

- *Joint Forum of Financial Market Regulators* - includes representatives of the CSA, the Canadian Council of Insurance Regulators (CCIR) and the Canadian Association of Pension Supervisory Authorities (CAPSA). The mandate of the Joint Forum is to coordinate and streamline the regulation of products and services in the Canadian financial markets. One of the latest Joint Forum initiatives is the development of the Point of Sale Framework.

8. Emerging business trends

Recent years have seen heavy financial pressure on smaller brokerage houses resulting from market conditions and significant loss of profits as well as increasing capital needs for regulatory compliance and capital requirements. This has seen the demise of some firms and the transfer of others to different market segments such as the exempt market.

In 2012, during a review of 87 EMDs and Portfolio Managers by the OSC, it was found that only a quarter had sufficient recordkeeping, including suitability requirements. This development dovetails with indications that Canada's securities regulators are under pressure to follow their international counterparts in imposing a fiduciary duty regime on all financial advisors and dealers that would require them to act in the best interests of retail clients at all times.

The Ontario Securities commission has been exploring the possibility of allowing Crowd Funding where small amounts of capital are raised from large numbers of people over internet based market portals. The methodology is used in other countries by start-ups and small and medium-sized businesses and provides easy access to funds. This is part of the exempt market and there are low barriers to entry as there are no expensive prospectus requirements and no scrutiny by regulators. There is risk of fraud because there are no regulator vetted prospectus requirements and minimal consumer protection. The OSC is currently reviewing and expected to provide guidance.

Restrictions on EMD's: The CSA recently proposed rule changes that would limit the services that EMDs offer; specifically, EMDs may not trade any listed security (on or off an exchange). Accordingly, EMDs would be only able to offer prospectus qualified or prospectus exempt securities. As a result of the proposed rule changes, EMDs may not establish omnibus accounts with any investment dealers.

In March 2014, the OSC agreed to allow "no contest" settlements: The OSC has also recently approved a number of innovative enforcement tools to allow them more flexibility and therefore to manage more cases. In limited circumstances, alleged wrongdoers may be sanctioned and pay a fine without an admission of facts or liability. This will permit the OSC to focus investigations where there are allegations of serious violations.

Increasing counterparty risk: Organizations are becoming more exposed to increasing risk when risk mitigation fails as a result of counterparty failure (e.g. AIG, MF Global)

9. Products and services offered

Investment dealers serve a number of functions, sometimes acting on their clients' behalf as agents in the transfer of instruments between different investors, at other times acting as principals. Investment dealers sometimes are known by other names, such as brokerage firms or securities houses.

Investment dealers play a significant role in the securities industry's two main functions. First, investment dealers help to transfer capital from savers to users through the underwriting and distribution of new securities. This takes place in the primary market in the form of a primary distribution. Second, investment dealers maintain secondary markets in which previously issued or outstanding securities can be traded.

Integrated firms offer products and services that cover all aspects of the industry, including full participation in both the institutional and the retail markets. Most underwrite all types of federal, provincial, municipal and corporate debt and corporate equity issues, actively trade in secondary markets including the money market, trade on all Canadian and some foreign stock exchanges, and provide many ancillary services to securities issuers and large and small investors. Such services include economic, industry, corporate and securities research and advice, portfolio evaluation and management, merger and acquisition advice, tax counselling, loans to investors with margin accounts and safekeeping of clients' securities. Many smaller securities dealers or "investment boutiques" specialize in such areas as stock trading, bond trading, research on particular industries, trading only with institutional clients, unlisted stock trading, arbitrage, portfolio management, underwriting of junior mines, oils and industrials, mutual funds distribution, and tax-shelter sales.

More than 70 foreign and domestic institutional firms serve institutional clients exclusively. Foreign firms account for about one-third of total institutional firms and include affiliates of many of the major U.S. and European securities dealers. Retail firms account for the remainder of the industry. Retail firms include full-service firms and discount brokers. Full-service retail firms offer a wide variety of products and services for the retail investor. Discount brokers execute trades for clients at reduced rates but do not provide advice. Discount brokers are more popular with those investors who are willing to research individual companies themselves in exchange for lower commission rates.

10. Type of customer(s)

The securities sector services a full range of customers and the different types of vehicles used to hold investments. Customer types include individuals, corporate entities both public and private, charities, not-for-profits, pension funds, and institutional accounts which are other securities firm type clients.

Often clients have multiple accounts with one securities firm. The different vehicles used to hold investments includes estates, accounts held in trust, private investment companies, other private companies and organizations e.g. joint ventures and partnerships. Customers are primarily Canadian residents but do include individuals and companies outside of Canada, both Canadians and foreigners.

11. Geographic considerations

In terms of geography, there are licensing requirements for some of the segments of the sector, requiring that registrants be licensed in the jurisdiction where they sell to (where the targeted clients live). Notwithstanding this, some securities firms do have foreign clients and need to manage the risk of whether or not they are registered with the securities regulator in that foreign jurisdiction.

Research indicated that while some firms are cautious (do not accept clients from foreign jurisdictions) others are more aggressive (they do take on foreign clients and may or may not be registered in that foreign jurisdiction). Examples were cited including Canadian securities firms taking on clients from China and Germany.

12. Key points from interviews

12.1 Sector background

1. There are three regulatory platforms for the securities sector: IIROC, MFDA (mutual funds) and CSA (for portfolio managers and EMDs); this fractured regulation is not helpful for the sector. The oversight regarding jurisdictional and other issues- IIROC reports back to the commissions, the provinces audit IIROC.

2. What is the right regulatory model? There is lots of controversy and discussion over the self-regulating model (IIROC and MFDA) vs the other model (CSA and provincial regulators).

3. The basis of the securities system is disclosure – is everything appropriately disclosed? The OSC for example does not look at the quality of the investment.

4. Inside a registered dealer there is a daily focus on investor protection. There is significant regulatory obligation and this is part of the operations of the firm; e.g. regular reporting to the regulator, subject to regulatory reviews. AML generally is not a part of this, it is done separately. It is only some of the larger organizations that are of sufficient size that they have dedicated AML teams.

5. Dealers are set up to deal with each area of regulation: Business conduct, Trade Conduct and AML (for larger firms). But these groups are not integrated, so need to ensure that the dots are connected between the teams. Some firms have these teams meet weekly; cross training etc. There is a structural issue currently that inside dealer firms, the focus and execution of compliance is on areas other than AML – need to work to make this integrated.

6. Exempt market products (EMPs) come with a significantly lighter disclosure burden than other products and are accordingly less transparent. EMPs are not available to the general public. Exempt market Dealers (EMDs) are required to file an Offering Memorandum with the regulators if there has been a subscription/purchase, but it's unclear to what extent the regulators vet the document and the product. If one were to offer a fictitious product through which illicit funds could be laundered, it would be easier to do it through an EMP than a mutual fund or security, which is more heavily regulated. Similarly, EMDs are not regulated by IIROC or the MFDA. The oversight is detailed and extensive in an IIROC or MFDA firm, something EMDs do not have to contend with.

7. EMDs generally target accredited/high net worth investors who can afford to lose their entire investment, so the typical analysis of whether it makes economic sense to invest in an EMP can't really be used as a factor in assessing the reasonability of the transaction. Also, because the typical amount invested is much larger than the average retail client, if there were illicit activity, the magnitude would generally be greater on a transaction by transaction basis.

8. EMDs often have a small number of very large clients. The EMD may therefore be seen as beholden to each client to a much greater degree than the average retail client, increasing the risk that they may bend the rules in favour of a client.

9. While not specific to EMDs, many EMDs are smaller firms, and where a firm has limited staff and the President also acts as Chief Investment Officer and CCO, there is not necessarily a segregation of duties that allows for independent monitoring of ML. This could lead to heightened AML risk.

10. More of the industry is good at taking care of client money. The industry is not so good at assessing broader risks and the industry needs to start getting at this.

11. Doesn't think the Canadian securities industry is that good at analyzing risk, the requirements are so prescriptive and detailed today it is hard to stand back. It is not a principals based approach today at all. Believes that the risks today are not met with the prescriptive approach, need principals based. How will people learn this if we don't start doing it? This is quite a sensitive topic amongst the peer group. It is the regulators that need to change the approach and thinks they should start in a less sensitive area like financial management. Today there is much just doing (ticking the boxes) vs. really thinking about the risks and mitigating.

12. Some dealers are not that good at identifying risk, the smaller firms don't have the resources, smaller firms have inherent risk, independence issues. Agrees that there is a size tipping point, lets larger dealers manage risk. However, a larger dealer could miss risky things due to volume of transactions. Example: Brokers from Bolivia looking for relationships with Canadian firms. This has come up and does happen. A firm may be desperate to keep the doors open, looking at the good, no eyes for AML risk.

13. Another individual did not believe that a principals (versus a detailed prescriptive rules) would work in this sector, thinks we need the rules – 'greed has no conscious'. A huge busy brokerage, things move too fast throughout the day, operations are too bureaucratic to run on principals. Compliance is seen as a department that stops them from making money.

14. Processing work in the back – they know how to follow the rules – but generally these are younger, less experienced, not credentialed people. Does not believe that they can be expected to apply a principals based approach. Rules are needed because the trades can't fail, this is the market.

15. Each jurisdiction wants to protect its own citizens. Always look at how and where clients came to the firm – usually there is a relationship. If a person/client just came out of the blue – many dealers wouldn't take that file.

16. If investment dealers wanted to do business with foreign persons: If the person came from a well regulated jurisdiction – the firm should be registered there. If this is not so obvious – need to use a risk based approach. If person is from China? Client from Germany? If the client is well known, if there is anything mitigating, then the firm may take a risk but often the larger firms decide not to. This does happen though– China, Germany, Zimbabwe. There is a business risk to dealing in foreign jurisdictions; don't know the rules of the foreign jurisdiction, unregistered dealing. Usually requires more due diligence. Some firms are not concerned with foreign regulators; some would not allow any foreign clients – others would; there is a wide spectrum – and more firms are paying less attention to this rather than more.

17. IIROC does look at the directors of its registrants, have to have a 'registered executive'. IIROC approves and could disprove. Not sure that the provincial commissions monitor the governance, directors/ownership of the registrants in the exempt market. There is an ease of access to the EMD

registration. To become an exempt market dealer must follow the CSA rules. This is all within the purview of the CSA, the rules, the process, and the sufficiency requirements.

18. Many firms only provide Delivery Against Payment (DAP) services, meaning that these are all settlements of the transaction and it is the bank that receives the funds locally with a prime broker:

    a) Omnibus account – usually a big bank securities arm – this is used for the trades.
    b) The dealers just settle the trades – not any cash; they don't hold money for purposes of future trades – prime brokers do this.
    c) Both are agents to the client; one provides trade execution only, other has custodian and possibly trade execution as well.
    d) Prime broker can see more than the broker dealer, prime broker needs to monitor at these many levels.

19. Generally, the trader wants to make more money, more points – this is what this business is all about. Registered representatives (RR's) make all their money on commission, so the regulators have made specific things offences to try and keep it fair. The business is about making money.

20. Believes that compliance is not as lily white as they should or could be. Regulators have to make the pain of doing the wrong thing so intense in order to deter/prevent illegal activity. And the probability of being caught has to be high. But the question today is, even if they are caught, what happens? The regulators are challenged with proving knowledge, proving intent to get a fraud conviction. Insider trading is so hard to prove, and people know this.

21. Provincial regulators, OSC for example, can have jail terms for some charges, and are working with IMET/police groups and so are seeing more charges laid now; this information is contained in press releases.

22. Fraud involving securities – there are many, many jurisdictional issues, so it does not get attention even though there are laws, hard to get police authority attention.

23. Exempt dealers, believes that these individuals have very limited backgrounds. Requirements include a Canadian Securities course, it is done on computer, believes that course can be passed without having to do the number/calculations parts. They get their exempt dealer licences and then can sell whatever they have; exempt market does not have to give offering memorandums as are only selling to accredited investors. Note though that if an exempt market dealer is also an IIROC dealer, they must sell all product through the IIROC dealer license. This is a good rule, principals based.

24. The thresholds for an accredited investor (Ontario): Financial assets - $1M, Net worth - $5M, Family income $300K.

25. Believes that brokers are thinking about making money within the rules, not so much about investor protection. The Securities Act is not written considering all of the bad activity – it assumes good faith and this is often not the case anymore.

26. This stuff (illegal activity in the securities industry) is going to happen; the trick is to keep the balance between useful markets and fraudsters.

27. One belief that 70% of illegal activity in the sector is "I can make money illegally in the market" and 30% is "I can use the sector to hide/cleanse my money".

28. There are always excuses and technicalities that challenge enforcement (MRS case, limelight case). What can a provincial commission do? Commission can issue a cease trade order – but then they (fraudsters) just find another way in from behind the scenes. Cease trade order would only matter to the larger firms. Other groups, change titles but still continue the activity. Bad guys know the law better than we do.

29. Believes illegal activity is 'rampant'; there are opportunities for RRs to make $50,000 to $100,000 per month, and what really is their risk? A commission does not have criminal authority, the defendants have too many excuses, hard to prove intent to fraud unless have wire taps. Crowns rarely touch these files.

30. They see cases where IIROC or a securities commission have detailed knowledge of the full pattern of a target's trading but the individual firms see only part of the picture which on its own is not suspicious. In earlier times, there were mechanisms for the exchange of information on such matters, but now strict rules mean that they will only discover such cases when the regulator visits. A better (secure) warning system for such trends would prevent such problem clients from getting in the door at all. The changes really happened when IIROC became the regulator and the roles were split.

31. There are no cash transactions anymore and some suspicious customers, for example those wishing to trade in closely held companies or deposit OTCBB shares, find it hard to open accounts because no one will take them as clients.

32. The dealer industry is small and there are only a few firms who will even get approached now with problematic deals because of the compliance programs at the larger firms. The smaller firms have fewer compliance resources and may be targeted for this reason.

33. From their point of view, the risk and cost of a regulatory compliance investigation is just not worth it. They are aware of securities dealers who are still willing to turn a blind eye. They have the resources to try and find out what is going on with clients and where the money comes from, but others with the same skills and resources are wilfully blind. They are also not able to discuss any of their findings on a refused client with other firms and the IIROC cooperation rules do not give them the protection/coverage they need. They risk a lawsuit if they provide background to another firm.

34. They saw a lot of Chinese companies going public on the Canadian market but since Sino Forest this has been curtailed. Their industry is generally poor at submitting STRs because of all the other compliance requirements and regulators they deal with. They themselves submit about 10 to 30 a year.

35. They feel that their attempts to alert authorities regarding suspected criminal activity often falls on deaf ears e.g. RCMP IMET teams and FINTRAC.

12.2 AML Compliance

36. The exempt market is not fully compliant in a number of areas including AML. This is the combination of several factors, including:

    a) 'Until someone really forces me to, I might not comply.'
    b) Some "dealers" don't see themselves as part of the securities industry – they see themselves as working for the companies. The regulators are kicking them a bit on this to get them into shape.
    c) While some are now beginning to accept that they need to be regulated, they don't see themselves as gatekeepers yet for the investment industry.

37. It is the view of the compliance officer that the AML paper trail in their industry is easy to manage and that competent money launderers are completing it all with believable and supportable stories and then taking a modest approach to trading so that no red flags are raised. They are not in a position to determine the true source of the funds in any detail in these cases, even if they suspect money laundering.

38. If money laundering is suspected, an STR is submitted and this firm has, more than once, delayed clients from removing money after an STR has been filed (or multiple STRs) to allow the authorities to take action. In this respect they do not believe that broader detection and enforcement systems are effective (in some cases).

39. AML systems focus on the source of funds from PEFPs but not really from others which means that with a suitably developed story, low profile laundering can proceed undetected.

40. They are aware of organized crime money laundering schemes tied into pump and dump schemes "out west". This is a combination of new crime funded by old proceeds i.e. laundering them through the scheme producing new proceeds.

41. The key indicator of money laundering for them is trading patterns and they monitor this closely, when they see a problem they shut down the accounts quickly.

12.3 Trends

42. Business is migrating to the exempt market. What is causing this? Formalization of the category, starting to recognize the EMD sector as legitimate, that it can be successful. Could there be other reasons, like it is an easier segment to operate in because there are fewer rules? While the IIROC member rules do not apply, the fundamentals still do apply. Who is reviewing to make sure rules are followed? Not IIROC it is supposed to be the commissions at the provincial level across the country.

43. The picture on the use of nominees has changed, they still have clients using offshore nominees but they are legacy clients they are very comfortable with and they don't take new ones. They see fewer people using secretarial and junior staff to open trading accounts but more people using junior lawyers and accountants who need the work and are not experienced enough to understand the risks.

12.4 Risk Areas

12.4.1 Exempt market:

44. While not specific to EMDs, many EMDs are smaller firms, and where a firm has limited staff and the President also acts as Chief Investment Officer and CCO, there is not necessarily a segregation of duties that allows for independent monitoring of ML. This could lead to heightened AML risk.

45. If one were to offer a fictitious product through which illicit funds could be laundered, it would be easier to do it through an EMP than a mutual fund or security, which are more heavily regulated.

46. Ease of entry into the EM market is an AML risk. The regulators would be in the best position to actually assess how easy it is to enter the market. As with all business sectors, AML is made easier if there is collusion with someone inside the institution.

47. How to track the exempt market? Look at examples of when the exempt product is bought by a public company. This might allow for some tracking. Pick a higher risk business, e.g. payday loans. If this company is lending out money to consumers at say 17%, the financing for this is not from banks, it is likely from private EM sources, and perhaps they pay 14% and they keep the 3% difference. Where does the money come from? This is the question.

48. The exempt market has lots of good players but there are also a number who are bad. They do take EMD clients but are aware of the risk in some of the deals and with some players.

12.4.2 Off Book Transactions or Unregistered Activity:

49. The concern with potential ML in the sector is with unregistered/off book activity. Each regulator has put out guidance on off book transactions- look for the IIROC paper on this. How prevalent are off book transactions? 'Where the potential is there, it represents a serious problem.' Non-brokered private placement, this is jargon for 'off book'.

50. Example: An individual lines up a group of investors for a high risk product which provides liquidity to businesses who can't get money from banks. This activity is supposed to be run through an EMD. However, they are seeing much activity done unregistered and off book, which means that there are likely no compliance procedures done at all, nothing done in this regard. Clients are happy to put money up, they receive 14% as long as the business stays alive (these are high risk, and this is why often they cannot get bank financing) the investor can often get their whole principal back. No scrutiny of how this is being done. This activity is stuff that the CSA is supposed to watch out for via the provincial regulators. There are many reported disciplinary cases posted on the IIROC website. For sure money laundering activity is occurring.

51. Another example provided by a different individual: 100 clients are brought together to provide 'off book' funding. $30M is invested with a high risk business, the clients receive a high rate of return and they have contractual rights (limited partnership, debentures). This is rife for money laundering because the transactions are not subject to any scrutiny. Contrast this to private placement by an EMD for a high risk business by accredited investors- this would be legitimate and subject to all appropriate regulations/compliance and oversight.

52. The following is also happening: a representative who says these are my clients, I facilitate the connection to the exempt market products, I don't need to put this on the books, it is personal, says it is not a problem and it is just done as unregistered activity.

53. Sector needs to be more vigilant regarding unregistered activity, and this needs to be done by the regulators.

12.4.3 Registered Representatives (RRs):

54. The registered representatives within the broker firms themselves, this is the weakness in the securities sector for fraud and money laundering. A company called Firestar, organized crime figures were involved, four main street brokerage houses raided, the RR had a separate book for stocks he was selling, they pulled emails & taped cell phones. Basically, the trade looks like it was being made, the private book was for the RR to get paid, the buy/sell prices were instructed. Criminal money buys a company, the company creates or has options, these are what gets traded, the buy and sell of the options is controlled by the criminal money and they use the RR to do this. The criminal money uses the RR to set a price of say $10.25 and then they tell the RR who is going to buy. The price goes up in the market, the RR pushes the product to other representatives, then the criminal money makes money in the market on the options.

55. The RRs make money, a lot of money. One individual said that the above example is just that, an example of activity that is going on, is not an isolated case. One organized crime figure who recently died in the US and was sent back to Canada – they were involved in this activity, in Ontario. It is just a matter of connecting the dots, private placement is where the risk is and these are highly regulated firms where this activity is going on. Other cases to read up on: Da Selva, MRS sciences, limelight, Maple Leaf – Henry Chau – Carousel Islands - $21 million from Canadian Chinese investors. Look at the IIROC notices.

56. Considering the level of ethics and integrity at the front lines (low, vulnerable), it is easy to compromise these people. There are so many RRs; the chances of being caught are very slim, at least 80% chance of not getting caught, only a few examples are made.

12.4.4 'Nested accounts'

57. These have a similar structure to correspondent banking; one interviewee agrees that there is risk. Basically, there are exemptions for institutional clients. A corporation is viewed differently, less risk vs. an individual. Usually there are more exemptions for institutions as the institution is registered with the foreign jurisdiction (banking or securities registration), the idea being that that authority is monitoring them. What due diligence does a firm do regarding these accounts? Generally nothing more than checking that the institutional client is registered and in good standing with that jurisdiction. Dealers are generally not looking at beneficial ownership.

58. There is a reason though for "nested accounts", securities firms must transact using a registered dealer in that jurisdiction, this is required. Example: CIBC provides services to Barclays bank offshore who wants to trade in RIM; CIBC relies on Barclays to do all of the know your client work, and CIBC is allowed to. Institutional clients are defined within the IIROC rules.

12.4.5 Offshore accounts:

59. 'You can pick up an offshore company very easily', so the securities industry should not be accepting these clients without scrutiny; this is perhaps where the institutional client exemption rules provide vulnerabilities to the regime.

60. They have seen accounts where the "client" is an offshore bank in Western Europe e.g. Switzerland or Liechtenstein dealing with a German or British asset manager who's ultimate client is in London and has a UK passport even if they were not born there. They try to document fully but the financial establishments refuse to identify the ultimate clients or alternatively state that the trading is for the "house account" but it may well be for a nominee. They have declined clients like this. The key indicator is trading on the US Over The Counter Bulletin Board ("OTCBB").

61. Other than above example, they have not seen an influx of foreign clients or money in their space.

12.4.6 Use of Nominees

62. The picture on the use of nominees has changed, they still have clients using offshore nominees but they are legacy clients they are very comfortable with and they don't take new ones. They see fewer people using secretarial and junior staff to open trading accounts but more people using junior lawyers and accountants who need the work and are not experienced enough to understand the risks.

12.4.7 Smaller firms

63. The dealer industry is small and there are only a few firms who will even get approached now with problematic deals because of the compliance programs at the larger firms. The smaller firms have fewer compliance resources and may be targeted for this reason.

12.4.8 Trading in Closely Held Companies or OTCBB Shares

64. There are no cash transactions anymore and some suspicious customers, for example those wishing to trade in closely held companies or deposit OTCBB shares, find it hard to open accounts because no one will take them as clients.

12.4.9 Trading strategies that are neutral

65. Some of the trading strategies are so complex these days that it is hard to understand why clients are undertaking them. One interviewee shared that one of the ones they had become aware of was an 'Iron Butterfly' which is basically a neutral trading strategy so that a maximum loss amount is set through four different trades of the same security (depending on movement of the underlying stock it is possible to make money, but the maximum loss is fixed). These types of trades are going on and they are often quite complex. There are significant commission charges on setting up these complex trades, so unless it is an investor doing these trades on their own, under low cost discount brokerages (trying to earn a conservative return and not beat the market) they really make no sense unless perhaps money laundering was the objective.

13. Risk factors

13.1 General market

13.1.1 Regulatory Fragmentation of the Securities Industry

The securities sector is highly regulated; and the focus of this regulation is on investor protection. Interviewees shared that securities firms often do not see themselves as gatekeepers for the industry in regards to money laundering/illegal money and simply follow regulations on a prescriptive basis. Accordingly, the approach to AML compliance is often not based on principles but on simply following the prescribed rules.

Securities sector regulation is seen as fractured and siloed. Anti-money laundering procedures are usually considered separately/independently rather than part of a firm's integrated approach. Research indicates that the risks of funds being illegally sourced, if considered, are not integrated with the rest of the firm's regulatory compliance procedures. For example, firms are required to monitor for trading manipulation, however this same activity when being monitored for this purpose is likely not being monitored for any indicators of money laundering. As another example, investor suitability is a key requirement which receives significant compliance oversight and monitoring, but how this integrates with what the risks are for money laundering is not known or executed on in any detailed way within most firms.

Fragmentation of the Canadian regulatory environment exposes the financial system to at best, over-regulation of certain segments and at worst, little to no regulation – for instance, there are no Canadian regulators that have determined that the potential manipulation of 'Cdor' – the Canadian Dealer Offered Rate – is under their jurisdiction.

13.1.2 Quality and Ethics of Firms/Sales Individuals

Research indicates that there is high pressure and competition to complete deals and earn commissions; and at the same time, a low chance of being caught (if they do something wrong) and even if caught, the penalties are not seen as high.

Several examples provided by interviewees of registered representatives (RRs) being compromised with illegal money to provide assistance to criminals.

Interviewees shared that they are aware that organizations, understood to have the capability and resources to identify problematic situations, are wilfully blind and take on the client accounts; including larger organizations.

13.1.3 Inability to Share Information Within the Sector

Interviewees reported that they are not able to discuss any of their findings on refused clients with other firms; citing that the IIROC cooperation rules do not give them the protection/coverage they need. Firms risk being sued if they provide this background to other firms.

Interviewees reported that they had seen cases where IIROC or a securities commission had detailed knowledge of the full pattern of a target's trading but that the individual firms saw only part of the picture, which on its own was not suspicious. Apparently, in the past, there were mechanisms for the exchange of information on such matters, but now strict rules mean that they would only discover such cases when the regulator visits and provides the information. Desire was expressed for a warning system for such trends so as to prevent such problem clients from getting in the door at all.

13.1.4 High Level of Fraud Within the Sector

The securities industry is prone to being used to generate illicit funds through stock market manipulation, insider trading, and fraud. All of these are "predicate" offences for money laundering and thus the movement of the funds after these frauds results in money laundering in addition to illegal funds entering the securities industry from others sources. While the risk of fraud and manipulative trading is inherently high, current regulations require securities firms to monitor trading activity for these risks.

"While the RCMP Proceeds of Crime Program rarely focuses on securities infractions, it is safe to assume that much of the revenue that is generated through such breaches as insider trading is at least initially or partially laundered through the capital markets, taking advantage of the same processes and vehicles utilized in the original crime. A particular challenge is determining when the securities offence ends and the money-laundering offence begins."[10]

13.1.5 Ease of Entry into the Exempt Market

Interviewees reported that the requirements to become an exempt market dealer are not as onerous as other securities registration categories. The requirements include a Canadian Securities course done electronically. Once their exempt dealer licence is obtained, they can sell whatever they want. Some exempt market products do not require offering memorandums as they are only selling to accredited investors. Some interviewees believed that these individuals had very limited relevant experience.

As per National Instrument 31-103 the registration requirements for an exempt market dealer – dealing representative are as follows:

A dealing representative of an exempt market dealer must not act as a dealer on behalf of the exempt market dealer unless any of the following apply:

a) the individual has passed the Canadian Securities Course Exam;
b) the individual has passed the Exempt Market Products Exam;
c) the individual satisfies the conditions set out in section 3.11 [portfolio manager – advising representative].

[10] Money Laundering in Canada, Beare and Schneider

13.2 Product and service

13.2.1 Unregistered Trades and Deals

Non-brokered, private placement deals represent very high risk – these can be through securities brokers (EMDs or other) or non-brokers. This basically is activity that should be regulated under securities laws, but the securities professionals involved do not subject these transactions to any scrutiny. These deals can be used to perpetrate fraud or as part of activity to launder funds. The risk is seen as very high as there is no scrutiny by regulators or the compliance departments in securities firms.

13.2.2 Off Exchange Securities or Penny Stocks

Over the counter (OTC), Bulletin Board (BB) and Pink Sheet trades as well as thinly-traded securities are considered higher risk of money laundering due to less scrutiny applied and the potential for market manipulation.

Interviewees reported that those wishing to trade in closely held companies or to deposit OTCBB shares are finding it harder to open accounts because no one will take them as clients because the risk is seen as high.

13.2.3 Accredited Investor / Exempt Market Products (EMPs)

Products in the exempt market are generally less regulated, are subject to less scrutiny and should only be sold to accredited investors. Exempt market products come with a significantly lighter disclosure burden than other products and are accordingly less transparent. EMPs are not available to the general public. EMDs are required to file an Offering Memorandum with the regulators if there has been a subscription/purchase, but it's unclear to what extent the regulators uniformly vet the document and the product.

Interviewees indicated that if one wanted to offer a fictitious product through which illicit funds could be laundered, it would be easier to do it through an EMP than a mutual fund or other type of security, both of these areas being more heavily regulated.

Interviewees reported that the typical amount invested in EMPs was generally much larger than the average retail client, so if there were illicit activity, the magnitude would generally be greater on a transaction by transaction basis.

13.2.4 Emerging New Investments and Technologies

New investments and technologies that are not within the regulations of traditional investments will evolve and grow quickly, challenging the resources of regulators and exposing the market to fraud risk. For example, precious metals and stones dealers providing these products to the market as wealth management type service, securities advisors.

13.2.5 Specific Trading Strategies e.g. 'Iron Butterfly'

While interviewees did not identify some of the more well-known methods of money laundering through the securities sector as risk factors, e.g. establishing multiple accounts to trade one-for-one, the use of more complex, neutral trading strategies was identified as a risk that is occurring within the sector.

13.3 Delivery Channel

13.3.1 Exempt Market Dealers (EMDs)

Many EMDs are smaller firms, and where a firm has limited staff and the President also acts as Chief Investment Officer and CCO, there is not necessarily a segregation of duties that allows for independent monitoring of money laundering.

Research indicates that the exempt market is generally comprised of smaller organizations that traditionally have fewer resources to spend on compliance. Clients of these firms tend to be accredited with a higher net worth and accordingly no suitability review is required. The OSC identified in a 2012 report that often EMDs were not properly ensuring that clients met the accredited investor thresholds.11

Smaller securities firms and representatives in the exempt market are presented with the opportunity to earn higher commissions and therefore there is the potential for greater willingness to bend the rules for these investors. EMDs often have a small number of very large clients; the EMD may therefore be seen as beholden to each client to a much greater degree than the average retail client, increasing the risk that they may bend the rules in favour of a client.

13.3.2 Off Book Transactions or Unregistered Activity

Also may be referred to or conceptually similar to 'rogue employees' in some of the authoritative AML literature. Interviewees stated that there was significant concern with unregistered/off book activity conducted by securities registrants and that this was vulnerable to money laundering. 'Where the potential is there, it represents a serious problem.'

A search of the IIROC website for disciplinary notices and decisions regarding 'outside' business activities identifies many cases involving registrants (individuals) who had engaged in outside business activity without the knowledge of their IIROC Dealer member firm and without their consent. Appendix A includes some of these notices.

13.3.3 Size of the Securities Firm

Interviewees stated that the dealer industry was small and that there are only a few firms who get approached with problematic deals because of the compliance programs at the larger firms. And that the smaller firms have fewer compliance resources and may be targeted for this reason.

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[11] OSC Staff Notice 33-738; 2012, OSC Annual Summary Report for Dealers, Advisers and Investment Fund Managers

13.4 Geography

13.4.1 Clients from Foreign Jurisdictions

Firms servicing foreign clients from jurisdictions where the firm is not registered are seen as significant risk, not only because of the securities industry investor protection rules (e.g. Canadian firm should be licensed to deal in all of the jurisdictions they have clients and should not deal in jurisdictions where they don't have licenses) but also due to the red flag of why a foreign individual needs to access the Canadian securities sector directly and not transact through local securities firms.

13.4.2 Offshore Companies

Research indicates that the use of offshore companies to invest in Canadian securities is a risk factor. Regardless of whether or not these companies are institutional clients (registered with off shore regulators) they should not be accepted without scrutiny, as beneficial ownership is easily hidden, and trading / funds flow should be monitored.

Interviewees reported that they have seen accounts where the "client" was an offshore bank in Western Europe e.g. Switzerland or Liechtenstein dealing with a German or British asset manager who's ultimate client was in London and had a UK passport even though they were not born there.

13.5 Business Relationships / Linkages with Other Sectors

13.5.1 Sector Reliance on other Jurisdiction Regimes

Generally, within the sector in Canada, there are more exemptions for 'institutional' clients than individual clients. Institutional clients are generally understood to be entities which are registered with securities or financial regulators. These regulators could be Canadian, but they could also be foreign; distinctions in the industry are made between foreign FATF countries and non-FATF countries. When these clients provide proof of registration, many Canadian securities firms exempt these clients from their KYC processes and the level of due diligence becomes minimal e.g. there are cases where nothing additional is done. Some interviewees reported that a risk based approach was applied so that in higher risk cases more KYC procedures were done. It appears that generally beneficial ownership is not being determined. Complicating these relationships is the concept of 'nested accounts'. Once the institutional account is set up, the account has a similar structure to correspondent banking and the Canadian securities firm often would not know the identities of the underlying clients.

One interviewee provided the following example: CIBC provides services to Barclays bank offshore who wants to trade in RIM; CIBC relies on Barclays to do all of the know your client work, and this is allowed.

The above relationships are also understood as the relationship between introducing and clearing broker–dealers.

13.5.2 Lack of Clarity in the Sector as to Who is Monitoring Transactions When Omnibus Accounts Used

An omnibus account is an account which has been established when an entity is acting as an intermediary on behalf of multiples parties or entities. Often in the securities sector firms only provide DAP transactions, meaning that they take delivery-against-payment and they do not hold any customer funds on account. Customer funds are maintained with a custodian, usually the brokerage arm of a major financial institution, a prime-broker' and often

this is in an omnibus account. The risk in these situations, as reported by interviewees, is that it is not clear how and who is monitoring for money laundering risk. The broker-dealer who only transacts on a DAP basis, has the client relationship but may be (and this was generally communicated to be the case) viewing these transactions as low for any money laundering risk because it is the prime-broker who actually receives the client funds and holds money on account.

13.5.3 Use of Nominees:

Research indicated that the use of nominees has changed. Clients may still use offshore nominees but these were more likely legacy clients (established relationships, level of comfort on transaction and money flow) and that new ones (off shore nominees) were not being taken on. Fewer people are using secretarial and junior staff to open trading accounts but more people are using junior lawyers and accountants who need the work and who are not experienced enough to understand the risks.

13.6 Transaction Methods and Types

13.6.1 Transactions which are conducted using physical or bearer securities

The anonymity and easy transferability of bearer securities presents significant vulnerability at all three stages of the money laundering. While, these were not highlighted as areas of concern by interviewees, research indicates that these products are still encountered in the Canadian securities market, although this is less the case than in the past.

Grant Thornton

Reporting Entity Sector Profile: Accountants

Money laundering and terrorist financing vulnerability assessments

Prepared for FINTRAC | March 31, 2014

Contents

1. General sector profile

For purposes of this report, we have defined 'accountant' to include persons who have demonstrated competency through professional examination and certification. In Canada, this includes accountants qualified as CPAs- Chartered Professional Accountants (formerly CAs- Chartered Accountants), CMAs- Certified Management Accountants and CGAs- Certified General Accountants.

Accordingly, we have not focused on the activities of some individuals who work in the field of accounting or provide accounting, tax, or payroll services, e.g. bookkeepers who provide these services or individuals who are not certified but who may work in the accounting departments of companies[1].

The segments making up the sector include public accounting firms and accountants who work in industry. The large accounting firms are the largest employers of accountants worldwide, and this is true for Canada as well. However, most accountants are employed in industry, working with commercial businesses, not for profits or with the public sector.

The market is dominated by the larger "big four" accounting firms; Deloitte, PwC, KPMG and EY, as well as two other global accounting firms, Grant Thornton, and BDO. There are many other firms including national ones which are affiliated with other firms internationally, regional firms and then smaller, one office firms and sole practitioners. Other than the differentiators of size and specialisation, there is no real further segmentation in the market.

The professional services market in Canada is self-regulating, one of the few in Canada, and has been this way since inception. Historically, the sector has been quite fragmented, including the three major certifications (CA, CMA and CGA) each having their own independent associations and each with their own provincial self-regulating organization. A unification initiative is currently underway by the three main groups. There are estimates that if/once national unification is achieved, that there would be over 125,000 individual members and approximately 20,000 students.[2] Approvals and agreements must be obtained and undertaken by all three bodies on a province by province basis to achieve unification.

CPA Canada (Chartered Professional Accountants of Canada) states that it represents a total membership of over 70,000 professional accountants in Canada.

[1] Note that the statistical data and charts provided do include some of the activity/segments of non-certified accountants, e.g. bookkeepers.
[2] "Uniting the Canadian Accounting Profession", May 2011 - http://unification.cpacanada.ca/wp-content/uploads/2011/12/Position_Paper.pdf

A significant number of risk factors have been identified, including as listed below, and these are detailed further later in this document:

- Smaller accounting firms and independent practices are seen as more likely to provide services to illegal/unethical activity, whether wittingly or unwittingly. There is often very little quality monitoring infrastructure and the practice is dependent on the ethics of the specific individuals involved;
- Provision of higher risk services including complex tax planning and structuring, wealth management and corporate finance services;
- Referrals made to offshore affiliates and/or clients located in higher risk jurisdictions;
- Conflict of interest issues, as the advisory services practices of firms extends, there exists more opportunity for conflicts impacting the independence of the auditor/accountant from the underlying client. Recent regulatory cases highlight how seriously regulators are treating these issues; and
- Accounting services provided when third parties are involved, including the use of lawyers for legal privilege.

2. Structure, size and segmentation, reporting entity population

Our review of the NAICS codes for the sector identified two relevant codes; "Accounting, tax preparation, bookkeeping and Payroll services" (NAICS 541211), which has a total of 9,917 establishments. A second code for "Other accounting services" (NAICS 541219) has a further 2,214 establishments.

Included at Appendix A is a table of 'Canada's Top 30'. This is data on the top 30 accounting firms (by revenue) in the country and is published annually in the Bottom Line, an accounting sector focused publication. The data provided for April 2014 shows that the top 30 firms had:

- Revenue of $7.420 billion with the top four firms reporting $5.158 billion or 70%;
- 25,898 professional staff, with the top four firms reporting 16,366 or 63%; and
- 582 office locations across the country.[3]

These accounting firms are generally limited liability partnership organizations with practices led by the individual partners. The larger firms tend to have more integrated practices with a higher degree of national infrastructure, supports and monitoring of individual partners providing services to clients and accordingly have built and maintain a higher level of 'brand' recognition in the market. The medium and smaller firms tend to be partnerships which are less integrated; more the sum of the individual partner practices and success is based on the individual partner client relationships.

The largest six firms are understood to all be Canadian partnerships which are member firms of international networks that operate under the same name globally. So while each country is an independent partnership providing services to the public, the firms within each international network cooperate and provide support to deliver to clients who operate multi-nationally. One of the emerging trends is that some of the larger firms in the US and Canada are beginning to open offices in overseas locations (e.g. India) and this office is owned and managed by the US or Canadian partnership.

[3] The Bottom Line – Canada's Accounting Top 30, April 2014

The top 30 accounting firms would include accountants from all three major groups as well as uncertified accountants; however the majority of professionals employed would be ones with the CPA (formerly CA) designation.

As is the case with the CPAs, most CGAs and CMAs work in industry. However there are many CGAs and CMAs who provide services to the public. An online directory of CGAs and CGA firms provides data on 2,322 across the country[4]. And while a directory of CMAs providing services to the public was not identified, all CMAs providing services to the public are required to register their practice with the appropriate provincial group (e.g. in Ontario this is CMA Ontario) and to adhere to regulations which set out criteria for members who independently offer their services to the public[5].

[4] http://www.needanaccountant.org/
[5] http://www.cmaontario.org/CMACandidates/Post-CMADesignationCredentials/CertifiedManagementConsultant/ConsultingCMAs.aspx

3. Economic and financial statistics

The Canadian accountancy market has seen low to moderate growth since 2008 and the market is forecast to continue performing this way through to 2017.

As indicated, the Canadian accountancy market is characterized by the presence of four large firms and these firms exercise significant influence, particularly at the upper end of the market, regarding services provided to public companies.

The Canadian accountancy market had total revenues of $11.9 billion in 2012, representing a compound annual growth rate ("CAGR") of 1.2% between 2008 and 2012. In comparison, the US and Mexican markets grew with CAGRs of 0.7% and 5.7% respectively, over the same period, to reach respective values of $132.0 billion and $16.2 billion in 2012.[6]

Audit services are the most significant component provided in the public accounting market, with total revenues in 2012 of $5.2 billion, equivalent to 43.7% of the market's overall value. The advisory segment contributed revenues of $3.6 billion in 2012, equating to 30.3% of the market's aggregate value.[7]

The performance of the market is forecast to follow a similar pattern with an anticipated CAGR of 1.2% for the five year period 2012 - 2017, which is expected to drive the market to a value of $12.6 billion by the end of 2017. Comparatively, the US and Mexican markets are forecasted to grow with CAGRs of 3.7% and 7.9% respectively, over the same period, to reach respective values of $158.6 billion and $23.6 billion in 2017.[8]

Table 3-1 - Canada accountancy market value: C$B, 2008-2012

Year	C$ Billion	% Growth
2008	11.3	
2009	11.6	1.9%
2010	11.6	0.5%
2011	11.9	2.2%
2012	11.9	0.2%

Source: Accountancy in Canada – August 2013 – MarketLine Industry Profile

[6] MarketLine Industry Profile - Accountancy in Canada, August 2013.
[7] Ibid
[8] Ibid

4. Regulation of the sector

As indicated, the accounting profession is self-regulating and while there are unification efforts underway, accounting certification and regulation is done by each of the ten provinces and two territories and is divided between the three main national accounting groups (the CPAs, CMAs and CGAs). So for example, currently the provinces of Quebec and Ontario are the only jurisdictions in Canada able to certify members as CPAs.

All other provinces and the territories must award CAs. Legislative change must occur in each jurisdiction and until legislative change is complete, each provincial and territorial CA institute will continue to grant the CA designation. Once the unification efforts are complete, each jurisdiction will then be able to issue all CAs the CPA designation and to issue all new members with CPAs.

The sector self-regulation means that each group/association that advocates for the profession also regulates its members. Details of the groups and their mandates/membership are provided below in the Description of Sector Associations report section.

As a self-regulating profession, the provincial institutes are responsible to protect the public interest by ensuring that all Members, Students and Firms observe high professional and ethical standards. Generally, this is done by a program of interrelated activities that includes:

- High standards of qualification, involving both a demanding education program with a rigorous final examination, and a significant period of prescribed practical experience under authorized supervision;
- A comprehensive professional development program;
- An internationally-recognized, mandatory practice inspection program directed to ensuring that members and firms engaged in public practice maintain prescribed professional standards;
- Practice and ethics advisory and counselling services; and
- A comprehensive and well-resourced disciplinary process that, through experienced members of the profession and public representatives, deals on a timely basis with complaints and other matters concerning the professional conduct of members, students and firms.

A professional conduct committee or similar body investigates written complaints received. Once a decision is reached in the matter, both the complainant and the respondent have an opportunity to be further heard, after which, depending on any change to the decision, the matter is generally forwarded to a discipline committee. In Ontario for example, the Discipline Committee has powers to make specific orders, including the following: fines, charges for costs of the investigation, suspension, expulsion, training and/or examinations, period of supervised practice, reinvestigation, and/or that an accountant's practice be restricted for a specified period of time. There is then an appeals process available.

- *Canadian Public Accountability Board* – CPAB is Canada's audit regulator for reporting issuers as defined and it functions to assess audit quality through the inspection of selected high-risk sections of audit files and assessment of the six elements of quality control. The Canadian Securities Administrators' National Instrument - 52-108 Auditor Oversight, requires auditors of reporting issuers to be registered with CPAB, as CPAB participants, and requires Canadian reporting issuers to issue financial statements audited only by CPAB participating firms.
- *Public Company Accounting Oversight Board* – PCAOB was established by the US Congress to oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of accurate and independent audit reports. The PCAOB also oversees the audits of broker-dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection. The PCAOB has a significant influence on a number of Canadian accountants as many Canadian companies are listed on US exchanges or are affiliated with entities listed on US exchanges.

Other laws and regulations are increasingly having an impact on the sector. Public accounting firms are experiencing not only civil litigation from commercial interests as they intersect with these laws but also questions and expectations from regulators. Both groups are looking at the firms as 'gatekeepers' when audit and other types of services are being provided. Our research has identified specific statements to this effect in both Canada and the US, and we have identified examples relating to frauds and company failures, breaches of anti-corruption laws, AML regulations and the emergence of the newer FATCA (Foreign Account Tax Compliance Act) regulations out of the US.

5. Educational and licensing requirements

In order to become a CA/CPA one must first obtain a university degree. Following graduation the student must gain work experience under the supervision of experienced CA's within organizations (CA firms, corporations or government organizations) that have recognized CA training programs in place. All candidates must ultimately pass an exam in order to obtain the CA designation. The profession works to develop and maintain a uniform standard for qualification process throughout Canada.

To earn the Certified Management Accountant designation in Ontario, for example, a prospective candidate must meet CMA Ontario's General Admission Requirements and complete the five basic steps of the CMA Accreditation Program which include: earning a degree from a recognized university or recognized college, completing the CMA Required Topics which are specific accounting and management studies at the university level, pass the national CMA Entrance Examination unless granted a waiver by CMA, complete the two-year CMA Strategic Leadership Program (including the CMA Case Examination and CMA Board Report) and simultaneously complete 24 months of qualifying practical experience.

There are also alternative paths to earning the CMA designation based on the prospective candidate's education and work experience.

The requirements to become a Certified General Accountant in Canada are somewhat different. The candidate can enter into the CGA program without a degree or a degree in a discipline outside of accounting. The candidate must successfully complete 4 levels of CGA courses before being eligible for the two-year PACE certification program. Up to 36 months of supervised work experience in increasingly senior responsibility is also required for certification.

6. Constraints

Accounting independence rules require that auditors avoid conflicts of interest. This is generally the case with the profession around the world and recent cases are emphasizing that accountants are becoming more involved in situations where their independence could be impaired.

7. Description of sector associations

Our research has identified the following Canadian accounting related associations:

- *Chartered Professional Accountants Canada* – A national organization established to support unification of the Canadian accounting profession under the Chartered Professional Accountant (CPA) designation. CPA Canada provides services to all CPA, CA, CMA and CGA accounting bodies that have unified or are committed to unification.
- *The Canadian Institute of Chartered Accountants* represents Canada's CA professionals both nationally and internationally. This organization is now CPA Canada.
- *Certified General Accountants Association* - serves CGAs and students in Canada and nearly 100 countries. CGA-Canada establishes the designation's certification requirements and professional standards, offers professional development, conducts research and advocacy, and represents CGAs nationally and internationally.
- *CMA Canada* - grants a professional designation in management accounting and regulates its members under the authorization of provincial legislation. CMA Canada, a self-regulating body, maintains the highest standards, practices and professional conduct in management accounting to protect the public interest. CMA Canada's partnership structure consists of the CMA provincial, territorial and national jurisdictions working together.
- *Society of Professional Accountants of Canada* - is a professional organization established for the on-going education and setting of qualifying standards to ensure professional competence of its members in the practice of accountancy. "The Society has members across Canada and internationally with proven capability in their chosen profession. The Society proudly exudes the singular distinction of being the premier professional accounting organization in Canada offering a unique perspective with a special emphasis on small business."
- *Guild of Industrial, Commercial and Institutional Accountants of Canada* – an association of business accountants, financial managers, tax preparers and accounting executives with members in every province of Canada. It promotes and supports interest in vocational accountancy; encourages acceptance of modern methods and procedures and gives recognition to the individual's skills and practical experience.
- *Provincial institutes and bodies:* for example in Ontario there is the Institute of Chartered Accountants in Ontario, now CPA Ontario, there is CMA Ontario and also CGA Ontario. There is a similar structure across all of the other provinces and territories. For further example, each of the 10 provincial chartered accountants' (now CPAs) institutes/ordres has the responsibility and authority to admit members and student members, and to determine practice requirements and the discipline of members and students.

8. Emerging business trends

- Increasing focus by regulators and the authorities on issues of independence and conflicts of interest.
- Discussion and debate internationally as to the extent to which accountants may legitimately advise clients on tax planning.
- Some of the larger firms in the US and Canada are beginning to open offices in overseas locations (e.g. India) and this office is owned and managed by the US or Canadian partnership.
- Audits of foreign companies which are publicly traded in Canada and the audits of foreign branches of Canadian clients have come under significant scrutiny after a number of large frauds and issues with access to information in foreign locations.
- In the UK, accountants are lobbying for limited form of privilege especially regarding the provision of tax services. Canadian accountants are monitoring this closely.
- The profession is undergoing a unification process and is setting new national standards.

Appendix A contains a number of examples of these different trends.

9. Products and services offered

Accountants provide a broad range of financial, management accounting and advisory services, ranging from the audit, tax and general financial advisory services provided by the public accounting firms to specialist/boutique tax, valuation, forensics and general consulting services firms. As well, individual accountants provide services within industry; often the most senior finance positions, as well as staff in the finance and accounting departments, within private, public and public sector organizations, are certified accountants.

Many certified accountants across the profession are involved in non-profit, charitable organizations as members on volunteer boards; e.g. most non-profit, charitable, public sector organizations have a volunteer accountant involved in some way if not as a member of the board.

The table below provides a breakdown of available data of the three main service areas of the public accounting firm:

Table 9-1 - Canadian accountancy market services: C$B, 2012

Service	2012 C$B	%
Audit	5.2	43.7%
Advisory	3.6	30.3%
Tax	3.1	26.0%
Total	11.9	100%

Source: Accountancy in Canada – August 2013 – MarketLine Industry Profile

Generally, the public accounting firms provide the following types of services in each of the three areas:

1. *Audit:* includes financial statement audits of public and private companies, non-profit and charitable organizations, government and related; also includes reviews (lesser level of assurance provided than audit) and accounting services.

2. *Advisory:* includes valuation services, internal controls and business risk services, corporate finance and valuation services, bankruptcy and reorganization services, forensic and investigations. Many of the larger firms have practices which provide corporate finance services to the market and accordingly require registration with provincial securities regulators.

3. *Tax:* includes notice to reader financial statement tax preparation, compilation of annual tax filings, complex tax planning and structuring services, for both Canada and other jurisdictions. Many Canadian firms have US and International tax practitioners providing services in the larger centres. Commodity tax services, scientific research and experimental development tax claim services, expatriate tax planning and filings.

The range of advisory services offered by accounting firms is becoming broader, many general business consulting services e.g. retail operations, IT security and systems, industry specializations, productivity improvements and others are now offered. The nature of these services, although within the broad business area, is moving further away from the core training and competency of accountants, increasing the likelihood of possible conflicts. This is emphasized by recent media articles including: "Advisory revenue (excluding tax) at Deloitte LLP, Ernst & Young LLP, PricewaterhouseCoopers LLP and KPMG LLP last year surged to $36 billion for their global networks, a rate four times the 3.4 percent gain in audit fees, according to Monadnock Research LLC in Gloucester, Mass. KPMG's audit revenue, the smallest of the Big Four, actually fell."[9]

The larger firms generally are not involved with clients to provide financial intermediary services (PCMLTFA "regulated activity"). Smaller accounting firms generally focus on audit and accounting services, with most no longer involved in public company or larger audits, as well as the tax services and are understood to more likely be involved in financial intermediary type services on behalf of clients.

Services provided by accountants that are potentially useful to a money launderer:

- *Financial and tax advice* – Accountants regularly provide these types of services in the market. Criminals with a large amount of money to invest may pose as individuals hoping to minimize tax liabilities or desiring to place assets out of reach in order to avoid future liabilities. The request for these services is not itself any kind of red flag, you would only get at this by understanding the background of the individuals involved, the source of funds, business activities.
- *Creation of corporate vehicles or other complex legal arrangements (trusts, for example)* – such structures may serve to confuse or disguise the links between the proceeds of a crime and the perpetrator. Also provision of advice on the setting up of legal arrangements, which may be used to obscure ownership or real economic purpose (including setting up of trusts, companies or change of name/corporate seal or other complex group structures). Accountants, especially experienced tax professionals, are often asked to advise on these types of situations. Usually and most often the client is involved with legal counsel and the accountant may be hired by the law firm or the client directly.
- *Performing financial transactions* – Sometimes accountants may carry out various financial operations on behalf of the client (for example, cash deposits or withdrawals on accounts, retail foreign exchange operations, issuing and cashing cheques, purchase and sale of stock, sending and receiving international funds transfers, etc.) These are not understood to be typical services provided by accountants, but research indicates that they do happen; tends to be the smaller firms, independent accountants (though not always). There is risk when the accountant has a relationship beyond being the independent financial advisor.
- *Gaining introductions to financial institutions-* accountants could be and are called upon to make these kinds of introductions; this is general business networking and referrals and happens often. A mitigating factor is

[9] Crain's Chicago Business, THE BIG FOUR'S NEW MATH; A decade after Sarbanes-Oxley forced them to scale back consulting work, accounting giants are beefing up the business of dishing out advice, October 7, 2013. Copy included at Appendix B.

that most professional accountants would value the relationship with the banker as much as the relationship with the client.

- *Buying or selling of property* – Accountants could be involved to assist property transfers between parties, whether this is the provision of financial advisory services to the parties involved, presentation of the relationship with the accountant to the other parties involved, provision of valuation and tax services regarding the details of the transaction etc.

10. Type of customer(s)

The Canadian accounting industry is significantly focussed on business clients. Although they also serve a significant number of individual clients, these are by the nature of the services offered, higher net worth and business owners who need tax advice or assistance with more complex issues that their positions involve.

The majority of clients in the sector are Canadian residents although there are certainly elements of the accounting business where overseas clients are common. The scope of the countries from where such offshore clients originate is very broad indeed and limited only by the scope of Canadian business activity and immigration trends.

11. Geographic considerations

The accounting firms have offices located in major centres across the country, with regional and smaller firms generally located in the larger as well as smaller centres.

The larger accounting firms either are part of an international network of firms under the same brand name or, for the smaller larger firms, part of an international affiliated network. These networks serve to assist each firm to support one another in the provision of services to multi-jurisdictional clients and enjoy cross referrals.

There are no jurisdictional rules (as for example there are in the securities sector) about which jurisdictions an accountant can work in or not when the accountant provides services to the private sector except in the case of auditing. Auditors must obtain a public accounting license and be licensed to provide audits in the respective jurisdiction. In Canada, an accountant obtains their designation and a public accounting license from a provincial body and is then licensed to provide services. There are no jurisdiction rules for services other than audit. The market manages this by demanding that the experience and expertise of the professional accountant be relevant for the local market. So for example, Canadian accountants with Canadian US tax filings experience would not easily be able to provide services in the US regarding US tax filings. In other cases, it is less the jurisdiction and more the specialized industry expertise that the market demands, so a Canadian accountant with significant financial services industry expertise may provide services to financial services all over the world in regards to their transaction processing systems for example.

As well, as has been noted, one of the emerging trends is that some of the larger firms in the US and Canada are beginning to open offices in overseas locations (e.g. India) and this office is owned and managed by the US or Canadian partnership.

12. Any other relevant information on the sector

As indicated, unification of the accounting bodies over the last few years is significant, relevant information on the sector within Canada. The unification initiative was started in 2011 and undertaken by the three main Canadian accounting bodies to work towards merging the relatively fragmented Canadian accounting profession. The ultimate aim is to ensure that the accounting profession becomes "the pre-eminent, internationally recognized Canadian accounting designation and business credential that best protects and serves the public interest."[10]

Unification of the accounting profession took place in May 2012 in Quebec. On February 3 2013 it was announced that the Certified Management Accountants of Ontario, the Certified General Accountants of Ontario, and the Chartered Professional Accountants of Ontario (The Institute of Chartered Accountants of Ontario) signed a Memorandum of Understanding in support of unification of the accounting profession in Ontario. As of October 9, 2013, CGA-Canada entered into an Integration Agreement with CPA Canada.

Recent regulatory and litigation cases involving accountants, further details provided at Appendix B:

- In December 2013, the Dutch authorities fined KPMG €7 million for failing to provide reasonable assurance that the books and records of their client accurately reflected reality. In a settlement, three KPMG accountants were alleged to have helped their client disguise suspicious payments to foreign agents and knowingly failed to verify the payments.
- The SEC has ruled that the Chinese affiliates for all the Big Four accounting firms had "wilfully" failed to provide the audit work papers of certain Chinese companies under investigation for accounting fraud to US regulators. The Chinese arms of KPMG, Deloitte, PwC and EY now face a six-month ban on practicing in the US, January 2014.
- New York State fined Deloitte $10 million for services provided to Standard Chartered Bank regarding anti-money laundering compliance program review work. Standard Chartered was fined US$667 million for allowing hundreds of billions of dollars to be laundered through its US branch by clients from Iran, Burma, Libya and Sudan, in violation of US sanctions on the countries. Deloitte's financial advisory services arm was also banned for one year from taking on new work in the state, June 2013.
- PwC was fined £1.4 million by the Accountancy & Actuarial Discipline Board in the UK for failures concerning reports on client-money accounts at JPMorgan Chase & Co, January 2012.
- KPMG was fined $8.2 million in the US by the SEC to settle allegations of independence violations. Accounting independence rules require that auditors avoid conflicts of interest that could compromise their ability to audit a company's financial statement impartially and rigorously. According to the SEC, KPMG provided non-audit services to affiliates of two of its audit clients. KPMG also hired a recently retired senior-level tax counsel of a third audit client's affiliate only to loan him back to the affiliate to do

[10] http://unification.cpacanada.ca/a-framework-for-uniting-the-canadian-accounting-profession/

the same work. In addition, KPMG employees owned stock in one of the clients and in affiliates of another; January 2014.

- Deloitte was found to have disregarded professional standards when arranging two deals for the Rover employees known as the Phoenix Four. The British carmaker collapsed in 2005 with debts of £1.4 billion and the loss of 6,000 jobs. Deloitte was given a severe reprimand and fined £14 million. Deloitte is planning to appeal the fine imposed by the Financial Reporting Council in the UK, September 2013.
- Deloitte was fined $2 million by the PCAOB to settle civil charges that it violated federal audit rules during the 2003 audit of the financial statements for a unit of Navistar International Corp., August 2012.

13. Key points from interviews

13.1 Sector background

1. Nature of services provided: Audit and valuation and tax compliance, these are the more "traditional", less risk associated, more core services provided by firms. Other services provided include wealth management (offered by some but not all accountants), more complex tax planning, trust account services (some firms will say that they won't provide trust account services in Canada, but they do provide through international affiliates in Cypress for example) and a range of advisory services.

2. Public Accounting: Accountants doing public accounting work (usually the core services as described above) are subject to their firm's rules and to institute inspections. Independents and smaller firms have to have another firm review, a quality monitoring process and the institute inspects this.

3. Accountants in business (e.g. not public accounting), these are usually professionals working inside organizations (public, private, government, not-for profit and charities). There are difficulties, these individuals usually do not have the same provision of services mentality, they are surrounded by others who are not professional accountants, and they don't have the same ethics, professional and quality monitoring structures.

4. Accountants are a self-regulating profession; it has always been this way in Canada. In some other jurisdictions the regulators set the rules for accountants. For CPAs, there are provincial bodies that have responsibility for ethics. This is believed to be the same for CGA's and CMA's.

5. Acceptance of candidates for the profession: Does the profession look at the background of the individual who is applying to go through the process to obtain their professional designation? No, not for the CPA designation. Provincial institutes can however take away the designation if the individual does not follow the rules, but this is based on activity once designation obtained not any prior history. Could not recall there ever being an issue with an individual obtaining the designation and then finding out afterwards that they had criminal history. The process for professional designation is significant and therefore a barrier to entry for anyone not legitimately pursuing.

6. Members of the profession must report to their provincial Institute after having been, in any jurisdiction, convicted of an offence of fraud, theft, forgery, money laundering (and the list continues).

7. The profession regulates itself through the provincial institutes which advocate & regulate across the country. Is not aware that any other industries or sectors are allowed to do this. CPAs are allowed because of the high quality of services provided to the market.

8. CPAs must and need to act in the public interest. Regarding the more recent moves to merge and consolidate the profession, with the CGA's and CMAs it was seen as better to bring them in with the CPAs and regulate to a consistently higher standard, rather than to let them regulate and self-discipline. This has been allowed by governments because of the quality provided by the profession in the past/to date.

9. The self-regulation and discipline processes maintained by the CPAs is graded an 'A'. CGAs are seen to have a weak process, a 'C' grade. Note that only CPAs (as CAs) and CGAs had public licenses to give opinions. The CMAs never had public licenses; their process is seen as weak, a 'C+' grade. CMA process is really focused on situations where a member might have had a bad association with client. The job now is to bring everyone up to the A standard/grade and this will happen through the inspection processes. There will be a mid-tier certificate coming as part of this process. View is that it will not take too long for this to be done, moving from 'C' to 'A' grade.

10. The profession does have a hotline/ whistle-blower line. The public will complain if they lose money etc. The hotline is used, there are active complaints and also newspapers/the media is the flag for the profession as to what situations need to be investigated.

11. Does the profession have a strong enough investigation process? Once all the groups (the CPA, CGA and CMAs) come together, the profession will be double the size of what the CA (now the CPA) used to be. Investigation is executed provincially, it requires co-ordination amongst complaints, conduct and discipline committees.

12. When firms undertake mergers there is massive amounts of due diligence done on the principals and there is due diligence done on key clients as well. In this professional services sector, reputation is everything and so this risk is actively managed.

13. It does happen however, that partners and accountants cross the line, and get involved in unethical or illegal/fraudulent activity. How do 'good' partners get trapped in bad situations? It happens. Firms need to ensure that the culture of the firm supports the professional to come forward, that there is professional support and that this is clearly the tone from the top. "Need to make it safe to come out".

14. CPA supports the implementation of international standards. The International Ethics Standards Board for Accountants (IESBA) – CPA is a member and then uses influence to get each of the provinces to adopt these rules consistently.

15. An exposure draft has been put out by the IESBA on illegal acts (exposure draft is in essence a discussion paper on new standards for the profession). If an illegal act is discovered, who does this need to be reported to? The profession internationally is having three roundtables/ discussions (including in the US and Europe, and Canadian representatives will attend the discussions) on this topic. Currently in Canada there is no reporting requirement and situations are usually governed by client confidentiality rules.

16. The CPA profession currently has no requirement for ethics training, just simply that all professionals are required to follow the rules of professional conduct. This is understood to be the same for CMA and CGA. Note that for the smaller segment of accountants who practice as forensic and investigative accountants and who also carry designations such as CFE and/or CFI, they are required to annually complete ethics training. Some firms have ethics training in place though; this is part of managing and protecting against reputational risks. Accounting professionals are required to have on-going training in their area of expertise on an annual basis.

17. Independence for example, this is a significant requirement for the profession, for certain services, the accountant/auditor must be independent from their client, and this is a part of ethics, an execution of objectivity. This has lately garnered much attention.

18. Independence: the rules of professional conduct which are harmonized across the provinces, supposed to be identical and are close (most provinces have council interpretations, maybe a few don't) say that you cannot take on an engagement which is contrary to a client(can't act for two parties in a dispute with each other for example). How is this applied, does this apply to current relationships? Relationships over the past client 6 months? Over up to 5 years ago?

19. Individual partners complying with rules? How about individual partners who are 'playing on edge', what does a firm do? For example, an auditor must be independent of their client. If a client file is taken on but there is significant question as to whether or not the client can pay, the auditor loses independence. Should the file be taken on? Will the file be taken on? Ethics of the firm and the individual come into play. Some would take on the file even if there were risks/warnings/issues that could impair independence; others would not.

20. Do firms have international bank accounts? Yes, firms in North America have international accounts. See notes below re outsourced and offshore activity trends.

13.2 Professional Standards

21. There are no 'rules' around client acceptance in the profession other than (for CPAs) that we must maintain the good reputation of the profession, don't associate with anyone of 'poor character', can't be associated with false or misleading activity etc. These are principals based rules, which have served the profession well. But one can understand that in a competitive market, with many different sizes of firms, as well as independents, that there is a spectrum as to how the rules of professional conduct are adhered to. The profession has a professional conduct committee and disciplinary committee.

22. How strong is the public accounting client acceptance process? There are no specific rules. It really depends to what extent the facts are known, really comes down to judgment/business decision.

23. What does the profession actually require / what are the rules of professional conduct? CPAs are required to not associate themselves with someone of "poor character". Members of the profession must 'conduct themselves at all times in a manner which will maintain the good reputation of the profession and its ability to serve the public interest', 'maintain the profession's reputation for competence and integrity'; 'professional duty prohibits a member or firm from being associated with financial statements or other information, whether written or oral, which the member or firms knows, or should know, to be false or misleading'.

24. There is a whole spectrum of how this is executed. Generally, standards are quite high and this is due to the desire of the profession's members to maintain highly regarded reputation. Public accounting firms require background checks for public companies and at least a google search for private companies. What is public though? What if a private company is registered with say the OSC, is that public?

25. Quality control systems: 10 years ago the focus was on the Quality Control system framework for assurance (audits and reviews) engagements –this system does make sense for all public practice service (not just audits); quality control includes client acceptance, human resources practice, independence, file reviews, ethics, quality monitoring etc. So many firms now are in process (varying degrees of completion) of applying quality control system to other areas (other than audit) of the practice (tax and advisory type

services). Larger, national firms have internal inspection processes and if they are part of an international network they have further inspections done through this network.

26. Quality control standards focus is really is on the provision of audit services and this in large part is due to legal liability of the profession in regards to audit opinions. Since the Castor case, audit & accounting standards are more robust; there are quality control systems within the firms and the independent standards say that you can't be an advocate for your client. Also in Canada, this started with 80's financial institution failures; in late 90's, the Asian crisis – needed more global consistency for audit/accounting standards and for ethics.

27. Standards around provision of audit services: mandatory partner rotation is required on public company files only; must assess the threat of longer association for non-public company files; public files must have a concurring partner; private files require a concurring partner but only if assessed as higher risk. Need to look at the dollar amount of fees from a client to see if others should have involved (if fees are ≥ 15% fees of a firm, this is an international rule and if fees are ≥ 50% fees of the partner). Also, staff are required to report up more than they ever have before if they see something they don't think the partner has dealt with properly.

28. At the provincial level there are conduct inquiry committees, usually non-accountants are on the committee, key areas they focus on are: Integrity, objectivity, independence; professional competence and due care; confidentiality; and professional behaviour.

29. Litigation matters against/involving accountants keep expanding; this gets fed back into the system and drives inspections and quality.

30. Audit of public company file inspections by CPAB; this results in standards improvements and will get applied across all areas of the practice over time. CPAB is focused on public company audits to make sure that auditors meet standards and that any other services provided do not impair or conflict the auditor.

31. Who monitors the accountants' work with private companies? The provincial institutes monitor this work and they tend to look more at core services vs. other services (e.g. advisory services). They might get to look at other services if these were being provided to an audit client; so, advisory services don't get the same level of oversight.

32. At the international level, the regulators are very involved. Groups like the CSA's, OSC's, CPAB, OSFI, World Bank, IMF all looking over the accountants' shoulders. The International Ethics Standards Board for Accountants (IESBA) has a Canadian member and this person is chosen by the CPA. Each of the committee meetings has a person from an oversight board present and this person helps monitor that all of the accountant members (from around the globe) have contributed in the best interests of the public (no country, firm, or self/profession-bias).

33. There is a committee composed of the Independence Officers of the 'Big 4' firms, Grant Thornton, and BDO. They meet two to three times per year. What do they discuss: independence issues, CPAB – inspections, findings, areas of focus / PCAOB – SEC registrants (more stringent) and conflicts of interest. It is not known if the smaller firms meet or have any similar types of discussions.

34. Recent relevant cases:

- MG Rover Group, recent case in the UK, resulted in a significant fine against Deloitte, Deloitte was found to have not acted in the public interest in regards to provision of corporate finance services.
- KPMG – fined in the US by SEC/PCAOB for $8.2M regarding independence violations, January 2014

35. Nobody within the profession is really looking at/monitoring the provision of tax services. This is done more so by market forces, e.g. CRA and provincial tax authorities assess tax filings and organizations then (if filings are found to be wrong, amounts owed) look to make litigation claims against the accountants who provided the tax services. The Alberta institute is starting to talk about using their inspection process to look at the tax work done on files.

13.3 Trends

36. Globally, firms are exiting the Wealth Management services business section of the market. This is due to the liability risks around being a trustee for a client and also because of potential conflicts. Is there money laundering risk? Not sure, but there is practice risk. Some accounting firms manage the family offices of high net worth individuals.

37. What is gaining traction internationally? Out sourced practices. Some firms are providing the back offices, including flow of funds/bank accounts, to corporations. This has been going on internationally for some time and now smaller/regional firms in Canada for sure are getting into this.

38. Both Canadian & US accounting firms have cross border practices, meaning that they have an office of the Canadian or US firm in an offshore location, e.g. work is being done in India. This is separate from the firm in that offshore location by the same name which is part of the same international network. Having an offshore office (versus another firm within the same international network) helps deal with the privacy laws & data security challenges. So, firm X LLP in Canada uses their Indian office to do personal tax returns versus using the firm X LLP in India.

39. There is quite a debate currently on tax avoidance (which used to be widely accepted). Is this unethical today? There is a whole profession built around tax planning.

13.4 Risk areas

40. China is seen as a huge risk, the SEC has banned American firms from doing work there – not enough regulation to support audit. Also jurisdictional risk in other international areas, Russia for example.

41. Smaller firms and independents are seen as more vulnerable, more likely to provide services to groups undertaking illegal/unethical activity as there is no quality monitoring infrastructure, practice structure is less robust, more dependent on the ethics of the specific individuals involved, more inherent risk. The market considers this before loaning money; e.g. banks look at the quality of the firm signing the audit opinion. They often require a larger, national firm when they assess any kind of risk.

43. Usually the larger, national firms are not involved in the PCMLTFA 'regulated activities' on behalf of clients. Independents and smaller firms are understood to more commonly be providing these services to clients.

44. Is it possible that the larger firms have inherent risk as they are approached more by groups desirous of the credibility the larger firm provides to illegal activity? Possible, not known.

45. Larger firms have the risk that an individual partner or staff provides services to the market without others knowing, without the firm monitoring systems identifying. How do firms monitor for this? Have to get at what are people doing, how are they spending their time. Very difficult to monitor these things with regards to professionals and sometimes can only monitor after the fact by looking at e-mails, monitoring phone calls from clients etc.

46. Clients/services referred to international affiliates in offshore centres.

47. When accounting firms and accountants provide complex tax planning and tax structuring services, wealth management and corporate finance services.

48. As financial experts, accountants can be sought after by those desiring to launder funds; and because money laundering is a financial process, accountants can be involved in the process both wittingly and unwittingly. Some of the key areas that we want to guard against are:

49. Providing assurance or other services where we would be used to provide some legitimacy to operations which are, or are attempting to, launder funds;

50. Providing accounting, consulting, tax services or assistance to set up complex corporate organizations and structures (e.g., shell companies) which could assist individuals who are seeking to launder funds or conduct terrorist financing activities; and

51. The use of our services in any way to assist the payment or transfer of funds between parties when this is not related to legitimate commercial transactions.

52. Our firm generally and specifically prohibits activities which involve the handling of client monies on their behalf. This prohibition applies to all clients in all of our service lines regardless of the type of expense or remittance. Any attempt to extend these types of courtesies to our clients is not worth the substantial financial and legal risk to the firm. The firm has covenants to various third parties (bankers, insurers, etc.) by which such transactions are in breach of contractual terms and conditions.

53. Our firm, we expect like most of the larger and regional firms, focuses more broadly on the risks for accountants. The most relevant, when considering money laundering and these types of risks for illegal activity, is to make sure we know well the individuals we are dealing with. The client acceptance process is pretty important. We do not want to be involved with providing or being seen to provide services to individuals involved with money laundering or terrorist financing activity.

54. Some of the areas, functions that could be performed by accountants that are most useful to a potential launderer:

55. Financial and tax advice – Accountants regularly provide these types of services in the market. Criminals with a large amount of money to invest may pose as individuals hoping to minimize tax liabilities or desiring to place assets out of reach in order to avoid future liabilities. The request for these services is not itself any kind of red flag, you would only get at this by understanding the background of the individuals involved, the source of funds, business activities.

56. Creation of corporate vehicles or other complex legal arrangements (trusts, for example) – such structures may serve to confuse or disguise the links between the proceeds of a crime and the perpetrator. Accountants, especially experienced tax professionals, are often asked to advise these types of situations… usually and most often the client is involved with legal counsel and the accountant may be hired by the law firm or the client directly.

57. Advice on the setting up of legal arrangements, which may be used to obscure ownership or real economic purpose (including setting up of trusts, companies or change of name/corporate seal or other complex group structures). Same as above.

58. Performing financial transactions – Sometimes accountants may carry out various financial operations on behalf of the client (for example, cash deposits or withdrawals on accounts, retail foreign exchange operations, issuing and cashing cheques, purchase and sale of stock, sending and receiving international funds transfers, etc.) I have seen this occur on investigations I have worked on. We don't allow this activity in our firm, need to manage and monitor through culture and awareness of the firm. It certainly happens, tends to be the smaller firms, independent accountants (though not always), there is risk when the accountant has a relationship beyond independent financial advisor.

59. Gaining introductions to financial institutions- accountants could be and are called upon to make these introductions. A mitigating factor is that most professional accountants would value the relationship with the banker as much as the relationship with the client.

13.5 Discussion with senior tax accountant professional

60. New immigrants/Canadians – tend to keep assets offshore – currently, the system is based on self-assessment so therefore is a weakness. Not necessarily proceeds of crime but do not want government involved. There is reliance of bank privacy laws to not disclose information.

61. There is offshore planning to protect assets with assets held in foreign trusts. Have also heard of instances where use of offshore entities in order to repatriate assets back into Canada.

62. For tax professionals – would provide legitimate tax advice but there is better understanding in system of tax professionals' role. Would advise client if tax treatment is overly aggressive. However, some clients would opinion shop amongst several accountants to find right accountant that will help with setting up structure.

63. One example of structure would be to create residency (or cancel citizenship, as in the US) – however, clients would utilize both domestic and foreign tax professionals, especially if involved in foreign jurisdiction.

64. Areas seen to be higher risk for accounts include offshore gambling as uncertain about controls and abuse of native reserves to take advantage of preferential tax treatment.

65. Canadians are sometimes seeking services from lawyers in conjunction with accountants to get/maintain privilege. In the UK, accountants are lobbying for limited form of privilege so Canada monitoring this closely.

66. In Canada, lawyers within accounting firm cannot offer privilege. Lawyers are bound by ethical rules and reputation risk to not assist clients with potentially illicit activity.

14. Risk factors

14.1 Products and services

14.1.1 Nature of services

Accountants, through the various services they provide and their areas of financial expertise are sought after by those desiring to launder funds. Because money laundering is a financial process, accountants can be involved in the process both wittingly and unwittingly. Interviewees shared that higher risk areas included complex tax planning and tax structuring services, wealth management and corporate finance services.

14.2 Delivery channels

14.2.1 Accountants who provide services outside of their areas of expertise

This is potentially an indicator that the accountant, client relationship is not service driven, e.g. the accountant is less or not independent and the client obtains value in another way.

14.2.2 Size of firm/independent accountants

Smaller firms and independents are seen as more vulnerable, more likely to provide services to groups undertaking illegal/unethical activity as there is often limited quality monitoring infrastructure; the practice structure is dependent on the ethics of the specific individuals involved, and thus there is more inherent risk. Interviewees reported that the market considers this before loaning money; e.g. banks look at the quality of the firm signing the audit opinion. They often require a larger, national firm when they assess there is more risk around the potential debtor.

Client acceptance processes are where these larger firm resources really come into play, e.g. to really understand the backgrounds of the persons involved with new client relationships.

Usually the larger, national firms are not involved in the PCMLTFA 'regulated activities' on behalf of clients. Independents and smaller firms are understood to more commonly be providing these financial intermediary services to clients.

14.2.3 See provision of services under legal privilege (below)

14.3 Geography

14.3.1 Referrals to offshore affiliates located in higher risk jurisdictions

Research indicates that sometimes, when accountants are unable to provide services locally, they may refer the client to offshore affiliates where the provision of services receives less scrutiny.

14.3.2 Clients located in high risk international locations

Research indicates that countries such as China and Russian are significant risk areas for public accounting firms. The SEC has banned American firms from doing work there and Canadian firms communicated that they are very aware of the risks.

14.4 Business relationships/linkages with other sectors

14.4.1 Conflict of interest issues

As accountants, and particularly larger accounting firms, grow and expand the breadth of their services there exists more opportunity for conflicts of interest, impacting the independence of the accountant from the underlying client. Recent cases and examples are included at Appendix B and they highlight how seriously regulators are treating these issues.

14.4.2 Accounting services provided under legal privilege (lawyers)

When accountants provide financial advisory services to businesses under legal privilege there is significant risk. This is true except in the case of litigation/dispute resolution wherein it is quite common for expert accounting services to be engaged to assist a dispute resolution process between parties (e.g. parties are in dispute over the valuation of a business and each side hire their own valuator). Legal privilege provides a protection, makes the underlying financial or business data less transparent, and could mean that the parties are seeking a degree of confidentiality beyond business norms which is not easily understood. Interviewees suggested that they were aware of instances when tax planning services were provided this way.

14.4.3 Higher risk real estate transactions

Accountants who provide financial services to clients around higher risk real estate transactions have opportunity to understand the client and the source and use of the funds.

14.4.4 Clients who opinion shop

Interviewees shared that some clients will opinion shop amongst several accountants to find an accountant to help set up the structure they desire, e.g. tax planning.

14.4.5 When engaged to perform work through third parties

Other than when engaged by external legal counsel (discussed above), when accountants are engaged by parties other than the ultimate subject or beneficiary of the work, there is higher risk. This is primarily because the accountant does not deal directly with the underlying party(s).

Potential indicators of this include:

- Does not understand the nature of the work requested, is not familiar with standard terms and requirements, or does not have a place of business.
- Proposes a transaction that makes no sense, or that is excessive, given the circumstances, in amount, or quality, or potential profit.
- Has significant and unexplained geographic distance from the parties involved.
- Is associated with questionable business practices.
- Involves third parties in transactions without apparent legitimate business purpose.
- Will not identify beneficial owners or controlling interests, where this would be commercially expected.
- Seeks anonymity by conducting ordinary business through other accountants, lawyers, or other intermediaries.
- Uses money services businesses or other non-bank financial institutions for no apparent legitimate business purpose.
- Is a politically exposed foreign person (PEFP).

14.5 Client type and characteristics

14.5.1 Client characteristics

Given the nature of accounting services, it is believed that there is less relevance to trying to identify transaction type and method factors and more relevance in the identification of client type and characteristic factors. While many of these factors are relevant to all sectors, they have particular relevance for the accounting and legal profession due to the nature of services provided:

- Unsolicited business and not requesting a vendor competitive process
- Beneficial ownership/directors unclear
- Position of intermediaries is unclear
- Company activities are unclear and/or no apparent business reason for transactions/business activity
- Inexplicable changes in ownership
- Legal structure of client has been altered numerous times
- Management appear to be acting on instruction
- Customer's business, source of revenue is not clear
- Known criminal/questionable reputation
- Third-party involvement with obscure details
- Politically exposed foreign persons (and association)
- Proposes a transaction that makes no sense, or that is excessive, given the circumstances, in amount, or quality, or potential profit.
- Has significant and unexplained geographic distance from operations that are not reasonable.
- Changes consultants, accountants frequently or engages a number of consultants, accountants, lawyers at the same time.

- Has a complex business structure, multiple shell companies
- Involves third parties in transactions, either as payers or recipients of payment or product, without apparent legitimate business purpose.
- Will not identify beneficial owners or controlling interests
- Seeks anonymity by conducting ordinary business through accountants, lawyers, or other intermediaries.
- Client is involved in online gaming or business activities which are illegal in some jurisdictions
- Reason for choosing firm is unclear, given the firm's size, location or specialization
- Sudden activity from a previously dormant client
- Client starts or develops an enterprise with unexpected profit or early positive results.
- Client does not wish to obtain necessary governmental approvals/filings, etc.
- Client offers to pay extraordinary fees for services which would not ordinarily warrant such a premium.
- Payments received from un-associated or unknown third parties and payments for fees in cash where this would not be a typical method of payment.
- Advice on the setting up of legal arrangements, which may be used to obscure ownership or real economic purpose (including setting up of trusts, companies or change of name/corporate seat or other complex group structures).
- Transactions being done on behalf of a third party
- Entities with a high level of transactions in cash or readily transferable assets, among which illegitimate funds could be obscured.
- Investment in real estate at a higher/lower price than expected
- Large international payments with no business rationale
- Misuse of introductory services, e.g. to financial institution
- Client paying unusual consultant fees to offshore companies
- Company shareholder loans are not consistent with business activity
- Company makes large payments to subsidiaries or similarly controlled companies that are not within the normal course of business
- Over and under invoicing of goods/services
- Multiple invoicing of the same goods/services
- Falsely described goods/services
- Over and under shipments (e.g. false entries on bills of lading)
- Multiple trading of goods/services
- Misuse of pooled client accounts or safe custody of client money or assets
- Client reluctant to provide all information or accountant has reasonable grounds to believe that the information provided is correct or sufficient
- Client uncertain about location of company records
- Client records consistently reflect sales at less than cost, thus putting the company into a loss position, but the company continues without reasonable explanation of the continued loss.
- Examination of source documents shows misstatements of business activity that cannot be readily traced through the company books.
- Client carries non-existent or satisfied debt that is continually shown as current on financial statements.
- The client operates in an industry, sector, category where opportunities for ML or TF are particularly prevalent.
- Lack of face-to-face contact or subsequent lack of contact, when this would normally be expected.
- Employee numbers or structure out of keeping with size or nature of the business
- Client living beyond their means

- Company acquires large personal or consumer assets (i.e. boats, luxury automobiles, personal residences or cottages) when this type of transactions is inconsistent with the ordinary business practice of the client or industry.

Grant Thornton

Reporting Entity Sector Profile: Life insurance

Money laundering and terrorist financing vulnerability assessments

Prepared for FINTRAC | March 31, 2014

Contents

1. General sector profile

The Canadian life insurance sector is significant in Canada, with over $320 billion in life insurance premiums for approximately 21 million Canadians. In total, Canadians own approximately $3,900 billion in insurance.[1]

There are approximately 90 active life insurance companies, with the largest three controlling about 75% of the market.[2] These three conglomerates – Great-West Lifeco Inc., Manulife Financial Corp. and Sun Life Financial Inc. – are considered amongst the largest life and health insurance companies in the world with significant operations internationally in the US, Europe and Asia in over 20 countries.

The remaining companies are smaller and service niche markets or are subsidiaries of international conglomerates.

The composition of the life insurance industry is as follows:

- Life insurance companies which hold individual policies for clients;
- Reinsurance companies, which sell insurance to life insurance companies;
- Managing General Agents (MGAs), which are provided contracts from life insurance companies; and
- Insurance agents/brokers which sell insurance contracts to individual clients.

The insurance industry is heavily regulated. Insurance and reinsurance companies are federally regulated and supervised by the Office of the Superintendent of Financial Institutions ("OSFI"), with the exception of Quebec, and insurance agents and brokers are regulated by provincial and self-regulatory organizations ("SRO"), depending on the province.

In Canada, only companies that sell life insurance are required to meet AML regulations whereas property and casualty (P&C) insurance companies do not have to. The P&C insurance sector is fragmented, consisting of a number of co-operative organizations, subsidiaries of life insurance companies and Canadian banks.

Some evidence of the use of life insurance products for money laundering has been identified in Canada. A number of risk factors have been identified and these are detailed later in this document, some of the key factors are listed below:

- Fragmented regulation of brokers
- Market competitiveness at agent level/commission based compensation
- Life insurance products with single premium payments and/or high cash values upon surrender
- Premium payments by third parties
- Surrendering of large value policies early
- Use of offshore policies and professional advisors

[1] Canadian Life and Health Insurance Association – Key Statistics (data for 2012)
[2] Ibid

2. Structure, size and segmentation, reporting entity population

Segmentation of the sector is as follows:

2.1 Life insurance companies

With a maturing industry, the life and health insurance companies have consolidated from 290 companies in 2008 to 264 at the end of 2012. In 2012, total assets held by life insurance companies totaled almost $615 billion.[3]

Outside of Canada, foreign branches and subsidiaries of Canadian life insurance companies earned premiums of $48 billion, which accounted for 40% of the worldwide total. These same branches and subsidiaries held assets of $597 billion, representing approximately half of the worldwide total.[4]

In February 2014, the International Monetary Fund ("IMF") performed solvency stress tests on the three largest life insurance companies – evaluating based on a projected five year outlook as well as a hypothetical severe financial crisis from outside Canada – the results determined that the companies were strong, well above supervisory targets. Insurance companies that want to reduce their risk will typically reinsure their policies with reinsurance companies.

Premiums from life insurance, account for approximately 30% of total earnings in 2012[5], the remaining 70% of earnings were from pension and annuity investments, which are outside of the life insurance sector.

Smaller insurance companies survive in the market place by being innovative and faster to launch new products, which generally do not require regulatory approval prior to sales.

2.2 Reinsurance companies

Reinsurance companies are insurance companies that sell policies to other insurance companies, allowing them to reduce their risk and protect themselves from very large losses. The reinsurance market is dominated by a few very large companies, with huge reserves. A reinsurer may also be a direct writer of insurance risks as well.

3 International Monetary Fund (IMF) – Canada: Report on the Observance of Standards and Codes, February 2014
4 Source
5 MarketLine Industry Profile – Life Insurance in Canada, January 2014

2.3 Managing General Agents (MGAs) or Associate General Agents (AGAs)

Managing General Agents have contracts with one or more insurance companies and act as the middlemen, managing the administration process of deploying agents that sell insurance. There are no specific financial regulations regarding MGAs and there are no clear regulations as to who is responsible for the independent agent.

Associate General Agents are similar to MGA's but unable to obtain an MGA contract due to low volume and therefore, an independent agent may work for an AGA that is used by an MGA.

2.4 Insurance Agents and Brokers

There are approximately 154,000 insurance agents and 45,000 brokers serving the insurance industry.[6] Insurance agents are generally divided between independent and career agents.

2.4.1 Independent Agents

Independent agents work with one or more insurers, selling life insurance. While the specific numbers are not available, it is believed that a large number of independent agents work with one or more MGAs.

2.4.2 Career Agents

Career agents work exclusively for one insurance company, which is responsible for their training, monitoring and mentoring. While use of career agents was initially popular for insurance companies, using independent agents is now preferred by the insurer as there are less expenditures, and for the consumer, it precludes the need to shop around with multiple insurance companies.

6 IMF Report – data as at the end of 2012,

3. Economic and Financial Statistics

In Canada, there are a total of 77 OSFI regulated life insurance companies; 42 are Canadian and the remaining 35 are foreign. Statistics Canada provides some high level information on the major segments.[7] The Statistics Canada breakdown of the major segments is as follows:

- Direct Life, Health and Medical Insurance Carriers: 727
- Direct Individual Life, Health and Medical Insurance Carriers: 558
- Insurance Agencies and Brokerages: 12,994
- Direct Group Life, Health and Medical Insurance Carriers: 169

See detailed charts and statistics at Appendix A

The Canadian life insurance industry's net income for 2012 increased 75% over 2011 but reportedly remains volatile. Total net income for federally regulated life insurance companies and branches for 2012 was $7.4 billion, with 73% coming from the three large conglomerates. This compares to 2011 when there was $4.3 billion in net income with 50% coming from the three large conglomerates. The return on equity for the industry was 9.8% in 2012 compared to 5.9% in 2011.[8]

7 OSFI
8 OSFI 2012-2013 Annual Report - http://www.osfi-bsif.gc.ca/eng/docs/ar-ra/1213/eng/print-eng.html

4. Regulation of the Insurance Sector

Insurance is one of the most highly regulated industries in Canada, with the regulations for life insurance divided between the federal, provincial and territorial governments. OSFI supervises the federally incorporated insurers as well as foreign insurers from a safety and soundness perspective, the AMF does the same for companies incorporated in Quebec. The provincial regulators regulate market conduct and the licensing and supervision of insurance intermediaries such as agents, brokers and adjusters. The provincial regulators together comprise an umbrella group called the Canadian Council of Insurance Regulators ("CCIR").

In some provinces, insurance brokers and agents are regulated by the same regulator. In other provinces, for example Ontario, agents are regulated by a government regulator, while brokers are regulated by a self-regulatory organization. In some provinces, all regulation of intermediaries is carried out entirely by self-regulatory organizations with delegated powers.

The insurance regulatory laws of the provinces, other than Québec, are generally uniform and based on common law principles. The laws of Québec are based on the civil code system.[9]

Government of Canada: Insurance Companies Act (S.C. 1991, c. 47) - http://laws-lois.justice.gc.ca/eng/acts/i-11.8/ Each province has passed insurance legislation, e.g.:

- Ontario Registered Insurance Brokers Act - R.S.O. 1990, CHAPTER I.8
- British Columbia - Insurance Act - [RSBC 2012] CHAPTER 1 - Part 3 — Life Insurance
- Newfoundland and Labrador – Life Insurance Act - RSNL1990 CHAPTER L-14 - Chapter L-14 - An Act Respecting Life Insurance
- Nova Scotia Insurance Act – Chapter 231 of the Revised Statutes, 1989
- Quebec – An Act Respecting Insurance – Chapter A-32
- Alberta Insurance Act - O.C. 325/2011

In September 2012, OSFI released a framework document identifying the regulatory initiatives for the life insurance sector up to the year 2016. The document outlined OSFI's priorities to address issues in order for the market to continue serving Canadians. Some of the issues the framework identified included insurance companies' corporate governance and risk management, evolving regulatory capital requirements, and financial transparency.[10]

9 Source: http://www.stikeman.com/en/pdf/insurance_reinsurance_Canada.pdf
10 Source – OSFI Annual Report 2012-2013

5. Educational and licensing requirements

Agents are required to be provincially licensed before being permitted to sell insurance. Licensing generally requires completion of a training program, applying for a provincial license, joining an insurance provider and clearing provincial background checks.

The Life Licensing Qualification Program ("LLQP"), an entry level exam which does not provide a designation, is valid in all provinces and territories except Quebec, which operates under a separate system. Applicants in Quebec must satisfy minimum qualifications and pass an exam operated by the Autorité des Marchés Financiers ("AMF").

In addition to the training and background requirements, applicants must obtain compulsory errors and omissions insurance; a form of professional liability insurance.

6. Constraints

Insurance cannot be bought by an unrelated party; there must be an 'insurable interest'. Insurance companies monitor who makes premium payments to determine if there is an 'insurable interest'.

7. Description of Sector Associations

Our research has identified the following Canadian life insurance related associations:

Canadian Life and Health Insurance Association (CLHIA) - a voluntary non-profit association with member companies accounting for 99 per cent of Canada's life and health insurance business.

Canadian Council of Insurance Regulators (CCIR) - is an inter-jurisdictional association of insurance regulators. The mandate of the CCIR is to facilitate and promote an efficient and effective insurance regulatory system in Canada to serve the public interest.

Canadian Association Of Independent Life Brokerage Agencies – a voluntary association of independent agencies, including MGA's that lobby government on industry issues and promote uniform standards.

Insurance Bureau of Canada (IBC) - is the national industry association representing Canada's private home, car and business insurers.

Advocis, the Financial Advisors Association of Canada - the largest not-for-profit association of professional financial advisors in Canada. Representing its members' interests with all levels of government, regulators, and industry.

Canadian Insurance Self-Regulatory Organization (CISRO) - is a national organization of licensing and regulatory authorities for insurance intermediaries. Members consist of representatives from British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Newfoundland and Nova Scotia.

Registered Insurance Brokers of Ontario (RIBO) – is the self-regulatory body for insurance brokers in Ontario. Established in October 1981, RIBO regulates the licensing, professional competence, ethical conduct, and insurance related financial obligations of all independent general insurance brokers in the province.

Financial Services Commission of Ontario (FSCO) - is a regulatory agency of the Ministry of Finance that regulates insurance, pension plans, loan and trust companies, credit unions, caisse populaires, mortgage brokering, and co-operative corporations in Ontario. Other provinces have similar bodies.

OmbudService for Life & Health Insurance (OLHI) - is a national independent complaint resolution and information service for consumers of Canadian life and health insurance products and services

Alberta Life Insurance Council – regulatory body which is responsible for licensing and discipline of insurance agents, brokers and adjusters in the Province of Alberta

Alberta Insurance Council - provides investigation and administrative services to the Insurance Adjusters' Council, the General Insurance Council and the Life Insurance Council.

International Association of Insurance Supervisors (IAIS) - the IAIS represents insurance regulators and supervisors of more than 200 jurisdictions in nearly 140 countries. Its objective is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders

Reinsurance Administration Professional Association (RAPA) is the primary educator of the industry on reinsurance administration principles, issues and best practices, the industry's leading voice for the development, implementation and maintenance of life reinsurance data standards, the driving force behind improved data quality, and the place where reinsurance administration professionals establish and maintain important business relationships.

8. Emerging Business Trends

Regulating MGAs – During September 2012, the CCIR published a position paper on the issues identified with respect to the supervision and activities of MGAs as well as recommendations. The Financial Institutions Commission (FICOM) in British Columbia has also issued a draft guideline for using MGAs.

9. Products and Services Offered

There are two main categories of life insurance in Canada: term life and permanent life insurance:

Term Life Insurance: Insurance premiums paid by the client are smoothed out over the expected life of the term and marginally increase every year. Insurance is renewed but usually not past age 70 or 75.

Permanent Life Insurance: Permanent life insurance calculates premiums that remain level over the lifetime of the policy, without increases. Accordingly, premiums at the beginning are used to subsidize the premiums paid in later years, when the risk is higher. Permanent life is comprised of the following subcategories:

Whole life, which has a guaranteed cash surrender value (or cash value) and a 'participating' component on eligible policies;
Term to 100, which is similar to whole life but has no cash surrender value and the policy is covered up to age 100; and
Universal life, which has two components; a fixed insurance component, with a defined death benefit; and an investment component, the value of which fluctuates depending on market performance.

The cash value is the guaranteed amount that is available to the policy holder to be borrowed against the policy or if the policy is cancelled prematurely.

Some policies will also have a participating component and receive 'dividends'. While not guaranteed, the policy holder will benefit when the insurance company estimates there to be a surplus of premium over future expenses.

As noted above, life insurance can be purchased from independent and career agents. In addition to those methods, individuals can also obtain life insurance through their place of work – some employers offer it through group benefits plans (note that this type of insurance usually ends when the individual leaves employment) – or through affinity programs such as clubs, associations or alumni groups.

Insurance through group benefit plans are usually issued without medical examination on a group of people under a master contract. It is usually issued to an employer for the benefit of employees. The individual members hold certificates as evidence of insurance. For employers, or sponsors of a group plan, offering group life insurance as part of the benefits package is sold as a way to attract and retain employees.

Often insurance companies are selling insurance along with other policy products including health components such as critical illness insurance, disability insurance, accident insurance, accidental death and dismemberment insurance.

10. Type of customer(s)

10.1 Business vs. Individual

Generally there is a wide reach and policies are sold to individuals. Most customers are the individual being insured, the spouse or a corporation with an insurable interest.

In Canada group insurance is usually purchased through larger brokerage firms because brokers receive better rates than individual companies or unions. There may be slight differences in terms of administration and market related practices worldwide, even though the concept may be the same. For example, in India, broker procured group term insurance, unlike Canada, does not intrinsically have any price advantage to the buyer i.e. the Master Policy Holder.

10.2 Canadian residents/non-residents

Life insurance policies sold to Canadian residents should only be sold by licenced Canadian agents. It is possible for a Canadian life insurance policy holder to move overseas but a Canadian resident living overseas who wishes to buy from one of the major Canadian firms would have to buy it from one of their local agents who is licensed in that jurisdiction.

10.3 Geographic area

Sales agents are licensed by province and as such, sales agents may only sell in certain provinces only.

11. Geographic considerations

The big three insurance companies are generally established and provide services throughout Canada and across 20 countries around the world.

In Canada, the provinces with the most insurance agencies and brokerages are in Ontario, Quebec, BC and Alberta, and these provinces make up the majority across Canada.

12. Key points from interviews

12.1 Sector Background

1. The Canadian insurance sector is highly regulated. The big three insurance companies really set the tone for the industry.

2. Insurance companies monitor for payments made by third parties; all premium payments are supposed to be made directly to the insurance company. In limited cases, premium payments are made from the agent but these are investigated and permitted only in exceptional cases. Premium payments by third parties would also be typical when payment is made by spouse – investigators will ask for information where surnames are different – for example, in Quebec, married woman typically retain maiden name and therefore harder to determine relationship, if any.

3. Insurance is sold through insurance company employees as well as agents or indirectly through a managing general agent (MGA), the latter of which are not required to sell life insurance exclusively for any particular company. MGA's will review documentation for completeness before submitting to insurance companies as insurance company will reject if incomplete.

4. Use of MGA's reduce the administration costs of managing own sales agent network.

5. Hiring of insurance agents – agents must be provincially licensed. Licensing requires disclosure of potential suspension in other jurisdictions and falsifying the license application can be an indictable offence and fines levied. However, broker does not have ability to independently check whether an agent has had license revoked (Subsequent to the meeting with interviewee, we noted that in December 2013 the CCIR began publicly disclosing disciplinary actions against agents and firms on their website).

6. Premium payments – the life insurance premium is paid directly to the insurer, whereas premiums for property and casualty (P&C) are paid to broker. Reason for this is in life insurance, the insurer has a direct contract with the insured party. For P&C, the insured party contracts with the insurance broker and the policy is underwritten by an insurance company.

7. Premium payments for life insurance are made directly to the insurance company and usually by cheque or direct withdrawal from bank account.

8. Premium payments for P&C are directed to broker. Most brokerages will have cash limits (the interviewee indicated that their company had $500 cash limit and discouraged money orders as there would also be no money trail.

9. Amounts paid to broker go directly into a formal trust account that is audited by RIBO to ensure sufficiently capitalized and no intermingling of operational funds.

10. For life insurance, there would be instances of clients making front-end lump sum contributions. Cancellation fees within the first 2 years would typically be close to 100% of the premiums (for that

period only). Policy holders would legitimately cash out their insurance policies earlier if they have no beneficiaries. However, early cash outs within the first two years are seen as big money laundering risk.

11. Where there is a front-end, lump sum contribution, insurer deposits funds into a side account (like a trust account) and on regular basis, transfers money out for premium payment.

12. Life and P&C insurance differ in that the latter protects assets and in order to make a claim, there must be damage. In the former, the insurer underwrites the person and so the question is whether the individual's life is worth that much? For example, an insurance company will not insure a low income individual with a policy for $50M even if they were able to make the premiums. There is an assessment that takes place. Also, a central agency collects all the information so that individuals cannot buy multiple, smaller life insurance policies that total are of an unreasonable amount.

13. Insurance companies monitor who makes the premium payment to determine if there is 'insurable interest' – cannot simply buy insurance on unrelated party transaction. Therefore, payments made by spouse, business partner or corporation can be typical.

12.2 AML Compliance

14. Training and knowledge of money laundering in insurance is weak – there is no enforcement if agents/brokers are not trained. For MGA's there is lots of training but it is selective and not necessarily related to money laundering.

12.3 Risk Areas

15. Insurance companies understand the money laundering risks very well as their entire business model relies on understanding of risks. Potentially challenging areas are: front line staff – however, personal reputations are at stake and there are controls built in to process.

16. Insurance agents see potential money laundering activity – for example, where income is inconsistent with luxury assets being insured or heavily mortgaged property with insufficient income – mortgage is from private lenders and the purpose of these transactions is to limit the loss of property if seized by authorities.

17. Underwriters also assign pre-set approval amounts which trigger additional information requirements. For example, a 20 year old with a $2M property – need to understand if first time property owner, for potential loss evaluation purposes. Insurer is also concerned about potential money laundering and source of funds. There are no written rules on unacceptable, risky clients as there is concern about discrimination. Forms only ask required questions (like PEFP).

18. There are currently no mechanisms to report suspected money laundering activity as it relates to property and casualty insurance. Although, agents may be more interested in earning the commission than reporting on a client.

13. Risk Factors

13.1 General Market

13.1.1 Market Competitiveness at Agent Level / Commission Based Compensation

13.1.2 Fragmented Regulation of Brokers

13.1.3 Management of Multiple Reporting Lines

As independent agents are several steps removed from the insurance company, there is no control on the training received by agents. Furthermore, hiring practices and monitoring of initial client activity is difficult to control and monitor.

While insurance companies are responsible for providing training and ensuring compliance with AML regulations for its employees, the same responsibility when using independent agents or MGAs is not as distinguishable, especially when the independent agent acts for multiple MGAs or insurance companies.

As insurance companies increasingly reduce overhead by outsourcing the sales function to independent agents and MGAs, there may be higher risk in ensuring sufficient training and monitoring to identify potential money laundering activity at retail level.

Independent agents can be hired indirectly by an MGA or through another corporate structure, and as such, the insurance industry is exposed to not knowing the background of the independent agent.

13.2 Product and Service

13.2.1 Life insurance products with single premium payments and/or high cash values upon surrender

Whole life and universal life policies will typically provide cash values if the policy is terminated early. Accordingly, funds can be laundered when the account holder receives 'cleaned' funds from an insurance company. Interviewees we spoke to generally indicated that this was a high risk area, however, mitigating this risk is that brokers and insurance companies monitor for this type of activity.

13.2.2 Purchase of life insurance policies on terrorist fighters

Appendix A includes one article that indicates this was being considered.

13.3 Delivery Channel

13.3.1 Use of Independent Agents and Managing General Agents (MGA)

See above.

13.4 Geography

13.4.1 Offshore policies and advisors

Insurance schemes involving offshore policies or service providers. We are aware of a case where $30 million in fraud proceeds from Canadian victims was laundered using a sophisticated international life insurance scheme. The policy was issued in the Caribbean using a complex structure of offshore banks and financial advisors. A major Canadian bank was used for part of the transactions required to set it up. See details at Appendix B.

13.5 Business Relationships / Linkages with Other Sectors

13.5.1 Agents as Gatekeepers

Agents may promote themselves as trusted financial experts, offering wealth management and tax advice in addition to insurance products.

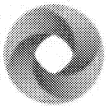
Agents have a relationship with their clients and given the nature of other insurance products sold, policies on high value assets, they may become aware of, or suspicious of, illegally sourced funds or assets. Interviewees informed that there is no mechanism right now for reporting this.

13.6 Transaction Methods and Types

13.6.1 Premium Payments by Third Parties

Premiums are typically expected to be made by the policy holder or where the payment is reasonable, for example, spouse, business partner, company. Insurers monitor for unusual payment activity and will make further inquiries where there is no reasonable explanation. In addition, insurers monitor whether the value of the policy is consistent with the background of the insured party. However, there is a risk that premium payments made by third party may be disguised in the form of a payment from an employer or corporation.

13.6.2 Surrendering of large value policies early



Grant Thornton

Reporting Entity Sector Profile: BC Notaries

Money Laundering and terrorist financing vulnerability assessments

Prepared for FINTRAC | March 31, 2014

Contents

1. General sector profile

In British Columbia, a notary public is appointed for life by the Supreme Court of British Columbia after having formally applied for the position, passing an exam and meeting the screening requirements. The Society of Notaries Public of British Columbia (the "Society"), a self-regulatory organization ("SRO"), oversees the profession and sets standards to maintain public confidence in the activities.

The Society receives over 1,600 application inquiries from the public annually; on average 20 to 25 students per year are selected. The Notary is a member of one of the branches of the legal profession and is sanctioned and safeguarded by law. BC Notaries are unique in North America, providing non-contentious legal services to the public.

BC Notaries are governed by the Notaries Act of BC (the "Act") and the discipline regulations of their professional society under the Act.[1]

BC Notaries are commissioned to provide numerous non contentious services, and in some respects the services they offer are similar to the same kinds of work undertaken by lawyers, including, for example the transfer of land, execution of wills, powers of attorney, representation agreements, and advance directives. Their primary work relates to their power to administer oaths which enables them to take affidavits, declarations and acknowledgements, and to attest instruments by seal and to give notarial certificates. Such services are required for many documents and instruments which are intended, permitted or required to be registered, recorded or filed in a registry or other public office, contracts, charter parties and other mercantile instruments in British Columbia.

Under the Notaries Act, the Lieutenant Governor in Council may also appoint other specific types of individuals to be a notary public. This clause includes a general category where the services of a Notary are required, including:

- Permanent employees of the government of British Columbia or Federal employees; or
- Registrar or person performing the functions of registrar, of a university under the Thompson Rivers University Act or the University Act.

Such appointees are not members of the Society and have only limited powers, namely to administer oaths, to take affidavits, declarations and acknowledgements, to attest instruments by seal and to give notarial certificates. Such appointees may also be limited in the geographic area in which they may practise.

[1] BC Notaries website

Notaries may operate their practice either as an individual, or as a notary corporation which means a corporation for which a permit has been issued by the secretary of the Society of Notaries Public of British Columbia. The corporate name must include the word "notary" or "notaries", and all shares of the corporation must be owned by a notary in good standing or their spouse or other specified relative.[2]

Notaries are required to post bonds on entry to the society and are also insured under a group policy.[3]

A number of risk factors have been identified and these are detailed later in this document, some of the key factors are listed below:

- Provision of financial intermediary type services- research indicated that generally, many notaries had accounting backgrounds and careers. Provision of these services by persons with both legal and accounting expertise is vulnerable to abuse by money launderers; and
- The provision of notary services to real estate transactions exposes this sector to many of the identified risks for the real estate sector.

[2] http://www.notaries.bc.ca/resources/Upload/09-12-2013-09-22-54_Society%20Rules_Revised_July%202013.pdf
[3] http://www.notaries.bc.ca/resources/Upload/28-06-2011-09-54-36_BecomingANotary-062711_ONLINE%20VERSION.pdf

2. Structure, size and segmentation, reporting entity population

There are currently 324 registered notaries in the province of BC.[4]

[4] http://www.notaries.bc.ca/findNotary/notaryRoll.rails

3. Economic and financial statistics

We have not determined any economic data for this very small sector.

4. Regulation of the BC notaries sector

BC Notaries are regulated by their SRO, the Society of Notaries Public of British Columbia. This body mandates training, runs the qualification exam program and conducts disciplinary investigations. These functions are mandated by the governing law, the BC Notaries Act. The disciplinary committee and properly appointed disciplinary tribunals have the authority to award reprimands, fines, suspension and termination. Such disciplinary tribunals are also bound by the terms of the Administrative Tribunals Act.

Notaries, like lawyers, are required to maintain trust accounts to hold and manage all money received and paid for or on behalf of others that they must handle in the course of their duties. The society by law maintains a regimen of strict rules that mandate how these accounts and all such monies must be treated and the nature of records of all transactions relating to these monies that are required to be maintained. The monies must be deposited in a savings institution in a trust account, and must be identified as a trust account in the records of the member and of the savings institution.

Notary publics generally open accounts with banks for their legal businesses. This would include operating accounts and trust accounts. Trust accounts can be general (funds are pooled) or they can be specific. In a general/pooled account there are multiple beneficiaries of the funds.

On an annual basis, banks are required to notify trustees of their responsibility regarding pooled trust accounts with the amount held for each beneficiary in the trust. This is a CDIC ("Canadian Deposit Insurance Corporation") requirement. Banks also usually respond to requests from Notaries to confirm interest owed in pooled trust accounts; these requests are commonly initiated by the Notary annually.[5]

Banks have to advise the Society of Notaries, in writing, of any banking errors that involve a notary trust account, when identified.

There is a recent case involving a BC notary who allegedly ran a Ponzi scheme using the bank accounts of her business. The banks are caught up in civil litigation now because it is being alleged by victims of the scheme that they did not do enough to identify fraudulent transactions that were running through the notary business operational and trust accounts.

[5] http://www.cdic.ca/DepositInsurance/FAQ/Pages/default.aspx#trust deposits

5. Constraints

Nothing further identified than as described elsewhere in this report.

6. Description of sector associations

Our research has identified the following Canadian sector related associations:

- *Society of Notaries Public of British Columbia* – the mission of the Society is to ensure that its members provide the highest standard of notarial services to the public.
- *Union Internationale du Notariat, International Union of Notaries (UINL)* - is a non-governmental organisation established to promote, co-ordinate and develop the duties and activities of Notaries throughout the world and ensure the standing and independence necessary for optimum service to individuals and society through close collaboration between Chambers of Notaries. It was founded in 1948 by the representatives of the Chambers of Notaries of the following nineteen countries: Argentina, Belgium, Bolivia, Brazil, Canada, Colombia, Costa Rica, Cuba, Chile, Ecuador, France, Italy, Mexico, Paraguay, Peru, Puerto Rico, Spain, Switzerland and Uruguay. BC Notaries are understood to be the Canadian member.
- *Federation of Law Societies of Canada* – is the national coordinating body for Canada's 14 provincial and territorial law societies which governs lawyers nationally and 4,000 Quebec notaries.

7. Emerging business trends

There has been tension between the British Columbia Notaries and lawyers in the Province as the Notaries have made a number of attempts to increase the scope of the services they are allowed to provide, and in doing so are encroaching on areas typically served by lawyers. A February 2012 submission[6] by the Canadian Bar Association British Columbia Branch (the "CBABC") speaks to the issues and notes that several changes to the laws of the province have already expanded the scope of Notary work. The scope at the time of writing was as described earlier in this report.

The CBABC raised the following issues in arguing against the Notaries' request:

- Negative impacts on the public;
- Negative impacts on the handling of complexities inherent in legal matters;
- Negative impact on rural communities;
- Estate planning and administration;
- Incorporation of Companies; and
- Family Law was the subject of a separate submission by the CBABC.

The CBABC expressed the view that notaries should not be giving legal advice and that any expansion of notarial services should be performed under the supervision of lawyers and accordingly, be regulated by the Law Society.

A task force was struck to deal with the issue and on December 6, 2013, the Benchers of the Law Society of British Columbia unanimously approved in principle, three recommendations from the task force report[7] as follows:

1. That the Law Society and Society of Notaries Public of British Columbia seek to merge regulatory operations;

2. That a program be created by which the legal regulator provide paralegals who have met specific, prescribed education and/or training standards with a certificate that would allow them to be held out as "certified paralegals"; and

3. That the Law Society develop a regulatory framework by which other providers of legal services could provide credentialed and regulated legal services in the public interest;[8] and

There are views indicating that if these recommendations are implemented they would have significant impact on legal services in the province.

[6] http://www.cba.org/BC/Initiatives/pdf/2012_Notaries_Submission.pdf
[7] http://www.lawsociety.bc.ca/docs/publications/reports/LegalServicesProvidersTF_final_2013.pdf
[8] http://www.slaw.ca/2014/01/24/law-society-of-bc-recommendations-may-have-significant-implications/

8. Products and services offered

An industry newsletter describes that many of the notaries have come to be a notary after at least one previous career, including that many are—or were—CAs, CGAs, surveyors, and lawyers. This is an indication that many notaries would or could provide a range of services to their clients, including financial and legal.[9]

As well, it is identified that many come from countries throughout the world and that this provides the general public the opportunity to receive the advice of experienced legal professionals from well-rounded backgrounds, many of which speak several languages and are able to serve the ethnic diversity of the province.

The services that BC Notaries can provide are mandated in section 18 of the Notaries Act and are described as follows:

a) draw instruments relating to property which are intended, permitted or required to be registered, recorded or filed in a registry or other public office, contracts, charter parties and other mercantile instruments in British Columbia;
b) draw and supervise the execution of wills
    i) by which the testator directs the testator's estate to be distributed immediately on death,
    ii) that provide that if the beneficiaries named in the will predecease the testator, there is a gift over to alternative beneficiaries vesting immediately on the death of the testator, or
    iii) that provide for the assets of the deceased to vest in the beneficiary or beneficiaries as members of a class not later than the date when the beneficiary or beneficiaries or the youngest of the class attains majority;
c) attest or protest all commercial or other instruments brought before the member for attestation or public protestation;
d) draw affidavits, affirmations or statutory declarations that may or are required to be administered, sworn, affirmed or made by the law of British Columbia, another province of Canada, Canada or another country;
e) administer oaths;
    i) draw instruments for the purposes of the Representation Agreement Act;
    ii) draw instruments relating to health care for the purposes of making advance directives, as defined in the Health Care (Consent) and Care Facility (Admission) Act;
    iii) draw instruments for the purposes of the Power of Attorney Act;
f) perform the duties authorized by an Act.

[9] http://www.notaries.bc.ca/resources/scrivener/winter2006/PDF/scrivener_winter_2006_8.pdf

The Society also provides the following list on its website;

- Affidavits for All Documents required at a Public Registry within BC
- Authorization of Minor Child Travel
- Business Purchase/Sale
- Certified True Copies of Documents'.
- Commercial Leases & Assignment of Leases
- Contracts and Agreements
- Easements and Rights of Way
- Estate Planning
- Execution/Attestation of International Documents
- Health Care Declarations
- Insurance Loss Declarations
- Letters of Invitation for Foreign Travel
- Manufactured Home Transfers
- Marine Bills of Sale and Mortgages
- Marine Protestations
- Mortgage Refinancing Documentation
- Notarizations/Attestations of Signatures
- Passport Application Documentation
- Personal Property Security Agreements
- Powers of Attorney
- Proof of Identity for Travel Purposes
- Purchaser's Side of Foreclosures
- Representation Agreements
- Residential and Commercial Real Estate Transfers
- Estate Transfers
- Restrictive Covenants and Builder's Liens
- Statutory Declarations
- Subdivisions and Statutory Building Schemes
- Wills Preparation
- Wills Searches
- Zoning Applications

Some BC Notaries provide these services:

- Marriage Licences
- Mediation
- Real Estate Disclosure Statements

9. Type of customer(s)

Because of the nature of the work of notaries, the majority of their customers are individuals. They are not allowed to offer their services outside British Columbia but they may serve anyone in their geographic catchment irrespective of their nationality or residence, provided the service is authorized by the Act.

10. Geographic considerations

The notaries are restricted to acting in the Province of BC.

Through membership in the International Union of Notaries, the BC Notaries have access to notaries practicing around the world. An industry newsletter cites that "Through this association, the BC Notary is in a position to better represent the needs of the public and to do business within a global economy that requires—with increasing frequency—the services of Notaries Public throughout the world to authenticate and verify important transactions and documentation."[10]

[10] http://www.notaries.bc.ca/resources/scrivener/winter2006/PDF/scrivener_winter_2006_8.pdf

11. Key points from interviews

1. Notary publics generally open accounts with banks for their legal businesses. This would include operating accounts and trust accounts. Trust accounts can be general (funds are pooled) or they can be specific. In a general/pooled account there are multiple beneficiaries of the funds.

2. On an annual basis, banks are required to notify trustees of their responsibility to Pooled Trust Accounts with the amount held for each beneficiary in the trust; this is a CDIC ("Canadian Deposit Insurance Corporation") requirement. Banks also usually respond to requests from Notaries to confirm interest owed in pooled trust accounts; these requests are commonly initiated by the Notary annually. See link on CDIC website.

3. Banks have to advise the Society of Notaries, in writing, of any banking errors that involve a Notary Trust account, when identified.

4. There is a recent case involving a BC notary who allegedly ran a Ponzi scheme using the bank accounts of her business. The banks are caught up in civil litigation now because it is being alleged that they did not do enough to identify fraudulent transactions that were running the notary business operational and trust accounts.

5. Generally, notaries provide much of the same services to the public as lawyers do, but do not act in contentious matters.

12. Risk factors

12.1 Products and services

12.1.1 Provision of financial intermediary transactions through trust accounts

The provision of financial intermediary type services is vulnerable to abuse by money launderers in particular.

12.1.2 Expanding scope of services

There appears to be an on-going movement by the BC Notaries to expand the scope of their services. To the extent this expansion enhances the ability of the BC Notaries to provide financial intermediary type transactions; there is increased vulnerability for money laundering and terrorist financing.

12.1.3 Breadth of services offered that potentially support financial intermediary transactions.

Research indicated that generally, many notaries had former or other careers; e.g. that being a notary was not all that they did for their career. Specifically, the profession of accounting was one area noted that a number of notaries practiced in. The provision of financial intermediary type services by persons with both legal and accounting expertise is vulnerable to abuse by money launderers in particular.

12.2 Geography

12.2.1 Access to international network

Potentially facilitates dealing with more clients and transactions that are international in nature rather than local, and there is inherent risk attached to the provision of legal services to international transactions and flows of funds.

12.3 Business relationships/linkages with other sectors

12.3.1 BC notaries and lawyers

Some research indicates that the relationship between the two groups has been strained and difficult and therefore perhaps more prone to competitiveness rather than working together, providing support for one another. More research would have to be done to understand this better and what the impacts on vulnerability to money laundering and terrorist financing are.

12.4 Transaction methods and types

12.4.1 Real estate deals and handling of funds for same

The provision of notary services to real estate transactions exposes this sector to many of the identified risks for the real estate sector.

Grant Thornton

Reporting Entity Sector Profile
Credit unions

Money laundering and terrorist financing vulnerability assessments

Prepared for FINTRAC | March 31, 2014

Contents

1. General sector profile

A credit union (or caisse populaire) is like a bank, in that it takes deposits, makes loans and provides other financial services. Unlike banks, credit unions are co-operative institutions which are owned and controlled by their members which have a common bond and dedication to the people and communities they serve. Typically, this bond is established to serve a particular group of people based on a geographic area, ethnic background or employer. Credit unions support not only their own members, but also the other credit unions and other co-operative organizations.

Cooperative Credit Associations, usually referred to as the 'centrals' are also organized and operate based on cooperative principles. With the exception of the Credit Union Central of Canada (CUCC), the centrals provide support and services to the credit unions in their membership (usually throughout a province). OSFI is the regulator with oversight for the various cooperative credit associations. CUCC, which is federally-incorporated, functions as the national trade association for the Canadian credit union system and does not provide any financial services. Most credit unions, through their provincial central are affiliated with CUCC. There are provincial regulators in each province.

The number of credit unions is consolidating, there are approximately 340 now and the consolidation is expected to continue. However, the number of locations has not changed significantly throughout this consolidation. There are approximately 1,700 locations across the country. It is the regulatory cost burden in part which is driving consolidation.

The credit union equivalent in Quebec, with some locations in other provinces, is the caisse populaire. The caisse populaire is a cooperative, the members of which are generally people living in a given geographical sector, such as the same town or neighbourhood. Most Quebecers are members of the Desjardins caisse that is closest to their home or workplace.[1]

There are 376 caisse Desjardins in Quebec and Ontario with 897 service locations and they are all assembled under a single federation, the Fédération des caisse Desjardins du Québec.[2]

There is huge diversity in the size of credit unions (and caisse populaires[3]) size; with some being quite large and other quite small. For example, approximately two thirds of credit unions (not caisse populaires) have less than $175 million in assets.

[1] http://www.desjardins.com/ca/about-us/desjardins/governance-democracy/structure/
[2] Ibid.
[3] Note: this document uses credit unions to refer to both credit unions and caisse populaires together except where specifically identified.

While all credit unions are independent, have their own approach, and each their own strategy and policies, the network is known as the "credit union system" which works together to support one another and its members.

Credit unions differ from banks and other financial institutions in that those who have accounts in the credit union are members and owners, and accordingly these members elect their board of directors in a one-person-one-vote system regardless of the amounts invested. Credit unions are accountable to their members. Market surveys repeatedly indicate that credit unions are ranked number one for customer service.

A number of risk factors have been identified and these are detailed later in this document, some of the key factors are listed below:

- Comparative level of system risk management and monitoring sophistication
- Governance structure: requirements for board members
- Smaller sized and/or resource challenged credit unions
- Credit Union system provides access to international banking network:

2. Structure, size and segmentation, reporting entity population

There is a low level of market share concentration, with the top three credit unions accounting for approximately 14.3% of industry revenue in 2013. The remainder of revenue is split among the remaining credit unions, with the top 100 accounting for the majority of that share. Most credit unions are small and hold relatively small shares of assets.[4]

The number of credit unions (including caisse populaires) fell from 771 in 3,117 locations in 2012 to 724 in 3,030 locations at the end of 2013. As indicated, this is due to the continued consolidation in the credit union industry. Total combined membership (number of customers) reached 10.1 million across Canada at the end of 2013.

There is simplicity and complexity in the system; even the largest credit unions have smaller branches to serve their members. Each credit union has its own controls, procedures and monitoring, each has much autonomy and its own governance structure. At the same time, each credit union is part of a great whole, a member of a provincial central, member of a national trade association and there are many shared structures and operations, activities including for example shared organizations for the provision of wealth management, insurance, transaction processing, training, and marketing.

[4] IBIS World Industry Report 52213CA Credit Unions in Canada March 2013

The following chart provides detail of the credit union system across the country:

FOURTH QUARTER 2013
CREDIT UNION/CAISSE POPULAIRE SYSTEM RESULTS

AFFILIATED CREDIT UNIONS & CAISSES POPULAIRES

($millions) Province	Total Savings/Deposits	Total Loans	Total Assets	Total Credit Unions	Total Locations	Total Membership
British Columbia	$52,033	$50,894	$58,958	43	371	1,877,940
Alberta	19,610	18,529	21,694	33	207	646,698
Saskatchewan	15,968	14,615	18,214	53	285	490,712
Manitoba	21,050	19,368	22,730	37	190	599,284
Ontario	27,994	28,424	33,047	90	502	1,327,438
Ontario CPs	1,172	1,107	1,349	13	26	62,005
New Brunswick	829	732	909	10	30	69,301
Nova Scotia	1,870	1,605	2,077	29	76	153,979
Prince Edward Island	783	618	858	8	15	55,224
Newfoundland	949	862	1,026	10	39	52,651
TOTAL	**$142,258**	**$136,754**	**$160,862**	**326**	**1,741**	**5,335,232**

NON-AFFILIATED CREDIT UNIONS & CAISSES POPULAIRES

Caisses Populaires						
CPs outside of Quebec (MB, ON, NB)	**$7,226**	**$7,048**	**$8,440**	**34**	**141**	**329,627**
Quebec	105,007	116,851	141,106	358	1,130	4,454,480
TOTAL (All)	**$112,233**	**$123,899**	**$149,546**	**392**	**1,271**	**4,784,107**
Credit Unions						
Ontario	$338	$248	$383	6	18	37,484
TOTAL	**$112,571**	**$124,147**	**$149,929**	**398**	**1,289**	**4,821,591**

COMBINED CANADIAN CREDIT UNION & CAISSE POPULAIRE SYSTEM RESULTS

TOTAL	**$254,829**	**$260,901**	**$310,791**	**724**	**3,030**	**10,156,823**

Above Figures do not include affiliated companies of the credit union system, such as Concentra Financial Inc., The CUMIS Group Ltd., The Co-operators Group Ltd., Credential Financial Inc., and NEI Investments.

Source: Credit Union Central of Canada website, Systems Results, March 2014

Further detailed statistics are provided at Appendix A.

3. Economic and financial statistics

Canadian credit unions and caisse populaires (those affiliated with CUCC) reported an increase of 5.5% in total assets by the end of 2013 to $160.8 billion, compared to $152.5 in the 2012. Funds on deposit were reported as $142.2 billion representing an increase of 5.7% since 2012.

Non-affiliated credit unions and caisse populaires (including those located in Quebec, Manitoba, New Brunswick and Ontario), reported total assets of $149.9 billion compared to $143.4 billion in 2012. Deposits were reported as $112.5 billion, a 2.4% increase over 2012.

Further details are provided at Appendix A.

4. Regulation of credit unions

Credit unions are regulated by the provincial ministries of finance, the provincial centrals and the provincial deposit insurance corporations. In Ontario, for example, the credit unions are regulated through a comprehensive regulatory framework which involves the Ministry of Finance, the Financial Services Commission of Ontario (FSCO) and the Deposit Insurance Corporation of Ontario (DICO) and the legislation is the Credit Unions and Caisse Populaires Act, 1994 (the Act) and regulations.[5] In Quebec, the Autorité des Marchés financiers (AMF) is the body mandated to regulate the provinces financial markets including the caisse populaires. Annually, credit unions are required to have their operations audited by independent auditors.

The Centrals are provincially incorporated, and regulated and supervised at the provincial level. The supervisory approach taken by OSFI focusses on liquidity requirements as set by provincial legislation, specifically the policies and procedures that enable the Centrals to fill their statutory roles of providing sources of liquidity to, and assuming excess liquidity from, their local credit union members, to help them manage their liquidity and funding positions and hedge their risk exposure[6].

[5] Bulletin CUCP-01/09 - Important Changes to the Credit Unions and Caisse Populaires Act, 1994 and Regulations
[6] http://www.central1.com/about-us/credit-union-system

5. Constraints

Credit unions are restricted to operations within their province and are not currently able to operate federally. See emerging trends.

For new participants to the sector, an organization must receive approval from the government in the province where it plans on operating. For example, credit unions planning to operate in British Columbia must receive approval from FICOM. As well, a significant amount of capital to launch a network of branches and ABMs is required as well as reliable channels to gain funding to make personal and commercial loans.[7]

[7] IBIS World Industry Report 52213CA Credit Unions in Canada March 2013

6. Description of sector associations

Canadian Cooperative Association - provides leadership to promote, develop and unite co-operatives and credit unions for the benefit of people in Canada and around the world.

- *Credit Union Central of Canada* - The Board of Directors at Canadian Central are comprised of 10 directors, appointed by the five provincial regional Central (Centrals) member shareholders. The principal role of the Centrals is to monitor and maintain system liquidity at the provincial level down into the grassroots of the system. The liquidity pool is shared and designed to maintain system stability by covering normal cyclical requirements. Along with provincial deposit insurance and other financial facilities, the result of all Centrals working together is the assurance that credit unions are among the soundest of all Canadian financial institutions.

- *Central 1* – is the primary liquidity manager, payments processor and trade association for member credit unions in B.C. and Ontario. It provides financial products, investment banking services, payment processing solutions and direct banking services, as well as leadership and advocacy on behalf of the credit unions represented.

- *Alberta Central* is the central banking facility, service bureau and trade association for Alberta's credit unions.

- *SaskCentral* is a financial services co-operative, providing research, support, consulting services and financial liquidity management to Saskatchewan's 53 credit unions. SaskCentral functions as a trade association on behalf of the province's credit unions and acts as the voice of credit unions in matters of common interest.

- *Credit Union Central of Manitoba* is the trade association for Manitoba's 41 credit unions, providing services in areas of capital and financial management, banking services, product and service research and development, consulting and representation and advocacy.

- *Atlantic Central* has offices in Halifax, Nova Scotia, Riverview, New Brunswick and Charlottetown, Prince Edward Island, its role is to provide liquidity management, payments processing and trade association services that support the credit unions of Atlantic Canada. The central provides leadership, advocacy and a range of support services in the fulfillment of these key functions.

- *L'Alliance des caisses populaires de l'Ontario limitée* - includes a network of 13 Caisse populaires which offer services within 29 branches in Northern Ontario.

- *Fédération des Caisses Desjardins du Québec* - The Fédération is the organization that supports the Desjardins caisse in Québec.

- *Provincial Deposit Insurance Corporations* - The deposit insurance corporations provide insurance to protect the savings of depositors to credit unions in the event a credit union is unable to repay its depositors:

- *Deposit Insurance Corporation of Ontario, DICO*
- *AMF, Quebec*
- *Nova Scotia Credit Union Deposit Insurance Corporation*
- *New Brunswick Credit Union Deposit Insurance Corporation*
- *Deposit Guarantee Corporation of Manitoba*
- *Credit Union Deposit Insurance Corporations of BC, Saskatchewan, Alberta, PEI and Newfoundland*
- *ACCULINK®* - service which provides credit union members with surcharge-free access to more than 1,800 credit union ATMs at almost 400 credit unions across the country. 'ACCULINK enables more than five million credit union members to withdraw funds, make deposits, change their PIN, transfer balances and make account inquiries at participating credit union ATMs without having to worry about paying additional fees.'
- *CUPS (Credit Union Payment Services)* – is a provider of reliable, innovative and cost effective payment services to credit unions, corporate clients and others in the financial services industry.
- *Credit Union Knowledge Network (CUSOURCE®)* - is a wholly owned subsidiary of CUCC which provides learning solutions to the Canadian credit union system, was built by and for the Canadian credit unions, also the hub for the Credit Union Institute of Canada, the strength of which is evident by the ever-growing number of graduates of its professional programs.
- *Credit Union Institute of Canada (CUIC®)* is the professional designation division of CUSOURCE® Credit Union Knowledge Network (CUSOURCE Knowledge Network), the national educational association owned by the Canadian credit union system.
- *CUETS Financial* - MasterCard credit card issuer in Canada, delivers service to cardholders through a network of 375 credit unions and caisse populaires. Headquartered in Regina, Saskatchewan with a service center in Winnipeg, Manitoba and regional sales team members in Vancouver, Calgary, Toronto and Moncton.
- *Credential Financial Inc.* - national wealth management and investment services provider owned by the Canadian credit union system. 'With over 20 years in the Canadian financial services industry, Credential Financial is a national wealth management firm providing MFDA and IIROC dealer services, online brokerage, and insurance solutions to over 225 organizations and more than 1,300 advisors.'
- *Ethical Funds Credential Asset Management (CAM)* - distributes Ethical Funds and third-party mutual funds through credit unions across Canada.
- *CUMIS Group Ltd.* - partners with credit unions to deliver competitive insurance and financial solutions. In doing so, it creates financial security and promotes the growth and success of the credit union system in Canada. CUMIS Insurance in partnership with The Co-operators offers an integrated portfolio of both organizations' insurance products and related services to credit unions.

7. Emerging business trends

The larger credit unions are working towards federal status and the smaller credit unions are grouping and working together more. In 2010, the Government of Canada introduced legislation as part of the Jobs and Economic Growth Act and this legislation amends federal acts, including the Bank Act, to allow credit unions to expand outside of their native provinces. "With their potential for growth improved, credit unions will be able to gain economies of scale and compete more favourably with commercial banks on pricing and interest rates. However, the effects will not be felt overnight because it will take many years for even the largest credit unions to increase their assets and diversify their loan portfolios to include larger loans (i.e. commercial lending)."[8]

The sector is continuing to consolidate; however this is expected to slow over the next few years due to the larger credit unions pursuing federal status.

More credit unions are providing wealth management services, either individually working with Credential or CAM, or coming together as smaller groups of credit unions to partner within their regions and work with groups like Credential and CAM.

Research with interviewees identified that credit unions have significant opportunity to target corporate, business members and that more credit unions are beginning to pursue this.

Credit unions are exploring and investigating more on-line services, mobile apps etc., they still however need to service an older population. Interviewees reported that there are really hard questions and challenges as to how to do this effectively (move to more on-line, automated methods) given the size and structure of the credit union system. Much of what happens in the credit unions system today is form based, more manual even when it is automated.

The sector is cognizant of the recent OSFI requirements around board of director changes for banks and that this needs to be considered for the credit union context.

Increased competition from commercial banks has been experienced by this sector. The banks account for over 75.0% of the consumer credit market. The size of the banks, ease of consumer access and the new technologies being introduced have made the banks more appealing to consumers. However, it is noted that consumers often benefit from more personalized service at credit unions, which is a counter balance.[9]

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[8] IBIS World Industry Report 52213CA Credit Unions in Canada March 2013
[9] IBIS World Industry Report 52213CA Credit Unions in Canada March 2013

8. Products and services offered

The products available from credit unions are very similar to what is offered by banks. Most credit unions offer chequing, loans, and savings accounts. Smaller credit unions often have less complex services and/or delivery and access channels and the larger credit unions have services comparable to the larger bank offering with significant choice as to access and delivery channels.

The breadth of service offering includes: chequing, savings, foreign exchange, wire transfers, mortgages and loans and lines of credit, term deposits, TFSAs, RRSPs, RRIFs, RESPs, online and mobile banking, business banking, investment services and professionals, online trading, discretionary investment management, insurance including health and dental, disability, critical illness, long term care, life, credit cards (Visa and Mastercard).

Access and delivery channels include in-branch services, mobile and internet banking, ATMs, transactions through personal teller machines (PTMs), telephone banking, email and fax services, night deposit services, cash management services, mobile payment services (e-wallets), customer access through system network (e.g. access through other credit unions in the system).

'Accessing almost any credit union (except the smaller ones) provides access to international banking services.'

9. Type of customer(s)

The customers of credit unions are members who actually own a share in the credit union. Each member has a vote and can participate in the Board of Director elections.

Generally in the past, credit unions could not simply offer their services to anyone and were limited to working with members who shared the common bond; the bond may be the geographic community, a workplace, a religion, or other type of bond. Today, many credit unions are open bond, or not bonded. Under legislation, each credit union must ensure that any services provided to non-members are limited to a specific amount, e.g. 5%. If a credit union fails to limit their services to non-members, they risk losing their status as a credit union.

Credit unions have a wide breadth of customers including individuals and businesses of all types and background. Business clients however tend to be smaller companies and organizations rather than larger, however this is not a rule and there are many exceptions.

In terms of geography, the majority of credit union members tend to be local to the credit union location, Canadian individuals and businesses. Credit unions do however provide services to non-residents and this generally happens when a resident moves out of country.

Many credit unions have residency requirements for their members, and these requirements are determined individually by each credit union. Credit unions in Manitoba have an unlimited deposit guarantee which has resulted in a higher number of out of province members.

A market study report provided the following[10]:

- Personal members are expected to account for approximately 62.8% of revenue in 2013. Main services accessed: depository functions and often secured mortgages and automobile loans.
- Commercial members are expected to account for 33.9% of membership in 2013. Main services accessed: business and commercial loan options. It is noted that, although many large corporations deal exclusively with commercial banks because they require more capital, small businesses often choose to work with credit unions because of the personalized customer service.
- Other members are expected to account for about 3.3% of membership in 2013. Main services accessed: one-off, niche transactional services, which typically include student loan services, retirement services, auto financing and other real estate transactions and that the majority of these members have their primary accounts with commercial banks.

[10] IBIS World Industry Report 52213CA Credit Unions in Canada March 2013

10. Interview notes

10.1 Sector background

1. The credit union system has a co-operative spirit. Credit unions have bought into this system – and there is a belief that reputational risk is the System's biggest hurdle to growth.

2. The uninformed think that credit unions are vulnerable – but this is so far off the mark.

3. Based on market surveys, credit unions have been ranked #1 for customer service for nine years in a row; this really shows that the co-operative model works.

4. The financial results of the credit union system have been very strong. There have been record profits through the financial crisis and for 2013; loan losses have been really low. The System is well capitalized and generally risk averse.

5. Credit unions are important competitors within the Canadian financial services market – and this segment (the credit unions) are starting to have resources to access outside expertise more and more.

6. Across Canada in the past 10 years there have been at most only three new credit unions and two of them did not survive. There have been no new ones for at least the last four years except through mergers. It is not that easy to become a credit union.

7. Most credit unions have residency requirements for their members. This is built and defined at the individual credit union level. In Manitoba there is an unlimited deposit guarantee and so this means there is much more out of province membership for these credit unions. The Act and regulations in each province lays out the context for membership.

8. The number of credit unions is consolidating, now 340 plus and the consolidation will continue. However, the number of locations has not changed despite the consolidations. There are still approx. 1,700 locations across the country. Regulatory cost burden in part is driving consolidation; there are still many small credit unions.

9. With the smaller ones, they tend to be community based so they know their customers – this is a protection; with larger institutions customers can obtain services with a level of anonymity. There is a protection in being small. Smaller credit unions know their customers, the tellers know their neighbours, this is the dynamic, this is face-to-face and it is hard to achieve anonymity.

10. There is a huge diversity of credit union size; two thirds of credit unions have less than $175 million in assets. All credit unions are independent, all have their own approach, and each has their own strategy, policies.

11. Credit unions are regulated and structured provincially. Each province also has a central type of association which is not the regulator. The Centrals do transaction settlement and clearing services for the credit unions as well as other services for the credit unions of the province.

12. Central 1 is the central for BC and for Ontario credit unions, acting as an operator of clearing for the system and providing switches, and services for member directly. Processing by SaskCentral is outsourced to CUPS and CUPS, which formerly outsourced wires through Travelex, now use Western Union.

13. CUPS (Credit Union payment Services), is jointly owned by Alberta Central and SaskCentral and is progressing towards other banking areas, for example, electronic signatures.

14. Deposit guarantee organizations- these organizations are concerned with protecting depositors of credit unions and caisse from loss.

15. Provincial regulation and Centrals:

    a) Ontario: FSCO – Ministry of Finance and DICO; FSCO – has delegated many of their powers to DICO, Central 1
    b) BC: FICOM, Central 1
    c) Alberta: Alberta Department of Finance, Alberta Central
    d) Saskatchewan: Credit Union Deposit Guarantee, SaskCentral
    e) Manitoba: Manitoba Deposit Guarantee
    f) Atlantic: now the government s are paying a lot of attention because of past problems; RMA New Brunswick, CUDG – Nova Scotia; Atlantic Central

16. What does the regulator do:

    a) Audits and monitors the financial viability, performs lending audits, reviews capital requirements quarterly basis, credit unions sends information in for review;
    b) Regulator would oversee any new setups – have to meet financial requirements plus co-op requirements;
    c) Does not necessarily oversee board members but does have regulations regarding how long a board member can serve consecutively. There are now maximum terms; Nova Scotia/New Brunswick/Prince Edward Island – nine years is the maximum.

17. CUMIS is a national organization that provides corporate insurance, fidelity bond, professional and liability, privacy, property & casualty financial coverage. CUMIS brings them together, the regulators and centrals, to talk about the risk in the system; at least annually. Stronger focus is on lending risk versus other risk areas. It is the Centrals or the regulator that make decisions in Newfoundland, Manitoba and Alberta around the insurance program purchase.

18. CUMIS insures against specific loss situations; deposit insurers e.g. DICO, protect the deposits and is therefore more focused on the way loans are managed. Generally, smaller credit unions are risk rated higher but do take care of their lending because they can't afford losses. There is a focus on financial stability, lending limits are given. Because of the bonding insurance they do take a look at the results of any FINTRAC audit.

19. Many smaller credit unions come together, work together, for their risk officers and management.

20. What is the System's response to offside credit unions? If there is anything unusual enough they can go in and be the administrator/supervise (to get it to where they want it to be):

    a) DICO –they can go in and administer and be the supervisor
    b) CUMIS – cancels insurance program

21. Credit union board members must be elected from the credit union membership, their role is to serve and answer to the members. There are rules around the length of term for board members and training requirements and only for a few exceptions (e.g. New Brunswick) will there be a review of the quality of the board member. Across the country, credit unions send board members to training; this is the System working together. CUDA training 'Credit Union Director Achievement', this is a national program, run out of Credit Union Central of Canada group called CUSource and this is run independently of the provincial Centrals.

22. The larger credit unions are generally performing background checks on new board members.

23. They are aware that OSFI has new rules around Board of Director changes and that OSFI must be advised and presumably has some say and/or oversight to this. The credit union system is not there yet; will this come from the provincial regulators? It is not known.

24. DICO has a memorandum of understanding with FINTRAC to conduct examinations, as part of the on-going work that they do. DICO has a questionnaire/survey for the AML regime, the results of this survey are sent to FINTRAC. This then helps them in planning their work

25. DICO has working relationship with FICOM. FICOM is DICO and FSCO all in one. Ontario is the only major province that has two separate groups (DICO and FSCO); FICOM is the only financial services regulator in British Columbia. Also, DICO meets regularly with OSFI to stay abreast of the issues.

26. Many years ago, 15 – 20, there were 1,200 credit unions in Ontario, today there are 126 credit unions in Ontario. Much consolidation and this has resulted in larger, more sophisticated credit unions in the province.

27. DICO has published an 'Advisory' to the Ontario System regarding money services businesses (MSB); they regularly provide these types of guidelines.

28. DICO has no authority regarding the directors of credit unions, but to note:

    a) DICO Bylaw #5 – sound practices, this is all about governance
    b) DICO has also published guidelines for directors for training, competencies etc.

29. There are programs for monitoring the escalation of risk in a credit union:

    a) Financial metrics are reported monthly and DICO has a system to flag and follow up;
    b) Depending on the risk level, the approach to respond to the risk is executed;
    c) Report is issued after examination, action plan is requested and DICO works with the Board; and

d) They do have a watch list process.

30. When DICO does an examination, they take a sample of files and this includes commercial accounts.

31. If a new credit union was going to start, they would have to deal with FSCO; FSCO is the only authority to issue a charter number in Ontario.

32. Up to 2009, DICO was only the deposit guarantor, then in October 2009 the Act was renewed and a number of FSCO responsibilities went to DICO and so DICO became the regulator. FSCO still has market conduct issues (e.g. advertising, member complaints) for the whole financial services sector broadly. Also, concerns about credit union board members would be addressed with FSCO.

33. If two credit unions wanted to amalgamate, it is FSCO that issues the new charter. FSCO will consult with DICO on this. FSCO has a number of other legacy powers, Superintendent of FSCO is the only one that can deal with bond of association issues for credit unions for example (not involved very often). For credit union amalgamations this is FSCO, for any purchase and sale activity this is DICO.

34. DICO provides the deposit insurance to credit unions and caisse populaires in Ontario; ensures that regulations are followed and the sector is sustainable.

35. In Ontario, membership is required in order to use credit union services. Up to 3% of an Ontario credit union's membership can be outside of their bond of association – mostly Ontario credit unions are community bond. During examinations there is some spot verification done on this.

36. Credit Unions could have voluntary disclosure re: bad individuals/accounts – nothing formal

10.2 AML Compliance

37. Credit Unions look at AML as a burden; few have the money to pay for and resource what is perhaps needed. The compliance regime is not centralized in any way. This has resulted in a spectrum of AML regime response from weak to strong.

38. There is at least one 'National Risk Management Group' in the System (it is believed there are others) and this group:

    a) Is coordinated by CUMIS, approx. quarterly meetings
    b) Has involvement of persons from some regulators, some centrals, some larger credit unions
    c) Is focused on claims experience/claims trending – thefts, wire transfer losses, dishonesty losses
    d) Is not focused on AML, the focus is on the losses/potential losses to the credit union

39. Who determines the effectiveness of AML regimes within credit unions? Interviewees reflected that this was FINTRAC's role. Also that the provincial regulators and deposit guarantees do conduct some review of AML compliance programs. How effective is this? Not known, not a focus. Most provinces regulators and deposit guarantors are not focused on effectiveness.

40. Some groups within the System make the AML training mandatory and make it part of their conferences.

41. Recent experiences e.g. the MSBs have raised awareness within the System regarding AML issues.

10.3 Trends

42. Credit unions may be permitted under their province's legislation to have up to a percentage of non-members as customers (would be small, like say up to 5%). This means that there is potentially a growing market for credit union customers who are non-members. However, it is not thought that credit unions will broadly pursue this.

43. More credit unions are going after corporate business. These could be customers that would be non-members (as per above).

44. 'Exchange Network' as an example of how credit unions are coming together in groups, sometimes including with smaller banks, e.g. a Tier 2 bank, to honour each other's deposits and other forms of transactions.

45. Wealth management services, most credit unions now participate through the Credential Asset Management group ("CAM").

46. The larger credit unions are applying for Federal status so that they can operate in multiple provinces.

47. Credit unions are starting to have the resources to access outside expertise more and more (than they have been able to afford in the past).

10.4 Risk areas

48. All credit unions should be worried about reputational risk.

49. British Columbia credit unions have the most international transactions, Ontario might be next.

50. Most credit unions provide access to international banking services; only the smaller credit unions would not have this access.

51. Credit unions have had some exposure with getting involved with organized crime unwittingly and this is concerning.

52. Seems unlikely that smaller credit unions are targeted by money launderers because of the minimal opportunity for anonymity. 'If I were a money launderer, I would target the larger financial institutions for anonymity, they don't really know their customer.'

53. Credit Unions that don't have the proper internal controls, the smaller ones are weak, e.g. most banks are not working with MSBs, or at least the risky ones, so now they are approaching the credit unions. There have been losses to a credit union in the system related to banking MSB's. There is a recognition that this needs to be tightened up.

54. Risk is different depending on the size of the credit union: small – medium – large.

11. Risk factors

11.1 General market

11.1.1 Comparative level of system risk management and monitoring sophistication

The level of risk management and monitoring systems within the credit unions is significantly less than the sophisticated levels within the larger banks. While there is no data with which to quantify this, it is believed to apply broadly to all operational process of the credit unions, including specifically transaction monitoring systems. This is primarily caused by the make-up of the credit union system itself, reflecting that each credit union while being part of a larger system, is an independent, autonomous organization.

An important factor that mitigates some of the risks for most, smaller credit unions is that nature and size provide a better opportunity to know their clients and have a more personal relationship. As well, many credit unions are now using or beginning to use more sophisticated transaction monitoring software (e.g. the Verafin product), which, while sufficient to meet regulatory requirements, and provide a certain level of monitoring, are significantly less sophisticated than that complex data analysis (e.g. monitoring of customer network relationships as opposed to more focused transaction/profile monitoring) used in some of the larger banks.

11.1.2 Governance structure: Requirements for board members

Credit union board members must be members of the credit union, and this generally means, that to the extent the credit union board has a need for specific expertise and experience, there is a smaller pool of persons from which to draw from.

Interviewees shared that while there are rules regarding the length of term for board members and training requirements (e.g. around 'financial literacy'), only in a few provinces (e.g. New Brunswick) is a review performed on the quality (of the experience, expertise) that a board member brings to the make-up of the board.

Interviewees stated that the larger credit unions are generally performing background checks on new board members.

It is not known to what extent credit unions may be exploring the concept of independent directors (e.g. no membership requirement).

11.1.3 Fragmented regulation and oversight

The regulatory structure is fragmented and organized provincially. This does not easily allow for these organizations to deliver robust monitoring, oversight and to support national best practices risk management systems at the credit unions.

11.2 Products and services

11.2.1 International wire services

Many credit unions provide access to international wire transfer services, both incoming and outgoing. Interviewees stated that it would only be the very smaller credit unions that could not provide or could not provide access to these services.

11.2.2 Wealth management services

Research indicates that wealth management services are areas that credit unions are further pursuing for growth and expanded levels of service. Financial sector experienced experts report that this area of the business is basically built and sold based on privacy and that there are real struggles to effectively monitor activity and sources of funds.

Nothing else specifically identified different from rest of financial entity sector.

11.3 Delivery/access channels

11.3.1 Smaller sized and/or resourced challenged credit unions

Interviewees stated that credit unions that lacked the proper internal controls were typically smaller; meaning that risk management would not be as robust and the credit union would be more vulnerable to abuse. News article examples are provided in Appendix A.

An example was shared relating to the larger banks exiting MSB relationships and the credit unions being approached for services. Appendix A provides several examples of this occurring within Canada, as well as examples from the US.

Research indicates that the credit union regulators themselves have identified that 'some credit unions [in order] to improve profitability by seeking non-traditional sources of revenue' … '…have entered into arrangements to provide banking and wire transfer services to member-owned Money Service Businesses (MSBs) which are generating fee income from related cash handling, wire transfer and foreign exchange services.' 'This level of revenues may unduly influence the credit union's rationale for entering into the MSB business by placing an inappropriately high weighting on potential return versus the associated risk.' See the DICO Operational Risk Advisory provided at Appendix A.

"Credit unions need to be able to cope with slower lending growth by increasing non-interest income. Credit unions may need to make an aggressive push on non-traditional products by providing other financial services."[11]

11.3.2 Use of 'Agent' referral sources

Some credit unions have relationships with businesses as 'agents' to sign on new business, new members. This could include for example, local car dealership and mortgage brokers. This is not necessarily different from other

[11] IBIS World Industry Report 52213CA Credit Unions in Canada March 2013

types of financial entities; however, this potentially becomes an access channel to the services of the credit union which the credit union has limited resources to manage from a risk perspective.

11.4 Geography

11.4.1 Credit union system provides access to International Banking Network:

See above, e.g. international wire services. No other risks were specifically identified and different from rest of financial entity sector.

11.4.2 Access to International Banking Network, international wire services

11.5 Business relationships/linkages with other sectors

11.5.1 Reliance and interconnectivity with other financial service providers

Example: In order to provide US dollar transaction clearing, credit unions rely on provincial centrals who have agreements with Canadian banks and in turn rely on US banks. With greater scrutiny by US banks regarding AML/TFD compliance, this is impacting credit unions. See above re: risk management and monitoring sophistication level.

11.6 Transaction methods/types

Nothing specifically identified different from rest of financial entity sector.

Grant Thornton

Reporting Entity Sector Profile: Casinos

Money laundering and terrorist financing vulnerability assessments

Prepared for FINTRAC | March 31, 2014

Contents

1. General sector profile

The Canadian gaming industry is an important economic driver in the economy and a valuable source of revenue for the provincial and territorial governments in Canada. The gaming industry includes land-based casino gaming, lottery, horseracing and sports betting. While video lottery terminals ("VLTs") are generally considered as gaming, for the purposes of this report, this is not considered as part of the casino sector.

The funds generated from gaming revenue are directed to, among other applications, government consolidated revenue accounts, health funding, charitable organizations and education. The sector is highly regulated.

Over the past 15 years, the Canadian gaming industry has more than doubled in size from approximately $6.4 billion in gross revenue[1] in 1995 to approximately $15.1 billion in 2010. In 2010, the industry generated approximately $900 million in non-gaming revenue, such as food and beverage, accommodations, entertainment and retail.[2] In 2017, the Canadian casinos & gaming sector is forecast to have a value of $20.8 billion.[3]

Revenue from casinos continues to be the largest segment of the sector. The most recently available data, 2011, indicates that the 72 casinos across Canada had total revenue in excess of $5.626 billion.[4]

[1] Revenue is measured as wagers less prize payouts, before operating expenses.
[2] Gateway Casinos Prospectus – 2012
[3] MarketLine Industry Profile Casinos & Gaming in Canada June 2013
[4] Canadian Gambling Digest 2011-2012, June 2013

2. Structure, size and segmentation, reporting entity population

Canada accounts for 13.3% of the Americas casinos & gaming sector value. The United States accounts for 73.7% of the Americas sector.[5]

Country	$Bn 2012	%
United States	98.4	73.7
Canada	17.8	13.3
Mexico	3.4	2.6
Rest of the Americas	13.9	10.4
Total	133.5	100%

The market breaks up the sector into different segments, shown below, and the casinos segment generally covers all gambling activities carried out within casino establishments, such as card games, roulette, and slot machines located in casinos.

Casinos is the largest segment of the casinos & gaming sector in Canada, accounting for 52.1% of the sector's total value. The Lotteries segment accounts for 24.4% of the sector.[6]

Category	$Bn 2012	%
Casinos	9.3	52.1%
Lotteries	4.3	24.4%
Sports betting and related	0.5	2.9%
Other	3.7	20.6%
Total	17.8	100%

Research indicates that the size of the casino operator is a key success factor which benefits a handful of operators by providing scale and barriers to entry for potential new entrants.

There are 72 casino locations across the country with over half of them (41) being located in BC and Alberta.

[5] MarketLine Industry Profile Casinos & Gaming in Canada June 2013
[6] MarketLine Industry Profile Casinos & Gaming in Canada June 2013

3. Economic and financial statistics

The top three revenue reporting provinces are Ontario, BC and Alberta which make up $4.115 billion or 73% of the total. While Ontario has the highest reported revenues, with 10 casino locations it has fewer than Alberta (24), and BC (17).[7]

The tables at Appendix A provide further details and data.

[7] Canadian Gambling Digest 2011-2012, June 2013

4. Regulation of the casino sector

Gambling in Canada is an illegal activity except where it is made legal through provisions set out in the Criminal Code of Canada and sanctioned under the authority of each province. The Government of Canada has minimal involvement in gambling beyond Criminal Code prohibitions and permissions. In 1985, an agreement between federal and provincial governments established annual provincial payments to the federal government to assure that only provinces can authorize gambling.

No two provincial regulatory or operational regimes are the same. Different games and lottery schemes are permitted or prohibited, depending on the province. For example, casinos may be commercial, charitable, owned/operated by government, and/or operated by private companies under contract to provincial gaming authorities (or a combination of these).[8]

Provincial regulators relevant to casinos are as follows:

British Columbia Lottery Corporation (BCLC)
Alberta Gaming and Liquor commission (AGLC)
Saskatchewan Liquor and Gaming Authority (SLGA), Saskatchewan Indian Gaming Authority (SIGA), Indigenous Gaming Regulators (IGR), SaskGaming
Manitoba Gaming Control Commission (MGCC), Manitoba Lotteries
Ontario Lottery and Gaming corporation (OLG), Alcohol and Gaming Commission of Ontario (AGCO)
Loto-Quebec
New Brunswick Lotteries and Gaming Corporation (NBLGC), Gaming Control Branch (GCB)
Nova Scotia Provincial Lotteries and Casino Corporation (NSPLCC), Alcohol and Gaming Division (AGD) of Service Nova Scotia
PEI Lotteries Commission

[8] Organization and Management of Gambling in Canada

5. Constraints

Highly regulated markets which favour incumbent operators are a significant barrier to entry. Operators need to have suitable premises and considerable experience in order to obtain casino operating agreements or licenses. A new company attempting to enter this sector would require large amounts of capital to establish a casino, employ staff and acquire gaming equipment.

Gambling activities in Canada operate exclusively under the control of the provincial and territorial governments. The laws differ from province to province and entry to the Canadian market is reportedly not as straightforward as other countries. Charities, Aboriginals and private operators can enter the sector in Canada only by obtaining provincially-authorized agreements and licenses.

6. Description of sector associations

Our research has identified the following Canadian sector related associations:

Canadian Gaming Association – is a not-for-profit organization whose mandate is to create a better understanding of the gaming industry by bringing facts to the general public, elected officials, key decision makers and the media through education and advocacy.

American Gaming Association – similar to above and also representing the commercial casino entertainment industry by addressing federal legislative and regulatory issues affecting its members and their employees and customers, such as federal taxation, Internet gambling, and travel and tourism matters.

North American Gambling Regulators Association – NAGRA is a non-profit professional association of gaming regulators throughout North America. The organization brings together agencies that regulate gaming activities and provides them a forum for the mutual exchange of regulatory information and techniques. Collecting and disseminating regulatory and enforcement information, procedures, and experiences from all jurisdictions provides on-going gaming education and training for all members. (www.nagra.org)

International Association of Gaming Regulators (IAGR) - The International Association of Gaming Regulators (IAGR) consists of representatives from gaming regulatory organizations throughout the world. The mission of IAGR is to advance the effectiveness and efficiency of gaming regulation.

Commercial Gaming Association of Ontario - The Commercial Gaming Association of Ontario Board (CGAO) looks to serve as a resource centre for all those who are involved, engaged in, or have an interest in the Ontario Charitable Gaming Centre. www.cgao.ca

7. Emerging business trends

Canada is expected to be ahead of the US in working towards a more coherent national regime; with growth resulting from these trends attracting new onshore and offshore providers into the Canadian market. Possibly these new entrants will be seen to some extent as a 'test bed for offerings and models that may later be applied in the US when regulations allow'.

With governments now facing severe fiscal constraints and eager to replenish their coffers, their attention has been caught by the potential of legalized and licensed on line gaming services as a valuable source of tax revenues. There is also a strong argument that, since consumers will engage in illegal online gaming anyway, it is better to license and tax it than to allow the revenues to go to unlicensed operators.

Land based casinos are growing in international locations such as Macau, a former Portuguese colony in China, and Singapore. In 2013, Macau saw gambling revenues of US$45.2 billion, which was several times ahead of revenues in Las Vegas ($6.5 billion) and Singapore ($6.07 billion). In comparison, total gambling revenues for the whole of Canada totalled $17.8 billion in 2012, with approximately half of this from casinos.

There are some views in the market that the regulatory trends will increasingly shift toward the licensing of inter-country and interstate online gaming services, where liquidity is pooled and tax shared on an agreed basis between the different tax authorities.

8. Products and services offered

Gaming in Canada includes a number of different activities such as lotteries, gaming machines, poker, blackjack, sports betting, horse racing, etc. which are delivered through several methods of distribution (online/outlets/casinos etc.), and different payoff margins.

Casino locations, aside from the gambling activities provide non-gambling forms of entertainment and social activities.

Junket reps provide "one-stop shopping" to their players and work on behalf of different casinos for the benefit of the casino and gambler. These services consist of identifying and marketing to promote the host casino, provide the prospecting aspect of player development (searching for new qualified players) for various casinos, and also potentially provide credit to the gambler. Junket operators also provide information and can offer exclusive access to about upcoming casino special events, gaming or golf tournaments, headliner entertainment or shows, etc.

While junket operators typically operate in Asia, targeting high rollers for Asian casinos, operators in Canada include those serving local casinos such as bus/coach services or travel agencies offering gambling vacations overseas. The provision of gaming related services within the province, such as junket operating, requires the operator to register/be licensed with the provincial regulator.

9. Type of customer(s)

Customers are individuals who attend on site at the physical location of the casino. Visitors from other countries and provinces attend regularly. The popularity of different gambling activities within Canada means the number of buyers is large.

Loyalty by a customer to a particular market player / casino is reported as unlikely to be high; although compulsory membership in many casinos is helping them retain customers. Switching costs for consumers vary according to the type of gambling. For example, many casinos require annual membership fees; thus constituting a switching cost should a consumer change to a different casino before the annual membership expires. Generally switching costs remain minimal, particularly in the case of high-street bookmakers.

10. Key points from interviews

10.1 Discussion re on-line gaming with processing service provider

1. Certain countries are known to have online gambling licenses that are similar to land-based casinos. These countries include: Isle of Man, UK, Netherlands as well as certain native reserves in Canada. In Canada, outside of Indian reserves, online gambling licenses are not issued. As such, online casinos are not permitted to operate in Canada (i.e. head office may not be registered in Canada) although gamblers could be located in Canada.

2. Where gambling licenses are issued, the government has strict regulation and licensing requirements including meeting certain annual audit requirements by public accounting firms – capital requirements, number of gambling wins versus losses, ensuring same players aren't consistently winning from or losing to same players.

3. There is currently no online gambling licensing program in the US. However, interviewee has seen companies in past that are registered in the US and permit US gamblers—these casinos operate illegally and interviewee refuses to become involved with them.

4. There are certain countries where a gambling license would not be trusted—FATF-identified high risk countries, sanctioned or where there is no licensing regime.

5. The people behind the online casinos are typically European, Eastern European, Canadian, Australian and Asian – companies are setup and registered in above offshore countries. The operators include well known poker players, IT people that can "build a better website" as well as mom & pop operators that have bingo sites. Has not seen involvement by organized crime in past. There are also a few large conglomerate operations with significant holdings by private equity and foreign (UK) based bank.

6. How does money come out of system – there are payment processors and some are associated with local casinos and banks that will pay out winnings – however, this is a very saturated market and little commission fees.

7. Online gambling is actually decreasing due to generational shift. Typical players are aged 36 to 50 and they are professional gamblers that are online to make money and not only for entertainment purposes. Younger generation prefer online, non-gambling games and other users prefer MLM (multi-level-marketing) for making money such as selling banner ads on websites.

8. Certain US states are looking into offering online gambling licenses (Nevada, New Jersey). These states are looking into how casinos will operate and how they will prevent players that are physically outside of state from gambling.

10.2 Discussion with AML Expert with casino industry experience

9. In many cases, government regulators' motives are aligned with the casino as pure money laundering operations are generally not profitable for the casino (money flows in and then back out). Exceptions to this include Ye Gon, who had brought in $60 million from Mexico to gamble; however, this was an instance of a prolific gambler and therefore was a lack of incentive to report (as there were winnings for casinos)

10. Areas of monitoring for casinos are the gambler's source of funds and reviewing for large losses – where does the money come from?

11. Debt collection should also be a key area that casinos look at – what is the source of money that the client uses to pay off the debt?

12. Junket operators are not a high risk area in the US – this is more prominent in Asia.

11. Risk factors

11.1 General Market

11.1.1 New entrants to the sector

First Nations groups are continuing to lobby for shares of gambling revenue; the industry has been dominated by larger, more experienced players. New entrants mean that possibly any new casino sites are not run and risk managed the way others are. There are some articles indicating this at Appendix B. More research would have to be done to properly assess the risk.

11.2 Delivery channel

11.2.1 Junket operators or marketing agents

This is an intermediary role; possible receipt of funds from overseas or illegal sources. While no information was identified specifically involving Canada, this is a continued concern at other international locations. This is thought to be less of a risk for Canada as comparatively, Canada's casinos are seen as less desirable gaming destinations. More research would have to be done to properly assess the risk.

11.2.2 On-line gambling and gaming

An interviewee reported that there is a shift away from on-line gambling to online gaming (entertainment) and other forms of on-line potentially profitable ventures (e.g. banner ads and multi-level marketing.) It is unknown what the impact of this is on physical casino operations, although as an example, casinos are financially suffering in Atlantic City despite the bankruptcy of two competing casinos. However, all of these on-line areas are not directly subjected to the PCMLTFA (generally, the companies processing payments for many of these on-line sites are subject to regulations) and as volumes grow, these on-line areas are likely more vulnerable to abuse by money launderers.

11.3 Transaction methods and types

11.3.1 Transactions structured to avoid thresholds

11.3.2 High volume of cash based transactions

11.3.3 Source of funds to repay gambling debts

Interviewee stated that funds used to repay gambling debts by gamblers was a risk factor and that, in their experience, the US casinos were not monitoring this to the extent it could be.

11.3.4 Use of casino chips as currency outside of the casino

While there are articles citing examples of this occurring at Appendix B, this is understood be less of a factor for many of the larger casinos within Canada who have been understood to have acknowledged this risk and worked to monitor the use of their casinos chips as currency outside of the grounds of the facility.

Article examples are provided at Appendix B.

Grant Thornton

Reporting Entity Sector Profile: Financial entities

Money laundering and terrorist financing vulnerability assessments

Prepared for FINTRAC | March 31, 2014

Contents

1. General Sector Profile

The financial entities sector in Canada is dominated by the "big six" domestic banks and complemented with other domestic and foreign subsidiary banks (Schedule I and Schedule II). This sector also includes trust companies and loan companies, which operate under federal or provincial legislation. Credit unions, caisses populaires, financial cooperatives and the credit union centrals, which are also considered financial entities, are addressed separately.

There are a total of 80 banks regulated by the Office of the Superintendent of Financial Institutions (OSFI)[1]. The banking sector ranges from retail branch operations to commercial banking and lending to representative offices of foreign banks.

With low interest rates in a highly competitive and saturated market, resulting in low rates of return on lending products, the banking sector is consolidating. For example the big six acquiring the operations of smaller players, including Scotiabank's acquisition of ING Direct and Royal Bank of Canada purchasing Ally Canada.

Other financial sector organizations that are not considered as financial entities for the purpose of this report include Schedule III banks, private lenders, payday lenders and virtual currency providers.

A significant number of risk factors have been identified and these are detailed later in this document, some of the key factors are listed below:

- Exiting high risk client relationships
- Wealth management and private banking
- Trade finance and trade-based money laundering
- Foreign operations, including those that are headquartered in a foreign jurisdiction and banks that are Canadian with foreign branches
- New technologies
- Omnibus accounts

[1] OSFI - http://www.osfi-bsif.gc.ca/

2. Structure, size and segmentation, reporting entity population

The Canadian financial entities industry is dominated by the big six banks. In addition to competition, the barriers to entry are high, given the large capital and expense outlay and the resources required to meet the licensing requirements of OSFI. Competition is high as services converge and all financial entities compete for the same customer amongst the banks, credit unions, securities dealers and insurance companies.

2.1 Domestic banks (Schedule I)

Schedule I banks are domestic banks that are authorized under the Bank Act to accept deposits and may be eligible for deposit insurance from the Canadian Deposit Insurance Corporation (CDIC). There are a total of 29 domestic banks – the big six banks – Royal Bank of Canada, Toronto Dominion Bank, Bank of Nova Scotia, Bank of Montreal, CIBC and National Bank of Canada, account for 90% of the total assets in deposit taking institutions[2]

Banks contribute approximately 3% to Canada's GDP and employ over 275,000 Canadians[3].

The big six banks have significant retail branches across Canada – in total there are more than 6,000 branches[4] – and several of these banks have large international operations, serving clients globally with investing, account services and wealth management.

During the first fiscal quarter of 2014, stress tests indicated that four of the big banks had common equity capital ratios higher than what was required, exceeding capital targets. For the sixth year in the row, Canada's banks have been ranked the world's soundest by the World Economic Forum.[5]

Within Canada, the big six banks offer diversified services including deposit accounts, lending, investment banking and wealth management. Smaller domestic banks provide services to niche markets such as online banking, foreign exchange services, or catering to certain market segments and generally have less, if any bricks-and-mortar retail operations.

[2] Ibid
[3] Canadian Bankers Association – "Banks and the Economy"
[4] Ibid
[5] National Post – "Canadian Banks win top marks from World Economic Forum", September 4, 2013

2.2 Foreign subsidiary branches (Schedule II)

A total of 24 foreign banks are authorized under the Bank Act to accept deposits. The largest of these banks, for example HSBC, have global operations and head offices in a foreign jurisdiction. Foreign banks generally provide similar services as those of the domestic banks.

Foreign subsidiary branches operating in Canada generally follow customer identification (CID) requirements of the head office or Canada, whichever has the more strict requirements. However, in the past, some banks have been known to utilize foreign branch operations to make introductions and avoid the domestic countries' CID.

2.3 Foreign bank branches (Schedule III)

Schedule III foreign bank branches, which are not considered to be financial entities under the PCMLTFA, are authorized under the Bank Act to operate, but with restrictions. These restrictions vary, depending on the bank's Canadian activities and service offerings and may include one of the following:

- Restriction on accepting deposits (of any dollar amount) and only allow borrowing from other financial institutions;
- Restrict deposits to a minimum of $150,000 per deposit; or
- To establish representative offices where no banking is permitted.

2.4 Trust companies

Trust companies are regulated under the federal Trust and Loan Companies Act and provide services similar to those of a bank. However, where banks are not permitted to administer estates, trusts, pension plans and agency contracts, trust companies are.

OSFI regulates 44 trust companies in Canada, most of which are associated with banks.

2.5 Loan companies

There are 19 loan companies that operate under federal or provincial legislation and provide services similar to those of banks. Loan companies are also regulated under the federal Trust and Loan Companies Act.

2.6 Products and services

Banks offer a range of services including retail banking, wealth management, credit card services and lending. Besides their traditional offerings, banks are beginning to grow outside of their non-core banking services, for example, advisory services in capital markets, financial planning.

The variety of products and services is dependent on the size of the organization and the client segment it services. In general, products and services in the banking sector are divided by personal banking, business banking, consumer and real estate lending. Banks offer:

2.6.1 Personal banking

Personal banking products and services are expected to account for a quarter of the industry's revenue[6] consisting of savings and chequing accounts and term deposits which provide banks with liquidity and interest revenue. Bank accounts also provide the opportunity for banks to earn account and transaction related revenue from consumers.

2.6.2 Commercial banking sector

Similar to personal banking, commercial banking includes providing account and transaction services to Canadian companies as well as commercial lending.

2.6.3 Consumer loans and real estate lending

Consumer loans and real estate lending include personal lines of credit, auto loans, home equity loans and home mortgages.

While the industry faces low interest rates that have reduced the income from lending, demand for personal loans is high and increased 3.9% from 2012 to 2013[7].

2.6.4 Revenue from other services

Other revenues earned in the banking sector include commissions from sale of mutual funds, insurance products and credit card revenue.

2.6.5 Access channels

While not new, customers are increasingly using online banking services, with 67% using online banking to pay bills[8]. In order to remain competitive, banks continue to develop new methods for customers to access banking. Recent examples include electronic cheque deposit, cloud and electronic wallet payment services.

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[6] IBISWorld Industry Report – Commercial Banking in Canada, March 2014
[7] IBISWorld Industry Report – Commercial Banking in Canada, March 2014
[8] Canadian Bankers Association

3. Regulation of banks

OSFI, an independent agency of the government of Canada, supervises and regulates banks to instill public confidence by ensuring that the risk of losses by depositors is kept minimal. These risks are monitored by reviewing and providing guidance, interpreting legislation and monitoring the financial and economic environment that may affect financial entities.

Trust and loan companies operate under federal and provincial legislation but are also regulated by OSFI.

In 2012, OSFI adopted the Basel III capital rules that help banks improve financial stability by raising quality and quantity of capital to shield the banks from economic shocks. As a result of these changes, there will be increased compliance costs. While Canadian banks have exceeded the ratios currently required and in some instances met the capital ratio requirements ahead of schedule, this further builds the reputation of Canadian banks and allows them the flexibility to make strategic acquisitions. However, this also constrains their profitability, compared with their global peers.

4. Constraints

High barriers to entry with well-established, heavily capitalized and marketed banks; barriers to entry include large capital outlay, costs to seek banking license and time to market.

5. Description of sector associations

- *Canadian Bankers Association* – a voluntary organization that works with Canadian domestic bank, foreign bank subsidiaries and foreign bank branches to lobby the government and promote financial literacy amongst Canadians.
- *Canadian Bankers Association's Bank Crime Prevention and Investigation Office (BCPIO)* – coordinates the banking industry's crime investigation and prevention activities and protects banks customers against financial crime.
- *Institute of Canadian Bankers* – is a private membership community for the Canadian banking industry.
- *Canadian Coalition for Good Governance* – represents Canadian institutional shareholders in the promotion of corporate governance practices that best align the interests of boards and management with those of the shareholder.
- *Canadian Bank Machine Association* – With operations in more than 1,500 rural and urban areas across Canada, the CBMA and its member organizations provide Canadians with convenient and alternative access to currency.
- *ATM Industry Association (ATMIA)* – is an independent, non-profit trade association, which works to promote ATM convenience, growth and usage worldwide, to protect the ATM industry's assets, interests, good name and public trust, and to provide education, best practices, political voice and networking opportunities for member organizations.
- *Interac Association* – Interac Association is responsible for the development and operations of the Interac network, a national payment network that allows Canadians to access their money through Interac Cash at 60,000 Automated Banking Machines and Interac Debit at 766,000 point-of-sale terminals across Canada.

6. Emerging business trends

Canada hopes to become North America's first primary centre for trading the Chinese yuan (RMB). While trading centres have been established in other cities internationally, North America does not currently have a trading centre. Establishing the centre will allow Canada and China to buy and sell each other's currency quickly.

- Due to the difficulty and/or expense of transaction monitoring, financial institutions are refusing to provide banking to certain client groups. In other cases, banks have also identified potential reputational risk and higher risk of fraud in certain sectors. As a result, certain industries have difficulty establishing or maintaining bank accounts (i.e. being debanked) including those related to/associated with diplomats/embassies, MSB's, legal marijuana merchants, payday loan companies, cheque cashing companies, virtual currency merchants.

- Banks are increasingly adopting new technologies to service customers, for example electronic cheque deposits and mobile payment services. These technologies can expose the bank to greater fraud risk, e.g. cyber-crime is currently one of the leading headlines in the world of frauds, investigations and IT security issues.

- *Banking Bitcoin* - there has been much in the news over the last year and a half regarding Bitcoin and also Bitcoin exchangers. Typically Bitcoin exchangers need a bank account as they provide a service which converts money into Bitcoin and vice versa. Banks have had real challenges with having to understand the technology, the business and what the risks are to banking a Bitcoin exchange business, how to provide services and monitor appropriately.

7. Type of customer(s)

Canadian financial entities serve a diversity of customers, both individuals and entity customers. There are no exact numbers on the number and types of clients, however, it is expected that almost 80% of revenue is anticipated to be from personal clients[9].

Clients at some of the big six banks are serviced according to the client's complexity of needs as well as asset level. For instance, clients that require more sophisticated financial planning and/or have significant investible assets will be provided greater personalized service.

As the big six banks are geographically located throughout Canada with concentration in the major metropolitan areas, customers are generally from the same geographical area. Canadian banks that are internet-based generally do not permit non-Canadians to open accounts in order to meet customer identification requirements.

In order to identify new opportunities, some banks have their representatives attend industry conferences around the world to attract new clients and maintain the accounts of existing clients. As a result, there is more and/or continued focus on servicing clients beyond Canadian borders with their global banking needs.

[9] IBISWorld Industry Report – Commercial Banking in Canada, March 2014

8. Key points from interviews

8.1 Discussion with senior compliance officers of banks

The Basel January 2014 paper on AML management lays out priorities and there are at least a couple of good points in here.

These are the three pillars for large financial services organization to manage AML risk and they need to do each of the following:

- Develop consolidated KYC systems across all business lines and geographies. Some banks are doing this already for specific lines of business, e.g. capital markets but very few today are there across all operations and some are only just starting.

- Develop consolidated group wide monitoring for all products / services / geographies / groups, etc. All the larger banks around the world are at different stages of doing this.

- Develop consolidated high risk management, global for AML compliance.

There are many challenges for a financial institution to overcome before being able to accomplish above – these are money, time, privacy, data systems and legacy systems. Buy in is needed from the governance of the organization. Big Data and data integrity are issues. Close to 90% of the data privacy issues can be overcome for the most part through client consent agreements.

Data protection is important and involves issues around the movement of data that the large banks are exploring… "I can share data but I can't move data". Organizations need to look at options to bring data together to monitor or analyze virtually, so that the bank can look, see and then put the data back.

- These projects are multi-year projects, two plus years and project management is key. There is value to doing this, however:

- The consolidation of the data and analysis is identifying new risks, risks that the local units were not aware of, and don't even know to look for.

- Rules can be applied consistently over many units and globally and data integrity can be checked.

- Always need to include local risks / operations to integrate with what is being done at the global level. Must appreciate local knowledge so that you don't become generic.

- Opportunity for the development of more complex rules to query and analyze the data.

Transaction monitoring used to be transaction-centric, then client-centric (profile the client) and now the focus is on client networks.

In the large bank environment, the business unit (profit centre) always owns the risk. AML compliance must challenge the business – must be part of an effective program. Who calls the shots at end of the day: in our bank

there is a reputational risk committee, made up of persons internal to the bank. The reputational risk committee can make decisions to not bank and exit relationships.

The primary focus of regulation in investments securities is investor protection – market manipulation etc. From an AML perspective the organization doesn't really need to do anything different, than what is already being done elsewhere – Need to apply the context and look for flows of funds. However, this is different from investor protection.

Need to know the client's clients. This day will come for securities sector but it is currently not here yet.

The big challenge seems to be the ever increasing regulatory pressure and expectation. There is a lot of infrastructure and investment being made and lots of resources spent. There are good intentions but the reality is that effective monitoring of transactions and client activity cannot be done in a rules-based, super-proceduralized, perfectly auditable. The interviewee thinks a lot of time is spent pointlessly – running rules and investigating alerts and coming up with nothing. Investigations are and should be more complex. Also, by putting pressure on the banks, the banks are declining clients such as MSBs which is simply sending them to other avenues and sending tricky clients underground.

The main issue with AML in Canada is lack of prosecution/investigation/ enforcement. So, the Banks can spend millions upon millions and send millions of reports to FINTRAC but if down the line the RCMP has 10 officers in the whole country to work them, what's the point? It would be better to give the RCMP more money difference is to be actually made.

8.2 Risk areas

- The wealth management side of the business is built and sold based on privacy. There are real struggles to overcome these hurdles internally as there are still issues with people on the ground in all the various locations.

- Smaller institutions are always inherently conflicted – would need an independent board to counterbalance the inherent risk – "How do you say no to business when you need to deliver results?"

- Trade Finance has been an issue for years - How does a large bank find trade-based money laundering? The bank asks and sees bills of lading but so what? Money moves to China, good move to Canada, does the bank need to monitor the price of sparkplugs? What is the bank's role in all this? Is all the data easily available to the bank? Not necessarily and not sure how to resolve.

- The unintended consequences of these (AML compliance) regimes: the big banks end up saying no to certain line of business, certain customers and these groups become unbanked… could be specific customers, specific products e.g. the wealth management business in Latin America, the banks are out of this sector in certain countries. So, new business is now going to the MSB's and the credit unions. Money laundering going undercover.

- What does this lead to (major countries being sanctioned)? We are (current regimes) moving the problem – we are not solving it; because it comes down to reputational risk for larger banks. What's wrong with Big Canadian bank "laundering" – we want to work with law enforcement. We (the big bank) can find it, can trust us, if the money laundering moves to smaller corner stores, to other countries, we won't be able to find it, won't be able to trust the parties when you start to go after it.

- *Other risks – increasing extra-territoriality.* Experiencing some challenges now with being a Canadian "branch" of a US institution and having to comply with OFAC requirements. But, I don't think that is limited to my bank. I think the world is shrinking and requirements are more far reaching and complex.

- Who is responsible within a Canadian-regulated FI conglomerate for an offshore account? It depends and there is no clear answer. When a customer wants to access from a services perspective, all of banks doors are open; when there is litigation or regulatory oversight, all the doors close.

8.3 Discussion regarding Bank of Canada

The Bank of Canada is not subject to the PCMLTFA. It is responsible for the production and issuance of 'cash' across the country, it has the wholesaler role to distribute the cash, banknotes. The RCM does the coins. The Bank has no role or supervision for how the money is used by the banks it distributes to. Money laundering is important, but it is a secondary concern to them.

They did have cause to consider how their work was/could be used by a potential money launderer. Back in 2000, they withdrew the $1,000 note as parties were identifying it as a support to criminal activity. They reviewed and could see no economic reason to maintain the note. In the past, notes of larger amounts were used for bank settlements. No longer required so they withdrew it. The $100 note is a useful note and it is often used as a savings method. They conduct surveys to determine this.

They track the aggregate growth of banknote circulation and it has been steadily increasing. They monitor the flows, the rates and the flows of banknotes around major centres.

- Not just any bank can buy cash from there, there are specific rules before bank can have direct access to cash:
- Need to be a member of the CBA
- Must be able to settle balances in the electronic system

There are only 10 actual banks accessing, 12 are eligible; it is not closed, but criteria must be met. The 100's of smaller banks become customers of the 10 that are accessing.

They do connect with their counterparts overseas. Generally the model we follow here in Canada is the model that most around the world use. The European banks tend to be more granular, in some cases they have retail transactions.

From an operational perspective, the bank has to manage inventory. When there is unexpected activity or bank note volume, they talk to the bank, what is going on? Usually a specific situations etc. Demand spike at one bank may be because they have won a customer from another bank – cash services are a key profitable service for a bank.

Has been steady growth of bank notes. Some moderation over last few years, but over the longer term, use of cash money is up. Why? Volume of transactions is increasing. It was 48% 5 – 6 years ago, today the proportion of cash transactions is 45%. Use of cheques has dropped off considerably as there has been an increase of on-line activity.

Bitcoin is interesting – but it is not a real thing yet.

The UK central bank is required to have an AML officer – their role is somewhat different than Bank of Canada. Bank of Canada does not have an AML officer.

8.4 Discussion with compliance manager at large financial institution

Asking for AML resources is a concern – there does not seem to be enough resources – first AML, now FATCA and still to find the right skill set as well as getting approval from bank.

Banks are identifying risky areas and dealing with it. However, bankers need to be trained to identify high risk – sometimes, this is accomplished and they see that the account opening/activity should and will be stopped so it is better to ask questions up front. However, in some cases, there will be sales people that try, in futility, to override determination and ask the bank to take on a client as there is a need to make sales targets. Bankers are also more focussed on credit risk as opposed to money laundering risk.

High risk areas continue to be customer fraud on bank, for example, cheque kiting, use of complex ownership structures, mortgage fraud.

High risk areas that banks are concerned/aware of are virtual currency merchants. Also use of private lenders/financial companies, leasing companies, and the real estate sector to flow funds through. These industries are unregulated/not strongly regulated and few controls.

9. Risk factors

9.1 General market

9.1.1 Overlapping regulations

While the banking sector is heavily regulated, banks that perform multiple regulated activities and/or have worldwide operations are challenged with monitoring the global AML risks as well as the reputational and operational risks.

9.1.2 Exit of high risk relationships

Banks are making decisions to exit high risk relationships with no real resolution to money laundering – the activity is simply being shifted to other organizations where there may be little to no monitoring performed and/or the risk tolerance is higher. This view was shared by a number of the persons interviewed and there is a real concern that illegal funds in the system, if not 'banked' where it can be monitored and followed, will evade the detection and monitoring systems we have in place and be allowed to flourish. These decisions appear to be being made as Canadian banks see very real need to manage any reputational risk.

9.1.3 Transaction monitoring

Working with a number of legacy systems and across multiple jurisdictions it is a challenge to monitor all transaction data. While there is value in combining data for monitoring and analysis, this is difficult, time and resource consuming. Smaller or other organizations that do not have resources may not be undertaking this analysis. Interviewees shared that there is a wide spectrum as to how evolved some of these systems are, with apparently more on the less evolved end than the higher.

9.1.4 Competitive environment for sales to meet their targets

Sales people are inherently conflicted as they see these accounts as adding to their sales targets, of which we were told by one interviewee there continues to be significant pressure to make their numbers. For larger banks, they have resources, can make client acceptance and exit decisions through independent compliance and governance functions; smaller banks have less opportunity for this oversight

9.2 Products and services

9.2.1 Wealth management and private banking

Transactions for high net worth, private clients are highly sought after in the banking world from a sales perspective. With these types of clients it can be hard to distinguish between what is a "normal" transaction versus "atypical/suspicious transaction". Bankers may, knowingly or unknowingly, be involved with clients that are money laundering. Similar to the risk factor identified above regarding meeting sales targets, there is inherent risk with the provision of wealth management and private banking services, where often higher degrees of privacy and confidentiality are sought.

9.2.2 Trade finance/trade-based money laundering

Despite the efforts to identify, trade based money laundering is difficult to identify because the value of some goods is not easily attainable or it is difficult to establish whether dollar amounts are reasonable. There are questions as to whether the bank should be held responsible for monitoring to this level of detail. Interviewees shared that while in principal the monitoring tools and techniques available are nice, in practice this continues to be a significant risk area.

9.3 Delivery channels

9.3.1 New technologies

As banks compete to attract new and maintain existing customers, new technologies will be introduced that allow for greater anonymity of the person completing the transaction and potential for fraud.

9.4 Geography

9.4.1 Foreign operations of Canadian banks

At least some of the larger Canadian banks have a process to, or are building a process, to identify and monitor transactions globally and make sure consistency of rules. However, there has been difficulty with privacy legislation and building these systems requires significant resources.

9.4.2 Customer focus versus regulation and investigation barriers

There appears to be a real difference between first, when a customer who would like to access banking services in a number of different countries is received by the 'sales' side of a bank and introductions are made to banking contacts (within the bank's network) in a number of different countries versus second, when the regulators or authorities come knocking and have to access the bank's records and people through the walls of individual country regulations and local law enforcement. Several interviewees agreed that this is a reality- that the customer side of the bank is very service oriented, introductions are easily and quickly made, and that there are real regulatory and law enforcement challenges, including privacy laws. During interviews, we queried a number of times regarding whose responsibility it was (within a bank and from a regulator perspective) to have oversight of transactions occurring in offshore locations of Canadian banks. We did not receive a clear answer, in fact we did not receive any definitive answer, other than simply it depends.

The risk factor for money laundering and terrorist financing here is that the sales/market side of our institutions are very focused on customer service and have pressures to meet sales targets. And while there may be global monitoring and detection systems within a bank operating globally, access to these resources by regulators and law enforcement is still not clear.

9.4.3 Canadian branches of Foreign Financial Institutions

With larger global financial institutions that have minimal Canadian operations (or are considered immaterial to a global total), little and insufficient resources are being spent locally to understand AML risks both for the purposes of meeting Canadian regulations and to ensure that there are controls to mitigate/monitor the risks for the Canadian market. Organizations often utilize internal audit teams that are not trained to identify and understand AML risks and regulations.

9.5 Business relationships / linkages with other sectors

9.5.1 Use of lawyer trust accounts

Notwithstanding the challenges identified above regarding trade-based money laundering, our interviews with a lawyer identified that import/export companies use lawyers trust accounts to facilitate legitimate trade. However, the lawyer may not have sufficient knowledge of the parties and parties may use the trust account to shield the monitoring and identification of money laundering activity.

As well, interviewees shared that often they encounter challenges regarding trust accounts, in some cases that the responses to certain due diligence questions asked were subject to solicitor client privilege and therefore no specific answer was provided.

9.5.2 Omnibus accounts

Accounts for companies in other regulated sectors can pose a potential risk – while organizations would be screened to mitigate risk for the bank, how much review is performed on a regular basis, especially when there have been cases of large, international FI's involved with sanctioned activity. Examples provided at Appendix A.

9.6 Transaction methods/types

Nothing specifically identified other than what is available in much AML authoritative literature. The focus of our efforts was spent on risks seen as more structural to this sector.

Grant Thornton

Reporting Entity Sector Profile: Lawyers

Money laundering and terrorist financing vulnerability assessments

Prepared for FINTRAC | March 31, 2014

Contents

1. General sector profile

The legal industry in Canada is a mature and active sector with broad divisions between the criminal and the civil segments and significant division of the civil segment into specific areas of practice. Over the past decade, law firms have experienced steady and continuous growth due to expansion in international trade and the emergence of new areas of practice, particularly in business law. Demand for legal services has been facilitated by corporate restructuring, privatization, mergers and acquisitions, intellectual property rights and new financial instruments that require legal advice.

Revenue growth is expected to rise as the economy continues to recover but there is no doubt that the recession has created stress on large firms with the drop in work on M&A, IPO and other practice areas that had been significant revenue drivers. Slowing corporate profits also led to cost cutting and the impact on law firms is still being felt. Statistics Canada lists 26,997 employers and others in the sector which tallies with a recent private sector estimate of 27,215.

We have identified the following primary risk factors:

- Receipt of funds into trust account using methods and from sources unexpected;
- Nature of legal services and use of trust accounts; and
- Solicitor client privilege.

2. Structure, size and segmentation, reporting entity population

According to The Canadian Law List (A Thomson Reuters Company), there are 27,191 law firms in Canada. This number includes multiple offices in various provinces of the larger firms. The legal landscape is diverse with large national and international firms and varying sizes in-between to a significant number of sole practitioners. The last ten years has also seen a significant rise in the number of specialist boutique firms which focus on only niche practice areas such as litigation or intellectual property.

Canada's 30 largest law firms by size range from the largest with 769 lawyers to a regional firm with 118 lawyers; however, these represent a minority as the majority of lawyers work outside of these firms.[1] Law firms are heavily focussed in four provinces in particular, mirroring business and economic activity in the country with Ontario at 10,652, British Columbia at 5,126, Quebec at 4,226 and Alberta at 3,870 firms.[2]

Commercial law services make up 38% of the Canadian market and business and corporate clients over 65% of the total.[3]

[1] Lexpert
[2] Statistics Canada
[3] IBISWorld Industry Report – Law Firms in Canada, February 2013

3. Economic and financial statistics

A 2013 report identified law firm revenues in 2013 of $26.7 billion, with $5.2 billion in profits and $6.1 billion in wages. Growth is expected to improve from 2.1% in the period 2008 – 2013 to 3.6% expected growth 2013 – 2018.[4] Canadian law firms came out of the recession stronger, without significant damage to their bottom line. There has been some contraction, especially in the mid-tier firms but not as significant as that experienced in the US.

During the next five years, economic improvement, investment activity and corporate profit are expected to drive demand for legal services and revenue forecasts indicate that that revenue will increase an average 3.6% per year to $31.8 billion in the five years to 2018.[5]

[4] Ibid
[5] IBIS World Industry Report – Law Firms in Canada, February 2013

4. Regulation of the legal sector

Every lawyer in Canada and notary in Quebec is required by law to be a member of a law society and to be governed by its rules. Canada's 14 provincial and territorial law societies govern over 100,000 lawyers and 4,000 Quebec notaries in the public interest.

The Federation of Law Societies of Canada is their national coordinating body and provincial bodies are as follows:

- The Law Society of Upper Canada (Ontario)
- Law Society of British Columbia
- Law Society of Alberta
- Law Society of Saskatchewan
- Law Society of Manitoba
- Law Society of Upper Canada
- Barreau du Québec
- Chambre des notaires du Québec
- Nova Scotia Barristers' Society
- Law Society of New Brunswick
- Law Society of Prince Edward Island
- Law Society of Newfoundland and Labrador
- Law Society of Yukon
- Law Society of the Northwest Territories
- Law Society of Nunavut

Lawyers must be called to the Bar in the province that they practice in. Each province has a Legal Profession Act. In Ontario for example lawyers are governed by the Law Society of Upper Canada (legislation and rules). On top of this there are many other act and regulations that govern lawyer's professional activities.

- Law Society Act
- Barristers Act
- Solicitors Act
- Class Proceedings O. Reg. 771/92
- County and District Law Associations R.R.O. 1990, Reg. 708
- Complaints Resolution Commissioner O. Reg. 31/99
- Hearings Before the Hearing and Appeal Panels O. Reg. 167/07
- Law Foundation R.R.O. 1990, Reg. 709
- e-Laws-Gov. of Ont.
- Statutes and Regs. – Dept of Justice

5. Constraints

The Canadian Bar Association code of conduct prohibits lawyers from knowingly assisting, enabling or permitting any person to act fraudulently, dishonestly or illegally.[6]

[6] https://www.cba.org/CBA/activities/pdf/codeofconduct06.pdf

6. Description of sector associations

Our research has identified the following Canadian lawyer sector associations:

- *Canadian Bar Association (CBA)* - is a professional, voluntary organization which was formed in 1896, and incorporated by a Special Act of Parliament in 1921. Today, the Association represents some 37,000 lawyers, judges, notaries, law teachers, and law students from across Canada. 'The CBA is the essential ally and advocate of all members of the legal profession; it is the voice for all members of the profession and its primary purpose is to serve its members.' The CBA has branches in each of the provinces and territories (e.g. Ontario Bar Association).

- *Criminal Lawyers Association* - is one of the largest specialty legal organizations in Canada, with more than 1,000 members. 'We are a voice for criminal justice and civil liberties in Canada.'

- *Canadian Defence Lawyers* - Canadian Defence Lawyers is the only national organization representing the interests of civil defence lawyers.

- *Canadian Maritime Law Association (CMLA)* - Members of the CMLA include practicing maritime lawyers and other persons, companies and groups interested in the shipping and maritime industry. The mandate of the CMLA is to advance the development of effective, modern commercial maritime law within Canada and internationally.

- *Ad IDEM - Canadian Media Lawyers Association* - Ad IDEM stands for Advocates in Defence of Expression in Media. Members are leading media lawyers across Canada.

- *Indigenous Bar Association* - One of the primary goals and objectives of the Indigenous Bar Association is the promotion and reform of policies and laws affecting Indigenous Peoples in Canada.

- *National Association of Women and the Law*- is an incorporated not-for-profit organization that promotes the equality rights of Canadian women through legal education, research, and law reform advocacy.

- *International Law Association (ILA) – Canadian Branch* - The ILA was founded in Brussels in 1873. The ILA now has some 3,500 members in 45 national and regional branches around the world. The ILA has consultative status as an international non-government organization with a number of the United Nations specialized agencies.

- *Canadian Association of Refugees Lawyers* - Founded in 2011, the Canadian Association of Refugee Lawyers serves as an informed national voice on refugee law and human rights, and promotes just and consistent practices in the treatment of refugees in Canada.

- *The Refugee Lawyers' Association* - of Ontario is an association of approximately 200 lawyers in the Province of Ontario in Canada advocating on behalf of refugees.

- *Canadian Association of Labour Lawyers* - was created in the late 1980's. Its approximately 250 members are all lawyers who represent the labour movement across Canada. They practice in law firms or as employees of labour organizations.

- *Canadian Association of Provincial Court Judges* – is a federation of provincial and territorial judges' associations. Founded in 1973, its membership now includes most of the over 1,000 provincial and territorial judges in Canada.

- *Canadian Civil Liberties Association (CCLA)* – Since 1964, CCLA has defended the fundamental human rights and civil liberties of all Canadians through public education, litigation, citizen's engagement and monitoring and research

- *Canadian Superior Court Judges Association* - represents approximately 1,000 judges who serve on the superior courts and courts of appeal of each province and territory, as well as on the Federal Court of Canada, the Federal Court of Appeal and the Tax Court of Canada.

- *Association of Corporate Counsel* - is a global bar association that promotes the common professional and business interests of in-house counsel who work for corporations, associations and other private-sector organizations through information, education, networking opportunities and advocacy initiatives.

- *Canadian Muslim Lawyers Association* - The CMLA represents Muslim individuals of all backgrounds who are in the legal profession in Canada. 'We exist to interact with and assist Muslim lawyers, law students, the Muslim community, the legal profession and the public at large in various capacities, offering, professional advocacy, education, networking and peer support.'

- *Canadian Lawyers for International Human Rights (CLAIHR)* – is an organization that has been raising awareness and promoting human rights within Canada and abroad for over 18 years.

- *Hellenic Canadian Lawyers Association* - is a national non-profit organization founded in 1982. Its primary purpose is to maintain a reliable network of lawyers, judges and law students of Hellenic origin.

- *Iranian Canadian Lawyers Association (ICLA)* - is a legal advocacy group that was formed in November 2002 by a group of like-minded lawyers and law students of Iranian heritage. The establishment of ICLA was in part a necessary corollary of the burgeoning community of lawyers of Iranian heritage throughout Canada.

- *Canadian Association of Black Lawyers (CABL)* - formed in March 1996, is a national network of law professionals and individuals committed to reinvesting in the community. CABL's continuing goal is to bring together law professionals and other interested members of the community from across Canada to cultivate and maintain the Association of Black professionals in Canada.

- *Canadian German Lawyers Association* - The Canadian German Lawyers Association was set up in 1992 in Germany as a non-profit organization to bring together Canadian lawyers who act on behalf of German speaking clients, German Rechtsanwälte who represent Canadian clients, as well as members of the German Canadian business and professional community.

- *Korean Canadian Lawyers Association (KCLA)* - The objectives of the KCLA include the promotion of professional and social interaction between its members; the promotion and advancement of the well-being of the Korean Canadian community; the promotion of legal education to members of the Korean Canadian community; and promotion of understanding and awareness of the nature of the legal profession.

- *Legal Aid Ontario* - In 1998, the Ontario government enacted the Legal Aid Services Act in which the province renewed and strengthened its commitment to legal aid. The Act established Legal Aid Ontario, an independent but publicly funded and publicly accountable non-profit corporation, to administer the province's legal aid program.

- *Law Help Ontario* - Law Help Ontario is a project of Pro Bono Law Ontario that provides pro bono legal services to people who cannot afford to hire a lawyer and are unrepresented in a legal matter. The project is currently piloting two self-help centres in courthouses in the Toronto area. In the future, centres may be launched in other locations across Ontario.

7. Emerging business trends

Law firms in Canada are showing clear sign that the industry is in a state of flux. There have been a number of mergers e.g. that of Ogilvie Renault and McLeod Dixon, both of which joined a UK based law firm, Norton Rose. The firm subsequently merged with U.S. based Fulbright & Jaworski to become Norton Rose Fulbright and Fraser Milner Casgrain joined with SNR Dentons. In both cases, one of the factors at play appears to have been size in the global marketplace. As well as this, other law firms, particularly the mid-tier firms are believed to be under considerable financial pressure and the recent failure of Heenan Blaikie, a prestigious law firm is the most recent example. Canadian law firms are of interest to UK and US firms because of the mining, energy and natural resources markets.

Another recent trend that appears to be gathering momentum is proposed changes to legal billing practices. Clients want to pay less and don't want to pay by the hour; they want to pay for results. The hourly system is viewed as inefficient and law firms are looking at ways in which it can be improved on. One new example is Cognition LLP which is shaking up the market with new ways of providing legal services, such as fixed-fee services as alternative fee arrangements. For example, a law firm could charge a client a flat fee for a particular service, such as a corporate acquisition, no matter how many hours it ends up taking essentially spreading more risk from the client to the law firm.

Bay Street law firms are also increasingly looking to outsource, either to lower-cost legal-service providers in Canada or new overseas providers in India, for rote legal tasks that before would have been done in-house. The savings, in many cases, are being passed onto clients.

McCarthy Tétrault LLP partner Matthew Peters, who is the firm's national leader for markets, says there is a transformation under way. The traditional law firm, with its pyramid of associates and partners all charging clients hundreds of dollars an hour, is headed for history's dustbin. High-end law firms, such as McCarthys, will specialize in complex legal work and farm out the rest to the equivalent of legal factory production lines.[7]

Companies are more likely to engage in high-cost litigation when corporate profit is high. Furthermore, strong corporate profit stimulates initial public offerings, merger and acquisition activity and capital raisings, which all require the services of law firms. Corporate profit is expected to increase representing a potential opportunity for the industry.

[7] The Globe and Mail – "The end of the billable hour? Firms and clients look beyond traditional billing to new cost-saving arrangements, such as outsourcing", November 28, 2013.

Solicitor client privilege issues and challenges: A discussion paper prepared by the CBA outlines and discusses a number of issues regarding solicitor client privilege in Canada and reviews how privilege is used around the world and different from the Canadian context. The CBA outlined the challenge as follows: "…to consider how this ancient concept which is a fundamental part of the administration of justice should apply and adapt to the changes of the 21st century." And observed, "We live in an increasingly globalized legal world and Canadian law on the Privilege differs in significant respects from other jurisdictions which are important both in terms of their influence on Canadian law and our clients' interactions. Moreover, the law and practice in these jurisdictions, especially the United States, shows that in Canada there are many Privilege issues that remain unresolved."[8]

[8] Solicitor Client Privilege in Canada, Challenges for the 21st Century, Discussion Paper for the Canadian Bar Association, February 2011

8. Products and services offered

Lawyers and law firms in Canada provide a very wide range of services, with the larger firms providing much of the full ranges of services. Some smaller boutique firms specialize in only one practice area as a speciality, for example, litigation.

The range of services encompasses the following[9]:

- Aboriginal Law
- Advertising, Marketing and Regulatory Affairs
- Asia
- Asset-based Lending
- Automotive
- Banking and Financial Services
- Business and Corporate Commercial
- C2D
- Capital Markets
- Charities & Not-For-Profit Organizations
- Chemicals Group
- China and Southeast Asia
- Civil Fraud
- Class Actions
- Cleantech
- Climate Change and Emissions Trading
- Commercial Insurance
- Commercial Leasing
- Commercial Litigation
- Commercial Real Estate
- Competition Law / Antitrust
- Construction and Engineering
- Copyright Law
- Corporate Commercial Litigation and Arbitration
- Corporate Finance and Securities
- Corporate Governance
- Corporate Lending and Project Finance
- Crisis Management
- Defamation & Media
- Defence, Security and Aerospace
- Insurance and Tort Liability
- Intellectual Property
- International Trade and Investment Law
- Labour and Employment
- Latin America
- Legal Translation Services
- Life Sciences
- Litigation and Arbitration
- Manufacturing, Sales and Distribution
- Marketing and Distribution
- Medical Defence Group
- Mergers and Acquisitions
- Mining
- Mortgage Recovery Services
- Municipal Law and Other Government
- Nuclear
- Occupational Health & Safety
- Oil & Gas
- Outsourcing
- Patents
- Pension Fund Investment
- Pensions and Benefits
- Plan Nord
- Privacy and Access to Information
- Private Equity & Venture Capital
- Procurement
- Product Liability
- Project Finance
- Public- Private Partnerships/Alternative Financing
- Public Policy and Government Relations

[9] Services identified from websites of Canadian larger law firms.

- Discovery Management
- Distressed M&A
- Doing Business in Canada
- Drug Pricing & Reimbursement Group
- Educational Institutions/Universities & Colleges
- Electricity
- Employment & Labour Law
- Energy
- Entertainment Law
- Environmental
- Executive Compensation
- Family Law
- Financial Services Regulatory
- Food & Natural Health Products Law
- Foreign Investment/Investment Canada
- Franchise and Distribution Law
- Gaming Law
- Government and public policy
- Hardware, Software and Semiconductor Manufacturers
- Health Law
- Immigration Law
- Income Funds and REITs
- Infrastructure
- Insolvency and Restructuring
- Insurance - Corporate and Regulatory
- Real Estate
- Urban Development
- Regulatory Investigations
- Renewable Energy
- Research
- Restructuring, Bankruptcy & Insolvency
- Retail Services
- Risk Management and Crisis Response
- Russia and the CIS
- Securities, Capital Markets and Public Companies
- Securitization and Structured Finance
- Shareholder Activism
- Succession Planning & Estates
- Supreme Court of Canada Services
- Tax Dispute Resolution
- Technology
- Trade-marks
- Transfer Pricing
- Translation
- Transportation and Logistics
- Trusts and Estates
- U.S./Cross-Border
- Wealth Management
- Wireless Communications
- XClaimTM - Portfolio Claims Management

9. Type of customer(s)

Business clients are believed to make up over 65% of law firm clients and it is clear that business and commercial activity requires the most legal services. Individuals are also significant users of legal services for personal issues such as wills, trusts, divorce, tax and financial related advice being top issues. The Canadian legal market is focussed primarily on residents but there is no doubt that local law firms, especially those with foreign offices also provide advice to companies and individuals outside the country. The increase in global economic activity and Canada's primacy in mining, resources and energy are all significant drivers of such legal activity.

10. Geographic considerations

Lawyers are only allowed to practice at the bar in the geographic area where they are called. In practice this means court work and legal advice, more often does not include litigation. So in practice, lawyers operate locally and regionally based on the needs of their clients but can also advise on issues nationally. When court work is required, lawyers engage local expertise. On a global basis, a similar pattern is used, giving the larger international firms an advantage in countries where they have operations.

11. Key points from interviews

Interviews with our global Grant Thornton contacts identified a number of cases involving both notaries and lawyers. These sources indicate that trust accounts and cash payments were a factor in each case, although, as in Canada, the use of cash is gradually being reduced. Lawyers acting as agents for individuals in a range of transactions is also a common situation which has also been identified as a money laundering risk.

- CBA is the governing body, the umbrella organization; lawyers are regulated provincially across the country.
- What kind of services do accounting firms provide to law firms/lawyers? Accounting firms provide audit work, assurance, tax compliance work including partnership tax filings, personal tax work, tax planning structures for the partnerships and partners, provide assistance with any merger & acquisition activity. Accounting firms generally have client referral relationships with law firms.
- Has seen a number of cases in smaller law firms and also sole proprietorships involving lawyers stealing money from clients. Often the law society gets involved and if they need an accountant to assist, they hire one. The larger firms have more controls in place over trust accounts, more monitoring and procedures in place.
- Lawyers are required to have an independent review of their trust accounts every year. The example below is from the province of Nova Scotia, but we understand it is similar across the country. The required review is in three parts:

    1. Law firm completes the review form, and this is submitted to the Law Society;
    2. Accounting firm completes a review form; and
    3. The third part is completed if parts one and two do not agree

- The review form is then provided direct to the law society, this is usually done by the assurance provider, e.g. the accounting firm.
- Complaints from lawyers regarding other lawyers or complaints received from clients are made to the Barristers Society, or the provincial equivalent. It is dealt with through their process and an investigator is hired to assist if required. Sometimes this investigator is an accountant.
- Lawyers must be called to the bar in the province they are practicing in. However, lawyers are permitted to practice outside of their province up to a certain number of days (not that many). This will depend on the province, and you would want to call the law society of the province that you are interested in.

- Anyone can file court documents anywhere. In fact, most filing is done by paralegals and legal assistants, as well as by hired agents. A lawyer can file something out of province and then hire a local agent to appear on the matter. The registries are generally quite helpful.

- There are significant fee pressures coming from clients, we can no longer bill as we have done in the past, need to figure out value billing and how do we apply that to the work of legal services? The answers are not clear. Clients are no longer loyal to a firm; they shop around for the best fees. The market is very competitive.

Discussion notes with sole practitioner:

AML area is focussed on cash – accordingly, there are limits to acceptable amounts of cash. The Law Society provides guidance to amount of cash accepted. Lawyers are aware of these rules and therefore are watching out.

Areas of higher risk are where private lenders are involved – lawyers have no idea where source of money is coming from or necessarily the people behind the organization.

There are also instances where straw purchasers are involved – the straw purchaser will buy property and get mortgage. Mortgage is paid off quickly and home is sold for profit and money launderers are not only able to clean the money but also make money in a rising property market. Lawyer does not see source of funds as money can come from bank draft.

Lawyer's privilege will shield transactions – a lawyer, in his professional capacity as a legal professional, may not disclose/report crimes unless someone's life is in imminent danger. Privilege would apply to clients and 'non-clients' (i.e. do not have to have an engagement letter.)

Another opportunity is the involvement of the lawyer in an import/export transaction:

- Interviewee was once approached by a domestic company to hold funds in trust for an import/export transaction as per an agreement. Under the agreement, the interviewee would hold the funds until the seller shipped goods and buyer confirmed receipt of goods.

- While this can be a typical transaction, the interviewee was approached with the details of the transaction already setup – typically, lawyer is involved to structure and advise on transactions but in this case, all details had already been negotiated.

- The transaction dollar amount was also abnormally large to approach a sole practitioner to handle – these are usually handled by larger firms. In the end, interviewee declined transaction as there were a number of issues, including an increase in insurance premiums for the transaction.

- Interviewee also stated that the problem with this transaction was that a lawyer would not know whether goods were actually shipped – he is taking the word of the receiver that goods had been delivered.

12. Risk factors

12.1 General market factors

12.1.1 Market competitiveness and pressure on fees

While the CBA code of conduct prohibits lawyers from 'knowingly assisting, enabling or permitting any person to act fraudulently, dishonestly or illegally' there are clearly situations where it is not 'known' this is the case and there is market competitiveness and fee pressure, especially on the mid-tier firms.

12.1.2 Knowledge of client

Lawyers may not have or want full knowledge of all parties that they work with and the source of funds that are involved. A lawyer faces reputational risk however, there have been instances where lawyers are involved in transactions without sufficient knowledge of the client or, even after becoming aware of a client's questionable background, continued to provide services.

12.1.3 Lawyer as a gatekeeper

Legal professionals are approached and, knowingly or unknowingly, may be involved with setting up entities for the purposes of money laundering. Examples provided at Appendix B.

12.2 Product and service factors

12.2.1 Nature of services and use of trust accounts

Lawyers, through the various services they provide and their legal and business expertise, are sought after by those desiring to launder funds. Because money laundering is a process which seeks confidentiality/anonymity, legal services can be involved in the process both wittingly and unwittingly. International sector experts and investigators shared that they were aware of a number of cases wherein legal services had been used, including the use of a trust account, to assist money laundering operations.

12.2.2 Solicitor client privilege

Solicitor client privilege provides the client with confidentiality where legal advice of any kind is sought from a professional legal adviser unless that privilege is waived. To the extent that privilege is used to hide the true nature of sources and/or uses of funds and/or persons involved in companies and transactions, this provides real risk for money laundering and terrorist financing.

12.2.3 Work involving lawyer acting as agent

Lawyers that act as agents, especially for financial transactions, property purchases and other areas as identified for the other sectors. As an example, there is a case involving a lawyer setting up companies for fake mortgages and buying multiple real estate properties for a drug dealer. See Appendix B.

12.3 Delivery channel factors

12.3.1 Size of firm/independent lawyers

Smaller firms and independents are seen as more vulnerable, more likely to provide services to groups undertaking illegal/unethical activity as there is less firm infrastructure in place to monitor quality and provide oversight.

12.3.2 Lawyers who provide services outside of their areas of expertise

This is potentially an indicator that the lawyer, client relationship is not service driven.

12.4 Geography factors

12.4.1 Referrals to offshore affiliates located in higher risk jurisdictions

Clients located in high risk international locations

12.5 Business relationships/linkages with other sectors

12.5.1 Provision of legal privilege over other services e.g. Accounting

12.5.2 Privilege cited in response to banker due diligence questions

12.5.3 Higher risk real estate transactions

Lawyers who provide financial services to clients around higher risk real estate transactions have opportunity to understand the client and the source and use of the funds.

12.6 Transaction methods and types

12.6.1 Receipt of funds into trust account using methods and from sources unexpected

12.7 Client type and characteristics

12.7.1 Client characteristics

Given the nature of legal services, it is believed that many of the client type and characteristic factors, as were listed for the accounting sector, are relevant to this sector as well.

Grant Thornton

Reporting Entity Sector Profile: Money services businesses

Money laundering and terrorist financing vulnerability assessments

Prepared for FINTRAC | March 31, 2014

Contents

1. General Sector Profile

Canada's Money Services Businesses ("MSB") sector is an integral financial sector that provides foreign exchange, money remittance services, money orders and traveller's cheques, often to communities across the country which are not well served by banks and other financial service providers. Notwithstanding this, there are segments of the sector which are emerging rapidly, using tools like technology and online presence to provide payment processing solutions and platforms that are competing with the banking sector in niche markets.

In Canada, there are over 800 MSBs registered with FINTRAC consisting of small, owner-managed businesses to large international MSBs with significant operations in Canada. The structure of an MSB varies depending on the customers served, how customers are served (e.g. physical location and/or on-line platforms) and the reach of the business. Smaller MSBs tend to operate from one location, serving customers in the local vicinity. Larger MSBs usually have a head office, that may or may not directly serve customers, and operations include one of or a variation of wholly owned branches, agents or franchisees.

Agents are used in many ethnic-based MSBs due to their reach in the local community. Depending on the agreement, agents may or may not be exclusive to an individual MSB, meaning that they may act as agents for multiple MSBs. In many instances, the agent provides other services in addition to the MSB services, for example convenience store, grocery store, restaurant or hair salon. Franchisees, which operate as a separate business, would typically be registered as an MSB or as an agent of an MSB.

Global MSBs, whose operations are headquartered in Canada or a foreign country, traditionally have centralized compliance functions that consider both the AML requirements in the headquarters' country of domicile and Canadian regulations.

A number of risk factors have been identified and these are detailed later in this report. Factors include:

- A number of general market conditions;
- The size of the MSB and the corresponding resources particularly for larger volumes of transactions; and
- Geographic factors including transactions with overseas counterparties.

2. Structure, size, segmentation and reporting entity population

There are a total of 837 MSBs registered with FINTRAC, 36 of which have head office addresses registered outside of Canada. The highest number of registered MSBs are in Ontario, British Columbia and Quebec, which in total, account for 86% of all the MSBs across the country.

Registration of MSB	Number
Alberta	56
British Columbia	167
Manitoba	11
New Brunswick	7
Nova Scotia	2
Ontario	451
Quebec	102
Saskatchewan	5
Outside of Canada	36
Total	837

3. Economic and financial statistics

"Remittances to the developing world are expected to grow by 6.3 percent this year to $414 billion and are projected to cross the half-trillion mark by 2016".[1]

The number of Canadian sourced foreign currency and money transfer transactions is difficult to estimate given the large number of known MSBs as well as unregistered MSBs. In addition, many MSBs are privately owned and/or do not report these amounts in total or by country. Activity in the sector includes both individual consumer activity as well as business/corporate commercial activity.

The World Bank indicated that in 2013, the countries that received the highest amount of officially recorded remittances included India (estimated $71 billion), China ($60 billion), the Philippines ($26 billion), Mexico ($22 billion), Nigeria ($21 billion), and Egypt ($20 billion).[2]

We identified a number of larger known MSBs or related companies that operate in Canada and have compiled the following information:

- Paypal, a subsidiary of eBay Inc. - In fiscal 2013, Paypal performed three billion transactions generating $180 billion in net total payment volume.[3]
- Western Union - In fiscal year 2012, Western Union reported global consumer-to-consumer transfers of $79 billion, of which $71 billion related to cross border transfers.[4]
- Cambridge Mercantile Group - The Company performs $15 to $20 billion in foreign currency annually.[5]
- Moneygram - In fiscal 2013, the company reported that money transfer volume increased 18% in US outbound and 13% increase in foreign outbound sends and that revenue increased from the previous fiscal year to $1.3 billion.[6]

[1] http://www.worldbank.org/en/news/press-release/2013/10/02/developing-countries-remittances-2013-world-bank
[2] Ibid
[3] http://www.ebayinc.com/in_the_news/story/ebay-inc-reports-fourth-quarter-and-full-year-2013-results
[4] http://ir.westernunion.com/files/doc_financials/WU2012ARFinalWeb.pdf
[5] http://www.camagazine.com/archives/print-edition/2013/april/upfront/news-and-trends/camagazine73250.aspx
[6] http://files.shareholder.com/downloads/AMDA-1TA9OX/3049203675x0x658987/C9F32416-D506-4AAC-A3D2-54D8D1907E24/2012_10-K.pdf

4. Regulation of the MSB sector

MSBs in Canada are primarily regulated by FINTRAC with the exception of those operating in Quebec, which also require licensing from the Autorité des marchés financiers.

This sector has been scrutinized closely by FINTRAC and, in some cases to a larger extent, by the bankers that service the MSBs. A number of financial service providers (banks and credit unions), but not all of them, have put in place significant risk management and monitoring procedures over the accounts provided to their MSB clients. The risk management and monitoring procedures typically include ensuring that the MSB is meeting the regulations of the PCMLTFA, reviews of specific transactions and flows of funds through the accounts and due diligence regarding the ownership of the MSB business and its clients. The banking service provider as regulator has in some cases been very effective. In essence, the banks have taken significant steps to ensure that their customer chain (e.g. supply chain of customer transactions) has a level of transparency in regards to monitoring and oversight. This has become a significant constraint to the activities of the MSBs, who must now adhere to these requirements. For example, in the past, MSBs may have undertaken transactions on behalf of other MSBs who were acting on behalf of customers or groups of customers. Banking oversight has primarily disallowed this activity and demanded that MSBs only deal with customers they have direct relationships with.

MSBs which operate globally, deal with regulators specific to each local. Many MSBs operating here in Canada have operations (either through a parent, or through subsidiaries) in the United States and thus are dealing with state regulators and licensing requirements.

To the extent an MSB also provides cheque cashing and payday loan services, the following apply:

- Bill C-26, Criminal Interest Rate[7]
- Ontario – Payday Loans Act, 2008
- Saskatchewan - The Payday Loans Act 2012
- Alberta – Fair Trading Act - Payday Loans Regulation 157/2009
- British Columbia - Business Practices and Consumer Protection Act – Payday Loans Regulation 57/2009
- New Brunswick – Bill 4 - An Act Respecting Payday loans - Cost of Credit Disclosure and Payday Loans Act, 2008-4-30
- Manitoba – The Consumer Protection Act – Payday Loans Regulation 50/2010
- Nova Scotia – Consumer Protection Act - Payday Lenders Regulations (Section 18U), R.S.N.S. 1989, c. 92
- Prince Edward Island – Bill 69 - Payday Loans Act – May 2009

[7] http://www.cpla-acps.ca/english/reports/C-26%20Eng.pdf

5. Constraints

In addition to the regulations, as described above, we noted the following:

- Vital to the operations of many MSBs, banking facilities provides the company with account, wire transfer, foreign exchange services as well as the ability to accept payment other than cash. Accordingly, without banking, many MSBs are crippled and/or can no longer operate.

- The current regulatory customer identification requirements assume that the MSB's customer is Canadian or physically located within Canada. As operations become increasingly international in nature and the use of online platforms for the provision of these services becomes more popular, the MSB sector needs to effectively address this requirement. The regulatory requirements do not make exceptions or currently provide guidance on how to this.

6. Description of sector associations

Our research has identified the following Canadian and International MSB related associations:

- *Canadian MSB Association* - "The Canadian MSB Association's mission is to provide a channel for organizations who are governed by payments compliance regulations within Canada." - http://canadamsb.org/aboutus/
- *Canadian Payday Loan Association* - The Canadian Payday Loan Association (CPLA) represents the majority of licensed payday lenders in Canada. CPLA works to ensure payday loan companies hold themselves to a higher standard of responsible service and to help customers make informed financial decisions. CPLA is the national trade association for companies that provide Canadians with short-term loans or payday advances in small amounts to help cover unanticipated expenses. - http://www.cpla-acps.ca
- *Community Financial Services Association of America* - CFSA is the only national membership trade association that provides services exclusively to the payday advance industry. Members represent nearly two-thirds of this market segment with more than 8,000 stores nationwide. CFSA is actively involved with policy makers to promote legislation and regulation that balances the interests of members with substantive consumer protections that ensure responsible and informed use of the product. - www.cfsa.net
- *Money Service Business Association of Canada* - the Money Service Business Association of Canada was established in 2011 by a group of MSBs who shared a common interest in compliance and a desire to maintain harmonious relationships with Canadian banks. The association is intended to unify MSBs in order to bring mutual benefit to MSBs, their banks, the regulators by whom they are both regulated, and the communities they serve. - http://www.msbac.ca
- *National Money Transmitters Association (North America)* - "The National Money Transmitters Association is the only broad-based group representing the state-licensed money transmitters of the United States. Our mission is to promote rational regulatory policy, industry compliance with all applicable laws, consumer protection and fair conditions for competition." - http://www.nmta.us/site/page.php?240

7. Emerging business trends

Our research and discussions have identified the following emerging trends:

- *Online Technologies and Virtual Payment Networks* – Companies are increasingly providing their services over the internet and through mobile applications. This permits companies to serve a greater number of customers without the setup of agents and branches.

- *Virtual Currencies and Virtual Payment Networks* – Virtual currencies are becoming mainstream with high profile investors and media exposure on a daily basis. The ease of use and relatively unregulated area of virtual currencies and virtual payment networks, such as Paypal, can compete with typical money transmitters.

- *AMF Licensing* - Quebec's licensing requirements became mandatory in the fall of 2013, and as a result, MSBs that operate in Quebec have different information collection requirements than that of other provinces.

- *Foreign Currency Forward Contracts* - Some MSBs provide the option of hedging their corporate customer's exposure to foreign currency swings and offered hedging. Certain provincial securities exchanges are reviewing this area to determine whether securities regulations and registration is applicable.

- *Access to Banking* - As previously identified, banking services are vital to many MSBs. With a limited number of financial institutions banking these entities, MSBs are either closing up operations or pursuing other avenues in order to continue their operations.

- *Impact of regulations on other sectors* - For example, as the banking sector responds to scrutiny from their regulators, this impacts the MSBs who use the services of the banks. This includes Canadian banks receiving detailed questions from their US bank clearing providers and then passing the question along to obtain responses from the MSBs. As a result, some MSBs have been recently told that deposits of certain US sourced funds will no longer be permitted due to regulatory requirements, like FATCA (Foreign Account Tax Compliance Act).

8. Products and services offered

MSB organizations are generally divided into those that provide foreign currency exchange and those businesses that conduct money remittances or a combination of the two. Money orders and traveller's cheques, which operate in a niche market are usually a subservice of these MSB types.

Often MSBs provide their services in specific currencies and to certain regions of the world, often related to the network of individuals serviced.

Foreign currencies, especially cash, are acquired through different sources, generally from customers, banks and other MSBs. In the most optimal operations, an MSB would be able to acquire and sell the same foreign currency, which would reduce the acquisition cost of the foreign currency; otherwise, the MSB would need to purchase additional funds at market rates from banks and other MSBs. Foreign exchange rates are generally monitored closely by the MSBs and the acquisition cost would include a spread above the official foreign exchange rates.

Currency exchange risk is also a factor for many of the MSBs and some will employ hedging, typically by offloading or selling the currency to a financial institution or another MSB. Some of the larger foreign currency companies will also offer forward currency contracts as a means for customers to hedge their currency exchange exposure.

Many MSBs, either as part of their currency exchange or as their sole business, will provide international money remittance transactions. Overall, the purpose of the money remittance transaction is to transfer funds between Canada and another country, however, in some instances, the Canadian MSB acts as an intermediary for the transaction, as funds flow in from one country to Canada and out to a third country.

The method of how the funds are transferred can differ according to the size of the transaction, location of the funds, the beneficiary, and the availability/access to banking, as follows:

- Directly through a financial institution - The MSB sends the funds as a wire transfer through the financial institution, directly to the beneficiary's bank account;
- Consolidate amounts through a financial institution - The MSB combines the funds of several senders and sent as a single wire transfer to a recipient that will divide the funds amongst the designated beneficiaries. The recipient will be either a related individual, a related business, an unrelated business with which there is an agreement to work together. The unrelated business could include a large bank in the foreign country or an MSB-type business in the foreign country which would use the local bank to receive the funds and direct the payments to beneficiaries.
- Trade-based remittance - Also known as hawala, the MSB will receive or pay out funds in Canada based on trust or an agreement with a foreign MSB. No funds are physically transferred between the foreign MSB and the Canadian MSB; in order to settle the transfer of funds from Canada to the other country,

the MSB will eventually deliver funds to a beneficiary in Canada on behalf of the foreign MSB. Variations to this method include transactions where payments are made to foreign import/export companies on behalf of the foreign MSB.

9. Type of Customer(s)

The types of customers served by MSBs vary as much as the different types of MSBs that exist. While traditional MSBs serve the "unbanked" with money transfers to foreign countries, an increasing number serve a niche market that competes with financial institutions, providing faster and better service at a lower cost.

While there are niche services that target certain ethnic markets, others position their market advantage by offering management advice and expertise, for example, hedging a corporate client's currency risk.

While transaction amounts vary depending on the customer and reason for the transaction, some attributes that have been noted are:

- Individuals sending amounts to individuals in other countries are typically smaller and sent to support family;
- Individuals receiving amounts from foreign countries will include individuals immigrating to Canada or investing/purchasing assets in Canada; and
- Corporate customer foreign exchange and remittance transactions vary in dollar amount and frequency depending on the suppliers and customers involved.

10. Geographic considerations

MSBs are predominantly located in the larger urban centres across the country, Toronto, Vancouver and Montreal, reflecting in part larger ethnic populations and/or larger numbers of business enterprises.

In addition to areas that see an increase in the number of new immigrants, another factor to consider is that Canada has a large number of foreign temporary workers that perform seasonal or temporary work including agriculture, personal care and skilled or unskilled labour. These workers, in many cases send funds frequently to support families in their native countries.

MSBs that are involved in foreign currency exchange, often due to the proximity to the US border, conduct a significant portion of their transactions between Canadian and US funds. .

With an increase in the demand for online services, an increasing number of MSBs have also begun offering their remittance services online. Geographically, these types of MSBs can operate out of a single location instead of being physically close to the customer.

Considering broadly the MSBs across the country which provide remittance services, funds are sent to all corners and countries of the globe.

11. Key points from interviews

11.1 Sector Background

1. There are few barriers to enter into the MSB market place - all that is required is FINTRAC registration - not certain of how robust the system is and how much reliance to place. Perhaps a better system is the AMF, which conduct criminal background checks and has a licensing regime. In the UK too, there is a "fit and proper" test of ensuring operators have a good track record.
2. One barrier to entry is getting banking - some banks outright refuse to serve MSBs and in some cases, the owners' personal banking. In other cases, banking is provided but at a substantially higher fees for the MSB; however, the MSB is forced to pay as there are not many options in the market place. As a result, some MSBs will operate in a "grey" area - registered with FINTRAC but operating another company, typically an import/export company.

11.2 AML Compliance

3. KYC requirements is increasing but uncertain as to how information is being used or whether it is useful. Appears that a lot of information is collected.
4. Competition is a factor - there are unregistered MSBs that operate and require few, if any customer details and no ID requirements. They operate without the regulatory cost burden of compliance. There is not enough policing to stop this activity, even when it is reported to FINTRAC.

11.3 Risk areas

5. With higher operating costs and relatively low rates of policing, MSBs can go underground. Even if the MSB remains FINTRAC-registered, money may go towards a network of weak or non-existent banking controls.
6. With the availability of conducting transactions online, businesses can move offshore to an online platform and have fewer KYC requirements.
7. Overseas counterparties can be a riskier area as uncertain how much due diligence or KYC information is collected for each transaction.
8. Some MSBs provide other services that are not regulated, such as cheque cashing and payday loan - while there are regulations in those respective areas, who is looking at whether money laundering is considered in those areas? For instance, bill payment is also a risky area but an MSB would only report if they are registered to perform FX or money transfer activity, otherwise no obligation to report. Interviewee reported instances where they have seen payments made in small bills used to pay expensive utility bills ($10k +) where there is high probability this was a grow-op.
9. Prepaid cards is a potentially risky area - many of these are not closed loop (available for use at multiple retailers) such as Mastercard or Visa prepaid - there is no KYC check at the places you can buy these cards.

12. Risk Factors

12.1 General Market

12.1.1 Ease of entry to the market

Entry into the MSB market is relatively easy, with sector participants required to register with FINTRAC (and the AMF in Quebec). In some cases there continue to be organizations which are not registered. Accordingly, sector participants can knowingly or unknowingly expose the market to money laundering and terrorist financing risks. A mitigating factor is that many financial institutions restrict the availability of banking facilities for new entrants including requiring ownership due diligence and monitoring over transactions and the MSB's compliance regime.

12.1.2 'Unbanked' MSB Activity - Unintended Consequences

As indicated, there has been significant risk management programs put in place in some of the larger banks and this has resulted in some of the MSBs becoming unbanked. To the extent that the activity is still occurring - that is, the funds still flow between parties - this unbanked activity moves underground and becomes in essence unseen and not monitored.

12.1.3 Trade Based Money Laundering (TBML)

Whether the MSB is unable to obtain a bank account or there are few if any methods of formally transferring funds, MSBs may use trade based methods to transfer funds. There is a higher risk that these methods, if unchecked, leave the system exposed to money laundering. As an example, one interviewee identified an MSB which operated by remitting funds to non-sanctioned individuals in an OFAC-sanctioned country. As there was no formal method to transfer funds, payments were made from Canada to a foreign company that potentially supplied sanctioned products to the same country.

12.1.4 Use of Services by Fraudsters and Scam Artists

The sector has been used by fraudsters and scam artists who have taken advantage of targeted individuals, for example by soliciting advanced fees with the promise to pay winnings. The use of MSB services to facilitate these crimes means that it becomes more difficult for law enforcement and victim parties to trace the flow of funds. The use of the sector for fraud generates illegal funds which are then subsequently moved and these movements become attempts at money laundering.

12.2 Products and Services

12.2.1 Virtual Currencies

The use and popularity of virtual currencies, such as bitcoin, has increased in the last several years, exposing the sector to unknown vulnerabilities, including legalities and fraud-related issues. While not currently competing with mainstream MSBs, opportunities are provided for people to launder funds as this activity is basically unregulated except through the denial of banking services. Recent cases include Liberty Reserve that had its own currency and

facilitated over $6 billion in illicit money transfers, and Mt. Gox, the bitcoin exchange that recently went into bankruptcy protection over stolen bitcoins. See Appendix A.

12.2.2 Other Services

MSBs that offer other services that are not FINTRAC-regulated, for instance cheque-cashing or payday loans, can leave the system exposed to gaps as there are few requirements regarding these activities and none of them really consider AML compliance. Businesses that offer similar, but non-FINTRAC regulated services only (e.g. cheque cashing) aren't required to be registered and therefore would have no obligation to identify and report suspicious activity. This is a significant concern and results, for example, in a specific MSB business having the currency exchange and remittance transactions it conducts subject to close scrutiny while the cheque cashing activities basically occur unmonitored. Some banks are currently discussing how to effectively address this in regards to money laundering concerns, but in the absence of regulatory requirements, are challenged to have the activity effectively monitored.

12.3 Delivery Channels

12.3.1 Size of the MSB

MSBs that are larger have more resources to devote to compliance. Smaller MSB businesses and individuals are subject to inherent risk and operate with structures which are challenged to provide effective oversight once transaction and customer volumes become too large for manual monitoring and oversight. There are a smaller number of larger businesses in this sector and a higher number of smaller organizations. It is noted that the banking sector oversight has caused a significant tightening up of the compliance regime procedures for a number of the MSB organizations, small and larger, in some respects resulting in regimes that are highly effective on a comparative basis across all of the regulated sectors.

12.3.2 Use of Agents

The use of agents is an important factor for many MSBs growing their business, especially those that target certain ethnic communities. The level of due diligence conducted on agents as well as the ability of agents to perform at a sufficient level and the ability of the MSB using the agent to monitor activity, all vary among different organizations.

In addition, individuals or entities that act as agents on behalf of more than one MSB may be at risk for knowingly or unknowingly structuring transactions. If the agent does not report this activity to the MSBs, identification and reporting of these transactions is difficult, if not impossible.

12.4 Geography

12.4.1 Overseas Counterparties

MSB remittance businesses provide services to their clients through the use of counterparties in the overseas locations that funds are sent to. To the extent that flow of funds between these parties is not monitored, subject to oversight and review, there are significant opportunities for illegal funds to be moved. Currently the regulatory regime in Canada focuses on the transactions these organizations have with their customers, e.g. the source of the money to the MSB. The regulatory regime does not provide for mandated oversight of the flow of funds at the

accumulated level. Generally, reviews of the compliance regimes of MSB businesses will highlight that funds between the counterparties were not subject to review. There is currently no incentive for the MSB business to pay for the cost to have a review of these transactions performed and reported on.

12.4.2 Movement Offshore of Online Platforms and Networks

The services of moving and exchanging money, to the extent there is access through the banking sector, can be provided through online platforms that are made accessible to customers all over the world. The movement of these platforms to offshore centres may indicate that regulatory requirements are being avoided and thus the services more accessible to those with illegally sourced funds.

12.5 Business relationships/linkages with other sectors

12.5.1 Banking "Gatekeeper role"

Without an understanding of the MSB's customers and how funds are transmitted, money transmitters can expose a financial institution to money laundering risk.

12.5.2 Overseas counterparties- see above

12.6 Transaction methods/types

Nothing specifically noted beyond the characteristics of transactions applicable to banking sector, including structuring, third parties, method of payment etc.

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Comparative Analysis Table

Money laundering and terrorist financing vulnerability assessments

Prepared for FINTRAC | March 31, 2014

Reporting Entity Sector Profiles
Money laundering and terrorist financing vulnerability assessments
Comparative Analysis Table

	Real Estate	DPMS	Securities	Accountants	Life Insurance	BC Notaries	Credit Unions	Financial Entities	Casinos	MSBs	Lawyers
Risk Factors											
General Market	Very High	Very High	Very High	Low	Medium	Not Rated	Medium	Very High	Low	Very High	Medium
Comparative level of stability of Cdn market	✓		*								
Market competitiveness at agent/individual level; quality and ethics of firms/sales individuals	✓✓		✓	*	✓✓	*	*	✓		*	✓✓
Minimum level of regulation and/or oversight OR volume of regulation challenges	✓	✓						✓			
Regulatory fragmentation			✓		✓		✓				
Ease of entry to market OR new entrants	*	✓	✓						✓	✓	
No cross border controls	*	✓									
Trade based money laundering		✓						✓		✓	
Level of law enforcement/authority awareness		✓									
Inability to share information amongst sector participants			✓	*							
High level of fraud within sector	*		✓							✓	
Management of multiple reporting lines					✓						
Governance structure: Board member requirements							✓				
Comparative risk management/transaction monitoring							✓	✓			
Exit of high risk relationships								✓		✓	
Products and Services	Medium	Medium	High	High	Low	High	Very High	Very High	Low	Very High	High
Characteristics of sector products/services/assets	✓	✓	✓	✓	✓	✓	✓	*		*	✓
Specific service e.g. iron butterfly, exempt market in securities, tax planning in accounting, international wires, wealth management)			✓	✓			✓	✓			*
Off-book products/uncertified; unregistered		✓	✓								
Purchase of life insurance policies by terrorist fighters					✓						
Expanding scope of services and/or breadth of services				✓		✓				✓	*
Delivery Channels	Medium	High	High	High	Low	Medium	High	Very High	Low	Very High	Very High
Use of agents: property purchases; agent referrals; junket operators and marketing agents	✓				✓	✓	✓		✓		✓

This table should only be considered in conjunction with the report entitled: Reporting Entity Sector Profiles- Money Laundering and Terrorist Financing Vulnerability Assessments, March 31, 2014.

Reporting Entity Sector Profiles
Money laundering and terrorist financing vulnerability assessments
Comparative Analysis Table

	Real Estate	DPMS	Securities	Accountants	Life Insurance	BC Notaries	Credit Unions	Financial Entities	Casinos	MSBs	Lawyers
Risk Factors											
Size of sector party	*	✓	✓	✓			✓			✓	✓
On-line sales / new technologies	*	✓						✓	✓	✓	
Pawnshops		✓									
Exempt market / unregistered activity / off book			✓	*							
Provision of services outside of area of expertise				✓							✓
Use of legal privilege	*			✓							✓
Geography	Very High	High	High	Medium	Low	Low	Medium	Very High	Low	High	Medium
Use of foreign money (to purchase real estate asset, offshore companies in securities sector)	✓	*	✓								
Investments in emerging markets, offshore centres	✓		*								
Global market for sector product / access to international financial network		✓				✓	✓	✓		✓	
Clients from foreign jurisdictions/high risk			✓	✓		*					*
Referrals to offshore affiliates located in higher risk jurisdictions				✓	✓			✓			*
Canadian branches of foreign financial institutions								✓			
Business Relationships/ Linkages with Other Sectors	High	Medium	Medium	High	Low	Medium	High	High	Low	Medium	Very High
Use of lawyers and their trust accounts	✓			✓				✓			✓✓✓
Supplier/counterparty risk / impacts		✓✓					✓			✓	
Reliance on regimes of other jurisdictions, other financial institutions		*	✓				✓	✓			
Lack of clarity as to who is monitoring within sector			✓		*		*				
Use of nominees	*		✓								
Providing services under guise of other sector (DPMS re wealth management)		✓									
Gatekeeper role			*	*	✓					✓	*
Conflict of interest issues				✓							
Higher risk real estate transactions (accountants and lawyers)	*			✓		✓					✓

This table should only be considered in conjunction with the report entitled: Reporting Entity Sector Profiles- Money Laundering and Terrorist Financing Vulnerability Assessments, March 31, 2014.

Reporting Entity Sector Profiles
Money laundering and terrorist financing vulnerability assessments
Comparative Analysis Table

	Real Estate	DPMS	Securities	Accountants	Life Insurance	BC Notaries	Credit Unions	Financial Entities	Casinos	MSBs	Lawyers
Risk Factors											
Clients who opinion shop				✓							
Engaged to perform work through third parties				✓							
Transaction Methods and Types	Very High	Medium	High	Low	High	Very High	Very High	Very High	Very High	Very High	Very High
Use of cash	✓	✓							✓		
Structuring									✓	*	
Incomplete deals (real estate and insurance)	✓				✓						
Corporate vehicles: including shell companies and property management companies, institutional accounts	✓✓		✓	*		*	*	*		*	*
Private mortgages and lending / source of funds for debt repayment	✓								✓		
Transactions conducted using physical/bearer securities/chips as currency			✓						✓		
Third party payments					✓						
Surrendering of large value policies early					✓						
Receipt of funds, method and sources unexpected						*					✓
Customer Types and Characteristics				High							High
Customer Types and Characteristics				✓							✓
Overall Comparative Risk Rating	Higher	Higher	Higher	Higher	Lower	Higher, (but limited)	Medium	Lower	Lower	Medium	Higher

✓ - Risk factor identified specifically and listed in report

* - Upon review, this is noted as a risk for the sector, not specifically listed as such in the report

A four point scale was used to rate each risk factor group by sector: Low, medium, high, and very high.

This table should only be considered in conjunction with the report entitled: Reporting Entity Sector Profiles- Money Laundering and Terrorist Financing Vulnerability Assessments, March 31, 2014.

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Reporting Entity Sector Profiles: Appendices by Sector

Appendix A – Industry Statistics and Reporting Entity Data

Appendix B – Case Examples and Typologies

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Reporting Entity Sector Profiles: Real Estate Appendices

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Appendix A: Industry statistics and reporting entity data

Real estate industry SIC codes

Code	Description
6500	Real Estate
6510	Real Estate Operators (No Developers) & Lessors
6512	Operators of non-residential buildings
6513	Operators of apartment buildings
6531	Real estate agents & managers (for others)
6532	Real estate dealers (for their own account)
6552	Land sub-dividers & developers (no cemeteries)
6798	Real estate investment trusts
1531	Operative builders
6553	Cemetery sub-dividers and developers
1521	General contractors – single family house
1522	General contractors – res-buildings, other than single family
1541	General contractors – industrial buildings and warehouses
1542	General contractors – non res buildings, other than ind buildings and warehouses

Real estate industry NAICS codes

Code	Description
531	Real estate
5311	Lessors of real estate
531111	Lessors of residential buildings and dwellings (except social housing projects)
531112	Lessors of social housing projects
5312	Offices of real estate agents and brokers
53121	Offices of real estate agents and brokers
531211	Real estate agents
531212	Offices of real estate brokers
5313	Activities related to real estate
531310	Real estate property managers CAN

Code	Description
23	Construction
236	Construction of Buildings
2361	Residential Building Construction
23611	Residential Building Construction
236110	Residential Building Construction
2362	Non-residential Building Construction
23621	Industrial Building and Structure Construction
236210	Industrial Building and Structure Construction
23622	Commercial and Institutional Building Construction

Using NAICs codes, searches for statistical data on the Real Estate Industry sectors were carried out on Industry Canada's Canadian Industry Statistics (CIS) site.

Real estate (NAICS 531)

Number of establishments in Canada by type and region: December 2012
Real Estate (NAICS 531)

Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	5,848	23,448	29,296	11.3%
British Columbia	9,156	35,861	45,017	17.3%
Manitoba	1,247	5,314	6,561	2.5%
New Brunswick	780	2,441	3,221	1.2%
Newfoundland and Labrador	607	1,518	2,125	0.8%
Northwest Territories	69	129	198	0.1%
Nova Scotia	1,044	3,681	4,725	1.8%
Nunavut	44	33	77	0.0%
Ontario	17,253	83,054	100,307	38.6%
Prince Edward Island	198	630	828	0.3%
Quebec	9,110	51,865	60,975	23.5%
Saskatchewan	1,357	5,087	6,444	2.5%
Yukon Territory	60	176	236	0.1%
CANADA	46,773	213,237	260,010	100%
Percent Distribution	18.0%	82.0%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments
by employment size category and region: December 2012
Real Estate (NAICS531)

Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	4,650	1,144	47	7
British Columbia	7,270	1,848	33	5
Manitoba	876	358	11	2
New Brunswick	594	183	2	1
Newfoundland and Labrador	466	139	2	0
Northwest Territories	30	39	0	0
Nova Scotia	745	290	8	1
Nunavut	9	35	0	0
Ontario	13,136	3,980	115	22
Prince Edward Island	144	52	1	1
Quebec	6,280	2,785	43	2
Saskatchewan	1,043	309	4	1
Yukon Territory	42	18	0	0
CANADA	35,285	11,180	266	42
Percent Distribution	75.4%	23.9%	0.6%	0.1%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of establishments in Canada by type and region: December 2012 Offices of Real Estates Agents and Brokers (NAICS 5312)				
Province or Territory	**Employers**	**Non-Employers/ Indeterminate**	**Total**	**% of Canada**
Alberta	1,212	4,266	5,478	10.5%
British Columbia	1,457	8,066	9,523	18.2%
Manitoba	166	1,034	1,200	2.3%
New Brunswick	129	366	495	0.9%
Newfoundland and Labrador	77	328	405	0.8%
Northwest Territories	1	3	4	0.0%
Nova Scotia	156	705	861	1.6%
Nunavut	0	0	0	0.0%
Ontario	2,795	20,958	23,753	45.4%
Prince Edward Island	18	94	112	0.2%
Quebec	1,065	8,467	9,532	18.2%
Saskatchewan	147	793	940	1.8%
Yukon Territory	3	4	7	0.0%
CANADA	7,226	45,084	52,310	100%
Percent Distribution	13.8%	86.2%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of establishments in Canada by type and region: December 2012 Real Estate Property Managers (NAICS 53131)				
Province or Territory	**Employers**	**Non-Employers/ Indeterminate**	**Total**	**% of Canada**
Alberta	591	1,719	2,310	10.6%
British Columbia	908	2,179	3,087	14.1%
Manitoba	118	341	459	2.1%
New Brunswick	47	128	175	0.8%
Newfoundland and Labrador	36	74	110	0.5%
Northwest Territories	2	11	13	0.1%
Nova Scotia	80	265	345	1.6%
Nunavut	2	2	4	0.0%
Ontario	2,183	6,434	8,617	39.5%
Prince Edward Island	11	26	37	0.2%
Quebec	1,175	5,162	6,337	29.0%
Saskatchewan	79	232	311	1.4%
Yukon Territory	3	9	12	0.1%
CANADA	5,235	16,582	21,817	100%
Percent Distribution	24.0%	76.0%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Real Estate Property Managers (NAICS53131)				
Province or Territory	**Employment Size Category (Number of employees)**			
	Micro 1-4	**Small 5-99**	**Medium 100-499**	**Large 500+**
Alberta	351	223	14	3
British Columbia	593	308	6	1
Manitoba	63	51	4	0
New Brunswick	35	12	0	0
Newfoundland and Labrador	30	6	0	0
Northwest Territories	1	1	0	0
Nova Scotia	55	24	1	0
Nunavut	0	2	0	0
Ontario	1,418	729	28	8
Prince Edward Island	7	4	0	0
Quebec	729	437	9	0
Saskatchewan	47	32	0	0
Yukon Territory	3	0	0	0
CANADA	3,332	1,829	62	12
Percent Distribution	63.6%	34.9%	1.2%	0.2%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Construction (NAICS 23)

Number of establishments in Canada by type and region: December 2012 Construction (NAICS 23)				
Province or Territory	**Employers**	**Non-Employers/ Indeterminate**	**Total**	**% of Canada**
Alberta	20,388	25,822	46,210	16.4%
British Columbia	21,245	30,509	51,754	18.3%
Manitoba	4,136	4,603	8,739	3.1%
New Brunswick	3,053	1,859	4,912	1.7%
Newfoundland and Labrador	2,294	1,093	3,387	1.2%
Northwest Territories	172	137	309	0.1%
Nova Scotia	3,716	2,631	6,347	2.2%
Nunavut	57	23	80	0.0%
Ontario	41,205	60,700	101,905	36.1%
Prince Edward Island	664	459	1,123	0.4%
Quebec	27,100	20,455	47,555	16.8%
Saskatchewan	4,379	5,212	9,591	3.4%
Yukon Territory	241	248	489	0.2%
CANADA	128,650	153,751	282,401	100%
Percent Distribution	45.6%	54.4%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Construction (NAICS23)				
Province or Territory	**Employment Size Category (Number of employees)**			
	Micro 1-4	**Small 5-99**	**Medium 100-499**	**Large 500+**
Alberta	13,125	6,918	301	44
British Columbia	13,565	7,499	174	7
Manitoba	2,282	1,823	31	0
New Brunswick	1,738	1,290	24	1
Newfoundland and Labrador	1,270	1,008	13	3
Northwest Territories	68	99	5	0
Nova Scotia	2,222	1,471	22	1
Nunavut	11	44	2	0
Ontario	24,590	16,199	384	32
Prince Edward Island	388	273	3	0
Quebec	15,826	11,053	209	12
Saskatchewan	2,544	1,796	37	2
Yukon Territory	143	97	1	0
CANADA	77,772	49,570	1,206	102
Percent Distribution	60.5%	38.5%	0.9%	0.1%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Using SIC codes, searches were carried out on Lexis to extract statistical data on the Real Estate Industry sectors from Duns Market Identifiers.

Real estate companies

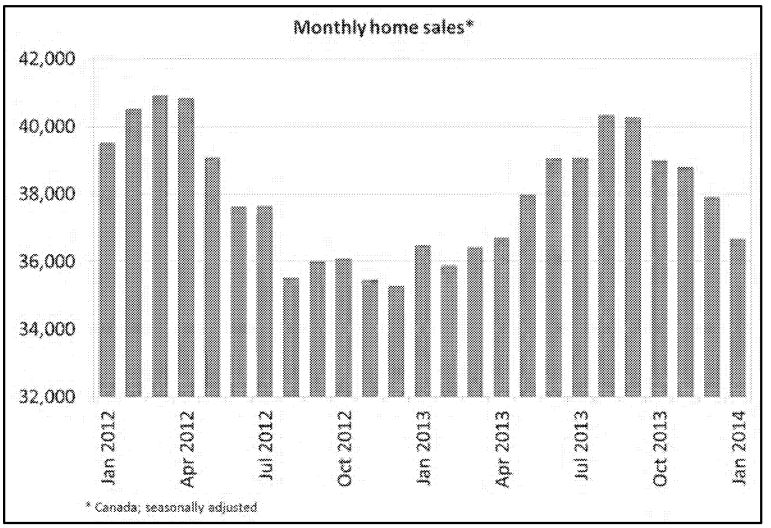
SIC Code		Ontario	BC	Alberta	Quebec	Manitoba	NWT	Nova Scotia	Nfld	Sask	NB	PEI	Yukon	Nunavut	Total
6500	Real Estate														
6510	Real estate operators (no developers) & lessors														
6512	Operators of non residential buildings	972	501	453	1222	96	11	219	97	89	105	24	4	0	3793
6513	Operators of apartment buildings	613	239	177	704	70	7	183	41	62	97	22	3	1	2219
6531	Real estate agents & managers (for others)	869	398	420	489	127	9	86	22	125	48	12	2	1	2608
6532	Real estate dealers (for their own account)														0
6552	Land subdividers & developers (no cemetries)	125	64	56	25	3	0	8	2	17	6	0	0	0	306
6798	Real estate investment trusts	35	12	19	23	3				3					95
1531	Operative builders	199	142	70	199	4		40	6	9	12				681
6553	Cemetery subdivders and developers	705	456	242	234	52	5	67	17	48	32	10	1	1	1870
1521	General contractors - single family houses	3155	1531	1517	2982	407	46	442	209	342	279	42	13	26	10991
1522	General contractors - res builders, other than single family	1059	613	432	1329	86	14	129	48	50	73	17	5	4	3859
1541	General contractors - ind buildings and warehouses	1370	439	520	1208	84	17	125	99	76	100	11	5	8	4062
1542	General contractors - non res buildings, other than ind buildings and warehouses	2614	1206	1175	2654	286	28	263	151	250	210	33	18	19	8907
6519	Lessors of real property														0
7011	Hotels & Motels	1789	1198												2987

Source: Lexis (Duns Market Identifiers)

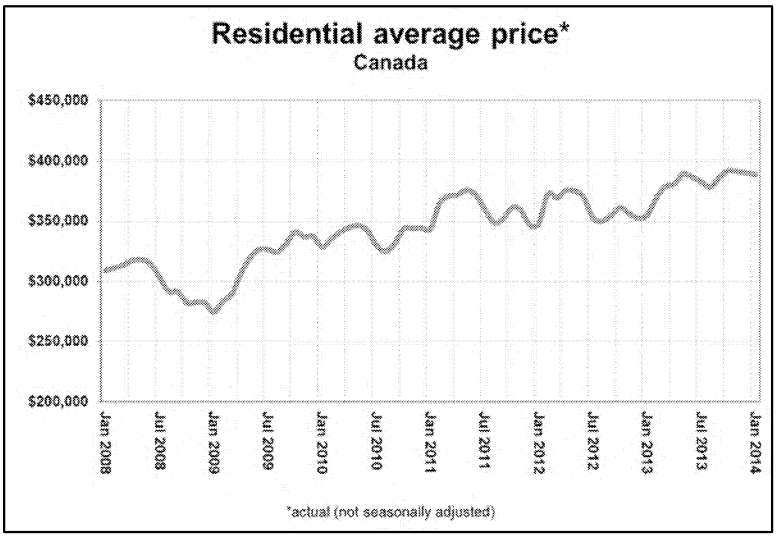
Canadian home sales by city, dollar volume (in millions)

Area	Nov. 2012	Nov. 2013	Percent change
Calgary	757.9	967.2	27.6%
Edmonton	369.7	438.6	18.6%
Fraser Valley	371.3	478.4	28.8%
Gatineau CMA	60.1	55.7	-7.2%
Halifax-Dartmouth	96.6	91.8	-4.9%
Hamilton-Burlington	333.8	377.1	13%
Kitchener-Waterloo	157.1	151.6	-3.5%
London and St Thomas	125.6	141	12.2%
Montreal CMA	867.1	847.5	-2.3%
Newfoundland & Labrador	107.9	110	2%
Ottawa	328.5	323.9	-1.4%
Quebec CMA	134.6	119.3	-11.3%
Regina	70.5	79.4	12.6%
Saguenay CMA	16.9	12.5	-26.4%
Saksatoon	114.6	130.1	13.6%
Saint John	20.2	20.9	3.4%
Sherbrooke CMA	27.3	21.7	-20.5%
St. Catharaines	40.7	37.7	-7.3%
Sudbury	41.7	35.2	-15.6%
Thunder Bay	23.9	31.6	32.3%
Toronto	2,811.5	3,444	22.5%
Trois Rivières CMA	9.3	7.5	-19%
Vancouver	1,182.3	1,852.1	56.7%
Victoria	168.5	173.2	2.8%
Windsor-Essed	61.4	64.2	4.6%
Winnipeg	209.2	212.1	1.4%

Source: Canadian Real Estate Association



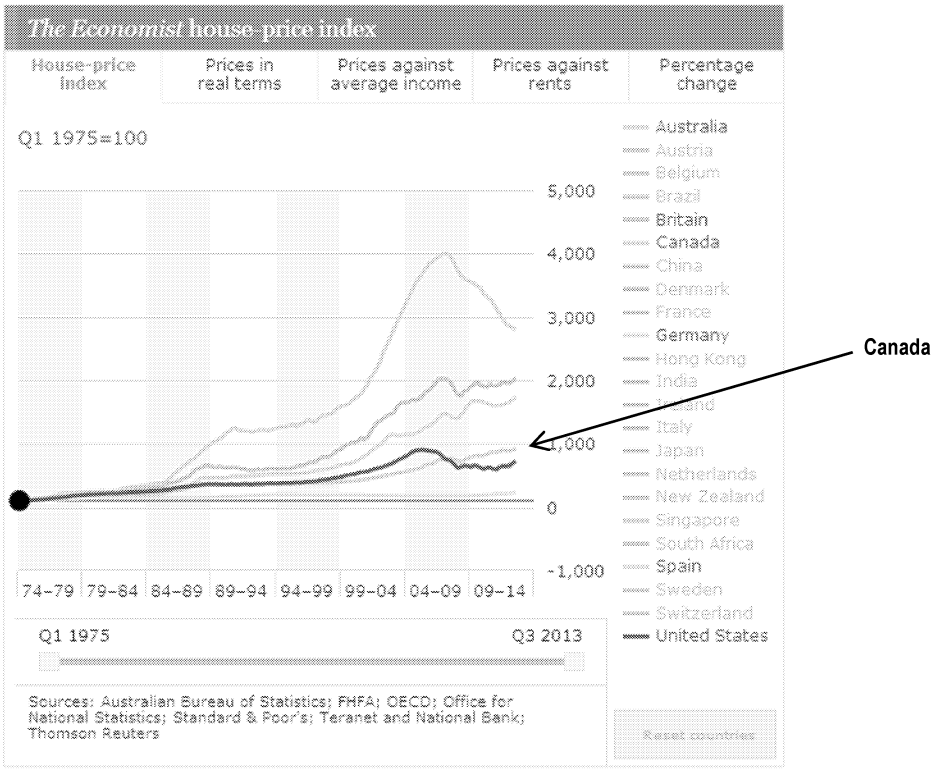
Canadian home sales as at January 2014



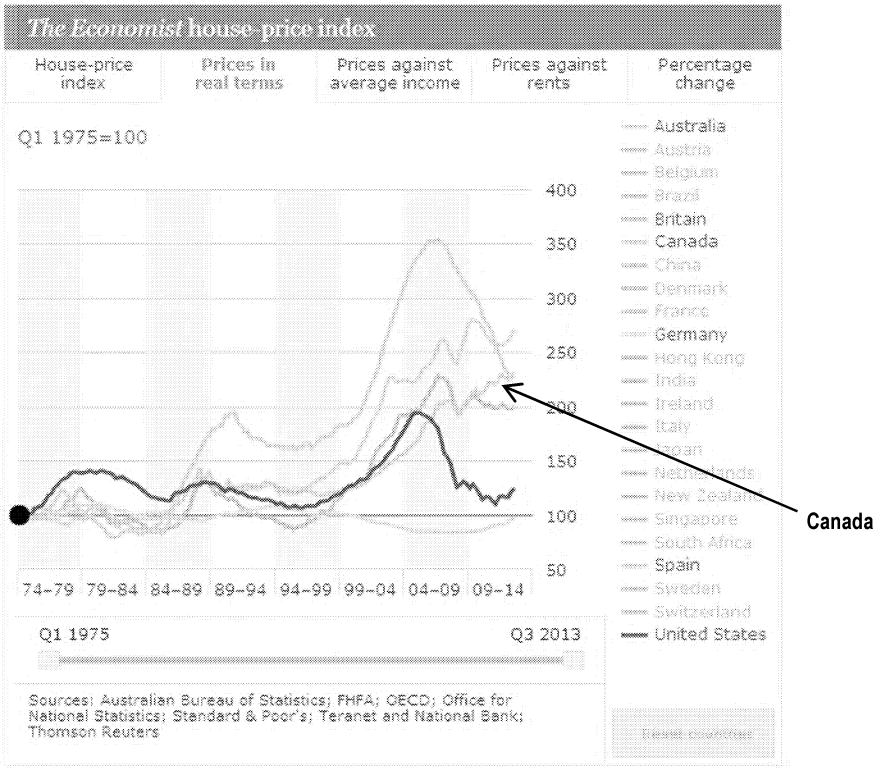
Source: Canadian Real Estate Association

The Economist House Price Index

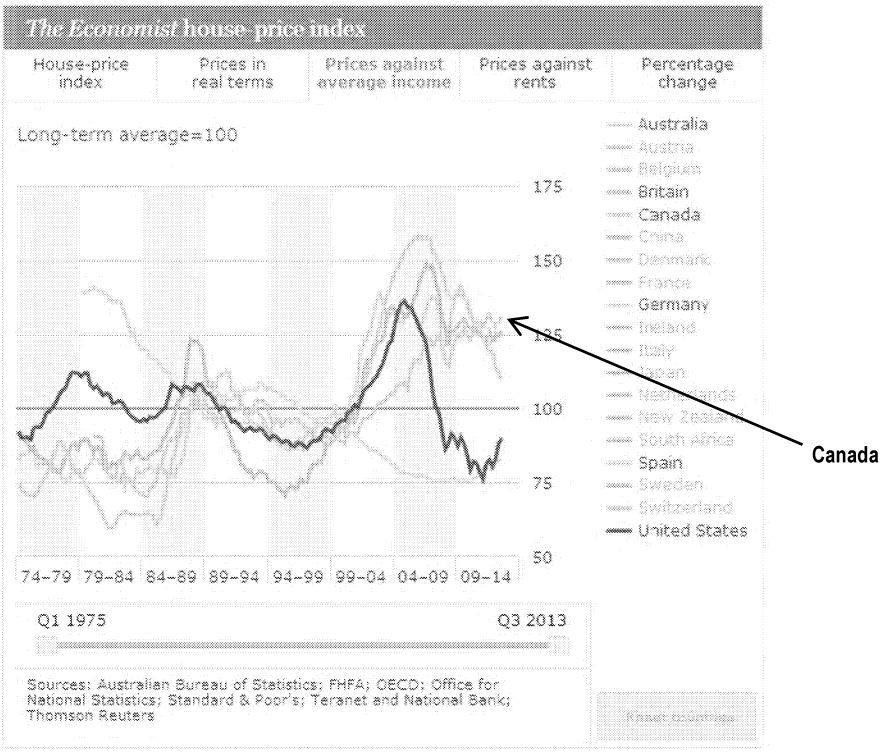
This interactive tool uses five different measures to illustrate relative house pricing on a global basis.



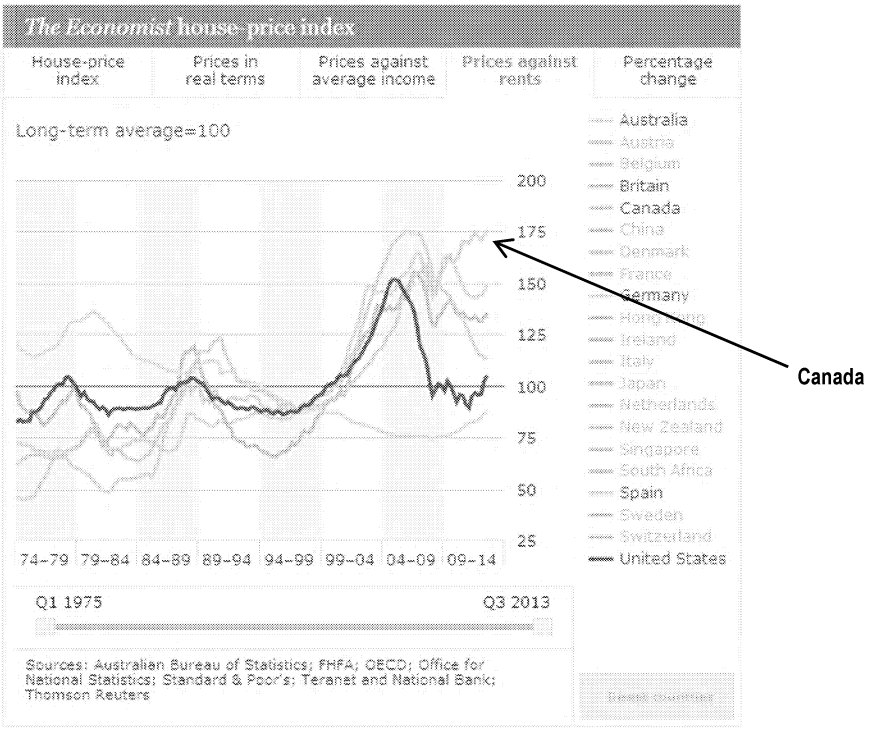
House-price index—rebased to 100 at a selected date and in nominal terms only



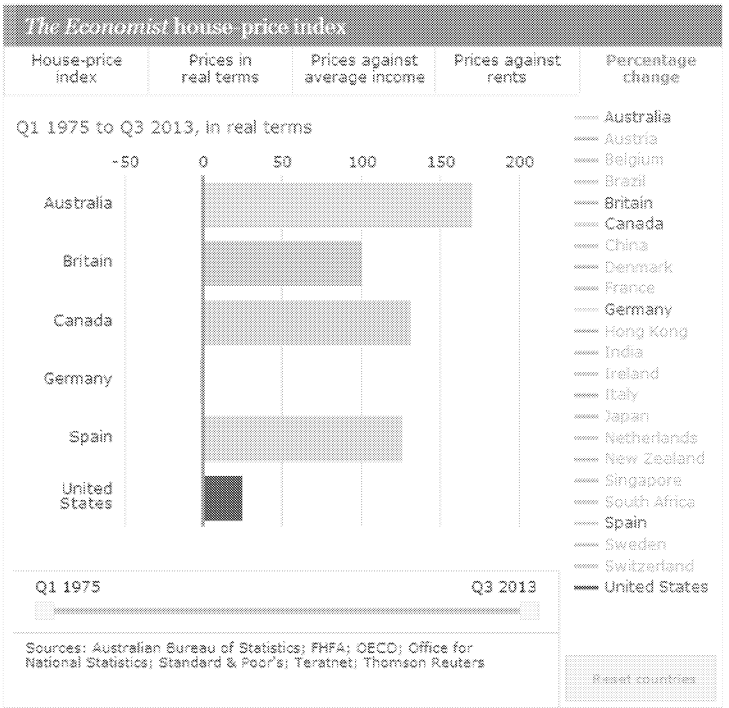
Prices in real terms—rebased to 100 for the selected date, but the index is deflated by consumer prices to take account of the effects of inflation on purchasing power.



Prices against average income—compares house prices against average incomes in each country, rebased to 100 at the selected date.



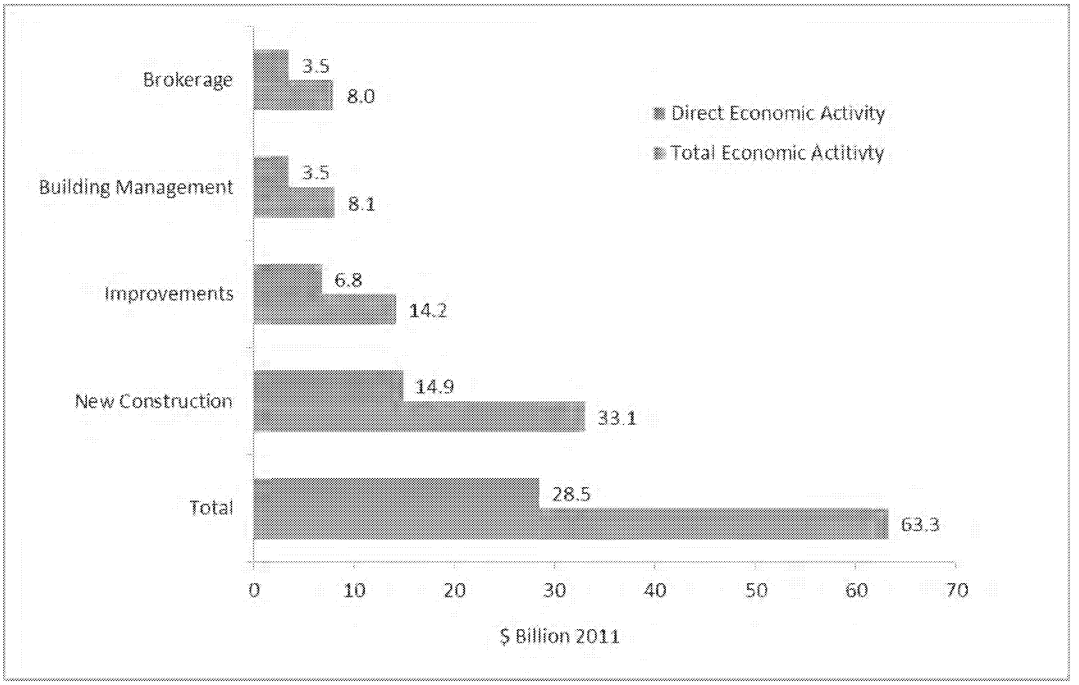
Prices against rents—compares the relationship between the costs of buying and renting, rebased to 100 at the selected date.



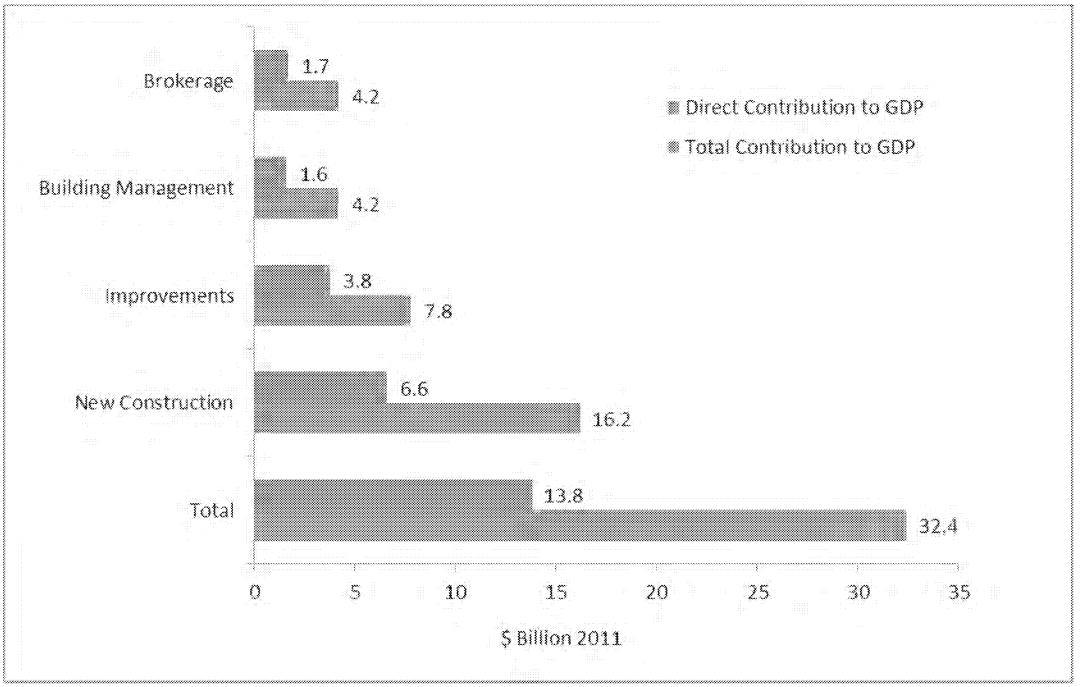
Percentage change (in real terms)—shows the increase or decrease in real prices between two selected dates.

The Contribution of the Commercial Real Estate Sector to the Canadian Economy

Economic activity generated



Contribution to National GDP



Source: The Contribution of the Commercial Real Estate Sector to the Canadian Economy – Altus Group Economic Consulting (Prepared for REALpac and NAIOP) – September 2012

Foreign investment in luxury single family homes in Canada

City	Domestic Investment	Foreign Investment	Strongest Foreign Influences
Vancouver	60%	40%	China, Iran, USA
Calgary	85%	15%	
Toronto	75%	25%	USA, China, Russian, Middle East, India
Montreal	51%	49%	China, Syria, Mexico, USA, Russia
Victoria	90%	10%	USA, England, China
Salt Spring	85%	15%	Asian, USA, European
Oakville	Increased foreign buyers in last two years		Mainland China
Niagara-on-the-Lake	Increased foreign buyers in last two years		China
Sun Peaks	75%	25%	Australia, UK, USA
Whistler	75%	25%	Australia, UK. USA
Mont Tremblant	85%	15%	

Source: Sotheby's International Realty – 2013 Top Tier Trends Report

Real estate rental and leasing and property management (Canada)

	2010	2011p
	$ millions	
Canada		
Lessors of residential buildings and dwellings (except social housing projects)		
Operating revenue	39,164.3	40,889.1
Operating expenses	33,293.6	34,614.2
Salaries, wages and benefits	1,598.6	1,626.4
	%	
Operating profit margin	15.0	15.3
	$ millions	
Non-residential leasing		
Operating revenue	35,353.2	36,427.4
Operating expenses	26,606.5	27,325.6
Salaries, wages and benefits	2,504.4	2,543.1
	%	
Operating profit margin	24.7	25.0
	$ millions	
Real estate property managers		
Operating revenue	5,052.9	5,263.0
Operating expenses	4,141.2	4,300.9
Salaries, wages and benefits	1,169.1	1,191.7
	%	
Operating profit margin	18.0	18.3

P : preliminary.
Notes:
- North American Industry Classification System (NAICS), 2007 - 53112, 53113, 53119, 53131 and 531111.
- Figures may not add to totals because of rounding.
Source: Statistics Canada, CANSIM, table 357-0017 and Catalogue no. 63-248-X.
Last modified: 2013-03-26.

Appendix B: Case examples and typologies

The enclosed articles have been sourced from news media databases, books and the Internet, and provide specific examples of the risk factors identified in the report. In particular, they illustrate how organized crime figures from other countries and politically exposed foreign persons, were able to bring presumably illicit funds into the Canadian financial system, using the real estate sector.

1. A foreign attraction to Montreal's real estate market, Montreal Gazette, November 23, 2013
2. Foreign Ownership of Canadian Property: More calls for the mystery numbers, The Vancouver Sun, November 7, 2013
3. Vancouver real estate: The fog of foreign ownership, The Vancouver Sun, March 23, 2013
4. How Asian buyers are boosting Vancouver's luxury housing market, The Globe and Mail, July 26, 2013
5. Is the money-laundering driven real estate "boom" ending, Zerohedge.com, September 30, 2012
6. Lawyers and Real Estate Transactions, Money Laundering in Canada: Chasing Dirty and Dangerous Dollars, Margaret E. Beare and Stephen Schneider, 2007
7. Saxena guilty in massive fraud, jailed for 10 years, The Vancouver Sun, June 8, 2012
8. Chinese suspect in smuggling case released into Canadian house arrest, BBC, March 10, 2001
9. Lai Changxing leads a very lavish lifestyle in Vancouver, Chinese in Vancouver, May 4, 2007
10. Court documents say alleged dragon head laundered triad cash in Canada, The Canadian Press, March 3, 2013
11. Lai Tong Sang's luxury house in Vancouver's Fraserview neighbourhood was the target of a drive-by shooting in July 1997, Montreal Gazette, February 3, 2013
12. Family brawl enthralls Asia; Gambling tycoon sues Canadian children over alleged coup as offspring, wives fight over empire, The Toronto Star, January 28, 2011
13. Fugitive's flight ends; Man accused of embezzling millions in Kazakhstan lived in luxury in King City until arrest this month, Toronto Star, February 20, 2012

14. Toronto's Trump Hotel; An exclusive first look at the tallest residential tower in Canada, built by the country's youngest self-made billionaire, Toronto Star, March 24, 2011

15. Alex Shnaider- The steel magnate, Canadian Business, December 5, 2005

16. Former oil executive says he signed controversial deal 'under duress', Globe and Mail, April 4, 2013

17. Court freezes sale of home once owned by drug smuggler; Custom-built residence 160km east of Kamloops is valued at $1.75 million, Vancouver Sun, January 27, 2011

18. Canada gets reputation as haven for fugitives, The Boston Globe, December 21, 2000

19. Beijing goes hunting for overseas real estate bought with dirty money – Qz.com – November 5, 2013

20. Canada froze billions in assets to support Arab Spring: RCMP. The Globe and Mail, July 15, 2012

21. Tunisians in Montreal protest Ben Ali family, CBC News, January 27, 2011

22. Ottawa asked to speed up seizure of ex-dictator's assets, National Post, March 15, 2012

23. Libya claims stake in Saadi Gaddafi's $1.6M Toronto condo, National Post, October 31, 2012

24. Brokers gone bad, Canwest News Service, April 20, 2010

25. Mortgage Fraud hits $1.5b a year: Easy to do, often lucrative, real estate agents say it is growing quickly across Canada, The Vancouver Sun, March 20, 2006

26. Lawyer faces fraud charges; RCMP also lay charges of money laundering after raids on Etobicoke home, Concord law office, The Toronto Star, June 9, 2012

27. Mortgage scam probed in Toronto house flips; Seven homes in the Junction were taken on a wild real estate ride that ended in a lawyer's suspension, The Toronto Star, January 7, 2012

28. Global fraudster faces new charges, The Toronto Star, April 11, 2007

29. Ice Queen pledged to sell fast food, South China Morning Post, February 28, 1996

A foreign attraction to Montreal's real estate market

BY ALLISON LAMPERT, GAZETTE REAL ESTATE REPORTER NOVEMBER 23, 2013

People are seen w aiting outside the offices for the Seville condos on St-Catherine St. W. in 2010.
Photograph by: Dario Ayala, The Gazette

MONTREAL — Down the street from Montreal's old Forum, in a bustling neighbourhood now dotted with Chinese noodle shops, ethnic grocers and new construction, the sign on the door of the Le Seville condo building asks residents in French, English and Chinese: "Do you know the person you let in?"

Since last year's annual meeting — when some condo owners from China had difficulty following the discussion — the board of directors has been translating important material — such as the sign on the door and the building's annual budget — into Chinese.

"It was clear that the Chinese buyers needed to have access to a language they'd understand, like everyone else in the building," said condo board president Colin Danby, who learned Mandarin during seven years spent in Taiwan.

"Not everything is translated. But as a board, we take that step when it is something important like building security."

Residents estimate that between 20 to 40 per cent of the Seville's co-owners are either Chinese

Canadian, recent immigrants who own neighbouring shops in the area known as Shaughnessy Village, or are foreign investors from China.

They bought into the sold-out first phase of the 477-unit Seville in 2010 — when low interest rates and an economy that had emerged relatively well from the 2008 financial crisis drove demand for Montreal condos to near-record highs.

While the vast majority of foreign real estate buyers in Canada have focused on Toronto and Vancouver, investors from China, Middle East and Europe also helped fuel Montreal's condo boom, which peaked in 2012.

In 2011, Montreal had the second highest number of permits and starts for new condos of any city in North America. Toronto was in first place.

"More inventory, more investors," said Alexandre Sieber, senior managing director of Quebec operations for real-estate services firm CBRE Ltd. "As you build inventory, you are diversifying the investor base."

Some firms estimate that up to 20 per cent of Montreal condos bought as rental properties — or to be flipped for a profit — were purchased by foreign buyers searching for inexpensive prices in a comparatively stable market.

Foreign investors have also bought small multi-unit buildings for use as student rentals and are showing interest in large properties, including vast tracts of land in the Laurentians, brokers say.

Just like Vancouver, or Toronto, there is no hard data for the number of foreign real-estate investors in Montreal.

But two foreign buyers, along with half-a-dozen commercial and residential real estate brokers, told The Gazette that sales to foreigners and landed-immigrants in areas like Westmount and LaSalle are on the upswing.

And Asian and Middle Eastern money is behind at least two new large sites downtown that are being promoted for residential development.

"We're certainly seeing an increase in foreign buyers, especially from China," said Robert MacDougall, senior vice-president for investment sales and special projects at the commercial real estate services firm Jones Lang LaSalle.

MacDougall said about 10 to 20 per cent of his offers on properties now come from foreign investors, mostly Asians.

In addition to the foreigners who've long been purchasing condos for their adult children attending McGill and Concordia universities, people who have recently arrived from Asia are also buying homes in Westmount to be close to their kids' private schools, brokers say.

Sotheby's International Realty Canada estimated recently that half of the luxury properties sold in Montreal this year were purchased by foreigners.

"Two or three years ago, I had the odd buyer show up from China. That was kind of a novelty," recalled Brian Dutch, a broker with Re/Max DuCartier, who specializes in the Westmount market. "Then all of a sudden, there was another Chinese broker calling for an appointment. And then there's another.

"From it being the odd one, there are now at least two inquiries on a weekly basis."

While foreign buyers are appreciated by the real estate industry because they purchase properties in a relatively soft housing market, investors from Asia and the Middle East have been blamed for driving up home prices in Vancouver. Economists have warned that foreign buyers also create a more volatile market driven by yields, rather than by fundamentals like having a place to live.

In Montreal, there have been a few instances of buyers from other countries failing to show up at the notary's office, after signing contracts — and leaving hefty deposits — to purchase homes.

But Montreal brokers have yet to see widespread bidding wars with Asian or Middle Eastern buyers willing to pay above-market prices.

"I have seen those kinds of news stories from Toronto and Vancouver (about inflated prices), but my clients are more cautious," said Jason Yu, a broker with the Brossard-based agency Esta Agence, whose commercial and residential buyers are mostly recent immigrants from China.

Yu, who's worked with Dutch on multiple sales to Chinese buyers in Westmount, said several of his clients are wealthy Asian families moving to Montreal as part of the Quebec Immigrant Investor Program.

A decade ago, Yu and his family came to Canada from China as immigrant investors under a program that requires applicants with a net worth of at least $1.6 million to make an $800,000 interest-free loan to the government for five years.

The Quebec program — which mirrors a federal one that's now frozen and does not accept new applicants — remains hotly debated, amid criticism that 90 per cent of the mostly Asian arrivals promptly move elsewhere in Canada, while their $800,000 stays in la Belle Province.

Quebec's quota for 2013-2014 is 1,750 immigrant investors.

Despite the large number who leave, Yu says that he also sees immigrants who choose to stay in Montreal.

In the last few months, three of his Chinese clients purchased homes in Westmount, while a fourth is looking to buy downtown condos as an investment. She said the family moved to Montreal largely for her daughter's education.

One immigrant from Shanghai described how her family moved to Westmount a few years ago through the Quebec investor program. Her husband is working in China right now while she raises their daughter and takes French classes in Quebec.

“We made the decision very quickly, based largely on what a friend from China who lived in Montreal told us,” said the woman, who spoke to The Gazette on condition that her name wouldn’t be published.

“We didn’t even know about Bill 101.”

The language law hasn’t affected the family, since her daughter is enrolled at a non-subsidized English girls’ school, where she is learning both official languages.

She said she’s constantly meeting new recent immigrants from China. Last week, the woman received a call from Dutch, who had been her real estate broker when she bought her home. Dutch invited her to meet a newcomer from Shanghai who had an accepted offer on a house in the area.

Dutch also invited the newcomer’s neighbour, a recent arrival from Beijing.

“I called my client to come over because I wanted as much for her and for them to get to know each other,” Dutch said. “Everyone was busy on their iPhones, sharing contact information and yacking away in Mandarin. It was fun.

“It’s something we haven’t seen before.”

Also new is the tendency of immigrant investors — even ones who leave Quebec — to purchase properties in Montreal.

“Will they stay? History says they won’t, but they are making investments here,” said Eric Goodman, owner of Century 21 Vision in Notre-Dame-de-Grâce.

He described one new condo project in LaSalle, where 80 per cent of the units were sold to Chinese buyers, including recent immigrants, or investors who are still in China.

“They are buying them as investments and they are buying them for family members who may come in the future,” said Goodman.

“They are always looking for places to put their money. They feel it is safe to build here, even if they’re not going to make as much of a return as in Toronto.”

Goodman’s agency also sold the land to the developers behind the YUL mixed condo and townhouse project on René Lévesque Blvd. near Lucien L’Allier Rd. The YUL project, backed by Chinese investors, is being marketed to foreign as well as local buyers.

Adjacent to YUL, land on René Lévesque Blvd. next to Guy St. has been purchased by investors from Qatar who intend to launch their Babylon residential development this spring.

The downtown area has proven attractive to investors because of the large pool of student tenants, and the limited construction of new rental buildings to replace the city's aging stock.

Indeed, investors — who make up an estimated 40 per cent of owners at Seville — generated such demand for the project that people were lining up at 10 a.m., a day before the sales office opened in 2010.

Colin Danby, now condo board president for the Seville's phase 1, arrived at 3 p.m. He was No. 58 in line, he recalled. The crowd was so large that by 8 p.m., developer Groupe Prével decided to give out tickets to buyers.

And just like the hockey scalpers outside the old Forum in the 1970s, "authorized" Seville buyers were said to be hawking condo tickets on the street for $5,000 each.

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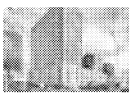
Twitter: RealDealMtl

Previous Next

People are seen w aiting outside the offices for the Seville condos on St-Catherine St. W. in 2010.

Photograph by: Dario Ayala, The Gazette



Foreign ownership of Canadian property: More calls for the mystery numbers

November 7, 2013. 6:02 pm • Section: Real Estate, The Search

Vancouver is ranked the world's second most unaffordable city for housing. But people seem more upset about how investors are driving up property prices in London, England, which is only rated thirteenth.

Why does Canada not keep public data on investment ownership in real estate, whether by foreigners or homegrown residents? The question is starting to gain more attention than when some of us in B.C. raised it earlier this year.

With Canadian cities, especially Metro Vancouver, becoming infamous for their unaffordability in regards to real estate, another voice has been added to those urging the federal Conservative government to at least collect data on the influence of investors — foreign and otherwise — on the country's housing market.

The latest call for property ownership transparency comes on top of recent **media reports in Canada that the real estate market of London, England, has become badly distorted** by ultra-wealthy foreign owners, referred to as "non-domiciled residents." The influence of such buyers, including many Russian tycoons, is said to be causing London's housing prices to "lose touch with reality." A few excerpts from the piece by Leah McLaren:

> A British finance worker employed by a private Swiss bank recently told me at a London dinner party that he spends "at least half" his working life "buying up London real estate

> for Russian clients, simply as a place to park their money." Clients, he added, who don't pay taxes in the U.K.…
>
> So what does this mean for the people who actually live in this city? Well, for people with families and jobs and net worths well under seven figures (people, in other words, like this columnist), it's not good news.
>
> Local services like state schools and libraries are essentially ignored by non-domiciled residents, who have no real stake in their community, given that they don't actually live there. And independent businesses are suffering across London from the lack of local patronage…
>
> Increasingly, in London neighbourhoods like mine, the people who do actually live here feel resentful—and baffled—by the lives of our invisible super-rich neighbours.

If that's what Canadians and the British are saying about London, what would they say about **Vancouver, which Demographia judges the second most unaffordable city in the world,** after Hong Kong. By comparison, Demographia ranked London thirteenth most unaffordable (see chart below).

RELATED: **How much foreign ownership in Vancouver? Media has no clue.**

Vancouver planner Andy Yan fights to prevent a "zombie" city

How foreign buyers are influencing Vancouver's luxury housing market

Here is an excerpt from a new column on the need to collect foreign ownership data, by Toronto business writer David Parkinson. It's headlined: **"Canada's housing numbers don't measure up":**

> … a bigger concern are the numbers on investment activity in the housing market, particularly among foreigners. They don't exist. Last week, some of the country's top economists raised this issue with federal Finance Minister Jim Flaherty, who has acknowledged that he has no hard data on how much of Canada's housing boom has been fuelled by investors who are looking to make money as property owners rather than acquire personal residences.
>
> The distinction matters a great deal. A substantial downturn in the housing market – say, one triggered by government policy – would trigger a much bigger exodus of investors than permanent residents, and so the risks to the Canadian economy rise with the proportion of investor money pumping up the market. And yet Mr. Flaherty has been crafting policy aimed at cooling the market without that information. The Office of the Superindentent of Financial Institutions has been talking since mid-2011 about uncovering the amount of foreign investment in Canada's real estate market – and yet we still have no visibility.
>
> Cleaning up this muddle of inadequate housing data must be made top priority for Canada's financial and statistical institutions. We can't keep flying blind.

Demographia's **2013 list of world's most unaffordable cities** shows Vancouver in second place and London in thirteenth:

Vancouver real estate: The fog of foreign ownership

March 23, 2013. 5:18 pm • Section: Immigration, Real Estate, The Search

Unlike in most jurisdictions around the world, neither Metro Vancouver, British Columbia nor Canadian government agencies keep public records on foreign ownership of real estate. They're unwilling to learn from what has been done for decades in diverse political places - such as Florida, Switzerland, Austria, Prince Edward Island, Manitoba, Alberta, Denmark, Japan, Indonesia, Bali, Thailand, Australia, Turkey, Singapore and Beijing.

Fear and resentment simmer just below the surface for most Metro Vancouverites. Yet the issue that worries so many has mostly come up against public silence. Until now.

A recent survey by the respected Vancouver Foundation found three out of four Metro Vancouver residents who had an opinion agreed with the statement: "There is too much foreign ownership of real estate here."

And Simon Fraser University explored this hot-button issue Wednesday evening in Vancouver through a panel discussion at the Djavad Mowafaghian Centre, which quickly sold out.

The speakers did what they could to respond to heated discussion of the growing housing dilemma in Vancouver, which Demographia has ranked the second most unaffordable city of 325 around the world.

The average cost of a single-family detached home has jumped in Vancouver to $1 million. Meanwhile, median incomes have barely budged for decades. Only Hong Kong is more expensive.

"Housing affordability in B.C. remains poor and worsening," says RBC senior economist Robert Hogue. Vancouver's unaffordable housing prices, he said, "depend on a constant flow of imported money."

Young wannabe homeowners are being frozen out of the city of Vancouver, as well as the North Shore, Vancouver, Richmond, Burnaby and elsewhere.

Local businesses, hospitals, organizations and universities can't recruit top candidates because even skilled professionals can't afford to live here. Like Hogue, many say the region's stratospheric prices are being heated up by real estate investors and speculators. Many are wealthy non-Canadians simply looking for a safe place to park their money.

What to do about this affordability crisis?

It's a complex question. But one of the strongest factors working against coming up with a working solution is there is no solid data on which to base a strategy.

Unlike most countries, cities and jurisdictions around the world, neither Metro Vancouver, British Columbia nor Canadian government agencies keep public records on foreign ownership of real estate.

For some unstated reason, B.C. public officials are unwilling to learn from what has been done for decades in diverse political places – such as Florida, Switzerland, Austria, Prince Edward Island, Manitoba, Alberta, Denmark, Japan, Indonesia, Bali, Thailand, Australia, Turkey, Singapore and Beijing.

Indeed, these jurisdictions do not only collect data on foreign ownership, they have brought in various taxation methods to restrict property speculation and foreign ownership, to reduce investor demand. That's what specialists say drives up prices and squeezes out locals.

UPDATE: Vancouver planner Andy Yan fights to prevent a 'zombie' city (April 20, 2013)

"Passports of convenience" stir strong Canadian disagreement (July 13, 2013)

RELATED: Chinese immigrants: Why they come, why one-third return

Mapping Metro Vancouver: The rise of ethnic enclaves

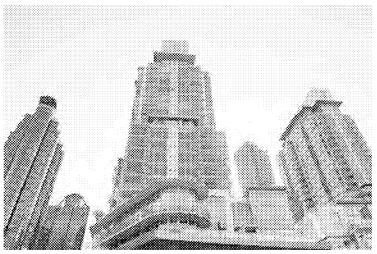
Sadly, when British Columbians are forced by politicians to operate in a vacuum about rates of foreign ownership, we are not able to fully back up our opinions in this debate – which often pits homeowners and the real estate industry against young people and renters.

One side in the dispute doesn't want to discourage foreign investment, admitting they like the out-of-country real estate profits. Some of them add that condos not filled by offshore owners can be rented out.

The other camp talks about how hard-working people deserve the chance to own a home.

And they lament that untold Metro Vancouver homes sit largely empty, without residents who would be contributing more strongly to the neighbourhood, the wider economy and the tax base.

If we are to have an authentic dialogue about these competing arguments, we need to press governments to start gathering the facts. Fast.



People have dramatically different figures on how many Vancouver condos are empty or foreign owned. Researcher Andy Yan admits it's not reliable to track the addresses to which B.C. property assessment reports are sent. Nor is it dependable to determine if condos are vacant by measuring how much electricity they use.

So far, B.C. politicians have shown no willingness to gather accurate data. As elected officials who are supposed to answer to voters, their inaction seems irresponsible.

Perhaps they fear being labelled racist. But that doesn't make sense, for many reasons.

The foreign investor debate is not about immigrants to Canada buying homes for themselves. And it should make no difference to government officials collecting property data whether non-Canadian investors come from Seattle or Dubai, Paris or Singapore.

In addition, concern about foreign ownership clearly cuts across Metro's ethnic spectrum. The Vancouver Foundation survey, for instance, found residents who speak Chinese in their homes, by a margin of almost three to one, also agree "there is too much foreign ownership of property here."

So far there has been only a handful of public figures willing to openly air this burning issue. They include Peter Ladner, former Non-Partisan Association councillor and a current fellow of SFU's Centre for Dialogue.

"Because our housing prices are around 10 times median income – with five times being 'severely unaffordable' – potential newcomers to the region stay away and the valuable workers move away," writes Ladner.

"If we are really serious about affordability in Vancouver, we would be looking at more homes for more people and fewer homes for investors and speculators."

Ladner is supported by Sandy Garossino, a prominent businesswoman and arts philanthropist. Andy Yan is another weighing in, trying to figure out the extent of foreign investment, and empty dwellings, in Metro Vancouver.

But Yan, who spoke at the forum sponsored by SFU's Vancity Office of Community Engagement and the SFU City Program, would be the first to admit he has had to use desperate measures to try to collect any sort of information on foreign ownership.

Random stories from neighbours or realtors are not enough, suggests Yan, who has been consulting for Bing Thom Architects and a committee of the city of Vancouver.

Yan uses humour to explain the research challenge: "The plural of anecdote is not 'data.'"

To determine the extent of foreign ownership, Yan also admits it's not entirely reliable to track the addresses to which B.C. property assessment reports are sent. Nor is it really dependable to determine if condos are vacant by measuring how much electricity they use. Which he has tried.

What's stopping politicians from collecting proper data?

If scores of jurisdictions around the world, including in struggling developing countries, are able to collect solid information about foreign ownership of real estate, why can't it be done in our rich, technologically sophisticated province?

Hong Kong is just one of many places getting serious about the problem of foreign ownership.

As Ladner has pointed out, Hong Kong officials have discovered that, since 2009, about "half of new luxury apartments purchased are never occupied. Is this where Vancouver is heading?"

Foreign ownership of residential property is a divisive issue, which cuts to the heart of the hopes and dreams of most Canadians. Politicians at the municipal, provincial and federal level need to respond to it in the way of scientists.

Faced with important questions, good scientists and academics don't just cast aspersions about someone else's character. They get serious about collecting evidence.

Then they move to solutions.

Only by checking the facts can our society creatively move forward for the benefit of as many Canadian residents as possible.

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MORE: Here are some informative Peter Ladner columns on foreign ownership of Vancouver real estate:

'Fiscal reality continues to elude Vancouver real estate market' - Feb. 2013

"We need more homes for people, fewer for investors" - Jan. 2012

'Questions about affordable real estate need answers now" – October, 2011

'Foreign investors driving 'scary' real estate prices" – April, 2011

* * *

RELATED: **The Myth of Foreign Buyers?**

March 27: How much foreign ownership in Vancouver? Media shows it has no clue.

How does foreign ownership influence Vancouver property prices? Panel

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THE GLOBE AND MAIL

How Asian buyers are boosting Vancouver's luxury housing market

HADANI DITMARS
Special to The Globe and Mail
Published Friday, Jul. 26 2013, 5:27 PM EDT
Last updated Monday, Jul. 29 2013, 5:30 PM EDT

There is a buzz at the first Canadian conference of the Asian Real Estate Association of America happening here in Vancouver.

Chinese-American agents from Chicago, Kelowna-based realtors with Chinese buyers looking for vineyards and even a lone cowboy agent from Boise, Idaho, who have gathered here for a few days of seminars and contact-making are all talking about it: the much-touted "luxury-home tour."

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There is some last-minute drama from disappointed would-be tour-goers who could not secure a seat on either of the two buses taking realtors to four homes that range upwards from $9-million. And at the 11th hour, a Globe and Mail contributor is informed that "media have been banned" from entering the first house on the tour. That would be the $22.8-million, four-storey home in Upper Shaughnessy that, at a cursory glance, reveals at least 10 pages of Google entries showing every nook and cranny of the cyborg Tudor mansion that appears half pastiche-traditionalist/half state-of-the-art smart house – at least to judge from its glossy brochure.

But my seatmate, a charming Chinese-American agent from the United States, returns from the "media-free" tour of the would-be Vancouver Gatsby's abode underwhelmed. "This is not a house for the Chinese buyer," she says. "It's not contemporary enough. There's too much dark wood panelling and old-fashioned interiors."

While the 1980s wave of Hong Kong buyers, raised on British colonial tradition, might have gone for this kind of Tudor fantasia, not so for the current Asian investor. According to a recent article published in Vancouver's Chinese-language newspaper Ming Pao, the main group that is feeding this year's 70-per-cent jump in sales of homes over $4-million in Greater Vancouver

Is The Money-Laundering Driven Real Estate "Boom" Ending?

Submitted by Tyler Durden on 09/30/2012 11:42 -0400

One by one all the money-laundering loopholes in a broke world are coming to an end.

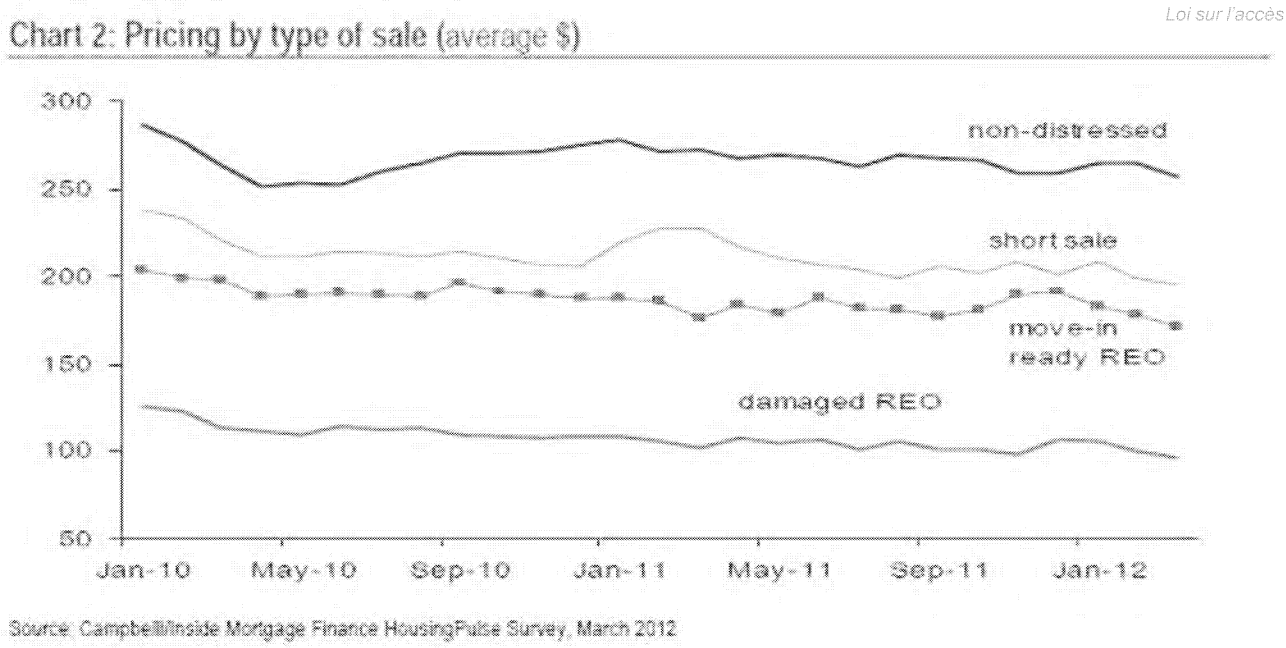
First it was Swiss bank accounts, which for centuries guaranteed the depositors absolute secrecy, and as a result saw money inflows from all the wealthiest savers in the world, who felt truly safe their wealth (obtained by legal means or otherwise) would not be redistributed forcefully. In the ecosystem of finance, Switzerland was***the*** depositor bank. Then 2008 happened, and starting with the US, shortly to be followed by every other insolvent country, demands were issued for a full list of people who had used Zurich and Geneva bank vaults to avoid the risk of asset taxation, capital controls and confiscation on their own native soil. The result was the end of the Swiss banking sector as the ultimate target of all global money laundering. In the ensuing power vacuum, others have sprung up to take its place, most notably Singapore, but its days as a tax-haven are numbered by how long it takes China to fall face first into a hard landing at which point no saving on the Pacific seaboard will be safe.

Now, it is the turn of real estate.

While hardly a secret, for decades the ultra-luxury housing segment in any country was the target not so much of local wealthy individuals and business, but**foreigners**, for whom the grass was always greener, and sought to put their money into "hard assets" abroad to save it from local confiscation. After all, it is far easier to be sued and prosecuted by your own government than a foreign one. Two very vivid examples are the most expensive house in Miami ever sold, which two months ago fetched a price of $47 million, which was purchased by "a Russian who bought the home in the name of a U.S.-based limited-liability company" and in the until recently a record $88 million paid for a 15 CPW penthouse for the daughter of Russian billionaire, Dmitry Rybolovlev (bought from Citi's Sandy "End TBTF" Weill). The record was topped at $90 million paidfor a One57 duplex apartment paid by an unknown individual, almost certainly a foreigner.

The common theme here of course is that foreigners come to the US (or London, or Geneva, or Hong Kong) or any other wealthy megapolis with their almost always ill-gotten, and untaxed gains, spend the money indiscriminately on local real estate even as the local authorities look the other way because by lifting any offer, these foreigners, while laundering illegal money, are also keeping the all important housing market afloat thus perpetuing the illusion that the domestic economic is rising. Instead all that is happening is it is attracting illegal foreign capital flows.

The biggest beneficiary so fas has been the US, which in the past 2 years has seen not one but four housing markets develop, as we have showed before.



And while the lower-end segment has continued to implode (see Foreclosure Stuffing), it is the ultra-luxury part of US housing that has bootstrapped the housing market.

For now. Because if London is any indication, global ultra-luxury real estate market is the next "Swiss bank account."

What happened in London? The NYT explains:

> ***At the request of the Athens government, the British financial authorities recently handed over a detailed list of about 400 Greek individuals who have bought and sold London properties since 2009.***
>
> *The list, closely guarded, has not been publicly disclosed. But Greek officials are examining it to determine whether the people named — who they say include prominent businessmen, bankers, shipping tycoons and professional athletes — have deceived the tax authorities by understating their wealth.*
>
> *"These people have money and they are known — but it is not clear yet if they have violated any laws," said Haris Theoharis, an official in the Greek Finance Ministry. Tax investigators have been examining the list to see whether there is any overlap between those who bought London properties and those already identified as being tax cheats.*

What a broke Greece will find without a doubt, is that of the 400 Greeks who spent millions on London real estate, virtually none paid any taxes in previous years. Also, they most certainly declared zero offshore real estate. After all why should they: until this moment foreign real estate was the default mode of funneling capital into safe destinations.

Alas, as the Swiss banking SNAFU showed, in the New Normal, nothing can be taken for granted any more. First it is Greek demands for London real estate transparency. Next it will be Putin asking Geneva and Vienna to point out which Russian oligarchs bought real estate there, then Mariano Rajoy, as broke as Greece, will ask for a list of all Spaniards buying real estate in London **and**Geneva. Until finally, someone returns the favor to Uncle Sam, who was the first to blow up the myth of Swiss bank secrecy, and requests a list of all broke European buying real estate anywhere between New York to Los Angeles.

What happens then? Well, as we have been writing for months, for now the NAR, best known for misrepresenting the real state of the existing US housing market for years, has an open waiver for anti-money laundering regulation from none other than Uncle Sam. Because while it is one thing to blow up the biggest breadwinning industry in Switzerland to pad the tax bill and to spread class warfare, it is something totally different to represent to the world that ultra-luxury segment aside, which is merely an artifact of global money laundering, the US real estate housing emperor is as naked as he was 4 years ago.

As a reminder, here is where the NAR stands on the issue of its most generous clients possibly being some of the worst criminals known to man, courtesy of Elanus Capital:

> *Many of you reading this will undoubtedly have spent time in an international bank and been forced to sit through countless hours of "know your client" and AML training. Fascinating to note that the National Association of Realtors lobbied for and received a waiver from such regulation. That's right, realtors actually went to the U.S. government and said: we want to be able to help foreign business oligarchs and other nefarious business people launder money through the real estate markets of the United States – and prevailed.*
>
> *Here's their official position:*
>
> *"NAR supports continued efforts to combat money laundering and the financing of terrorism through the regulation of entities using a risk-based analysis.* ***Any risk-based assessment would likely find very little risk of money laundering involving real estate agents or brokers****. Regulations that would require real estate agents and brokers to adopt anti-money laundering programs* ***may prove to be burdensome and unnecessary given the existing ML/TF regulations that already apply to United States financial institutions."***
>
> *Hat's off to the NAR – that is some serious doublespeak.****My translation: We'll support you as long as we don't have to support you.***

Indeed it is. What the NAR is saying is that for now go ahead and lift every offer on every duplex and triplex off Central Park. Your money is absolutely safe with us... this instant. But the second a broke Europe comes demanding reparations for endorsing 4 more years of Obama (something that wasalready documented), for destroying the Swiss banking industry, and for keeping the EUR much higher than it would have been had it not been the Chairman's 5 easing episodes, all bets are off.

This means all European, Asian, and even local oligarchs may be sweating just a little bit, now that the winds have shifted, and suddenly what was considered safe and untouchable, has become fair game in the great "fairness" redistribution scheme that is the only game left in a broke and insolvent global town.

bank accounts or between multiple trust account files established on behalf of the client or companies beneficially controlled by the client, for no apparent commercial reason or financial gain.

The services of a lawyer are especially essential in large-scale money-laundering conspiracies. Indeed, in the largest money-laundering operations uncovered by the RCMP to date, all have identified the persistent involvement of one or more lawyer in conducting suspicious transactions for clients. One such example is that of a Montreal lawyer named Giuseppe (Joseph) Lagana who was sentenced in 1995 to thirteen years in prison for masterminding a $47-million money-laundering operation.[34] Another is Basil Rolfe, a Vancouver-based lawyer who admitted to handling at least $8 million in drug proceeds between January 1993 and June 1994.[35] Lawyers are often required as part of large-scale money-laundering operations 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 requires the expertise of white-collar professionals working to construct and navigate the laundering operation through the complexities of the legitimate business and financial world.

In short, the nature of the involvement of lawyers in money laundering is dictated by the complexity and sophistication of the laundering operation itself. In rudimentary schemes such as those involving the simple purchase of a home, a lawyer is not sought out by the money launderer but becomes involved out of the necessity to involve legal professionals in real property transactions. In these cases only a limited range of services are offered by the lawyer, who is generally not in a position to detect a suspicious transaction or client (especially given the lack of due diligence conducted on clients). 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 wide 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.

Lawyers and Real Estate Transactions

The instances where lawyers came into contact with the proceeds of crime are mostly the result of the popularity of real estate as a money-laundering vehicle, combined with the necessary role of lawyers in real

estate transactions. Typical services provided by lawyers to clients purchasing real property include 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 trust account as part of the real estate deal, including deposits, down payments, 'cash-to-close,' and mortgage financing.

In a case we have previously discussed, Frederick Tatum, a principal player in a New York-based Jamaican drug trafficking group, arranged to have large amounts of cash physically smuggled into Canada by family members who then laundered the money through financial institutions, law firms, and real estate transactions in Toronto. The drug cash was often taken directly to D. Charles English, a real estate lawyer who was frequently involved in facilitating real estate transactions by family members with tainted funds. A ledger seized from English's law office indicated that the amounts of cash provided to him on any single transaction ranged from U.S.$11,000 to $65,000, much of it in $100, $50, and $20 bills. Most of the real estate purchases made by Tatum family members were immediately preceded by large cash deposits into their lawyer's bank account. Between 1995 and 2000, the period in which Tatum was most active in the drug trade, family members purchased and sold more than forty homes in the Greater Toronto Area. Title to most of these properties was registered in the name of family members or companies controlled by them. In addition to facilitating the purchase and sale of these properties, English was also involved in drafting mortgage contracts, which in many of the property purchases were purportedly between members of the families, but which police ultimately traced to Frederick Tatum's drug revenues. In six real estate transactions, the total cost of the properties was CDN$1,382,696 and of this total, $940,396 was allegedly financed by various family members. English was also a registered owner of three properties, co-owned by two of Frederick Tatum's sisters.

The lawyer's role was significant. A vast number of real estate transactions conducted by family members involved the family's lawyer. On 15 August 2001, a search warrant was executed at English's law offices and in response, the lawyer asserted a claim of solicitor-client privilege on behalf of his clients. However, on 19 December 2001, a judicial order was issued that the documents seized from the law office be turned over to the RCMP. These documents became essential evidence in the

proceeds of crime investigation. Although homes registered in the names of family members were forfeited as the proceeds of crime, the lawyer was never charged.

Incorporating Companies

Lawyers are often used in a number of capacities to facilitate laundering schemes involving criminally controlled companies. First, they are used to incorporate companies, which includes completing all the necessary paperwork, filing the appropriate incorporation and tax documents with government regulatory bodies, setting up bank accounts, and establishing a board of directors. 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 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.

During one proceeds of crime investigation into three Alberta-based cocaine and marijuana traffickers, named Jake Dowling, Mark Shields, and Sam Zimmerman, police identified three lawyers who helped the accused in setting up and operating companies which were eventually proven to be nothing more than money-laundering vehicles. Documents seized by the RCMP indicated that Sherry Howell acted as legal counsel on behalf of Dowling in the incorporation and preparation of annual returns for DowlShields Investments Inc., a public company in which Dowling and Shields each held 50 per cent voting shares. The corporate address listed for this company was Howell's law office. Documents seized by police from the law office of Howell also showed that she represented Dowling in the purchase of real estate, the title of which was registered in the name of DowlShields Investments Inc. Among the documents were letters from Howell addressed to the company, including certificates of incorporation, bank statements for commercial accounts, and documents showing that Dowling and Shields were directors and shareholders of the company. Another lawyer acted on behalf of Dowling in incorporating a numbered company, conducting real estate transactions on behalf of Dowling or numbered companies he controlled, purchasing a car wash, and preparing lease agreements between Dowling and the tenants of a home that was used for a marijuana grow operation. Finally, documents seized by police indicated that Gordon Hoffner, a partner in a local law firm, acted on behalf of Mark Shields and Sam Zimmerman in the incorporation of three other Alberta companies.

Legal Trust Accounts

Criminal revenue is often placed in a law firm's bank account in the name of the offender, a nominee, or a company associated with the offender. In the majority of the police cases, trust accounts were simply used as part of the normal course 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 a money-laundering operation should not be underestimated: 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 is often used as an essential link between different money-laundering vehicles and techniques, such as real estate, criminally controlled companies, nominees, and the deposit and transfer of illegal revenues. In short, a legal trust account can be used in all four stages (placement, layering, integration, and repatriation) of the money-laundering process.

In one case, Peter Humber used the proceeds from the sale of cocaine, marijuana, and steroids to purchase several homes throughout British Columbia. He admitted to an undercover police officer that he regularly provided cash to his lawyer who would then deposit the funds into his law firm's bank account, $4,000 to $5,000 at a time. When the balance of the account reached a certain level, Humber would use the funds to purchase property. The same lawyer represented Humber in the purchase of most of these properties. Police were able to prove that many of the homes were purchased with the proceeds of crime and used as locations for marijuana grow operations. When asked about his money-laundering operations by an undercover police officer, Humber explained that he purposely used legal trust accounts to help block access to information about the true ownership of funds in the account. Humber boasted to the police officer that legal trust

accounts are 'safe havens' because the police, taxation officials, or the 'bar association' could not readily access them.

Lawyers 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, in fact, no rational explanation why the client was providing large amounts of cash to his/her lawyer.

For example, on 2 October 2000, Rob Cheney was convicted in Edmonton for drug trafficking and received an eighteen-month sentence. The proceeds of crime investigation showed that Cheney had amassed considerable assets over the years, despite the fact that he had no legitimate source of income. Cheney laundered his drug profits through banks, companies he established, legal trust accounts, and real estate. Real estate purchases would often be financed in part through funds from legal trust accounts filled with deposits of cash directly generated from drug sales. Cheney used different lawyers and law firms to facilitate his laundering activity, including Ron Day of Day and Company, Barristers and Solicitors, and Lester Barry of Barry, Egbert, Krauss (and formerly of Day and Company).

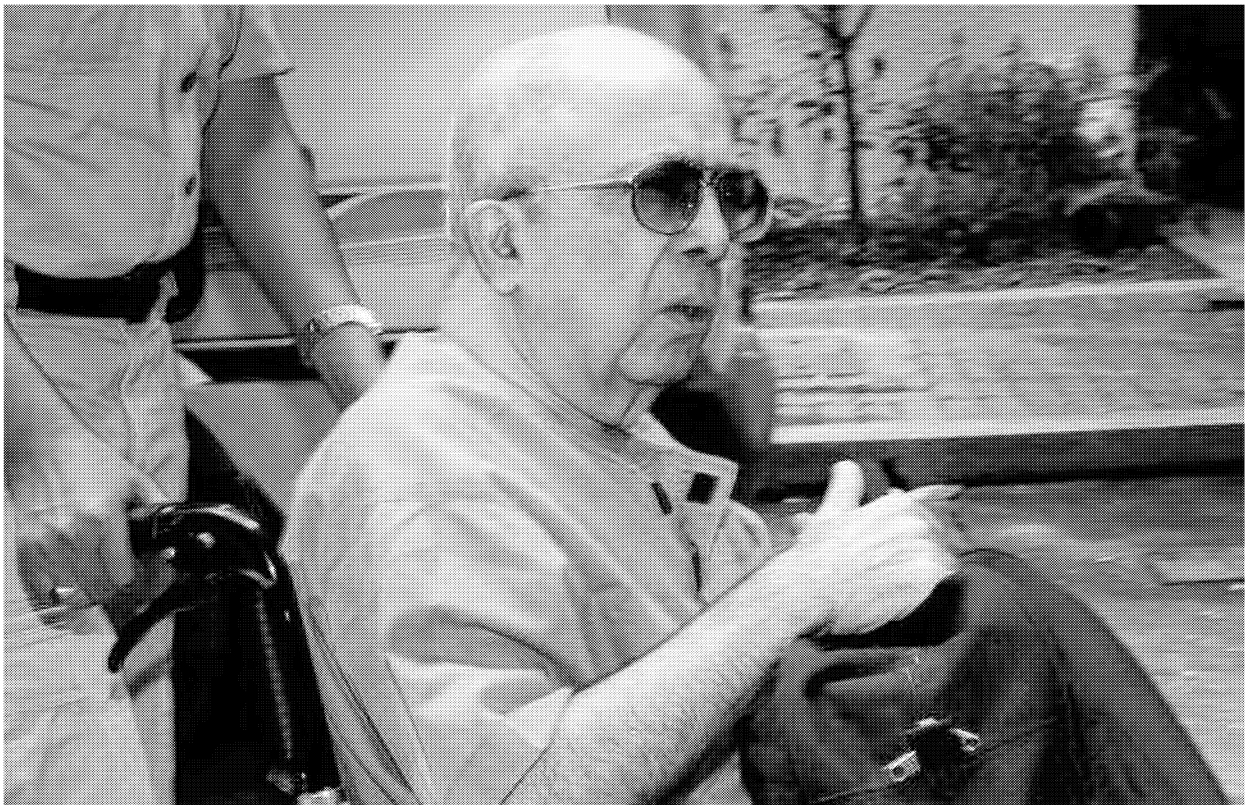
The services provided to Cheney by the law firms included facilitating the purchase of real estate, setting up and maintaining shell and active companies, and accepting large sums of cash from Cheney. Ron Day personally made many of the cash deposits in trust for Cheney. Police seized a number of deposit slips, dated between 17 July 1993 and 18 April 1998, indicating that Day had deposited $285,000 (ranging from $19,000 to $70,000, mostly in Canadian $100 bills) on behalf of Cheney. All of the deposit slips included the signature or initials of either Ron Day or Lester Barry. Police intercepted a phone conversation in which Cheney described how he once visited his lawyer with a suitcase containing $150,000 in cash, which was subsequently deposited for Cheney in trust. In another phone conversation, Cheney was heard to say that his lawyer accepted a suitcase with $60,000 in cash, which was also deposited into the trust account. These funds were then used to purchase a Porsche 911 for Cheney. In another phone conversation, Cheney directed an accomplice to deposit $35,000 in cash into Cheney's lawyer's trust account.

Accountants

Like a legitimate company, criminal entrepreneurs must keep track of their revenue and expenses, as well as assets and liabilities, and ideally this job is best carried out by someone possessing accounting or bookkeeping skills. Although criminal organizations parallel legitimate businesses in many ways, they are unique in that few businesses purchase millions of dollars in product using cash. The principal job of an accountant working for a successful criminal enterprise is to keep track of the volumes of cash generated by drug trafficking and other profitable crimes. In police cases where accountants were implicated in laundering money, they were used to provide accounting services for both the personal and company-related finances of criminal entrepreneurs.

The need by large-scale criminal operations for accountants was made vivid during a trial of Hells Angels' members and associates in Quebec. 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 Nomads 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 which indicated that in one eight-month period in 2000, the Nomads made $92 million from the sale of cocaine. In one recording taped secretly by 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,' Bourgoin responds. 'He worked twenty-five years for the government. And he was Rizutto's 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.' Bourgoin was most likely referring to Vito Rizzuto, described by police as the head of Montreal's leading Mafia family.[36]

Other than the necessity of tracking large amounts of cash in small denominations, police cases show that the tasks performed by accountants for criminal entrepreneurs are no different than that which they perform for legitimate clients. Large-scale criminal entrepreneurs require accountants to help not only with their own personal finances but also with the companies that have been set up to clean their illegal



Rakesh Saxena, a former adviser to the Bangkok Bank of Commerce, in a wheelchair is pushed by a prison official upon his arrival at criminal court in Bangkok, Thailand Friday, June 8, 2012. Saxena, 60, an Indian national, was sentenced to 10 years in prison and ordered to pay US$41 million in fines and compensation for embezzlement that helped spark the 1997 financial crisis.

Photograph by: Apichart Weerawong , AP Photo

Rakesh Saxena, the former Thai bank official who holed up in Vancouver for 13 years while fighting extradition on embezzlement charges, has been sentenced to 10 years in jail in Thailand.

Saxena, 59, was found guilty on five counts of securities fraud between 1992 and 1995, having siphoned off tens of millions of dollars from the now defunct Bangkok Bank of Commerce, where he was employed as an adviser.

The scandal caused a run on bank deposits and led to the bank's collapse, contributing to the devaluation of the baht and a regional crisis.

Saxena was arrested by RCMP in Whistler in 1996, but staved off extradition until October 2009, when the Supreme Court of Canada refused to hear his last-ditch appeal, officially ending the longest extradition proceeding in Canadian history.

The Bangkok South Criminal Court was told how Saxena had set up 60 businesses in Thailand and used them to secure loans from the bank to cover debts and running costs, but instead channelled the money into personal accounts, mostly in Switzerland.

"The defendant clearly demonstrated his intention to take funds from the damaged party to invest for his own personal use, depositing the funds into several overseas accounts," the judge said in reading the verdict.

Estimates of the money he stole from the bank vary from $60 million to $82 million. The court did not give a total.

Saxena, wearing orange prison fatigues and in a wheelchair, appeared frail and confused as the sentence was passed. He was also ordered to pay 1.13 billion baht ($35.8 million) in damages and a 1-million baht fine.

For 13 years and three months, Saxena fought extradition at every possible turn, costing Canadian taxpayers millions of dollars.

During most of this time, he lived in the relative luxury of house arrest — albeit at his own expense — first in a False Creek condo, and later in a more spacious house in Richmond's Terra Nova area.

During this period, he wreaked havoc on the financial market, mainly by promoting essentially worthless stocks that trade on the U.S. over-the-counter markets.

He conspired with Vancouver crooks and securities offenders to cheat investors, both here and abroad. Among them were Summerland bank robber Luke Sommers; as well as Toronto stockbroker Stephen Taub and West Vancouver stock promoter Don Rutledge, both certified stock offenders.

He was the consummate tar baby: Almost everybody who came within his orbit — brokers, lawyers, politicians — seemed to be caught in his web of deception. Many sued for redress, many more were sued by Saxena, who used and abused our courts for his personal purposes. (Court records show he was a plaintiff or defendant in 36 different lawsuits filed in B.C.)

Police and securities regulators, for the most part, stood by and did nothing, trusting he would soon be extradited. He also had a lawyer-like ability to orchestrate deals to keep himself legally onside, even though he was morally offside. In 2005, after it became apparent that he had arranged for European boiler rooms to flog worthless stock, he insisted he was simply an intermediary and not a party to any of the contractual arrangements. "It's a thin red line, I grant you, but it's still a red line," he told me.

He also managed to embarrass Canada internationally by plotting a military coup in Sierra Leone while in custody at the police lock-up at 222 Main Street.

After news of the planned coup leaked to the media, which forced him to cancel his plan, he cheekily told reporters there was nothing in the terms of his detention preventing him from plotting coups in foreign countries. The embarrassing part was that he was right.

His most remarkable characteristic was his patience and resilience. There are not many people who could spend so much time in a cage, albeit a gilded one, without any apparent distress.

Even on Friday, when it appeared that all was lost, he wasn't about to give up.

"We have to appeal, of course," he told reporters. "This sentence is absolutely wrong … Nobody in this country knows the financial laws. It's the Bank of Thailand and the prosecutors who are to blame."

dbaines@vancouversun.comWith files from Reuters

BBC

Chinese suspect in smuggling case released into Canadian house arrest.

282 words
10 March 2001
07:20
BBC Monitoring Asia Pacific - Political
BBCAPP
English

Text of report by Radio TV Hong Kong audio web site on 10 March

Fugitive Lai Changxing and his wife Tsang Mingna have been released from the custody of Canadian police and allowed to return to their **luxury home** under an elaborate and costly plan for house arrest. Beijing is seeking Lai's extradition back to the mainland, where he is wanted as the alleged king-pin of a multi-billion-dollar smuggling ring. But Lai is fighting the move, saying he would likely face execution just like 14 people who have already been sentenced to death for their involvement in the racket. Francis Moriarty reports.

[Moriarty] In street clothes, no longer wearing handcuffs, and described by their lawyer as delighted to end their three-and-one-half months in detention centre, Lai and Tsang were returned to their condominium, where they will live under a house arrest scheme including electronic surveillance and round-the-clock guards, for which they will pay 13,500 US dollars a week. An immigration adjudicator rejected pleas by immigration officials to keep the pair incarcerated, releasing them instead to their luxurious residence in Burnaby, British Columbia. The couple entered **Canada** two years ago using Hong Kong passports and were later arrested. They subsequently sought asylum as refugees, and immigration officials had argued the pair should be kept in custody, because given their wealth and the likelihood of a death sentence on the mainland, they would probably try to flee if they lost their bid for refugee status and faced extradition.

Source: RTHK Radio 3 audio web site, Hong Kong, in English 1000 gmt 10 Mar 01.

Document bbcapp0020010710dx3a004wn

Lai Changxing leads very lavish lifestyle in Vancouver, court told

posted 5/04/2007 12:12:00 AM

CIV - China's most wanted man Lai Changxing is leading a lavish lifestyle in Vancouver where he rents an apartment in the super upscale Coal Harbour area, drives a $150,000 BMW and dines out every night at very expensive restaurants, according to court documents.

Interestingly, Lai has been driving in Canada for years without a license and has been observed to have an "erratic driving habit".

Lai was arrested on April 19, 2007 at 11:30 a.m. by police accusing him of breaching his release condition, just three hours before an abjudicator of the Immigration and Refugee Board delivered his decision to lift all curfew on Lai.

According to standard procedure, Lai was entitled to a detention review within 48 hours of his arrest. The transcript of the April 20 hearing shows us the first detailed description of Lai's life in Canada, after almost 8 years he came to Vancouver.

Providing all the interesting details on the detention hearing was Katherine Fast, an inland nforcement officer with the CBSA. She led a 10-officer team to conduct a 7-day close survellance of Lai Changxing in February. Fast's duty was to present facts that Lai did breach his conditions as he quite frequently leaving home before and coming home after his allowable time. Immigration and Citizenship Canada wanted to demonstrate that his lavish lifestyle has much to do with his breaching of curfews.

Fast indicated that Lai drove a $150,000 black BMW and a Lincoln Town Car. His last known address was an apartment unit on 1300 block of W. Pender, the centre of the expensive Coal Harbour area.

Lai eats out every day at least for dinner, if not lunch and dinner at "very expensive Asian restaurants mostly," Fast said.

Fast recalled one occasion in which Lai treated 6 other individuals at Kobe Japanese Restaurant on Alberni St. "They were in a private room in the back and we were informed by the staff the bill was hundreds of dollars."

The people Lai hangs around seem to be affluent, too. "There's constant meets with other people in very expensive vehicles. There was Mercedes, Lexus, BMW's. He went to very expensive homes, million dollar homes, in Shaughnessy, Surrey, Richmond," Fast said.

"Several of the homes had sophisticated surveillance equipment attached to the home. It wasn't your regular routine home alarm."

Fast described there seemed to be "every day a constant buzz."

Lai Changxing loves driving. He drives even if he's visiting a restaurant just two blocks away.

"I should mention that his driving habits and behaviour is erratic at best. He tends to drive well under the speed limit at times and then at other times, particularly one day on the highway he was recorded at going over 140, 150 kilometres an hour," Fast said.

She said that, to her best knowledge, Lai does not have a proper driver's license. "My understanding is that he continually fails his driving test."

And that may be why the Lincoln he drives is registered under a female name with him listed as the principle driver.

Throughout the 7 days, Lai was able to get away from surveillance from time to time. Fast was certain that Lai knew some "counter surveillance" tactics.

"That particular evening there were, I believe there five -- one, two, three four -- there were five vehicles parked outside Angus Drive. There were approximately 20 to 25 people that exited the house at the same time, including Mr. Lai," said Fast. "An unknown Asian female got into the BMW and blocked our lead car from following Mr. Lai."

And Lai's behaviour during the surveillance acted strange sometimes. For instance, on a Friday, Lai spent most of the day driving all over town, stopping at various places for no more than 5, 10 minutes at the most.

"He went into three separate different alleyways, left the car running, people would come to him into the vehicle. They would then get -- either get in the vehicle with him, stay there briefly, and then leave."

The government lawyer J. Davidson believed he had made a very good case that Lai constantly broke the rules and that stringent restrictions should be maintained on him.

However, the adjudicator said these arguments have been settled by another adjudicator on April 19, which lifted all his curfew.

Adjudicator Tessler said the CBSA has numerous chances to arrest Lai for repeatedly breaching his restrictions. However, CBSA has been excusing him until April 19, just three hours before the curfew review decision was to be released. The timing of the arrest was questionable.

Tessler said the detention hearing was not about appealing to a previous IRB decision. If so, CIC should address the question in a federal court.

Lai was released.

http://chineseinvancouver.blogspot.ca/2007/05/lai-changxing-leads-very-lavish.html

FACTIVA DOW JONES

Court documents say alleged dragon head laundered triad cash in Canada

BY DENE MOORE

CP
732 words
3 March 2013
17:31
The Canadian Press
CPR
English

VANCOUVER _ An accused triad leader from Macau laundered millions of dollars of dirty money in Canada as immigration officials waited over a decade for access to police wiretap information that allowed them to move to have him deported, court documents show.

Lai Tong Sang, the alleged ``dragon head'' of the Shui Fung gang who fled a bloody turf war by coming to Canada, was the subject of an investigation by the Integrated Proceeds of Crime Unit, according to documents filed with the Federal Court of Canada in Vancouver.

``I was informed that although the subject's financial record and transactions indicate trends of money laundering activity, they did not have sufficient evidence to meet the criminal standard of proof beyond a reasonable doubt,'' says the December 2011 report by Canada Border Services Agency.

However the standard of proof in an immigration matter is less than in a criminal court, it notes, and immigration officials point to a report from FINTRAC _ Canada's financial intelligence agency _ to contend there are reasonable grounds to believe Lai ``was or is'' involved in money laundering activities. From Oct. 15, 2002 to Nov. 8, 2006, investigators tracked 49 separate electronic funds transfers.

The transactions amounted to $2.1 million and US$140,000, the report stated.

Lai and his wife, accompanied by their three minor children, arrived at Vancouver airport on Oct. 28, 1996, under a permanent resident visa.

His immigration made headlines, as he was well known in Macau media as the head of the Shui Fung, or Water Room, gang.

But it wasn't until July 2011 that immigration officials completed reports alleging Lai was not admissible to Canada due to his ties to a criminal organization.

In November 2011, Lai filed an application with the Federal Court for a judicial review of the agency's decision to try and have him removed from Canada.

The then-14 year delay was ``unreasonable and prejudicial to Mr. Lai and his family,'' argued his lawyer, Peter Chapman.

``Previous investigations were done and the government apparently decided not to take proceedings to cancel Mr. Lai's permanent resident status,'' Chapman submitted to the court.

But that was not the case, say documents filed with the court.

``It should be noted that it is extremely difficult to investigate or prosecute members of organized crime, given that they are often sophisticated, very mobile, have access to vast resources and use violence or threats to intimidate witnesses,'' says a report by Citizenship and Immigration filed in court.

Evidence from wiretaps and police investigations was not able to be released at the time that Lai arrived in Canada and was the target of an assassination attempt by gang rivals, says the report.

During three days of hearings before the Immigration and Refugee Board last week, police witnesses described the intertwined criminal investigations that touched Lai's case.

The assassination plot was linked to Simon Kwok Chow, the purported leader of the rival 14K triad in Vancouver. Chow was convicted of the first-degree murder in February 2001 in an unrelated case and sentenced to life in prison.

Chapman argued there is no allegation that Shui Fung was engaged in activities that constituted indictable offences in Canada. Not so, said immigration officials.

``Information within the disclosure packages indicates that the Shui Fong were involved in various criminal activities, but not limited to, murder, assault, extortion, gang fighting, illegal gambling, and living off the avails of prostitution,'' says the report.

Lai's membership in the Shui Fung is lifelong, says the report, ``even if he is not active in criminality in Canada.''

Lai first applied for permanent residence in February 1994, an application that was referred for enhanced criminal checks because of his membership in a triad organization, say the court documents.

With that process stalled, Lai sent a letter March 15, 1996, withdrawing the application in Macau. He had filed an application in Los Angeles two weeks earlier, on March 1.

Lai did not attend his IRB admissibility hearing in person, but called in from Macau. His wife and children do live in Metro Vancouver, and immigration officials are seeking to have them removed on the grounds that material facts were misrepresented in their visa applications.

A decision is not expected in his case for several months.

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The Canadian Press

Document CPR0000020130304e9330003u

Search Summary

Text	Alleged dragon head laundered triad cash in Canada
Date	All Dates
Source	All Sources
Author	All Authors
Company	All Companies
Subject	All Subjects
Industry	All Industries
Region	All Regions
Language	English

Lai Tong Sang’s luxury house in Vancouver’s Fraserview neighbourhood was the target of a drive-by shooting in July 1997.

Lai Tong Sang’s luxury house in Vancouver’s Fraserview neighbourhood was the target of a drive-by shooting in July 1997.

FEBRUARY 3, 2013

Lai Tong Sang's luxury house in Vancouver's Fraserview neighbourhood was the target of a drive-by shooting in July 1997.

FACTIVA DOW JONES

TORONTO STAR

News

Family brawl enthralls Asia; Gambling tycoon sues Canadian children over alleged coup as offspring, wives fight over empire

Tony Wong **Toronto** Star

1431 words
28 January 2011
The Toronto Star
TOR
ONT
A1
English

When asked about his biggest regret, billionaire gambling magnate Stanley Ho was surprisingly candid.

"Time is something you have to sacrifice," he told me in his first Canadian media interview in 1990. "You can't go from 9 in the morning and stop at 5. That's why I admit I'm not a very good husband, and not a very good father. It's tough, because you can't spend the time."

More than two decades later, Ho's worst nightmare - perhaps the worst nightmare for any Asian family that values a sense of harmony above almost everything else - has come true.

A bitter feud between his three surviving wives and 17 children over the family empire burst into the open this week and has become Asia's leading soap opera.

Foremost among the squabbling factions are Ho's five Canadian children, including trusted confidante and businesswoman Daisy Ho, a University of **Toronto** graduate, and second wife Lucina Laam, who decorated a luxurious mansion the family still owns on the **Bridle Path**.

The faction is led by Daisy's Canadian sister Pansy Ho, owner in her own right of a gambling franchise, and one of the most prominent and powerful businesswomen in Asia.

The stakes in the bizarre saga that unfolded this week are high.

Ho transformed the sleepy former Portuguese colony of Macau into a gambling mecca in the 1960s.

Its gambling revenues are now more than three times those on the Las Vegas Strip.

And taxes on Ho's companies account for about a third of all the government revenues in Macau. Forbes places his wealth at $3.2 billion, but some analysts feel the figure could be much higher.

The 89-year-old is unquestionably China's most flamboyant billionaire. He loves ballroom dancing and is famous for a succession of wives. (He acknowledges children from four; the first wife is deceased.)

The family feud came to light this week when Ho declared his third wife, Ina Chan, and five Canadian children had improperly taken control of a 31.7 per cent stake in the holding company that controls his wealth.

He then appeared to retract that in a televised interview with family members at his side, saying he had given written consent to the transfer and no longer needed the lawyer he had hired to contest the matter.

Hours later, however, a writ of summons was filed in Hong Kong High Court, formally stating the original claim.

The feud began last month when Ho apparently handed over controlling interest of SJM Holdings, which owns 20 of Macau's 33 casinos, to Laam and Chan and their offspring. This apparently did not sit well with the family of wife No. 1, Clementina Leitao, who died in 2004. Those children say they have been left out in the cold.

"I cannot believe that my father would leave my mother's family with nothing at all," said daughter Angela Ho. "My father speaks to me often and has stated publicly about how he intends to divide his estate evenly amongst his children."

It was Leitao's standing in Portuguese society that allowed Ho to start his gambling empire, according to Angela Ho. (Macau is a former Portuguese colony.)

Relations are also believed to be tense between family members and Angela Leong, Ho's fourth wife, who has an 8 per cent share in the casino operation, which makes her a strong contender to take over that part of the business.

But so far it looks like the Canadian faction is winning.

The Canadian children and mother appear to control much of Ho's wealth through shares of Lanceford, his private holding company. Through Lanceford, Ho has a vast fortune in **real estate**, transportation, infrastructure and gaming. There are also investments in Portugal, Vietnam and North Korea.

The Canadian children retain strong ties to **Toronto**. They still own the home on High Point Rd. in the **Bridle Path**, purchased in 1987 for a record $5.5 million.

They also own the landmark Sutton Place hotel on Bay St., a popular hangout during the **Toronto** International Film Festival.

The Hos also own Sutton Place hotels in Canada and in the United States. Sources told the Star the **Toronto** hotel has been conditionally sold to a domestic buyer. That buyer has until next month to do due diligence on the **property**.

The Sutton Place Vancouver and the Sutton Place Edmonton are also "under contract," meaning that they are also conditionally sold in what could be one of the largest hotel deals this year, said the source. The U.S **property** based in Chicago has not been sold.

The Ho children keep a relatively low profile while living in **Toronto**.

Shy and retiring, Daisy Ho did her MBA at the University of **Toronto** and was the former president of the alumni association in Hong Kong. Lawrence, the youngest son, who earned his bachelor of commerce at the University of **Toronto**, is a hockey nut who plays in a league in Macau. They and Pansy are Canadian citizens.

Daisy is the chief financial officer of Shun Tak, her father's transportation and **real estate** holding company, and has long been a trusted confidante. But it has not been easy living under his giant shadow.

"Why am I my father's daughter?" she told me in an introspective interview over lunch in Hong Kong. "And if I am not my father's daughter, would I be happier?"

When I last asked in 2007 whether her father had a succession plan, Daisy Ho shook her head.

"Nobody would discuss that with dad because, for one thing, he's still going so strong. He still is very hands-on in business, although he's given us a free hand in the day-to-day operations of the company."

The drama still has to be played out. And of course Ho is still very much alive. His life story, from rags to the god of gambling, is familiar to China's one billion people.

Stanley Ho's father, the scion of one of the best and oldest families in Hong Kong, lost everything on bad stocks in the 1930s. He decamped for Saigon, leaving his wife and 13 children behind, penniless.

"People would turn their face on me when they saw me on the street. I learned how to be truly humble," Stanley once told the Star.

To avoid a lifetime of menial jobs, he worked hard and won scholarships to Hong Kong University.

"When war broke out, I started all over again in Macau, working for a Chinese, Portuguese and Japanese company," he said. "It was easy to make your million then."

After the war Ho returned to Hong Kong and invested in **real estate**. In 1962, he won the public tender for Macau's gambling monopoly.

Ho lost his monopoly when the Portuguese colony reverted to Chinese rule in 1999 when U.S. and Australian companies invaded the market. But this also created opportunities for Ho, who still controls at least a third of Macau's gambling thanks to his Canadian family forming strategic alliances.

His son Lawrence co-owns Melco Crown Entertainment with James Packer, Australia's richest man. Pansy and Daisy are co-owners of MGM-Macau, which also competes with their father's famous Lisboa brand casinos.

Despite running a major gambling company, Daisy Ho does not gamble herself. She learned her lesson after losing $20 at a casino table during a Mediterranean cruise.

Billionaire Stanley Ho poses with family members last fall at Government House in Hong Kong. A dispute over the fate of his fortune has erupted. A DYNASTY DIVIDED: Shown in the photo above are just some of the feuding Ho family members. Stanley Ho has 17 children with four women he calls his wives. The first wife is deceased. Pictured, from left, are 1: Florinda Ho, Ho's daughter by his third wife 2: Alice Ho, Ho's granddaughter by his fourth wife 3: Angela Leong, Ho's fourth wife and a key shareholder in his empire 4: Stanley Ho, billionaire gambling magnate 5: Lawrence Ho, Ho's Canadian son and partner of Australia's richest man in a casino company 6: Pansy Ho, one of Ho's Canadian children, widely viewed as her father's successor 7: Daisy Ho, another of Ho's Canadian children, CFO of one of his holding companies. AFP/GETTY IMAGES

Toronto Star Newspapers Limited

Document TOR0000020110128e71s0002p

Search Summary

Text	("bridle path" OR "post road") AND toronto AND ("real estate" OR Property)
Date	All Dates
Source	All Sources
Author	All Authors
Company	All Companies
Subject	All Subjects
Industry	All Industries
Region	Canada
Language	English

TORONTO STAR

Greater Toronto

Fugitive's flight ends; Man accused of embezzling millions in Kazakhstan lived in luxury in King City until arrest this month

Emily Jackson Toronto Star

550 words
20 February 2012
The Toronto Star
TOR
ONT
GT1
English

A Kazakh **fugitive** accused of embezzling about $20 million from his homeland was living in a lavish King City **mansion** until his recent arrest.

Accused in Kazakhstan of **fraud**, counterfeiting and organized **crime**, Rustem Tursunbayev's life on the run from the law ended when Toronto police and the **Canada** Border Services Agency arrested him on an immigration warrant Feb. 10.

"He is believed to be inadmissible to **Canada** under the organized **criminality** sections of the Immigration and Refugee Protection Act," CBSA spokeswoman Antonella DiGirolamo wrote in an email.

Tursunbayev, 49, is believed to have lived in the GTA since he entered **Canada** as a permanent resident in July 2009, police said.

Property records show Tursunbayev and his wife, Nataliya, bought their four-bedroom, seven-bathroom **house**, complete with a pool, for $3.6 million in August 2009.

His wife chronicled the transition to Canadian life on her blog, written in Russian. "Good or bad is not yet clear. On the one hand, well, that we are in a new free country; on the other, sadly, without relatives and friends," she wrote on Dec. 30, 2009.

Last August, Interpol issued a "red notice" - which seeks the arrest of a person with a view to extradition - indicating Tursunbayev was wanted in Kazakhstan. Less than a month later, Tursunbayev sold the **mansion** to his wife for $2.

A woman who answered the phone at the King City **home** confirmed Tursunbayev was arrested, but refused to comment further.

Tursunbayev appears to have been self-employed and working in the money markets during his time in **Canada**, said **fugitive** squad Det. Rick Mooney.

Tursunbayev will remain in custody until his next detention hearing because he is "unlikely to appear for immigration processes," according to Immigration and Refugee Board spokeswoman Anna Pape.

It's not clear exactly what prompted the charges from Kazakhstan. Tursunbayev has ties to the state-owned nuclear company Kazatomprom, which was embroiled in a corruption scandal in 2009.

He served on the board of the World Nuclear Association from 2004 to 2006, the association confirmed, when he was a vice-president at Kazatomprom, according to a company news release.

In 2009, Kazatomprom's president, Mukhtar Dzhakishev, was charged with expropriation and embezzlement. He was later found guilty.

While Tursunbayev's Facebook page showed him on hikes in the woods near his new **home** and on family trips to Ottawa, Dzhakishev was languishing in prison.

Human Rights Watch has criticized Kazakhstan for not giving Dzhakishev access to legal counsel. Many believe his imprisonment and 14-year sentence are politically motivated, the organization noted in 2011.

Corruption is rife in Kazakhstan, according to a 2011 report by the Organization for Economic Co-operation and Development.

While in **Canada**, Tursunbayev followed affairs back **home**. He posted numerous articles on Kazakh politics on Facebook, as well as Transparency International's 2011 list of the most corrupt countries. **Canada** was ranked the 10th most transparent, Kazakhstan the 120th.

Rustem Tursunbayev Rustem Tursunbayev bought this mansion, seen in a real estate listing, for $3.6 million on Aug. 28, 2009. He sold it to his wife for $2 last year.

Toronto Star Newspapers Limited

Document TOR0000020120220e82k0000f

TORONTO STAR

Business

Toronto's Trump Hotel; An exclusive first look at the tallest residential tower in Canada, built by the country's youngest self-made billionaire

Tony Wong Toronto Star

1712 words
24 March 2011
The Toronto Star
TOR
ONT
B1
English

At the age of 42, Alex Shnaider has built the tallest residential tower in **Canada**.

It is a noteworthy accomplishment. But perhaps it's even more so for a rookie developer who acquired the land in 2002, when he was just 34, and already the country's youngest self-made billionaire.

But Shnaider is a man of action, not words. And self-praise does not come easily. Not even when you have owned your own Formula 1 team and soccer club. Or just happen to be the builder of the landmark Trump International Hotel & Tower in Toronto's financial district.

"Well, I think it is very nice," says Shnaider of his new project.

This gross understatement brings a snort of laughter in the opulent hotel suite that Shnaider and his partner, Val Levitan, president and CEO of Talon International Development Inc., are sitting in.

"Very nice? Alex likes to downplay everything. It is an incredible, huge accomplishment to get this built," says the more animated Levitan. "This is a true trophy building."

Certainly, the suite may not be as nice as Shnaider's 205-foot yacht that he is building, (trading in his smaller 170-foot Benetti that he used to rent for $270,000 a week when he wasn't using it), or his private Global Express jet, or the chauffeur-driven $450,000 Maybach that he comes to the interview in. Or the new **home** on the Bridle Path that he moved into just before Christmas.

But, if you are looking for a hotel in Toronto, it doesn't get much, well, nicer.

Like Shnaider, the typical Trump customer lives large.

The 950-square-ft. one-bedroom suite the partners are sitting in will rent for close to $1,000 a night. The largest suite, at 4,000 sq. ft., will have 11-foot ceilings and will be furnished with pieces by Italian couture **house** Fendi. It will go for $20,000 per night, a record price for a room in **Canada**.

And then there are the condominiums above the hotel.

Asking prices for the suites average $1,650 per sq. ft. Shnaider has yet to move into his 8,000-sq.-ft.penthouse with the 20-ft.-high ceilings, valued at more than $20 million.

The Star got an exclusive interview with Shnaider and a sneak peek at the hotel before it is scheduled to open in late spring.

Last Friday, Shnaider was given an occupancy permit for the hotel, a milestone that has taken almost nine years.

"It is a landmark building. Something that the city can be proud of," says Shnaider, slightly more effusively, later on.

"This is now part of the landscape of the city, a vital part of the skyline, a building that you will see on postcards."

The choice site at Adelaide and Bay Streets is surrounded by the city's bank towers.

The hotel has 261 rooms and suites. It also has a 18,000-sq.-ft. spa built over two floors.

The hotel is still in various stages of construction. The rooms are mostly completed, but the common areas still need significant work.

Surprisingly, there is no hint of the signature Trump brass and gold in sight. Instead, there is black marble, dark woods, and an elegant palette of cream and grey.

While the decor of the newly opened Ritz Carlton is awash in convention-centre beige and burgundy, the sleeker Trump is the style winner.

"People always ask me where is the gold?" says Mickael Damelincourt, the general manager of the Trump Hotel. "But the theme is champagne and caviar. This reflects the influence of the children. In a way, this is more Ivanka than Donald Trump," Damelincourt continues, referring to the daughter of Ivana and Donald, who is an executive vice-president at The Trump Organization.

There will, of course, be fine dining at the hotel. Sources say Todd Clarmo, the former executive chef at Canoe, will head the new restaurant at the Trump. Canoe, the Oliver and Bonacini flagship restaurant and favourite of Bay Street expense-account holders, has lately been raided for staff by the new **luxury** hotels.

Canoe's former general manager, Joanne Chimenti, and the restaurant's former chef, Tom Brodi, have already decamped to Toca at the Ritz.

Meanwhile, superstar American chef David Chang of Momofuku is opening two new restaurants at the new Shangri-La nearby.

Fashion insiders will get a first peek of the new Trump Hotel Thursday, when the grand salon ballroom will make its debut with a much anticipated fashion show by Mark Fast and Mikhael Kale during Toronto Fashion Week.

After a dearth of five-star hotels, Toronto now has a plethora of ultra-**luxury** lodgings. A new Ritz Carlton opened on Wellington Street in the entertainment district in February. The Trump will open in late spring, followed by a new Shangri-La Hotel and a new Four Seasons hotel. Smaller boutique hotels, such as the Thompson Toronto and a new Le Germain, have also opened recently.

Analysts have said that the competition, while good for consumers, means potentially tough times ahead for operators of new hotels. And there are continuing concerns over an oversupply of new condos on the market.

"I think **Canada** is still attractive to a lot of foreign wealth and prices will continue to go up," says Shnaider.

But he acknowledges that the road ahead will not be easy.

Getting this far has already been an accomplishment. The Trump Hotel has been the subject of skepticism from some people in the **real estate** community, who thought it would never get built.

"If someone had told me it would take this long to build, I would never have believed them," says Shnaider.

It has been a bumpy road. When it was launched with much fanfare back in 2000, Shnaider's property was originally supposed to be a Ritz Carlton.

But the Star revealed that the original developer had been convicted of bankruptcy **fraud**, which caused the Ritz to back out and eventually move to a new location near the entertainment district.

Shnaider's Talon eventually took control of the project. Trump is managing the hotel, but this is Shnaider's money on the line, along with minority partner Levitan.

The Trump name has not always been a guarantee of success.

Donald Trump, the American billionaire and star of TV's The Apprentice, has placed his name on everything from golf courses to vodka and mattresses.

In Chicago, the 92-storey Trump International Hotel & Tower still has almost one third of its units unsold after closing on units more than two years ago.

And in Florida, lenders foreclosed on the developer of the Trump Hollywood, where Trump had licensed his name. At the time, only 22 of the tower's 200 condos had been sold. The building has since been bought by new investors.

But, in Toronto's Trump tower, hotel rooms are 85 per cent sold. (The rooms are purchased by investors, who return them to a rental pool.) The residences above the hotel are 60 per cent sold. And Shnaider says he has confidence that the project will sell out once buyers can see the finished product.

"When you are paying that much, you want to be sure of what you're getting," says Shnaider.

One bright spot is that the Canadian economy continues to outperform the G7, and hotel rates and occupancy levels have slowly been inching up from the depths of the recession.

Luckily, Shnaider has deep pockets. Canadian Business magazine ranks him as the 23rd richest man in **Canada**, with a net worth of $2.06 billion, putting him ahead of players such as Michael Lazaridis and Jim Balsillie of Research in Motion Ltd., and Gerry Schwartz and Heather Reisman of Onex Corp. and Indigo Books.

The Russian-born Shnaider immigrated to **Canada** at the age of 13; he attended high school in Toronto, then went on to York University.

Shnaider got his break trading steel when the Soviet Union started to decentralize.

He has since divested himself from the steel business, and branched into **real estate**, retail, transportation and agriculture across Europe and North America.

Closer to **home**, Shnaider continues to invest in the hotel business. He recently purchased the landmark King Edward Hotel, along with a consortium of investors, of which he is the largest shareholder.

Shnaider has also owned a Formula 1 racing team, and a soccer club in Israel, both of which he sold.

His empire has become so vast and he is on the road so often that, until this week, he had not visited the Toronto Trump property in more than a month.

Over the last few months, a colder than normal winter has meant construction has been slower than hoped. But other aspects of the hotel have gone well.

Before Shnaider and his guests leave, Damelincourt's staff provide warm napkins and spritzers presented on a silver platter to guests so they can wash the soot of the day away before they leave the premises.

The nicety gives a hint of the five-star service that has arrived at the Trump Hotel, and harkens of things to come for a city soon to be awash in **luxury** lodgings.

The soaring lobby of the new Trump International Hotel & Tower is still under construction, but it's already possible to imagine how grand it will be once finished. It's set to open in late spring. Alex Shnaider, seen in the living area of a one-bedroom suite, is a man more of action than words. He describes the landmark Trump building in the city's financial district as "very nice." Alex Shnaider, above centre, shows off the bedroom, top left, and bathroom of a one-bedroom unit on the 12th floor. Below, workers put the finishing touches on the Grand Salon on the 9th floor. Meanwhile, building continues on the exterior of the tower at Bay and Adelaide Sts. The finished building is seen in an artist's rendering, right. David Cooper photos/Toronto Star

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Canadian Business

Alex Shnaider--The Steel Magnate; Born in St.Petersburg and raised in Israel and Toronto, This entrepreneur has taken risks few members of the Rich 100 could stomach.

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Alex Shnaider cruises around in a Mercedes-Benz SLR McLaren, lounges on a 170-foot Benetti yacht and lives in a North York, Ont., mansion. But to enjoy those luxuries and amass his estimated $1.7-billion fortune, the entrepreneur, born in St. Petersburg and raised in Israel and Toronto, has taken risks few members of our Rich 100 would likely stomach.

In the early '90s, **Shnaider** worked as a commodities trader, buying steel from eastern European factories--using everything from coal to microwaves as currency--and selling it to other traders. The margins were high, but so were the stakes. At that time, **Shnaider** recalls, any lucrative industry in that part of the world was dangerous. "Competition was literally cutthroat," he says, "and some people would do anything to take business away from you." A savvy entrepreneur, **Shnaider** bought gifts for senior steel executives and, in some cases, hired their relatives. As well, he steered clear of politics. That may explain how he avoided the fate of seven steel execs who were reportedly assassinated in Ukraine in the '90s.

In 1994, he formed Midland Resources and registered the trading and holding company in Guernsey, the Channel Islands. His partner in the company is Eduard Shifrin, a well-connected and experienced trader with a PhD in metallurgical engineering. **Shnaider** considers teaming up with Shifrin as one of his best business decisions so far.

Another of his shrewd moves, **Shnaider** says, was participating in the industrial privatization in eastern Europe. In the late '90s, Midland began buying up shares of Zaporozhstal, a Ukrainian steel mill, and by early this decade owned 93% of it. Midland acquired that stake for roughly US$70 million and has reportedly since turned down offers of US$1.2 billion for the mill.

Today, Midland boasts US$2 billion in annual revenues, more than 50,000 employees spread across 34 countries and a diverse group of holdings, including stakes in Carnex, a meat-processing plant in Serbia; the Electric Networks of Armenia; and the planned 68-storey Trump International Hotel & Tower in Toronto. In January, Midland bought the Jordan Formula One team from Irishman Eddie Jordan for a reported US$50 million. With that foray into the glitzy arena of car racing, **Shnaider** plans to promote, among other things, Midland's auto-parts business.

Shnaider, 37, insists doing business in eastern Europe is much safer these days. Nevertheless, last year the car of the general director of a Midland steel mill in Montenegro was blown up, and authorities have yet to find the culprit. But for **Shnaider**, it seems, the rewards continue to outweigh the risks.

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Former oil executive says he signed controversial deal 'under duress'

JEFF GRAY - LAW REPORTER
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The former Russian oil executive battling Toronto billionaire Alex Shnaider testified Thursday that he felt pressured to quickly sign a loan agreement handed to him by a lawyer for Mr. Shnaider at a Moscow police station, after an officer "casually" laid his gun on the table.

Michael Shtaif, a former executive with Russian oil firms TNK-BP and Yukos who now lives in Canada, is locked in a legal fight with Mr. Shnaider, who alleges in a civil lawsuit that Mr. Shtaif and a group of co-defendants tried to defraud him of a $50-million investment in a Russian oil joint venture.

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Mr. Shtaif denies those allegations and alleges that the Russian-born Mr. Shnaider tried to push him out of the venture, bribed Russian police and influenced authorities there to pursue "spurious" charges against him.

Mr. Shnaider, whose Midland Group began in the Eastern European steel business but has expanded into real estate and other sectors, denies all of the allegations. None of the allegations have been proven. A civil trial in the case began in February and is expected to continue for weeks.

The account of how Mr. Shtaif ended up in a Moscow police station on the afternoon of July 11, 2006, involves a complicated transaction, being overseen by Mr. Shtaif and aimed at buying a Russian oil field, that went awry.

In a complex series of events relayed in court on Thursday, an advance payment of $12-million (U.S.) in promissory notes was held in safety deposit boxes in a Russian bank pending the closing of the 2006 deal. But allegations then surfaced about whether the vendor had valid title to the shares in the oil field. And an agreement about exchanging the promissory notes underwent "inadvertent" changes, giving the vendor premature access to them at the Moscow bank.

Mr. Shtaif testified that Mr. Shnaider and his partner in Midland, Eduard Shyfrin, "decided to use their police connections" to get the notes back. Mr. Shtaif said he accompanied a lawyer for Mr. Shnaider's company to a Moscow police station to file a complaint about the $12-million. While there, Mr. Shtaif testified, he was also forced "under duress" to sign a loan agreement that restructured his joint venture with Mr. Shnaider, turning the billionaire's $50-million investment into a loan and giving Mr. Shnaider majority control.

Present were Peter Ganus, an in-house lawyer for Midland in Russia, and a "Lieutenant-Colonel Kusakin" of the Russian police, Mr. Shtaif testified. The pair briefly stepped out of the room, he said, and then returned.

"When Mr. Kusakin came back, he casually pulled out a gun and put it on the table," Mr. Shtaif told court. "...He didn't point it at me ... I got the message where it was going. I signed the agreement."

Mr. Shtaif also testified that Mr. Shnaider paid a $525,000 (U.S.) "bribe" to Russian police in order to prompt them to quickly seize some of the promissory notes held in the bank. Mr. Shtaif told the court that Mr. Shnaider demanded that Mr. Shtaif himself cover this payment. A lawyer for Mr. Shnaider previously testified that the money went to "forensic consultants" to prompt police to try to recover the notes, and was not a bribe.

The issue with the promissory notes was not the first issue with the joint venture. The court has heard that the original corporate shell provided by Mr. Shtaif was a "sham" company created by a convicted Toronto fraudster, Irwin Boock, who was allegedly using the alias John Howard. Mr. Shtaif testified that he was not aware of the company's fraudulent origins, or Mr. Howard's alleged alter ego or past. The venture was later transferred to a new company, Koll Resources Ltd.

Court heard this week that a $10-million instalment toward a $70-million investment in the venture, pledged from a company controlled by the man calling himself Mr. Howard, failed to materialize. Mr. Shtaif testified that he did not intentionally mislead Mr. Shnaider about the payment.

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Court freezes sale of home once owned by drug smuggler; Custom-built residence 160 km east of Kamloops is valued at $1.75 million

Kim Bolan

Vancouver Sun
656 words
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English

A Shuswap realtor hired to sell the **house** once owned by a convicted drug smuggler who is facing new charges may lose the lucrative $1.75-million listing.

Century 21 agent Kellie Pittman confirmed Wednesday that she has been contacted by a federal government official advising her of a court order preventing the sale of the **luxury** residence in Malakwa, B.C.

Colin Hugh Martin and his common-law wife Jennifer Cahill are both facing charges of production of a controlled substance and trafficking.

They were arrested last July after a massive police raid at their **home** at 3621 Northway Road in Malakwa, which is about 160 kilometres east of Kamloops. Pittman said she was hired to sell the **house** by its current owner, Steve Ambrose, president of the numbered company, 311165 B.C., which is listed on the land title for the custom-built **house**.

"I was working with the seller. I had no contact with Jennifer or her boyfriend or whoever that is. They are the renters. The renters only," Pittman said. But she was unaware until the government contacted her that a court order was issued on Oct. 22, 2010, prohibiting the sale of the six-acre property after an application by the Public Prosecution Service of **Canada** and the RCMP's Integrated Proceeds of **Crime** section.

Cahill, Martin, 311165 B.C. and Ambrose were all supposed to be served with copies of the order. Pittman said the **house** is still listed, until "I do my due diligence first and find out more information."

Cahill, who is out on bail, was once the registered owner of the **home**, but the Land Title office lists Ambrose's company as the owner since 2005.

Martin was denied bail on his new charges in B.C. Supreme Court Thursday.

Martin also was indicted in Washington state in December 2009 on charges he conspired with others to import large amounts of marijuana and ecstasy into the U.S. and to smuggle cocaine back into **Canada** using helicopters.

The U.S. alleges Martin headed the drug gang and leased the helicopters that were used. He was also convicted in 2006 on eight counts including conspiracy to export and traffic marijuana and money laundering related to a massive cross-border smuggling ring operating in the late '90s.

He represented himself at trial after losing legal aid because, as a court ruling noted, "the Crown advised the court that there was an issue regarding the appropriateness of continued funding, as Mr. Martin's spouse was building a **home** valued in excess of $700,000."

Martin lost his appeal last November. He was ordered released on day parole in December, despite the new charges in both countries, because the Parole Board of **Canada** ruled, "there are no reasonable grounds to believe that, if released, you are likely to commit an offence involving violence before the expiration of your sentence.

"The board has concerns about your poor attitude to illicit drug production and sale and your part in the inherent violence has to be taken into account," board member Gordon McRae wrote in the Dec. 23, 2010 ruling.

"The concern is not supported by tying you to direct acts of violence.

"You are apparently facing new charges, but these do not indicate violence was present."

The **house** in which Martin has been living is described in the **real estate** listing as "custom-built to perfection" with over 6,600 sq. ft. "on 6.25 acres at the base of Queest Mountain where the deep powder snow extends the sledding season well into the spring."

"There is a second residence on the property which is under construction," the ad says. "Finish it into a snowmobilers/ skiers/hunting B&B resort."

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FACTIVA DOW JONES

The Boston Globe

National/Foreign

CANADA GETS REPUTATION AS A HAVEN FOR FUGITIVES

Colin Nickerson, Globe Staff

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MONTREAL - As police closed in on his smuggling empire in China's Fujian province, Lai Changxing made a hasty but plush escape last year, grabbing a first-class seat on the next plane to **Canada**. There, after entering the country as a tourist, the kingpin plunked down $1.3 million for a **luxury home** in British Columbia, and was back in business.

No one knows where James J. "Whitey" Bulger went when he vanished from the view of law enforcement in 1995. But **Canada** is a good bet. The FBI recently issued "Wanted" posters printed in French for distribution in Quebec, where Boston's most notorious gangster is believed to have stashed huge sums of cash.

Canada is rapidly gaining a reputation as a place for criminals and terrorists seeking a permanent hideout under new aliases, as may be the case with Bulger, or as a temporary base of operations, as with the alleged Islamic radicals who were arrested last year in the millennial bomb plot against the United States.

"**Canada** is almost a welcome wagon for crime," said Antonio Nicaso, a Toronto-based expert on organized crime. "Here there is a much lower risk of detention or prosecution than in the United States or Europe."

A report declassified recently by the Canadian Security Intelligence Service, the country's spy agency, indicates that **Canada** is now home to more international terrorist organizations than any other country. More than 50 groups, from Sri Lanka's Tamil Tigers to the agents of Osama bin Laden, the Saudi tied to bombings of US embassies, are said to use **Canada** as a hideout and a staging ground for terrorist attacks.

The report cites a "disturbing trend as terrorists move from support roles, such as fund-raising and [weapons] procurement, to actually planning and preparing terrorist acts" from **Canada**.

This week, a report on international crime, prepared by the CIA, FBI, and other US intelligence and enforcement agencies, warned that **Canada** has become both a refuge for Asian mob figures and a significant North American gateway for Chinese gang members: "The United States faces a growing threat from Chinese organized crime groups using **Canada** as a base from which to conduct criminal activities that impact our country," said the report, which was released by the White House.

Big bucks make for an easier life on the lam. But **Canada** seems a soft touch, even for destitute criminals trying to lie low.

James Anthony Martin, now 52, headed north after allegedly gunning down a Harvard graduate in a drug deal gone bad in Cambridge. The murder occurred in 1976. For nearly a quarter-century, Martin drew welfare and other benefits in Montreal while following a career of armed robbery, petty theft, and transporting narcotics that

resulted in at least 16 arrests. But authorities never seriously checked his past even though neighbors said he had a "troubled" background in the United States.

Proximity makes **Canada** a bolt-hole for US criminals. But the country's indulgent immigration policies are making it a destination of choice for desperate characters from around the planet.

Canada's relatively loose border controls and immigration policies, coupled with a 151,524-mile coastline, are also making it a port of entry for drugs and undocumented immigrants whose destination is the United States.

Analysts say **Canada**'s approach to such immigrants, its generous welfare programs, and its underfunded law enforcement agencies, represent a more or less open invitation to criminals.

When an Algerian accused of terrorist connections was arrested entering Washington state last December, allegedly with a trunkload of bomb materials, it made headlines around the world. The suspect, Ahmed Ressam, had been living in **Canada** since 1994, securing welfare benefits - and notching up a Quebec criminal record - even though he had been caught entering the country illegally with a false French passport.

Lai Changxing wasn't seeking welfare benefits when he arrived in **Canada** in August 1999, describing himself as a simple tourist. China has a another description, calling him the country's "most wanted" **fugitive**. Among other allegations, he was accused of having bribed thousands of officials, high and low, with gifts of cash and women to protect a crime ring that smuggled $6 billion worth of vehicles, crude oil, weapons, and computers into Fujian province.

Lai's fake passport was not spotted when he presented it at Vancouver's international airport. Neither did anyone pay attention when he paid cash for a posh suburban home. Nor when he was banned from casinos in British Columbia for loan sharking. Nor when he partied with Asian crime figures near Niagara Falls, dropping as much as $600,000 a night at gaming tables.

Finally, after 15 months of protests by Chinese officials, Canadian authorities apprehended Lai on Nov. 23, but they have not sent him back. The hope was for a quick extradition, but the case has become a soap opera, with Lai loudly - if improbably - claiming to be a refugee not from justice but "political persecution."

There's little doubt that if Lai is returned home he will face a firing squad. (Fourteen cohorts have already been executed). And that leaves **Canada** in an embarrassing situation. Ottawa likes to boast of its unyielding stand against capital punishment. But officials are also desperate to combat the country's new image as an easy sanctuary for undesirable immigrants, and as a place where even absurd refugee claims can stretch for years and even decades.

"**Canada** doesn't want to be a haven for criminals," said Irene Arseneau, a spokeswoman for the Justice Ministry. "We welcome immigrants, we welcome refugees, but only when they come through the front door."

It's not clear what door James Anthony Martin used to enter **Canada** after allegedly shooting dead 28-year-old Edward Paulsen in Cambridge in 1976. But he seems to have made no attempt to follow the straight and narrow after taking up illegal residence in Montreal: He has been charged with 31 crimes over 24 years, and even served a stint in Canadian prison. But apparently no one thought to check whether the misbehaving American might actually be wanted in the United States.

It took a "cold case" investigation by Cambridge police to bring Martin back to Massachusetts in January on a murder charge.

Meanwhile, there is no proof, but strong suspicion, that one of America's most sought-after criminals, Bulger, slipped into **Canada** in 1995, skipping Boston days before a federal indictment on 18 counts of murder, as well as charges of extortion, drug-running, and racketeering.

Bulger, now 71 and suffering from heart disease, is reported to have links to Montreal's vicious West End Gang, and he is thought to have stashed quantities of unlaundered cash in safe-deposit boxes in Toronto and Montreal. In 1987, for example, Bulger is said to have tried to board a plane for Montreal at Logan Airport with a bag containing about $100,000 in $100 bills. He fled the scene.

There have been at least two "unconfirmed sightings" of Bulger in Quebec and Ontario.

"We know he's traveled extensively in **Canada**, but we are following leads all around the world," said Stuart Sturm, the FBI's legal attache to the US Embassy in Washington.

Sturm stressed that the search for Bulger is being coordinated with the Royal Canadian Mounted Police and other Canadian police agencies. "There's reason to believe he maintained money in **Canada**. So we are hoping to find him with help from our good northern neighbor."

Boston Globe Newspaper

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Beijing goes hunting for overseas real estate bought with dirty money

By Heather Timmons @HeathaT November 5, 2013

"You can't just steal money from China and then enjoy life in Canada." Reuters/Mark Blinch

Seizing Bo Xilai's French villa may be just the beginning.

China's corrupt officials and crooked businessmen have smuggled billions of dollars overseas, much of which has ended up in real estate in the United States, Canada, Australia and the United Kingdom—particularly in high-end neighborhoods in London, New York, Los Angeles, Sydney and Toronto. Now the Chinese government is embarking on a worldwide hunt to seize the properties with help from foreign governments, according to asset recovery and anti-corruption specialists.

Since Wang Qishan, the Communist Party chief tapped to head China's new anti-corruption drive, took office last fall, he has been pushing to crack down on capital flight from the country. In recent months, Chinese officials have quietly said they are specifically targeting foreign assets, and sought help from organizations like the OECD, anti-corruption groups and the foreign government agencies including the US Commerce Department about their newly aggressive pursuit of overseas real estate.

Chinese officials "are interested in understanding where the assets are" in the US, and "the US has said it will work with them," said Nathaniel B. Edmonds, a former Department of Justice official and a partner with the Washington DC law firm Paul Hastings. In July, Canada and China agreed to seize, share and return the proceeds of crime.

Beijing's interest in hunting down the proceeds of corruption takes place amid a similar push around the globe, with countries like Libya seeking to take back the assets that their corrupt officials have

squirreled away. "There is an increased push to use asset recovery mechanisms in the context of corruption globally," said Faisal Osman, a barrister with the London firm ARM Stolen Asset Recovery.

Following the money

President Xi Jinping's corruption crackdown has resulted in a surge of convictions—in the first quarter of this year alone, China's prosecutors handled nearly 3,700 corruption cases involving $87.5 million. And the campaign has claimed some prominent scalps, many of which involved prominent foreign property holdings. When the Jinan People's Court sentenced former Politburo member Bo Xilai to life in prison in September, it also announced plans to seize a villa owned by his wife on the French Riviera. Separately, a home in Walnut, California, believed to be owned by ex-railway minister Zhang Shuguang, is also a likely target for Beijing's asset hunt.

Those high-profile cases may be just the beginning.

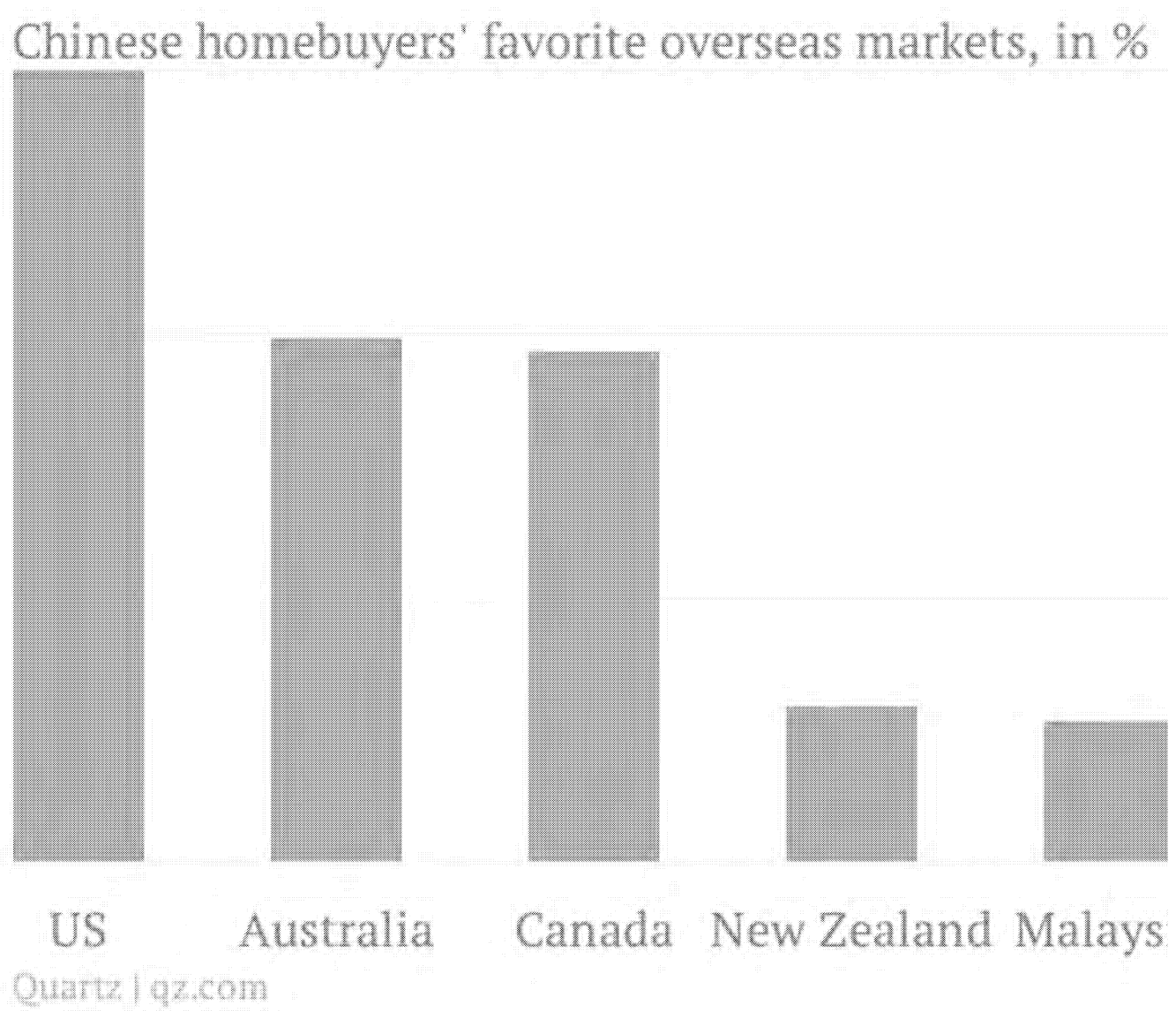
Estimating exactly how much corruption-tinged cash has fled China in recent years is difficult, but Ran Liao, senior program coordinator for Transparency International, a non-profit that works with governments and the private sector to curb corruption, said estimates run as high as 500 billion yuan ($82 billion) taken overseas in recent years. Other mind-boggling estimates abound:

- A leaked report from China's central bank estimated that from the early 1990s to 2008, some 18,000 officials and employees of state-owned enterprises pilfered a total of 800 billion yuan ($123 billion) from state coffers, with the culprits most likely to flee to the US, Canada, Australia and the Netherlands.
- China's anti-corruption unit, the Central Commission for Discipline Inspection, predicted in another leaked report (link in Chinese) that $1 trillion may have fled China in 2012.
- "Grey income"—household revenue above what's declared officially—reached an estimated $1 trillion in 2011, according to the China Society of Economic Reform.

For a corrupt official with money to invest, putting funds directly into an overseas bank or stock market can be risky, because financial institutions are required by global anti-money laundering agreements to report suspicious funds. But real estate agents in most countries have no such requirements. So when Chinese buyers land with suitcases full of cash, as they have in recent months, real estate deals can get done quickly.

Chinese buyers spent $30 billion on overseas real estate in 2012, estimates Juwai.com, a property website. Of that, $9.1 billion went to the United States and much of it specifically to California. And almost 70% of the purchases made by Chinese buyers in the United States were made entirely in cash, according to the most recent report from the National Association of Realtors.

Australian regulators approved $4 billion in real estate purchases by Chinese investors in the 2011/12 fiscal year (pdf, pg. 30), the most recent figures available. Canada keeps no hard data about foreign investors in real estate, but Chinese buyers in one year outnumbered local buyers in Vancouver by a three to one margin. They also bought 27% of new homes sold in London last year.



Hunting "naked officials"

The soon-to-retire Chinese bigwig who has stashed money and relatives abroad in preparation for his escape is such a common character in China that it has its own phrase: luo guan, or "naked official."

Some of them have laid the groundwork for years; one common ploy is to send a son or daughter overseas to a private university as a way to legitimize sending funds out of China. For example, the leaked Chinese central bank report on corruption showed that former ministry of finance official Xu Fangming deposited roughly 1 million yuan ($164,000) into the bank account of a son studying abroad. Perhaps not coincidentally, the number of Chinese students studying abroad has jumped in recent years. In the United States, it more than doubled to 194,000 in the 2011/2012 school year from five years ago.

Another popular strategy for gaining a foothold overseas is securing a foreign passport through "immigrant investor" programs.

The ultimate goal in transferring money out of China, said Transparency International's Liao, is that either the official or his offspring will have a happy life after they leave China. The new crackdown on overseas assets is designed to stop this process.

"The government wants to make them hopeless," Liao said. The message is "You can't just steal money from China and then enjoy life in Canada."

A tough road to recovery

Whether the Beijing's hunt for overseas properties will be a success, and perhaps even impact home prices in Los Angeles or London, remains to be seen.

Seizing and recovering assets in a foreign country can be a tough slog for any government, experts in the field say. While China and most Western nations are signatories to the United Nations Convention Against Corruption, in which countries pledge to help each other recover the stolen funds, the process is lengthy, arduous, and fraught with diplomatic and legal complications.

In the United States, for example, the party hoping to seize a home needs to prove that it was purchased entirely with funds derived through corruption. "In drug-related cases you seize the house and the car," quickly and authoritatively, said Edmonds. But corruption-related cases are often more complicated, because tainted funds are mingled with other, legitimate, funds, he said.

Another glaring vulnerability in any US-Chinese cooperation on asset seizure is the lack of a "Mutual Legal Assistance Treaty" between the two countries, which allows governments to seize foreign assets related to crime, said Daniel F. Roules, a Shanghai-based partner with Squire Sanders. That means Chinese authorities need to rely on cooperation from their US counterparts.

And while US government officials have pledged to help, Laio of Transparency International said that Chinese officials he's spoken with aren't getting as much assistance as they would like. The US State Department and Department of Justice declined to comment.

Jurisdiction shopping in Britain

British courts, on the other hand, see themselves as "world leaders in asset recovery," Osman said, because there are powerful laws on the books, a long line of precedents and relatively straightforward laws.

A 10 million pound ($16 million) home in Hampstead Garden Suburb, a wealthy London neighborhood, purchased by Saadi Gaddafi, son of the deposed Libyan dictator, was seized in 2012 by the Libyan government after British courts ruled that Saadi could not have made enough money to purchase it on his military salary. Often officials hoping to pursue property they believe was purchased by the fruits of corruption will "get a judgment here [in the UK] and get it enforced in another jurisdiction," Osman said.

A UK judgement can sometimes be used successfully in the United States, as it was to seize a mansion in Houston and two Merrill Lynch brokerage accounts belonging to Nigerian governor James Onanefe Ibori.

Whether the Chinese campaign to halt corruption and seize overseas assets will have real impact on property markets in the United States, Australia and Canada has less to do with international laws than it does what happens in Beijing in coming months.

"What it comes down to is political will," said Osman. Given the changing winds of politics, a push towards recovering assets of one person or group can sometimes be halted abruptly. "These by their very nature are lengthy proceedings and sometimes the political will fades," he said. In one case he worked on involving a South Asian country, "the guys' assets we were tracing a few years ago are now the guys in power."

Ivy Chen and Jennifer Chiu contributed reporting.

Canada froze billions in assets to support Arab Spring: RCMP

Jim Bronskill
Ottawa — The Canadian Press
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Canadian authorities red-pencilled almost $4.3 billion in suspect assets belonging to dictators, allegedly corrupt officials and others in response to the Arab Spring uprisings, newly disclosed documents say.

An RCMP briefing note says the national police force's federal policing branch worked with the Foreign Affairs Department, Public Safety, security intelligence agencies and Canadian banks to "identify and freeze" the assets.

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The note, obtained by The Canadian Press under the Access to Information Act, paints a picture of the extent to which Canadian officials toiled behind the scenes to drain the financial lifeblood of Arab dictatorships.

The agencies relied on an array of sanctions and legislative tools to freeze money and property linked to regimes that toppled in Egypt, Libya and Tunisia, as well as Syria, whose leadership has so far withstood intense pressure from opponents. Some of the probes continue.

However, privacy law and the confidentiality surrounding investigative efforts means only a portion of the $4.3 billion can be discussed and accounted for publicly.

Foreign Affairs says the vast majority of $2.2 billion that Canada seized under the auspices of United Nations Act sanctions has been released to the Libyan National Transitional Council following the demise of Moammar Gadhafi's regime.

An undisclosed amount seized under the Special Economic Measures Act was also released by last September. The act, known as SEMA, allows cabinet to impose sanctions when "a grave breach of international peace and security" has occurred and likely will result in a serious crisis.

Concerning Egypt and Tunisia, authorities zeroed in on residential property valued at $2.55 million and bank accounts containing a total of $122,000 using the Freezing of Assets of Corrupt Foreign Officials Act.

As the name suggests, the act allows Ottawa, upon the request of a foreign state, to temporarily freeze assets that former dictators and their entourage have placed in Canada.

"The investigation to identify assets is ongoing," said Foreign Affairs spokesman Jean-Bruno Villeneuve.

"We're working with both countries to transfer assets back to their citizens, but we require more information from the Tunisians and the Egyptians to be able to do so under Canadian law."

RCMP Cpl. Stephane Gagne of the force's proceeds of crime division confirmed that investigations continue. "In some of those files, the ball is in the other country's court."

The law essentially gives newly installed governments time to get their "ducks in a row" and show Canada that the corrupt officials in question indeed owned the assets, usually paving the way for return of the monies to the new government, said Gagne.

For reasons of privacy and commercial confidentiality, Foreign Affairs could not provide details about these amounts.

Undisclosed assets linked to Syria were also frozen under the Special Economic Measures Act.

In some cases, the money identified by authorities and Canadian banks ends up being unfrozen and freed for use by its owners. For instance, said Gagne, some "honest Canadians" working in Libya had their paycheques temporarily frozen.

Tunisians in Montreal protest Ben Ali family

Community members camp outside hotel

CBC News Posted: Jan 27, 2011 9:20 AM ET Last Updated: Jan 27, 2011 4:23 PM ET

About 60 members of Montreal's Tunisian community held a quiet demonstration outside the Château Vaudreuil Wednesday evening and into the morning because they believe relatives of the ousted president of Tunisia are hiding in the hotel.

Belhassen Trabelsi, brother-in-law of Zine el Abidine Ben Ali, and his family are believed to have flown into Montreal on a private jet a week ago, and apparently booked into the sprawling hotel complex just off the west end of the Island of Montreal.

> **'Canada will use all the tools at its disposal to co-operate with the international community in dealing with members of the former regime. They are not welcome — I'll be very clear — we do not welcome them in out country.'**
>
> *—Prime Minister Stephen Harper, speaking in Morocco*

This has outraged Tunisians in the city because the billionaire businessman has been accused of stealing large amounts of money from Tunisia.

They want his Canadian assets frozen by the government, and his extradition to Tunisia.

Immigration Minister Jason Kenney has confirmed that some members of the ousted Tunisian president's family are in Canada, and that they already have permanent resident status. He would not give their names, he said, because of privacy laws.

Speaking in Morocco, Prime Minister Stephen Harper said there will be no welcome mat in Canada for Ben Ali or his family.

"Canada will use all the tools at its disposal to co-operate with the international community in dealing with members of the former regime," he said in Rabat following a meeting with Morocco's prime minister and foreign minister.

"They are not welcome — I'll be very clear — we do not welcome them in out country," Harper said.

He said Canada welcomes the political change happening in Tunisia.

Tunisia's transitional government has issued an arrest warrant for Ben Ali, who was driven out of the country last week, accusing him of taking money out of the North African country illegally. It also asked Interpol to help track down Ben Ali and his family.

Ben Ali is also charged with illegally acquiring real estate and other assets abroad.

Tunisia also wants Ben Ali's wife, Leila Trabelsi, arrested. French media have reported she left Tunisia with millions in gold bullion.

Arrest warrants were also issued for other family members, and Tunisian news sources say Trabelsi is included in the warrant.

'A lot of angry Tunisians'

But Public Safety Minister Vic Toews isn't saying if Canada will act on that warrant:

"They are not welcome in Canada, but beyond that I can't say anything because there are potential proceedings that would affect them," Toews said.

Montrealer Haroun Bouazzi said Wednesday that Tunisians in the city are thrilled to hear that Interpol is after Trabelsi.

Bouazzi speaks for a group of Tunisian expatriates fighting for justice in their homeland — the Collectif de solidarité au Canada avec les luttes sociales en Tunisie.

"Now I know that there are a lot of angry Tunisians. The first thing we knew, that these people were in a hotel somewhere in the West Island, I know that some Tunisians went in every hotel looking for these people," Bouazzi said.

A diplomatic cable made public by WikiLeaks from the former U.S. ambassador to Tunisia, Gordon Gray, makes it clear why he's not liked.

The cable describes the Trabelsi family in Mafia-like terms.

The family provokes the greatest ire from Tunisians, the cable says.

Belhassen Trabelsi, the ambassador went on to say, is the most notorious family member, and is rumoured to be involved in a wide range of corrupt schemes.

canada.com

Ottawa asked to speed up seizure of ex-dictator's assets

After a year of delays, Tunisian-Canadians are urging the government to act now to seize assets embezzled by the family of deposed Tunisian dictator Zine El Abidine Ben Ali and hidden in Canada.

BY NATIONAL POST MARCH 15, 2012

After a year of delays, Tunisian-Canadians are urging the government to act now to seize assets embezzled by the family of deposed Tunisian dictator Zine El Abidine Ben Ali and hidden in Canada.

"We don't understand why Canada is not acting faster and in a more rigorous way," said Sonia Djelidi, spokeswoman for the Tunisian Collective of Canada. "The Tunisian people need the money."

Foreign Affairs Minister John Baird released additional information on the seizure of the family's funds - stolen from Tunisia's public coffers during decades of corrupt rule - in a response to a question by NDP foreign affairs critic Helene Laverdiere Wednesday.

Mr. Baird said the snare is closing around family members of the deposed Tunisian dictator, whose assets are forfeit under the Freezing Assets of Corrupt Foreign Officials Act, passed in March 2011. Once recovered, the law says, the money would be returned to the Tunisian government.

The government has publicly listed the names of 123 members of the Ben Ali clan on a website as "politically exposed foreign persons," a list that reads like a veritable family tree.

All those listed are subject to an asset freeze, which prohibits anyone in Canada from making any business or financial transaction with them. "[I] can confirm that any real, personal, movable or immovable property owned by members of the Ben Ali family and located in Canada is subject to being frozen," Mr. Baird wrote.

He said the full list of the Ben Ali family's assets cannot be released, because of the ongoing investigation searching for assets stashed in Canada over the years. "However, [the government] can confirm that over $2.5-million in assets have been frozen, including a residential property valued at $2.55-million and bank accounts in the amount of $122,000."

The ouster of former president Ben Ali in January 2011 marked the beginning of the Arab Spring revolutions.

More than a year later, Ms. Djelidi said, other countries have returned money stolen by the Ben Ali family to the cash-poor Tunisian government. But here in Canada, she said, Ben Ali's brother-in-law Belhassen Trabelsi continues to live off the family's illgotten gains.

Libya claims stake in Saadi Gaddafi's $1.6M Toronto condo

STEWART BELL | October 31, 2012 12:13 AM ET
More from Stewart Bell | @StewartBellNP

The condo building at 10 Navy Wharf Cr. that houses the condo owned by Saadi Gaddafi. Tyler Anderson/National Post

Libya claims stake in Saadi Gaddafi's $1.6M Toronto condo

TORONTO — The Libyan government has formally claimed a stake in a $1.6-million Toronto penthouse owned by late dictator Colonel Muammar Gaddafi's son, who bought it in 2008 but seldom ever used it.

Lawyers representing the Libyan embassy in Ottawa filed an application with the Ontario government land registry office on Oct. 10 asserting an interest in Saadi Gaddafi's luxury condo near the Toronto waterfront.

The notice said the government of Libya was claiming a right to the property under United

Nations Security Council resolutions that froze the worldwide assets of the Gaddafi family.

Related

Lien placed on Saadi Gaddafi's luxury Toronto condo for unpaid fees

Ottawa puts freeze on Saadi Gaddafi's $1.6M Toronto condo

Hand Saadi Gaddafi's Toronto penthouse over to Tripoli: Libyan envoy

The Libyan chargé d'affairs, Sulaiman A. Mohamed, could not be reached for comment Tuesday. The law firm representing the embassy on the case, Borden Ladner Gervais LLP, declined to comment.

But Rick Roth, press secretary to Foreign Affairs Minister John Baird, said Canada had been working with Libya to ensure that "corrupt foreign leaders are held accountable for their actions" according to the law.

"It is for the Libyan government to determine, in consultation with its legal counsel, whether to take steps to claim a right to the property under Ontario law," he said. "We are in contact with the government of Libya and will continue to work constructively with them on these matters."

Saadi Gaddafi, the third son of Muammar Gaddafi, in 2005. Tim Wimborne / Reuters files

Since toppling the Libyan dictatorship last year with the help of NATO, the new regime in Tripoli has been trying to recover the Gaddafi family's assets, arguing they rightly belong to the Libyan people.

The Gaddafis spent billions on luxury properties, cars, jets and investments during the four-decade Libyan dictatorship. Mr. Gaddafi, 39, bought the penthouse four years ago while visiting Canada to study English and meet executives of SNC-Lavalin, the Montreal-based firm that has won several major construction contracts in Libya.

Following the start of the 2011 Libyan revolt, the UN Security Council froze the assets of Gaddafi family members. Saadi Gaddafi was included in the sanctions due to his "command of military units involved in the suppression of demonstrations."

Saadi Gaddafi has called for an uprising against the democratically elected Libyan government and has threatened to return to Libya to carry on his father's brutal legacy

But the Toronto condo apparently went unnoticed by the Canadian government until the National Post reported on it last December. A week after the story was published, the Department of Justice froze the property and Libya's top diplomat in Canada said he wanted it handed over to his government. But Libya only took formal action three weeks ago.

Michael Lamb, who teaches real estate law at the University of Western Ontario, said the move means Mr. Gaddafi cannot sell the 40th-floor suite at 10 Navy Wharf until the Libyan government's claim has been dealt with by the courts. "He'd have to apply to the court to have it removed," Mr. Lamb said.

Mr. Gaddafi visited Montreal and Toronto several times, most recently in 2009. As rebel forces were advancing in Tripoli, private contractors allegedly made plans to fly him to exile in Venezuela, the Bahamas, Mexico or Canada.

But he instead fled by land to neighbouring Niger, where he has lived in exile for more than a year. While he cannot leave due to the UN sanctions, which include a travel ban, two weeks ago the U.S. Treasury accused a South African woman, Dalene Sanders, of approaching officials in Uganda about giving him asylum.

"Saadi Gaddafi has called for an uprising against the democratically elected Libyan government and has threatened to return to Libya to carry on his father's brutal legacy," the Treasury said in a statement.

"Additionally, he has claimed to be in contact with a number of people who are willing to help him with his revolt. Saadi Gaddafi's ongoing activities and the potential misuse of resources at his disposal pose a direct threat to Libya's democratic transition."

A former professional soccer player, Mr. Gaddafi was known for his lavish lifestyle. In addition to the Toronto condo, he owned a $16-million London mansion with eight bedrooms, an indoor swimming pool and big-screen TVs in every room. In March the British courts ordered him to hand it over to the Libyan government.

Meanwhile, Libya is selling the $7-million Ottawa mansion that had served as the ambassador's official residence during Col. Gaddafi's reign. It sprawls over 10,000 feet and includes a dog shower, the Ottawa Citizen reported.

National Post

FACTIVA DOW JONES

Brokers gone bad

Andy Holloway

Financial Post
891 words
20 April 2010
Canwest News Service
CWNS
English

A look at some of the reasons American state regulators have denied mortgage broker licences to applicants makes for interesting reading: Theft, forgery, drugs, securities **fraud**. A certain Douglas Dodd, aka too many aliases to list here, was denied by Washington for a laundry list of items including theft, assault, guns and multiple drug convictions.

Such information is rarely made public in **Canada**, but criminal-record checks - and they are done here - only catch people who've been bad in the past. There's plenty of opportunity for licensed brokers to turn bad in the future. After all, they're in possession of very personal information about their clients. They have to be. Whether it's a bank or a broker, consumers must provide income statements and allow credit checks - information that can be used for fraudulent purposes in the wrong hands.

Fortunately, most brokers are fine and upstanding businesspeople. The Canadian Association of Accredited Mortgage Professionals (CAAMP), a professional development association, in 2009 received 85 ethics complaints, which isn't bad considering it has more than 12,000 members. But more people tend to complain to the provincial regulatory bodies. For example, the Financial Services Commission of Ontario (FSCO), the agency that licenses mortgage brokers in the province, in 2009 reviewed 161 complaints, resulting in 91 licence suspensions and $98,050 in fines.

Most of the complaints and charges - just as in other provinces - seem mundane. For example, the Ontario regulator made headlines in early 2009 after it sought to fine and revoke the licences of 79 brokerages for failing to have errors and omissions insurance. It sounds ominous, but the sweep really was just a result of implementing the then-year-old Mortgage Brokerages, Lenders and Administrators Act. Under the old system, brokerages were not required to have such insurance, which gives consumers some recourse when brokers make a mistake - a bit like malpractice insurance for doctors. Apparently, quite a few brokers missed the memo that it was now mandatory.

More interestingly, one submortgage broker in B.C. repeatedly processed applications that supplied federal Notice of Assessments as proof of income. The problem? An old name for the **Canada** Revenue Agency was on the letterhead, making the document a case for **fraud**, not a mortgage. That broker's licence was suspended by the province's Financial Institutions Commission (FICOM) later that year.

Advising or helping clients to tell a lie - even a white lie - on any application is one sure sign of a bad broker. That's because people who advise others to lie are likely to lie themselves. Another bad sign is when brokers pressure clients into accepting a mortgage - an indication they would rather be paid quickly than find the right product. Consumers should never accept a deal that they can't understand or feel they can afford. In Ontario, brokers must provide consumers a 72-hour cooling off period before signing a mortgage agreement.

CAAMP members must abide by a code of ethics and all brokers should have a privacy agreement that prevents them from sharing client information without permission.

One big red flag to look for, says Jim Murphy, CEO and president of CAAMP, is when a broker asks for an upfront fee. In certain **private mortgage** deals, there may be some additional legwork that requires a consumer to pay such a fee, but "by and large mortgage brokers do not do that for conventional mortgages. They're paid by the lender." In Ontario, for example, a broker cannot ask for a deposit on a mortgage worth less than $300,000 until a deal is done.

Other signs of trouble are a little less obvious, says Murphy, but can be revealed by checking with the provincial regulator to make sure the broker is licensed and asking the broker questions such as: Does the broker have an office? Who are the lenders they deal with? Why are you recommending this particular mortgage? "People getting a mortgage should be asking lots of questions," says Murphy.

Consumers should also be wary about submitting detailed online mortgage applications. The British Columbia Financial Institutions Commission in 2008 issued a consumer alert after coming across such scams. It advises potential borrowers to never provide their social insurance number online and only provide sensitive financial information when they have verified the legitimacy of the mortgage lender.

But mortgage brokers can be victims, too. An alert published by the Independent Mortgage Brokers Association of Ontario warns brokerage owners to watch out for agents who join only to get access to credit reports via a brokers' electronic delivery system. The kind of information found on credit reports can be used to apply for credit cards. The association advises brokers to not allow anyone access to the mortgage application delivery system until they are properly registered with the provincial regulator.

There are steps consumers can take if they suspect a broker hasn't acted in their best interests or something more nefarious such as outright theft or a privacy breach. They can lodge a compliant with CAAMP if the broker is a member. CAAMP has an ethics committee and it can revoke membership.

But consumers should really be complaining to the provincial regulator. "They're the ones who can pull licences, suspend licences or undertake fines," says Murphy.

Canwest News Service

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FACTIVA DOW JONES

THE VANCOUVER SUN

BusinessBC

Mortgage fraud hits $1.5b a year: Easy to do, often lucrative, real estate agents say it is growing quickly across Canada

Mario Toneguzzi
Calgary Herald
1005 words
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Vancouver Sun
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CALGARY

CALGARY -- Mortgage **fraud** has become a billion-dollar industry in **Canada** and a growing concern to the real estate and financial sectors.

Although difficult to put an exact number on, organizations such as the Quebec Association of Real Estate Agents and Brokers suggest the criminal activity amounts to an estimated $1.5 billion a year across the country.

"We believe that only criminal prosecution of mortgage **fraud** will deter unscrupulous operators in the marketplace," said Bev Andre, chairwoman of the Real Estate Council of Alberta, "and that only through prosecution can those who commit **fraud** be made to bear its costs."

Ron Esch, executive vice-president of the Calgary Real Estate Board, calls mortgage **fraud** a "huge problem because it does involve a lot of money -- ill-gotten gains."

"It's relatively easy to commit mortgage **fraud**," said Esch. "Obviously you're doing a criminal act but it's a criminal act not that difficult to do."

In B.C., independent mortgage lender Gordon Altman gave an elderly White Rock man a $250,000 mortgage against a $500,000 house he said he planned to sell.

The man and his identification had already been verified by a lawyer who provided legal advice, and by a mortgage broker known to Altman.

It wasn't until Altman checked with the White Rock realtor who was handling the listing that he discovered the man didn't own the house and had fooled them all in a brazen scam.

When Altman told the realtor he held a mortgage against the property, she said that would have been impossible.

"She said 'There is no mortgage, and couldn't be because the owner is dead,' " Altman said in an interview.

Mortgage **fraud** occurs in two ways.

- The first involves individuals fabricating their qualifications for a mortgage when buying a house.

- The second involves **fraud** for profit -- a growing concern -- where someone intentionally defrauds a lender or a homeowner of their interest in a property.

The latter is often accomplished by identity theft. Ownership of a property is transferred fraudulently from the rightful owner to the criminal who then sells or mortgages that interest and makes off with the funds.

The problem is becoming more prevalent as technology makes it easier to falsify documents and create identities, say experts in the field.

"It's huge," says Det. Robbie Robertson of the commercial crime unit with the Calgary Police Service. "I've been aware of it for over three years . . . There's a huge, huge effect of this."

For example, following a six-month investigation last fall, the police commercial crime unit in conjunction with Alberta Government Services charged Lloyd Lewis Mason, 33, of Calgary, with one count of **fraud** and one count of **fraud** in relation to making a false registration of title.

The case involved the unlawful transfer of a title to a property to another person without the knowledge of the true owner. That person then took out an almost $110,000 mortgage on the property.

The **fraud** came to light when the true owner attempted to pay property taxes and the City of Calgary notified them that they no longer owned the property.

This was a case of identity theft where the object of the stolen identity was to fraudulently obtain mortgage money.

According to Alberta Justice, the accused was recently convicted and sentenced to four years in prison and ordered to make restitution of $109,905.

Wayne Proctor, regional director, Pacific region for First Canadian Title (a title insurer), said the magnitude of the problem is a rough guess because most of the **fraud** victims are mortgage lenders and in a lot of cases they may suffer a loss and may not know it's mortgage **fraud** or not specifically identify it as mortgage **fraud**.

"The rough estimate of the problem that the Canadian Institute of Mortgage Brokers and Lenders made a few years ago was $300 million," said Proctor. "But there's more recent estimates that would indicate it's probably closer to a billion dollars.

"In our discussions with regulators, with mortgage brokers and realtors and others connected to the real estate industry, it is pretty well a consensus that it is a growing problem. One of the reasons could be the awareness of potential fraudsters that this is a relatively easy **fraud** to commit. The payoff is very large as compared to other types of minor crime."

Esch said there needs to be more resources committed to the problem here and more "serious jail time" for those convicted of mortgage **fraud**.

"The problem won't go away until there are more checks and balances put in place," Esch said.

- - -

Real estate **fraud** developments

- First Canadian Title estimates the average case of real estate **fraud** to be in the range of $300,000 while in comparison the RCMP estimates the average credit-card **fraud** case in **Canada** to average about $1,200.

- In 2000, real estate-title **fraud** claims accounted for only six per cent of total dollars paid in claims at First Canadian Title.

By 2005, that number reached 33 per cent.

- Law-enforcement officials and lenders believe that 10 to 15 per cent of all mortgage applications contain false information.

- According to the Quebec Association of Real Estate Agents and Brokers, mortgage **fraud** amounts to an estimated $1.5 billion a year in **Canada**.

- The Real Estate Council of Alberta estimates there were about $275 million in fraudulent mortgage loans in Alberta in the 2001-2002 fiscal year based on transactions investigated.

Source: First Canadian Title and Real Estate Council of Alberta

Ran with fact box "Real estate fraud developments", which has been appended to the end of the story.

Colour Photo: Steve Bosch, Vancouver Sun Files / Gordon Altman, a private mortgage lender, was victimized by a fraud artist who illegally got title to a property.

Vancouver Sun

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TORONTO STAR

Greater Toronto

Lawyer faces fraud charges; RCMP also lay charges of money laundering after raids on Etobicoke home, Concord law office

Jennifer Yang Toronto Star

472 words
9 June 2012
The Toronto Star
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English

A two-year international drug investigation has led to the arrests of a 71-year-old lawyer and his employee, who now face charges of **money laundering** and possessing the proceeds of crime.

Lawyer Kenneth James of Etobicoke - who is also charged with fraud - has an extensive history of troubles, including a 2006 bankruptcy filing, past allegations of fraud and ongoing professional misconduct hearings.

But his co-accused, 61-year-old Rosemary Cremer, is known to her neighbours in Etobicoke as a sociable, "lovely" lady who seems to keep a low profile.

"I've known her for maybe 10 to 12 years," said Pauline Firkin, who lives next door. "This is a complete shock."

On Thursday, the RCMP executed a search warrant at Cremer's modest bungalow on Willowridge Rd. Police also raided the Concord location of James's law office, James and Associates, on Steeles Ave.

James and Associates, which also has an office in Brampton, was first searched in December, said RCMP Det. Insp. Derek Matchett, with Toronto's Integrated Proceeds of Crime Unit.

Matchett said the criminal charges stem from a drug investigation launched by the RCMP in May 2010. That investigation - which has resulted in arrests and the freezing of more than $7 million in assets - is covered by a court-ordered publication ban so he cannot divulge any details, he said.

Bail proceedings against Cremer and James are also subject to a publication ban, Matchett said Friday afternoon.

But speaking prior to the ban, he said the RCMP alleges proceeds of crime were laundered through companies believed to be under James's control, including James and Associates, Eveline Holdings Inc. and Sterling Capital Inc.

"What we're talking about is drug traffickers who make millions of dollars and then need to place that money into financial institutions - or to 'clean' it, for lack of a better word," Matchett said.

In a massive 2011 **mortgage fraud** case involving more than $5 million, a Superior Court judge noted that fraudulently obtained funds were moved through several accounts, including one belonging to James and Associates.

James has also been embroiled in several civil cases, including a 1990 lawsuit where he and several other defendants were accused of fraud and conspiracy by trustees of the Church of Jesus Christ of Latter-Day Saints.

The action was eventually discontinued by the church and then dismissed by a judge.

In 2006, James filed for bankruptcy and declared that he had $4,505,000 in liabilities and $1,418,500 in assets.

The Law Society of Upper Canada has accused him of professional misconduct involving mortgage transactions. The case is ongoing.

With files from Kate Allen and Tara Walton

Toronto Star Newspapers Limited

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TORONTO STAR

News

Mortgage scam probed in Toronto house flips; Seven homes in the Junction were taken on a wild real estate ride that ended in a lawyer's suspension

Tony Van Alphen Toronto Star

2004 words
7 January 2012
The Toronto Star
TOR
ONT
A1
English

Something strange was going on in the Junction.

At least seven modest homes, all on avenues in the working-class west end of Toronto, experienced a pattern of flips and price jumps as much as 60 per cent in less than a day.

Most of the deals didn't include deposits. Purchasers got money back. Mortgages exceeded the value of homes. The same buyers and private lenders popped up in many sales.

In one sale, a buyer effectively sold a home to herself.

A few sales even involved a notorious real estate agent who ended up in prison last year for helping mastermind marijuana grow operations in scores of other houses across Toronto.

And behind all the 2003-2005 deals that often defied common sense is a freewheeling lawyer - Ron Allan Hatcher - representing multiple parties and running roughshod over his profession's rules of conduct.

A real estate expert, Jerry Udell, reviewed the complex and convoluted deals for the Law Society of Upper Canada in a subsequent disciplinary case. He concluded that all of them pointed to one thing - **mortgage fraud**.

A lot of it.

Mortgage fraud remains a serious problem in the real estate industry. In the U.S., it undermined the housing market during the bubble years of 2004-2005 and brought it crashing down.

But proving fraud in the U.S. and Canada can be time-consuming and elusive.

Finding victims is sometimes even harder. In the case of the seven Junction houses, police never laid charges or opened a criminal investigation.

The Ontario Real Estate Council, which regulates the industry, confirmed in November that it had opened an investigation into the transactions involving the houses and possibly more properties.

Except for a one-year suspension for professional misconduct against lawyer Ron Allan Hatcher by a law society panel recently, no one has experienced repercussions from the flips and other financial gymnastics involving those houses.

In response to requests from the Star for an interview, Hatcher noted in a brief email that the law society found "there was no fraud" and he suggested waiting for the panel's reasons and "all of the relevant facts."

The law society's panel ruled in October 2011 Hatcher engaged in professional misconduct for "participating in or knowingly assisting in dishonest or fraudulent conduct" by clients obtaining mortgage funds under "false pretenses."

It also found Hatcher, who became a lawyer in 1994, wasn't honest or candid with clients, didn't disclose conflicts of interest to them, or meet the standard of a "competent lawyer."

Former clients have also won at least two default judgments totalling more than $230,000 against him in civil courts for deficient work on house loans.

Mortgage fraud usually involves people falsifying information such as property values on loan applications so they can gain larger amounts of funds.

In many cases, they default on payments and mortgage funds disappear.

A normal real estate transaction involves a seller receiving money for a home.

But in the case of these seven houses, buyers received unexplained or unaccounted funds as well.

Flips at much higher prices would follow, with a combination of mortgages from financial institutions and private lenders.

In some instances, there were two flips on the houses.

In the final flip, the purchaser would gain as much institutional financing as possible based on the much higher prices negotiated between familiar players in each case.

While the law society panel focused on Hatcher's conduct in its deliberations, a stinging review of Hatcher's work by real estate lawyer Udell cited more than 20 "red flags" of "potential fraud" in the transactions.

One of the more curious series of transactions involved 148 Edwin Ave,. where Ivor Pinkett and his sister-in-law Helen Pinkett closed a deal to buy a house for $270,000 on Nov. 17, 2003. Their names would appear repeatedly in The Junction juggling.

The Pinketts' real estate agent for the purchase was high-flying Sau San (Jennifer) Wu, who would plead guilty to marijuana cultivation, tax evasion, utilities fraud, **money laundering** and violating bail conditions in May of this year.

Wu admitted acting as an agent in renting 54 houses to marijuana farmers and received a 61/2-year prison term. None of the grow operations involved the seven houses, according to police.

Hatcher represented both the buying Pinketts on the Edwin Ave. sale and private lenders, who provided a $279,000 mortgage - more than the actual purchase price.

A numbered company for the Pinketts then flipped the Edwin Ave. house for $310,000, or 15 per cent more. Oddly, the deal closed Nov. 14, three days before the first transaction.

The expert review by Udell, a Windsor lawyer with 35 years experience, said the price "was significantly inflated."

Furthermore, one of the buyers was Helen Pickett, who effectively bought the house from herself. There was to be a downpayment of $5,000, but the review couldn't find any record of it.

"The second agreement makes no sense and is an obvious sham," said Sean Dewart, a lawyer for the law society, in a brief at Hatcher's disciplinary hearing.

Hatcher ran into further conflicts in the latter transaction by acting for the Pinketts' numbered company (now the seller), and lender Bridgewater Financial Services, which provided a first mortgage of $284,580.

He also arranged for two more mortgages on the property totalling almost $100,000, which easily exceeded the purchase price again.

Udell's review for the law society said although Hatcher complied with a rule limiting mortgage amounts while representing borrower and lender, he should have declined the work in "such a clearly manipulated mortgage transaction."

The review also said Hatcher may have "misled" Bridgewater by telling the financial firm he held $37,100 in a trust account for Helen Pickett's downpayment.

In fact, the property was bought with no equity.

In July 2004, Helen Pinkett defaulted and the property was sold under a power of sale process to another investor who was involved in a transaction on one of the other seven houses. Bridgewater collected $265,000, almost $20,000 less than its original mortgage investment.

Udell's review said Hatcher's multiple positions in the transactions were "extremely unusual."

It should have put Hatcher "on alert for a potential fraud" in connection with no deposits, price increases and mortgages exceeding 100 per cent.

He also failed to inform lender clients about the oddities, the review noted.

Ivor Pinkett, a house painter by trade, acknowledged buying and selling some of the houses, but stressed he didn't make any money and never suspected improprieties. Nor was he aware of the law society's case against Hatcher.

The Pinkett's also worked on renovating the homes to boost their value in a resale.

"There were flips all over the map," he recalled. "On some of the houses I worked on, we just walked away and never made anything."

He described Hatcher as a "nice guy and straight up," but added he was unaware about the suspension and hadn't talked to him in years. Helen Pinkett described him as "one of the nicest men I've ever met."

Meanwhile, the Edwin Ave. property continued to sell in transactions that involved some of the same players in previous Hatcher deals.

In 2006, the house sold for $450,000 under another power of sale, with the buyer receiving most of the financing from Money Connect Home Lending.

The listing described the home as "completely renovated."

The owner defaulted in 2009 and Money Connect conducted yet another power of sale.

This time, the house sold for $360,000, leaving Money Connect with a loss. The listing indicated "renovations started."

Transactions at a house on 176 St. Clarens Ave. again featured Hatcher representing the Pinketts as buyers.

There was a second flip with a 64-per-cent price increase in 14 months - from $329,000 to $540,000 - with no deposits and private lenders providing more than 100 per cent financing.

In that flip, which the society review described as "suspicious," Hatcher took on a new role - buyer.

Hatcher, his wife and mother bought the house when the owner who purchased from the Pinketts defaulted.

The price had also soared despite a gutting of the house, which made it uninhabitable.

The review also found that "substantial" funds were paid to renovate the property before closing the deal to the Hatcher family and the work was ultimately paid for by sale proceeds.

Udell said he had never seen such a practice in more than three decades of work.

Fellow lawyer Dewart had a blunt assessment of the St. Clarens transactions: "It was a sham and a fraud," he told the society.

He also charged in a brief to the law society that Hatcher had participated in transactions which he knew were frauds.

While admitting the failure to notify lender clients about jumps in property prices was "unprofessional and negligent," Hatcher insisted those actions didn't support allegations of complicity in fraud.

It remains a mystery whether Hatcher gained anything financially.

In his filings with the law society, Hatcher said there was no evidence he received excessive fees or payments on any of the seven properties.

TD Canada Trust, the Bank of Nova Scotia and Bridgewater Financial Services - which provided some of the mortgages for the properties - would not comment on whether they lost money.

Money Connect Home Lending, did not respond to inquiries.

Mortgage fraud can also have an impact on the local real estate market.

For example, quick house flips and a jump in prices can artificially raise the value of neighbouring properties.

In this case, it is unclear whether the big price increases or a general uptick in the market pushed up values on the same streets or nearby.

So where are the victims?

One veteran real estate lawyer who looked at the seven deals said it is possible that there were no victims because significant increases in market value swept away any possible losses.

"It appears the deals were designed to artificially inflate property values to get higher mortgage amounts than should be permitted," said the lawyer, who requested anonymity.

"But in these cases, everyone just got lucky and no one got hurt because market values eventually increased so much in Toronto. In the case of the banks, perhaps they just didn't do their due diligence and looked the other way. If property values had remained stagnant, it may have become a police matter."

In its arguments, law society staff told Hatcher's hearing that financial damage is not necessary to prove fraud under the law.

Some real estate officials say there is an industry impression that police only pursue major incidents of possible **mortgage fraud**.

However, Det. Sgt. Cam Field, who heads the Toronto Police Service financial crimes section, counters that his department will devote the staff and time if there is evidence of **mortgage fraud**.

"We know, based on the information from the law society, the potential of more victims in this alleged scheme," Fields noted. "If people think they were criminally defrauded, we strongly suggest they contact us."

In addition to the suspension and an order for $30,000 in costs, the law society rapped Hatcher with a reprimand and $2,000 in further expenses for failing to co-operate in the investigation of his conduct.

But society staff said the penalties aren't enough. They have appealed to a higher society panel to disbar Hatcher.

A law society panel recently gave lawyer Ron Allan Hatcher a one-year suspension for professional misconduct for his role in the Junction deals. Lawyer Ron Allan Hatcher was at the centre of a complex assortment of real estate deals that led to his suspension. Dale Brazao/TORONTO StAR Dale Brazao/Toronto Star

Toronto Star Newspapers Limited

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News

Global fraudster faces new charges

Salim Damji pleaded guilty five years ago to defrauding up to 6,000 investors around the globe of some $78 million by conning them into believing he owned the rights to a tooth-whitening spray that would make them millionaires.

By: Betsy Powell Crime Reporter, Published on Wed Apr 11 2007

Salim Damji pleaded guilty five years ago to defrauding up to 6,000 investors around the globe of some $78 million by conning them into believing he owned the rights to a tooth-whitening spray that would make them millionaires.

For a crime that's considered one of the largest single frauds in Canadian history, Damji was sentenced to six years and three months in prison – a term slammed by some investors as too lenient.

Yesterday, the same Toronto investigator who arrested him in 2002 charged him again. But this time it was for allegedly committing a crime on a much smaller scale: cheque fraud.

Det. Jeff Thomson of the fraud squad charged Damji, now 37, with one count of fraud over $5,000, uttering a forged document and conspiracy to commit an indictable offence for allegedly arranging deposit of a stolen cheque made out for $8,000 into someone's bank account.

"A tiger doesn't change his stripes," Thomson said yesterday after charging Damji at the Toronto (Don) Jail.

Thomson believes if he's stooping to cheque fraud, it's likely he doesn't have the stash of cash that many suspected. "Gambling has been a problem for him in the past and appears it could be at the root of the problem now," he said.

One of the conditions of his release is that he participates in "treatment/programming to address gambling addiction," according to National Parole Board documents.

While he pleaded guilty in November 2002 and expressed remorse, Damji initially claimed it wasn't greed but threats by Mob figures that led him down the path to large-scale fraud.

Damji told investors he owned a tooth-whitening product called "Instant White" and that he was about to sell the rights to the giant Colgate Palmolive Corp. Damji promised $20 back on every dollar invested, a 2,000 per cent return.

It was called an affinity fraud because Damji's targets were exclusively members of his religious community, the Ismailis. They are a sect of Islam, followers of the Aga Khan. He had credibility because prominent people believed in him, one investor said at the time.

The scheme started to come undone when Colgate denied the purchase.

His lawyer told the court Damji was also "forced" to buy nine luxury cars worth $500,000 just to

show he was successful while funnelling millions from investors to organized crime lords in Costa Rica and Jamaica.

He spent about $4 million on property, including an $800,000 waterfront condominium, paid for in cash, two houses in Markham and a small strip mall in midtown Toronto, worth over $2 million.

And he was generous with other peoples' money.

An Internet search found an announcement that the Aga Khan Foundation Canada's Partnership Walk received its "largest-ever corporate donation," a $1.5 million gift from "Dr. Salim Damji and family."

But according to the parole board, Damji now admits the fraud was fuelled by his gambling addiction and that he has received various treatment regimens, the documents indicate.

The board said he bet up to $500,000 at a time – a compulsion stemming from low self-esteem as he bought "people's love with money and gifts."

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Back in and out of jail since his original parole in December 2003, Damji was finally granted day parole last October, records show. Damji appears in a Toronto court tomorrow.

South China Morning Post 南華早報

Ice Queen pledged to sell fast food

Wednesday, 28 February, 1996, 12:00am

From ALAN MERRIDEW in Vancouver

THE world's most notorious woman drug trafficker was allowed to settle in Canada because she promised to run a fast-food chicken franchise, according to a Toronto newspaper.

Hong Kong-based Lee Chau-ping, known as the Ice Queen, made only two short trips to La Ronge, Saskatchewan, before the authorities approved her immigration as an entrepreneur willing to invest C$170,000 (about HK$958,000), the Globe and Mail reported.

The paper said Lee, her husband - with whom she had not lived for at least two years - and their two school-age children were admitted as immigrants in Vancouver on May 22, 1992.

They had been briefly interviewed at a Canadian immigration office in Seattle, in the United States.

Less than a week earlier, Guangdong authorities had raided and shut down several of her factories making the drug ice.

Lee disappeared from Canada 18 months later leaving her children, her husband and more than CS$1 million in assets.

She faces criminal charges in Hong Kong, China, Thailand and Canada and is on the Interpol wanted list.

The Canadian Government wants to strip her of her Canadian assets including a C$800,000 house in Vancouver's Kerrisdale area, a house in British Columbia, and jewellery.

The Globe said Hong Kong authorities were 'shaking their heads about how easy it is for Asian criminals to get into Canada'.

'Their amazement echoes longstanding criticism from several quarters that the federal Government's business immigration programme really amounts to selling passports to the carriage

trade and to criminals,' the paper said.

Topics: Hong Kong
Indictment
Vancouver
British Columbia
Hong Kong

Grant Thornton

Reporting Entity Sector Profiles: DPMS Appendices

Prepared for FINTRAC | March 31, 2014

Appendix A: Industry statistics and reporting entity data

DPMS Sector NAICS Codes

Identified as regulated activity

Code	Description
339910	Jewellery and silverware manufacturing
418920	Mineral, ore and precious metal merchant wholesalers
423940	Jewellery, watches precious stone, and precious metal merchant wholesalers
448310	Jewelry Stores
522299	All other non-depository credit intermediation (Pawn shops)
523210	Securities and commodity exchanges
523990	All other financial investment activities

Identified as unregulated activity

Code	Description
212220	Gold and silver ore mining
212221	Gold ore mining
212222	Silver ore mining
33141	Non-ferrous metal (except aluminum) smelting and refining
522299	All other non-depository credit intermediation (Pawn shops)

Using NAICs codes, searches for statistical data on the DPMS industry were carried out on Industry Canada's Canadian Industry Statistics (CIS) site.

DPMS Sector SIC Codes

Identified as regulated activity

Code	Description
3911	Jewellery, precious metal
5094	Precious Stones, Metals, Watches, Jewellery
5933	Pawn Shops
5944	Jewelry Stores
6413	Commodity Brokers
6422	Commodity Exchange
8792	Jewellery retailing

Identified as unregulated activity

Code	Description
104	Gold and silver ores
1041	Gold ores
1044	Silver ores

Please note that the SIC-C has been replaced by NAICS Canada. Once implementation of NAICS Canada is complete, the SIC-C will be discontinued.

Establishments: Jewellery and silverware manufacturing (NAICS 33991)

Number of establishments in Canada by type and region: December 2012 Jewellery and Silverware Manufacturing (NAICS 33991)				
Province or Territory	**Employers**	**Non-Employers/ Indeterminate**	**Total**	**% of Canada**
Alberta	29	48	77	8.7%
British Columbia	70	91	161	18.1%
Manitoba	11	6	17	1.9%
New Brunswick	4	4	8	0.9%
Newfoundland and Labrador	3	3	6	0.7%
Northwest Territories	1	0	1	0.1%
Nova Scotia	5	4	9	1.0%
Nunavut	0	0	0	0.0%
Ontario	135	217	352	39.6%
Prince Edward Island	2	0	2	0.2%
Quebec	134	111	245	27.5%
Saskatchewan	7	2	9	1.0%
Yukon Territory	2	1	3	0.3%
CANADA	403	487	890	100%
Percent Distribution	45.3%	54.7%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Jewellery and Silverware Manufacturing (NAICS33991)				
Province or Territory	**Employment Size Category (Number of employees)**			
	Micro 1-4	**Small 5-99**	**Medium 100-499**	**Large 500+**
Alberta	19	10	0	0
British Columbia	42	28	0	0
Manitoba	5	5	1	0
New Brunswick	2	2	0	0
Newfoundland and Labrador	3	0	0	0
Northwest Territories	0	1	0	0
Nova Scotia	4	1	0	0
Nunavut	0	0	0	0
Ontario	85	49	1	0
Prince Edward Island	2	0	0	0
Quebec	83	51	0	0
Saskatchewan	7	0	0	0
Yukon Territory	2	0	0	0
CANADA	254	147	2	0
Percent Distribution	63.0%	36.5%	0.5%	0.0%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Establishments: Mineral, ore and precious metal wholesaler-distributor (NAICS 41892)

Number of establishments in Canada by type and region: December 2012 Mineral, Ore and Precious Metal Wholesaler-Distributors (NAICS 41892)				
Province or Territory	**Employers**	**Non-Employers/ Indeterminate**	**Total**	**% of Canada**
Alberta	7	5	12	9.4%
British Columbia	10	10	20	15.6%
Manitoba	2	2	4	3.1%
New Brunswick	1	0	1	0.8%
Newfoundland and Labrador	1	1	2	1.6%
Northwest Territories	0	0	0	0.0%
Nova Scotia	2	1	3	2.3%
Nunavut	0	0	0	0.0%
Ontario	27	35	62	48.4%
Prince Edward Island	0	0	0	0.0%
Quebec	11	10	21	16.4%
Saskatchewan	0	2	2	1.6%
Yukon Territory	1	0	1	0.8%
CANADA	62	66	128	100%
Percent Distribution	48.4%	51.6%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Mineral, Ore and Precious Metal Wholesaler-Distributors (NAICS41892)				
Province or Territory	**Employment Size Category (Number of employees)**			
	Micro 1-4	**Small 5-99**	**Medium 100-499**	**Large 500+**
Alberta	4	3	0	0
British Columbia	5	4	1	0
Manitoba	0	2	0	0
New Brunswick	0	1	0	0
Newfoundland and Labrador	1	0	0	0
Northwest Territories	0	0	0	0
Nova Scotia	2	0	0	0
Nunavut	0	0	0	0
Ontario	17	10	0	0
Prince Edward Island	0	0	0	0
Quebec	8	2	1	0
Saskatchewan	0	0	0	0
Yukon Territory	1	0	0	0
CANADA	38	22	2	0
Percent Distribution	61.3%	35.5%	3.2%	0.0%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Establishments: Jewellery stores (NAICS 44831)

Number of establishments in Canada by type and region: December 2012 Jewellery Stores (NAICS 44831)				
Province or Territory	**Employers**	**Non-Employers/ Indeterminate**	**Total**	**% of Canada**
Alberta	307	155	462	10.6%
British Columbia	369	276	645	14.8%
Manitoba	83	42	125	2.9%
New Brunswick	54	23	77	1.8%
Newfoundland and Labrador	21	5	26	0.6%
Northwest Territories	6	0	6	0.1%
Nova Scotia	47	19	66	1.5%
Nunavut	0	0	0	0.0%
Ontario	1,032	810	1,842	42.2%
Prince Edward Island	8	5	13	0.3%
Quebec	642	360	1,002	23.0%
Saskatchewan	59	37	96	2.2%
Yukon Territory	4	1	5	0.1%
CANADA	2,632	1,733	4,365	100%
Percent Distribution	60.3%	39.7%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Jewellery Stores (NAICS44831)				
Province or Territory	**Employment Size Category (Number of employees)**			
	Micro 1-4	**Small 5-99**	**Medium 100-499**	**Large 500+**
Alberta	131	174	2	0
British Columbia	192	176	1	0
Manitoba	31	52	0	0
New Brunswick	29	25	0	0
Newfoundland and Labrador	10	11	0	0
Northwest Territories	3	3	0	0
Nova Scotia	28	18	1	0
Nunavut	0	0	0	0
Ontario	587	441	2	2
Prince Edward Island	2	6	0	0
Quebec	387	250	3	2
Saskatchewan	25	34	0	0
Yukon Territory	2	2	0	0
CANADA	1,427	1,192	9	4
Percent Distribution	54.2%	45.3%	0.3%	0.2%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Establishments: Securities and commodity exchanges (NAICS 52321)

Number of establishments in Canada by type and region: December 2012 Securities and Commodity Exchanges (NAICS 52321)				
Province or Territory	**Employers**	**Non-Employers/ Indeterminate**	**Total**	**% of Canada**
Alberta	12	26	38	14.4%
British Columbia	15	43	58	22.1%
Manitoba	2	8	10	3.8%
New Brunswick	2	2	4	1.5%
Newfoundland and Labrador	2	0	2	0.8%
Northwest Territories	0	0	0	0.0%
Nova Scotia	2	4	6	2.3%
Nunavut	0	0	0	0.0%
Ontario	26	77	103	39.2%
Prince Edward Island	0	0	0	0.0%
Quebec	6	28	34	12.9%
Saskatchewan	1	7	8	3.0%
Yukon Territory	0	0	0	0.0%
CANADA	68	195	263	100%
Percent Distribution	25.9%	74.1%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Securities and Commodity Exchanges (NAICS 52321)				
Province or Territory	**Employment Size Category (Number of employees)**			
	Micro 1-4	**Small 5-99**	**Medium 100-499**	**Large 500+**
Alberta	8	4	0	0
British Columbia	13	1	1	0
Manitoba	1	1	0	0
New Brunswick	2	0	0	0
Newfoundland and Labrador	0	2	0	0
Northwest Territories	0	0	0	0
Nova Scotia	1	1	0	0
Nunavut	0	0	0	0
Ontario	10	11	3	2
Prince Edward Island	0	0	0	0
Quebec	2	3	1	0
Saskatchewan	0	1	0	0
Yukon Territory	0	0	0	0
CANADA	37	24	5	2
Percent Distribution	54.4%	35.3%	7.4%	2.9%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Establishments: Other financial investment activities (NAICS 5239)

Number of employer establishments by employment size category and region: December 2012 Other financial investment Activities (NAICS5239)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	1,274	389	32	9
British Columbia	1,839	504	39	5
Manitoba	368	121	9	8
New Brunswick	142	47	2	1
Newfoundland and Labrador	56	21	1	0
Northwest Territories	6	14	1	0
Nova Scotia	177	67	8	2
Nunavut	2	4	0	0
Ontario	3,947	1,281	131	47
Prince Edward Island	43	14	0	0
Quebec	1,517	710	43	9
Saskatchewan	301	114	11	1
Yukon Territory	13	6	0	0
CANADA	9,685	3,292	277	82
Percent Distribution	72.6%	24.7%	2.1%	0.6%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Other financial investment Activities (NAICS5239)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	1,274	389	32	9
British Columbia	1,839	504	39	5
Manitoba	368	121	9	8
New Brunswick	142	47	2	1
Newfoundland and Labrador	56	21	1	0
Northwest Territories	6	14	1	0
Nova Scotia	177	67	8	2
Nunavut	2	4	0	0
Ontario	3,947	1,281	131	47
Prince Edward Island	43	14	0	0
Quebec	1,517	710	43	9
Saskatchewan	301	114	11	1
Yukon Territory	13	6	0	0
CANADA	9,685	3,292	277	82
Percent Distribution	72.6%	24.7%	2.1%	0.6%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Establishments: Gold and silver ore mining (NAICS 21222)

Number of establishments in Canada by type and region: December 2012 Gold and Silver Ore Mining (NAICS 21222)				
Province or Territory	**Employers**	**Non-Employers/ Indeterminate**	**Total**	**% of Canada**
Alberta	2	10	12	5.7%
British Columbia	33	51	84	40.0%
Manitoba	2	1	3	1.4%
New Brunswick	0	0	0	0.0%
Newfoundland and Labrador	1	0	1	0.5%
Northwest Territories	0	0	0	0.0%
Nova Scotia	0	1	1	0.5%
Nunavut	1	0	1	0.5%
Ontario	23	11	34	16.2%
Prince Edward Island	0	0	0	0.0%
Quebec	19	0	19	9.0%
Saskatchewan	2	0	2	1.0%
Yukon Territory	30	23	53	25.2%
CANADA	113	97	210	100%
Percent Distribution	53.8%	46.2%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Gold and Silver Ore Mining (NAICS21222)				
Province or Territory	**Employment Size Category (Number of employees)**			
	Micro 1-4	**Small 5-99**	**Medium 100-499**	**Large 500+**
Alberta	1	1	0	0
British Columbia	21	11	0	1
Manitoba	0	1	1	0
New Brunswick	0	0	0	0
Newfoundland and Labrador	0	1	0	0
Northwest Territories	0	0	0	0
Nova Scotia	0	0	0	0
Nunavut	0	0	1	0
Ontario	7	8	5	3
Prince Edward Island	0	0	0	0
Quebec	2	5	10	2
Saskatchewan	0	0	2	0
Yukon Territory	19	11	0	0
CANADA	50	38	19	6
Percent Distribution	44.2%	33.6%	16.8%	5.3%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Establishments: Non-ferrous metal (except aluminum) smelting and refining (NAICS 33141)

Number of establishments in Canada by type and region: December 2012 Non-Ferrous Metal (except Aluminum) Smelting and Refining (NAICS 33141)				
Province or Territory	**Employers**	**Non-Employers/ Indeterminate**	**Total**	**% of Canada**
Alberta	3	1	4	10.3%
British Columbia	1	0	1	2.6%
Manitoba	1	0	1	2.6%
New Brunswick	1	0	1	2.6%
Newfoundland and Labrador	1	0	1	2.6%
Northwest Territories	0	0	0	0.0%
Nova Scotia	0	0	0	0.0%
Nunavut	0	0	0	0.0%
Ontario	11	1	12	30.8%
Prince Edward Island	0	0	0	0.0%
Quebec	16	3	19	48.7%
Saskatchewan	0	0	0	0.0%
Yukon Territory	0	0	0	0.0%
CANADA	34	5	39	100%
Percent Distribution	87.2%	12.8%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Non-Ferrous Metal (except Aluminum) Smelting and Refining (NAICS33141)				
Province or Territory	**Employment Size Category (Number of employees)**			
	Micro 1-4	**Small 5-99**	**Medium 100-499**	**Large 500+**
Alberta	1	1	1	0
British Columbia	0	0	0	1
Manitoba	0	0	0	1
New Brunswick	0	0	0	1
Newfoundland and Labrador	0	0	1	0
Northwest Territories	0	0	0	0
Nova Scotia	0	0	0	0
Nunavut	0	0	0	0
Ontario	2	4	3	2
Prince Edward Island	0	0	0	0
Quebec	4	6	2	4
Saskatchewan	0	0	0	0
Yukon Territory	0	0	0	0
CANADA	7	11	7	9
Percent Distribution	20.6%	32.4%	20.6%	26.5%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Establishments: non-depository credit intermediation (includes pawn shops) (NAICS 522299)

Number of establishments in Canada by type and region: December 2012 All Other Non-Depository Credit Intermediation (NAICS 522299)				
Province or Territory	**Employers**	**Non-Employers/ Indeterminate**	**Total**	**% of Canada**
Alberta	166	553	719	12.8%
British Columbia	228	580	808	14.4%
Manitoba	33	127	160	2.8%
New Brunswick	33	39	72	1.3%
Newfoundland and Labrador	16	17	33	0.6%
Northwest Territories	5	4	9	0.2%
Nova Scotia	34	63	97	1.7%
Nunavut	2	1	3	0.1%
Ontario	515	2,098	2,613	46.4%
Prince Edward Island	7	9	16	0.3%
Quebec	221	750	971	17.3%
Saskatchewan	39	79	118	2.1%
Yukon Territory	4	4	8	0.1%
CANADA	1,303	4,324	5,627	100%
Percent Distribution	23.2%	76.8%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 All Other Non-Depository Credit Intermediation (NAICS522299)				
Province or Territory	**Employment Size Category (Number of employees)**			
	Micro 1-4	**Small 5-99**	**Medium 100-499**	**Large 500+**
Alberta	92	71	2	1
British Columbia	131	94	3	0
Manitoba	24	8	1	0
New Brunswick	13	20	0	0
Newfoundland and Labrador	8	8	0	0
Northwest Territories	3	2	0	0
Nova Scotia	14	20	0	0
Nunavut	1	1	0	0
Ontario	316	187	9	3
Prince Edward Island	4	3	0	0
Quebec	109	107	4	1
Saskatchewan	20	17	2	0
Yukon Territory	2	1	1	0
CANADA	737	539	22	5
Percent Distribution	56.6%	41.4%	1.7%	0.4%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Using SIC codes, searches were carried out on Onesource as well as Lexis to extract statistical data on the DPMS sector from Duns Market Identifiers.

SIC Code 5944 – Jewelery Stores

Provinces	Number of Establishments
Alberta	326
British Columbia	358
Manitoba	99
New Brunswick	65
Newfoundland	28
Nova Scotia	69
Northwest Territories	9
Ontario	1010
PEI	13
Quebec	670
Saskatchewan	76
Yukon	6
Grand Total	2729

Source: Lexis (Duns Market Identifiers)

SIC Code 5944 – Jewelery Stores

Province	Number of Establishments
Alberta	440
British Columbia	710
Manitoba	115
New Brunswick	89
Newfoundland and Labrador	41
Northwest Territories	9
Nova Scotia	95
Ontario	1760
Prince Edward Island	18
Quebec	1088
Saskatchewan	103
Yukon	5
Grand Total	4473

Source: OneSource

Two sources (Lexis and Onesource) were used for this search to illustrate the difference in results depending on the source.

Using NAICs codes, we carried out similar searches on Onesource.

SIC Code 5944 – Jewelery Stores

Province	Number of Establishments
Alberta	440
British Columbia	708
Manitoba	115
New Brunswick	89
Newfoundland and Labrador	41
Northwest Territories	9
Nova Scotia	95
Ontario	1760
Prince Edward Island	18
Quebec	1087
Saskatchewan	103
Yukon	5
Grand Total	4470

Source: OneSource

Searches were carried out on OneSource using NAICs and SIC codes relevant to Precious Metals/Bullion.

NAICS Code	NAICS Code Description	Number of Establishments
21222	Gold Ore and Silver Ore Mining	9
212221	Gold Ore Mining	1,176
21221/212210	Iron Ore Mining	48
339910	Jewelry and Silverware Manufacturing	891
423940	Jewelry, Watch, Precious Stone, and Precious Metal Merchant Wholesalers	667
331410	Nonferrous Metal (except Aluminum) Smelting and Refining	44
212222	Silver Ore Mining	68
Grand Total		2,903

NAICS code 423940 - Jewelry, watch, precious stone, and precious metal merchant wholesalers

Provinces	Number of Establishments
Alberta	38
British Columbia	110
Manitoba	13
New Brunswick	2
Newfoundland and Labrador	1
Northwest Territories	1
Nova Scotia	14
Ontario	332
Quebec	150
Saskatchewan	4
Yukon	2
Grand Total	667

SIC Codes	SIC Code Description	Number of Establishments
104	Gold and Silver Ores	9
1041	Gold Ores	1173
3911	Jewellery, Precious Metal	547
5094	Jewellery, Watches, Precious Stones, and Precious Metals	661
5944	Jewellery Stores	4473
3339	Primary Smelting and Refining of Nonferrous Metals, Except Copper and Aluminum	44
3341	Secondary Smelting and Refining of Nonferrous Metals	13
1044	Silver Ores	67
Grand Total		2514

SIC code 5094 - Jewellery, watches, precious stones, and precious metals

Province	Number of Establishments
Alberta	38
British Columbia	109
Manitoba	13
New Brunswick	2
Newfoundland and Labrador	1
Nova Scotia	14
Ontario	328
Quebec	150
Saskatchewan	4
Yukon	2
Grand Total	661

NAICS -522298 - All other non-depository credit intermediation (this classification code includes pawn shops)

Province	Number of Establishments
Alberta	77
British Columbia	106
Manitoba	34
New Brunswick	19
Northwest Territories	1
Nova Scotia	13
Ontario	180
Prince Edward Island	3
Quebec	145
Saskatchewan	36
Yukon	2
Grand Total	616

See below for the Onesource NAICS tree.

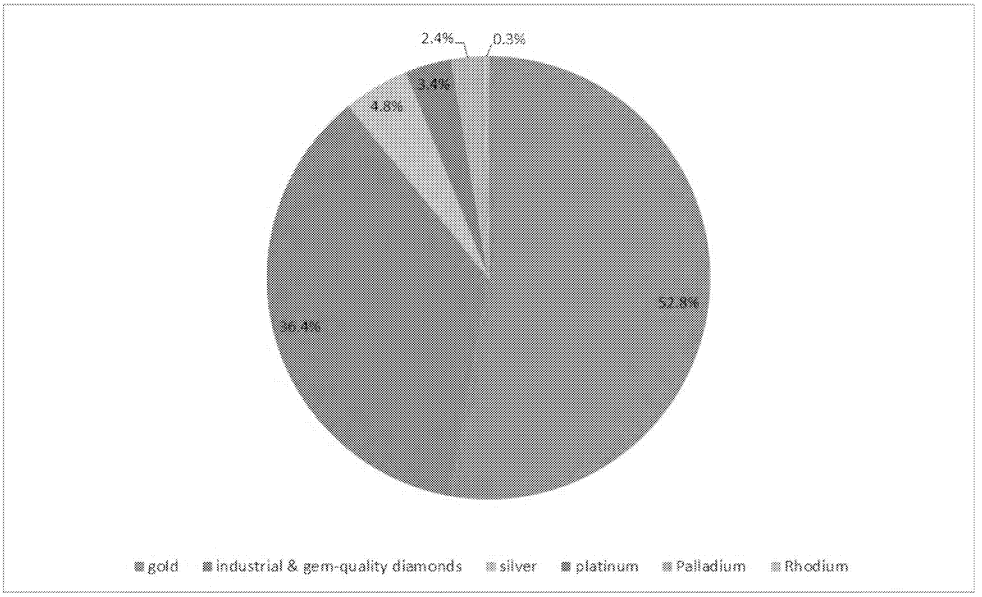
Canada precious metals & minerals market value: $ million, 2008-2012

Year	$ million	C$ million	€ million	% Growth
2008	6,557.5	6,556.4	4,7662.2	
2009	5,921.3	5,920.3	4,303.8	(9.7%)
2010	7,809.0	7,807.7	5,675.9	31.9%
2011	11,554.6	11,552.7	8,398.3	48.0%
2012	10,724.7	10,722.9	7,795.0	(7.2%)
CAGR:2018-2012				13.1%

(MarketLine – October 2013)

Category segmentation (Marketline)

Category	2012	%
Gold	5,664.4	52.8%
Industrial & gem-quality diamonds	3,889.0	36.4%
Silver	511.2	4.8%
Platinum	361.3	3.4%
Palladium	259.0	2.4%
Rhodium	29.7	0.3%
Total	10,714.6	100%



Geography segmentation (Marketline)

Geography	2012	%
United States	14,236.1	28.5%
Canada	10,724.7	21.5%
Mexico	8,930.7	17.9%
Rest of the Americas	15,999.2	32.1%
Total	49,890.7	100.0%

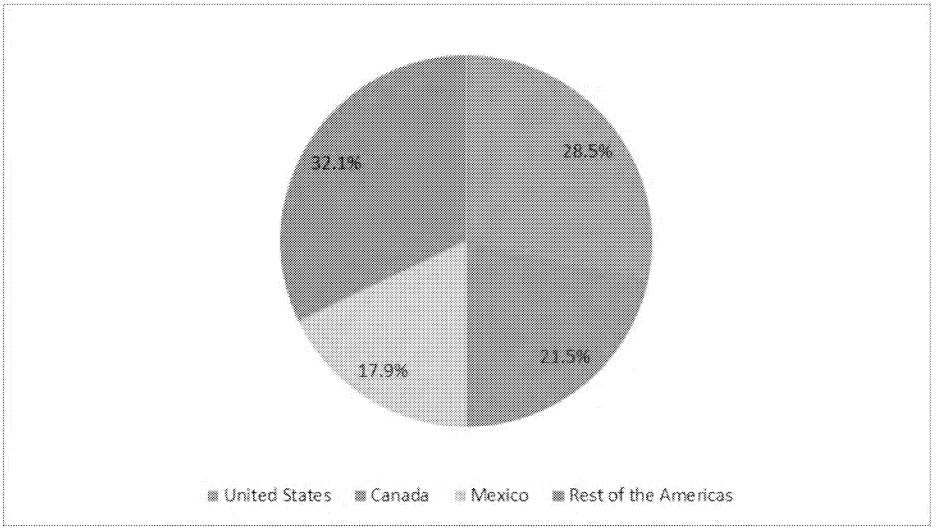


Table 3 Canadian KPCs issued for exports to Participants in 2012

Participant	Q1	Q2	Q3	Q4	Total Count
Armenia	0	1	1	2	4
Australia	0	1	0	0	1
China	0	5	0	5	10
European Community	46	32	38	33	149
India	16	11	17	15	59
Israel	6	3	4	4	17
Norway	1	0	0	0	1
South Africa	1	4	1	3	9
United Arab Emirates	0	1	0	2	3
United States	2	2	8	6	18
Vietnam	0	1	3	5	9
TOTAL	72	61	72	75	280

Source: KPC based data collected by NRCan under the authority of the Minister of NRCan

Table 1: **Production, Exports and Import of rough diamonds in major Producing countries – 2012**

	Production		Import		Export	
Country name	Volume (Carats, Carat (Millions)	Value (Billions of USD)	Volume (Carats, Carat (Millions)	Value (Billions of USD)	Volume (Carats, Carat (Millions)	Value (Billions of USD)
Botswana	20.55	2.98	7.49	2.14	23.35	3.99
Russian Federation	34.93	2.87	0.14	0.15	29.81	3.90
Canada	10.45	2.01	0.76	0.16	11.12	2.16
Angola	8.33	1.11	0	0	9.20	1.15
South Africa	7.08	1.03	11.47	1.08	8.01	1.36
Namibia	1.60	0.90	0.13	0.16	1.68	0.98
Zimbabwe	12.06	0.64	0	0	14.96	0.74
DRC	21.52	0.18	0	0	19.56	0.26

Source: KP statistics[53]

Table 4 2012 Foreign KPCs received by Canada as of April 11, 2012

Participant	Q1	Q2	Q3	Q4	Total Count
Armenia	2	2	7	4	15
China, People's Republic of	0	0	0	1	1
Democratic Republic of Congo	1	0	0	0	1
European Community	35	33	26	31	125
India	0	1	5	3	9
Israel	4	3	2	3	12
Sierra Leone	0	2	0	0	2
South Africa	1	2	1	0	4
United Arab Emirates	1	3	0	0	4
United States	22	26	30	18	96
TOTAL	66	72	71	60	269

Source: KPC based data collected by NRCan under the authority of the Minister of NRCan

414410	Jewellery and Watch Wholesaler-Distributors CAN
	This Canadian industry comprises establishments primarily engaged in wholesaling jewellery, watches, silverware, table flatware, hollowware, and cutlery of precious metal.

Search of Alphabetical Index in NAICS 2007

414410	Clocks, mechanical, wholesale
	Coins, wholesale
	Diamonds (gems), wholesale
	Diamonds, jewellery, wholesale
	Gem stones, wholesale
	Hollowware, table, sterling and silverplate, wholesale
	Imitation stones and pearls, jewellery, wholesale
	Jewellers' findings, precious metal, wholesale
	Jewellery, wholesale
	Silverware and plated ware, wholesale
	Stones, precious, wholesale
	Table flatware and hollowware, sterling and silverplate, wholesale
	Watches , wholesale

Appendix B: Case examples and typologies

The enclosed articles have been sourced from; news media databases, books and the Internet, and provide specific examples of the risk factors identified in the report.

1. US investigation links Lebanese Canadian Bank to Hezbollah, Deutsche Welle, December 20, 2011
2. Murky sources of Hizbollah's funding, Straits Times, December 15, 2011
3. SA role in diamond trade slammed, All Africa News, July 7, 2011
4. Organized crime fuelling growing global threat: UN, Waterloo Region Record, June 18, 2010
5. Report exposes Mnangagwa and Mujuru involvement in Marange, All Africa News, June 16, 2010
6. 'Blood diamond' smuggling worries Ottawa: N.W.T. diamond boom has federal government concerned about crime, Edmonton Journal, September 7, 2008
7. Our Far North diamonds a target for smugglers: Money laundering. Boom in mining during last decade, Montreal Gazette, September 5, 2008
8. Police allege blood diamonds found hidden in clothing of man at Edmonton airport, The Canadian Press, February 20, 2008
9. Ex-Madoff programmers wanted payment in diamonds: Jury told, National Post, December 11, 2013
10. Military fraud probe uncovers jewelry stash, Vancouver Sun, October 5, 2013
11. Portus founder ordered to pay $320k; Mendelson also slapped with ban from trading, The Toronto Star, December 1, 2012
12. Portus' Manor must pay $8.8M; Doesn't have it, National Post, August 28, 2012
13. Chasing Manor's Millions: Seven years after the spectacular collapse of his firm, Portus, the mystery persists: What became of the diamonds that Boaz Manor bought with investors' money? The Globe and Mail, October 26, 2012
14. Portus' Manor bought 22-carat diamond with fund investments, Bloomberg.com, October 14, 2005
15. UBS snitch gets US$104M payoff; U S tax-scam reward contrasts with Canada, National Post, September 12, 2012

16. Ponzi loot on auction; Millions in Rotschild scam, The Windsor Star, July 14, 2011

17. Persian rugs, biker bling, other loot for sale; Police recovered property auction displays what people have lost, not including their sense of security, The Globe and Mail, April 20, 2011

18. Lacroix sentenced to 13 years; Former Norbourg head given time for his role in a $130-million fraud that claimed 9,200 victims, The Globe and Mail, October 9, 2009

19. Sentencing hearing delayed for Man., addictions centre head who defrauded Ottawa, The Canadian Press, December 12, 2008

20. Ill-gotten jewelry goes to auction, Calgary Herald, November 14, 2008

21. Diamond exports face new threat, All Africa News, June 16, 2010

22. Crime syndicate exposed: Police 'They themselves believe they're untouchable' Unsolved killings; A dozen alleged members of deadly Shower Posse among 78 people nabbed in 100-officer sweep, The Toronto Star, May 5, 2010

23. Former official with US consulate in Toronto sentenced to 1 year in visa bribery scheme, The Canadian Press, July 29, 2009

24. Guilty plea in crime ring stung by lost luggage; Bank robbery proceeds used to finance terror, National Post, March 8, 2008

25. Dubai refinery Kaloti, DMCC caught in $5bn global gold scandal, Arabian Business, February 26, 2014

26. Dubai refiner Kaloti Group linked to conflict gold scandal by E&Y whistleblower, International Business Times, February 26, 2014

27. Confidential papers raise fears over conflict gold, The Guardian, February 26, 2014

28. Gold rush hits Calgary precious metals dealers, Calgary Herald, August 10, 2011

29. Nothing to declare: Russian busted smuggling 26,000 diamonds, RT.com, March 11, 2013

30. Rush to cash in gold attracts tarnish of possible scams, The Globe and Mail, November 11, 2010

31. Bling losing its lustre, The Toronto Star, July 15, 2009

32. Stop buying and selling blood diamonds, Rappaport Magazine, February 2010

33. Canada to unveil diamond market, The Globe and Mail, January 28, 2010

34. Skilled immigrants staff Sudbury gem plant, October 14, 2009

35. RCMP issues warning on diamonds, Financial Post, August 10, 2011

36. Peoples gets new parent, National Post, February 20, 2014

US investigation links Lebanese Canadian Bank to Hezbollah

1,138 words
20 December 2011
07:45
Deutsche Welle
DEUEN
English

A US investigation has revealed that proceeds from drug smuggling and other criminal enterprises have been laundered through a prominent Lebanese bank and used as funding for militant group Hezbollah.

A six-year investigation by the United States into the inner workings of the Lebanese Canadian Bank (LCB), one of Beirut's many secretive financial institutions, has revealed an intricate web of money laundering and criminal activity through which the militant group Hezbollah has been deriving new strands of funding.

In an extensive report by the New York Times last week, the US operation into the LCB's activities, which began shortly after Hezbollah's 2006 summer war with Israel, has revealed that the depths of the bank's connections with the powerful Lebanese militant group have been carefully buried under untainted assets for years.

After painstakingly gathering information from undercover sources and networks, the investigation, according to the NYT, has hit pay dirt in the last few months with damaging evidence emerging during the sale of the LCB, a former subsidiary of the Royal Bank of Canada Middle East, to a Beirut-based partner of the French banking giant Société Générale.

Warning bells began ringing when intelligence agencies started noticing Lebanese Shiites working for South American drug cartels. However, one of the biggest breakthroughs in the pursuit of evidence against Hezbollah and its connections with the LCB came in 2007 when Chekri Mahmoud Harb, a Lebanese middleman working with a Colombian cartel, revealed his Hezbollah connections to an undercover agent.

Harb's link failed to bear fruit but investigators were then lucky enough to get a second chance when cash from the used car racket ended up in an exchange house owned by the family of Ayman Joumaa, a former cartel member and now owner of the Caesars Park Hotel in Beirut with alleged connections to Hezbollah's 1800 Unit (elite group believed to coordinate attacks inside Israel - the ed.), and another down the street from his hotel. The exchanges then deposited the money into accounts held by the Lebanese Canadian Bank.

Criminal activities funding Hezbollah

It was only during the sale procedure, when the LCB's ledgers were opened and deeply investigated, that the extent of the bank's connection to Hezbollah became evident. The accounts have also shone light on how the militant group has managed to fund its rise to political and military prominence in Lebanon at a time when its main benefactors in Iran and Syria have suffered under the weight of international sanctions and growing public unrest.

Iran alone has been cited by US sources as providing as much as $200 million (153.5 million euros) annually, although this has been drastically reduced in recent years by the crippling restrictions placed on Tehran's own financial sector in response to its unwillingness to give up its nuclear ambitions.

With Syria's own financial crisis being exacerbated by its increasingly violent civil uprising, Hezbollah has had to look elsewhere.

"It's not much of a secret anymore that Hezbollah used illicit channels to raise funds, or **launder** money," Reinoud Leenders, Middle East expert and assistant professor International Relations at the University of Amsterdam, told Deutsche Welle. "I wouldn't be surprised if they use some Lebanese banks for their finances, which are not unknown in the world of money laundering due to ineffective controls and regulations despite what Lebanese officials may tell you."

It has long been known that Hezbollah has benefited from financial contributions from foreign loyalists and funding from elements of the large Lebanese Diaspora abroad who have successfully circumvented attempts to cut off the militant group's economic lifeblood.

What the recent revelations have shown is that this Diaspora, spread throughout Europe, Africa and South America, has provided Hezbollah with a ready made network of contacts involved in an intricate global money-laundering apparatus involving drug trafficking and other criminal activities which have in turn allowed Hezbollah to move huge sums of money into the legitimate financial system.

Drugs, cars and consumer goods

The web of criminality allegedly stretches around the world and involves South American drug cartels, goods exporters in Asia, car dealerships in the United States and Africa, and Shiite Muslim businessmen dealing in everything from conflict **diamonds** to frozen chicken.

"Among other things, there are reasons to believe that Hezbollah is involved in cigarette smuggling in the US, the trade in blood **diamonds** in West Africa, and in recent financial scams in Lebanon," said Leenders.

Intelligence from several countries, not just the United States, has also revealed the direct involvement of high-level Hezbollah officials in the cocaine trade in South America.

Through the group's connections with the cartels, cocaine is sent through the porous border where Brazil, Paraguay and Argentina meet then onto Colombia and Venezuela where it is then sent to Europe via West African countries like Benin and Gambia. The cocaine is then moved north through Portugal or Spain, or east via Syria and Lebanon.

Profits from the highly lucrative European narcotics market are then transferred back to African accounts.

Used cars are then shipped from the United States to Africa where the proceeds from their sale is mixed with the European drug profits and sent to the Lebanese Canadian Bank via exchange houses across the Middle East. Some of the money is sent back to the US to buy more used cars while some is diverted to Hezbollah.

Another portion of the money is transferred through accounts in the United States to pay Asian consumer goods suppliers in countries such as China. The consumer goods are then shipped to South America where they are sold to pay off the drug cartels.

The NYT report said that the US investigation had revealed that hundreds of millions of dollars a year have passed through nearly 200 accounts associated with companies allegedly used as fronts for Hezbollah.

Whether any subsequent US action damaged Hezbollah's financial structure is still a matter of debate.

"The Lebanese banking establishment is very aware of how this could potentially affect stability in Lebanon and Hezbollah's grip on power and this is why the affair of the Lebanese-Canadian bank was dealt with very swiftly," Nadim Shehadi, a Middle East expert at Chatham House, told Deutsche Welle. "It would now be difficult for anybody to channel illegal money through Lebanese banks."

According to Leenders it's unlikely to have any direct impact on Hezbollah.

"They have very likely diversified their financial flows to the extent that no one measure against them can stop them. The potentially precarious support by both Syria and Iran will also have prompted Hezbollah to look for revenues beyond them, including by raising funds in the Lebanese Shiite diaspora," he said.

Author: Nick AmiesEditor: Rob Mudge

15612492

Document DEUEN00020111220e7ck000b7

The Straits Times
The Sunday Times

World
Murky sources of Hizbollah's funding

735 words
15 December 2011
Straits Times
STIMES
English

Ledgers of Lebanese bank with links to militant group expose big role in drug trade

BEIRUT: In February this year, the Obama administration accused one of Lebanon's famously secretive banks of laundering money for an international cocaine ring with ties to the Shi'ite militant group Hizbollah.

The books offer evidence of an intricate global money-laundering apparatus that, with the bank as its hub, appeared to let Hizbollah move huge sums of money into the legitimate financial system, despite sanctions aimed at cutting off its economic lifeblood.

At the same time, the investigation that led the United States to the Lebanese Canadian Bank provides new insights into the murky sources of Hizbollah's money. Intelligence from several countries points to the direct involvement of high-level Hizbollah officials in the South American cocaine trade.

On Tuesday, federal prosecutors in Virginia announced the indictment of the man at the centre of the Lebanese Canadian Bank case - Ayman Joumaa, 47, a Lebanese - charging that he had trafficked drugs and laundered money for Colombian cartels and the Mexican gang Los Zetas.

The revelations about Hizbollah and the Lebanese Canadian Bank reflect the changing political and military dynamics of Lebanon and the Middle East.

American intelligence analysts believe that for years Hizbollah received as much as US$200 million (S$260 million) annually from its primary patron, Iran, along with additional aid from Syria.

But that support has diminished, the analysts say, as Iran's economy buckles under international sanctions over its nuclear programme and Syria's government battles rising popular unrest.

'The ability of terror groups like Hizbollah to tap into the worldwide criminal funding streams is the new post-9/11 challenge,' said Mr Derek Maltz, the Drug Enforcement Administration official who oversaw the agency's investigation into the Lebanese Canadian Bank, once a subsidiary of the Royal Bank of Canada Middle East.

In that inquiry, US Treasury officials said senior bank managers had assisted a handful of account holders in running a scheme to **launder** drug money by mixing it with the proceeds of used cars bought in the US and sold in Africa.

The outlines of a broader laundering network, and the degree to which Hizbollah's business had come to suffuse the bank's operations, emerged in recent months as the bank's untainted assets were being sold.

In all, hundreds of millions of dollars a year sloshed through the accounts, held mainly by Shi'ite Muslim businessmen in the drug-smuggling nations of West Africa, many of them known Hizbollah supporters, trading in everything from rough-cut **diamonds** to cosmetics to frozen chicken, according to people with knowledge of the matter in the US and Europe.

For the US, taking down the bank was part of a long-running strategy of deploying financial weapons to fight terrorism.

As the case travelled up the administration's chain of command beginning in autumn last year, the prevailing view was that it offered what one official called 'a great opportunity to dirty up Hizbollah' .

Founded three decades ago as a guerilla force aimed at the Israeli occupation of southern Lebanon, Hizbollah has never before had such a prominent place in the country's official politics.

Yet much of its power derives from elsewhere - from its status as a state within the Lebanese state. That this sliver of a country would be a crossroads for all manner of trade owes much to the flourishing of a worldwide diaspora; more Lebanese live abroad than at home.

Through criminal elements in these emigre communities, Hizbollah has gained a deepening foothold in the cocaine business, according to an assessment by the United Nations Office on Drugs and Crime described in a leaked 2009 State Department cable.

In South America and Europe, prosecutors began noticing Lebanese Shi'ite middlemen working for the cartels. But the strongest evidence of an expanding Hizbollah role in the drug trade comes from the two investigations that ultimately led to the Lebanese Canadian Bank.

From the Treasury Department's perspective, the case is a victory, albeit an incremental one, in the battle against terrorism financing.

Still, Treasury officials have no illusions that their work here is done.

NEW YORK TIMES

A Hizbollah-linked entity purchased this large parcel of land in the Chouf region of Lebanon with financing from the Lebanese Canadian Bank. -- PHOTO: NEW YORK TIMES

Document STIMES0020111214e7cf0001l

SA Role in Diamond Trade Slammed

by Alex Bell
461 words
7 July 2011
02:33
All Africa
AFNWS
English

Jul 07, 2011 (SW Radio Africa/All Africa Global Media via COMTEX) -- South Africa's role in getting Zimbabwe's **diamonds** back into international trade is being slammed as "dangerous", amid revelations that government officials there have helped export millions of dollars worth of Zim **diamonds**.

South Africa's State Diamond Trader officials admitted in parliament last week that they had helped Zimbabwe export **diamonds** from Chiadzwa, despite an international ban on the trade. During a meeting of the international trade watchdog the Kimberley Process (KP) last month the country's Mines Minister Susan Shabangu, had also publicly stated that **diamonds** from the controversial Chiadzwa diamond fields were tradeable.

That meeting ended with no consensus from KP members of Zimbabwe's future in the international diamond industry. But despite this lack of consensus the KP chair, Mathieu Yamba, announced that Zimbabwe had the green light to resume exports. It's widely understood that this unilateral declaration was prompted by South Africa's open support for Zimbabwe.

The announcement has been rejected by a number of other KP members, including the US, Canada, Australia, Israel and most recently, Switzerland. Analysts have now warned that the apparent split down the middle of the KP membership on how to proceed with Zimbabwe, threatens to collapse the monitoring body completely.

Alan Martin from Partnership Africa Canada (PAC), one of the civil society groups who are part of the KP, told SW Radio Africa on Wednesday that South Africa was playing a "very dangerous game," at a time when "the KP is on life support." Martin said that South Africa had effectively put its own **diamonds** on a par with Chiadzwa **diamonds**, if it continues to "**launder**" stones from there en route to other countries, like India or the United Arab Emirates (UAE).

"South Africa is jeopardising its own industry and is really playing the wrong kind of leadership role. I'm afraid this is going to have very serious ramifications for South Africa," Martin said.

Martin continued by saying that Africa's support for Zimbabwe has taken a suicidal turn, which threatens the entire continent's future in the diamond trade.

"Africa has shot itself in the head and is effectively wasting political capital by shoring up a bunch of crooks and thugs in Zimbabwe, and not recognising that the industry is at stake," Martin warned.

He explained that diamond traders, cutters, polishers and even consumers "are going to turn to other sources that will guarantee their **diamonds** are not sourced badly," explaining that the whole of Africa is being viewed negatively because of Zimbabwe.

"This could be the worst thing to happen to African diamond producing countries since the wars of West Africa," Martin said.

Document AFNWS00020110707e77700031

NEWS
Organized crime fuelling growing global threat: UN

By Edith M. Lederer
The Associated Press
403 words
18 June 2010
Waterloo Region Record
TKWR
Final
A10
English

NEW YORK

The UN drug and crime czar warned Thursday that international crime syndicates pose a growing threat to global security and called for a new campaign to disrupt the markets for their illicit goods and activities in the U.S. and other rich nations.

Antonio Maria Costa told a high-level General Assembly meeting that demand for illegal drugs, **diamonds** and other items is fuelling transnational organized crime and while arresting some traffickers may divert the flow of goods it will not shut them off.

"Therefore, in order to more effectively fight organized crime, we must shift focus from disrupting the mafias to disrupting their markets," he said. "We must also crack down on the accomplices of crime, like the army of white-collar criminals - lawyers, accountants, realtors and bankers - who cover them up and **launder** their proceeds."

UN Secretary-General Ban Ki-moon said the threat from transnational crime syndicates is growing and the ability of countries to deliver justice "is not evolving as quickly as the criminals' skill at evading justice."

Ban and Costa called for all countries to ratify and implement the UN Convention Against Transnational Organized Crime adopted by the General Assembly in 2000. It commits countries that ratify the treaty to adopting uniform laws to fight organized crime, strengthen money laundering investigations, and streamline extradition processes - and to co-operate with each other to combat illegal activities such as human trafficking.

"Unfortunately, over the past decade, the treaty has suffered from benign neglect," said Costa, who heads the UN Office of Drugs and Crime.

Costa's appearance coincided with the release of a report by his office titled The Globalization of Crime: A Transnational Organized Crime Threat Assessment, which said organized crime has transformed itself into one of the world's foremost economic and armed powers, leaving law enforcement to grasp for an adequate international response.

He told the General Assembly profits from illegal activities has enabled criminals "to influence elections, politicians and power - even the military."

The weakest countries face the greatest risks and some, including in Central America and West Africa, have been infiltrated from the top down while others are under attack, Costa said.

Meanwhile, about 70 per cent of profits from the $72 billion cocaine market go to mid-level dealers in consumer countries, according to the report.

Document TKWR000020100618e66i0001w

Report Exposes Mnangagwa And Mujuru Involvement in Marange

by Violet Gonda
643 words
16 June 2010
12:07
All Africa
AFNWS
English

Jun 16, 2010 (SW Radio Africa/All Africa Global Media via COMTEX) -- An international rights group, Partnership Africa Canada, issued a damning report Monday which exposes some of the players who have been at the forefront of the plunder of **diamonds** in Chiadzwa, Marange.

Titled: **Diamonds** and Clubs: The Militarized Control of **Diamonds** and Power in Zimbabwe, the report shows how the Chiadzwa **diamonds** are sustaining the ZANU PF regime and also fuelling the ongoing political conflict.

The report highlights individuals like former army general Solomon Mujuru, who is heavily involved in illegal diamond deals and also uses his diamond mine 'River Ranch' to **launder** the family's ongoing plunder of resources from the Democratic Republic of Congo.

The report goes on to say that the same personalities who orchestrated the invasion and seizure of white-owned farms and manipulated forex exchange rates have perfected their illicit behaviour and are now battling for control of Zimbabwe's **diamonds**.

Those named in the report include ZANU PF Minister of Defence Emmerson Mnangagwa, his longtime political foe and husband of one of the Vice Presidents, General Mujuru and the true 'power brokers' of Zimbabwean politics, the Joint Operations Command (JOC). "The military chiefs are the high priests of Zimbabwean politics, the final arbiters of tough decisions, and the architects of every single government sponsored act of repression from the 1985 massacres in Matabeleland, to the farm invasions, to successive episodes of election-related violence."

Defense Force Commander General Constantine Chiwenga, Air Force Commander Perence Shiri and police Commissioner Augustine Chihuri are among the elite members of the formidable JOC.

In March Finance Minister Tendai Biti was quoted as saying that almost four years after the military took control of Marange, not one cent had gone into the national treasury.

River Ranch, which General Mujuru controversially grabbed at gunpoint in 2004, is another contested diamond area that the international rights group says is inextricably linked to the pursuit of political power and defiance of Kimberley Process protocols. PAC says: "The mine goes to the very heart of Mujuru's struggle for control of ZANU"

"Mujuru has also controversially obtained technical assistance after the takeover (of the mine) from the African Management Service Company, a joint entity managed by the United Nations Development Programme and the World Bank's International Finance Corporation," said the report.

PAC noted that the story of Zimbabwe's contested diamond fields is about many things including 'smuggling', 'a scramble fuelled by raw economic desperation and unfathomable greed' and heart-wrenching cases of government-sponsored repression and human rights violations.

"These political elites are intimately tied to Zimbabwe's military establishment, the Joint Operation Command, and as such constitute a "rebel movement" opposed to the democratic governance of Zimbabwe."

The report also notes that it is often incorrectly assumed that the only fight for power in Zimbabwe is between the two parties, ZANU PF and the MDC, but in reality the main turf war is within ZANU PF. "While Mnangagwa's support base within the JOC places him closer to Marange's riches, River Ranch affords Mujuru unfettered access to his own diamond resource, one that he has protected with no less ruthlessness."

Mujuru is also said to have shares in African Consolidated Resources (ACR), the company in the middle of a legal battle with the government over mining rights in Chiadzwa. ACR CEO Andrew Cranswick is described in the report as having aligned himself with the wrong faction in ZANU PF.

"Mujuru was to provide Cranswick political coverage, as the latter comes from a family with the wrong political pedigree. (His family was known to be big supporters of Ian Smith's Rhodesian Front). Instead, Cranswick is now paying the price for backing the wrong horse in the ZANU succession race."

Document AFNWS00020100616e66g00167

EDMONTON JOURNAL

News
'Blood diamond' smuggling worries Ottawa; N.W.T. diamond boom has federal government concerned about crime

Andrew Mayeda
Canwest News Service
770 words
7 September 2008
Edmonton Journal
EDJR
Final
D10
English

OTTAWA

The diamond industry in Canada's Far North is vulnerable to smugglers looking to import "blood **diamonds**" or **launder** the proceeds of organized crime syndicates and terrorist organizations, newly released federal documents say.

A boom in diamond mining during the last decade has rapidly turned Canada into the third-biggest producer in the world and created jobs in the North, especially in the Northwest Territories where the country's biggest mines are based.

But Canadian authorities warn the fledgling industry could become a vehicle for money laundering.

"**Diamonds** have been, and continue to be, a main source of currency for both terrorist organizations and organized crime," states a briefing note prepared by Citizenship and Immigration Canada in April.

"Conflict/blood **diamonds** are used to fund rebel operations, purchase arms and other illicit activities (drugs). They are portable, high value and cannot be detected by any type of screening method," continues the note, obtained by Canwest News Service under the Access to Information Act.

Blood **diamonds**, sometimes known as "conflict" **diamonds**, are typically mined in African countries wracked by civil war and used to finance rebel or government forces.

Last week, Prime Minister Stephen Harper travelled to the Northwest Territories and Yukon to demonstrate his government's commitment to asserting Canada's Arctic sovereignty. In a speech in Inuvik, N.W.T., Harper promised to "encourage responsible development of the North's abundant economic resources."

In April, the Privy Council Office, the bureaucratic arm of the Prime Minister's Office, convened a meeting with various departments to discuss security and intelligence issues in Canada's Arctic, e-mails obtained by Canwest News Service reveal.

Among other things, PCO officials asked for briefings on illegal immigration and smuggling in the "Arctic region and northern Canada."

The briefing note suggests that temporary foreign workers hired by the diamond industry could be recruited by smugglers.

"With the rapid growth of the industry, Canada will continue to require a significant amount of foreign skill to develop and sustain the industry. These skilled workers generally earn below poverty-line wages in their country of origin. In Canada, the wages are low compared to the high cost of living in the North. This may be incentive for the workers to conduct illegal activities such as diamond smuggling on behalf of the employer," states the note, portions of which have been blanked out.

The document notes there has been a "drastic increase" in applications by employers looking to hire foreign workers, with roughly 100 new positions confirmed in the past year.

Pierre Leblanc, a retired colonel who now works as a consultant to the diamond industry, said smuggling has been an ongoing concern for the industry, especially since banks tightened money-laundering controls in the wake of the Sept. 11, 2001, terrorist attacks.

But he said Canada has one of the cleanest diamond sectors in the world, because much of the supply chain is automated and companies here used sophisticated systems to track **diamonds**.

"Very few people touch the **diamonds**, because it's all an automated system. And it's automated not only for cost efficiency, but also security," said Leblanc, former commander of the Canadian Forces' Northern Area.

Diamond miners in Canada adhere to the Kimberley Process, a system implemented by the industry in 2003 to filter out blood **diamonds**, he added.

Leblanc said there was a significant influx of workers from countries such South Africa and Belgium after the first Canadian mine opened in 1998, but most employees in the industry are now Canadian.

He noted the RCMP, which has established a Diamond Protection Services unit, has been "proactive" in monitoring for smugglers.

The diamond industry isn't the only northern business that has raised concerns among the Mounties.

According to separate documents obtained by Canwest News Service, the RCMP is worried the Mackenzie Valley pipeline project could put a strain on policing activities in the region.

"From a contract-policing perspective, the immediate and long-term social impacts of the Mackenzie Gas Project will include increased community crime, family disruption, violence and substance abuse," states an RCMP update prepared in November 2007.

"From a federal perspective, the greatly increased risk of organized criminal activity, including high-level drug trafficking, economic crime, immigration issues, Arctic sovereignty challenges and potential terrorist activity are all believed to be areas of concern."

The oft-delayed project is expected to carry natural gas from the Mackenzie River delta in the Northwest Territories to markets throughout North America.

Document EDJR000020080908e497000gp

The Gazette

News
Our Far North diamonds a target for smugglers; Money laundering. Boom in mining during last decade

ANDREW MAYEDA
Canwest News Service
748 words
5 September 2008
Montreal Gazette
MTLG
Final
A12
English

OTTAWA

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Document MTLG000020080905e4950004c

Police allege blood diamonds found hidden in clothing of man at Edmonton airport

BY GLENN KAUTH
CP
425 words
20 February 2008
23:39
The Canadian Press
CPR
English

EDMONTON _ RCMP say a huge seizure of illegal **diamonds** unfolded recently at the Edmonton International airport after suspicious border agents pulled aside a man whose trip originated in Africa.

The man arrived Feb. 11 from central Africa via London. As he made his way through customs, a search of his clothes turned up 180 carats of rough **diamonds** as well as several hundred carats of gems _ including rubies and sapphires _ and more than 40 grams of raw gold.

The man could face charges under Canada's Export and Import of Rough **Diamonds** Act, a law intended to stop the trade in blood **diamonds** that for years financed rebel groups fighting civil wars in African countries such as Sierra Leone.

``Every time this happens, it sends a message to the crooks,'' said Ian Smillie, a research co-ordinator with Ottawa-based Partnership Africa Canada, which is involved in the fight against conflict **diamonds**.

But whether the latest seizure is related to African rebel groups is unclear. Many of the gem-fuelled conflicts in parts of Africa have wound down in recent years, with the Ivory Coast still known to produce blood **diamonds**.

``These could be just stolen **diamonds**,'' said Smillie.

Neither the RCMP nor the Canada Border Services Agency would say which African country the man was travelling from.

Police note, however, that the smuggling of **diamonds** between countries is often used to support criminal activity. When the gems get to Canada, bad guys try to **launder** them into the legitimate jewelry market, according to the RCMP.

In this case, the **diamonds** were all rough, meaning they would have little value to a retailer or a consumer until they were cut.

But while Smillie noted it would be hard to find a cutter willing to touch smuggled **diamonds**, he said whoever had them may have been planning to try to mix them up with a supply of legal Canadian **diamonds**.

As a result, they would have an easier time getting them certified under what's called the Kimberley process, an international system adopted to clamp down on the trade of blood **diamonds**.

Alternately, Smillie said, the smuggling operation may have simply been an effort to import the gems without paying taxes or duties.

Police, meanwhile, are still trying to put a value on the Edmonton seizure.

RCMP Cpl, Wayne Oakes said that while the catch was a large one, the gems themselves were mostly low quality.

(Edmonton Sun)

20080220CPCPG9615

Document CPR0000020080221e42l000dz

Search Summary

DOW JONES

NATIONAL POST

Financial Post
Ex-Madoff programmers wanted payment in diamonds; Jury told

Bloomberg News
268 words
11 December 2013
National Post
FINP
National
FP8
English

Bernard Madoff's former computer programmers asked for payment in **diamonds** to continue aiding the con man's US$17-billion Ponzi scheme in 2006 after they became uncomfortable with their role, a jury was told.

The "crazy" request from Jerome O'Hara and George Perez was turned down and the men were given salary increases and bonuses, Frank DiPascali, Madoff's former finance chief, testified Tuesday in Manhattan federal court in the trial of the men and three other ex-colleagues.

"Where the hell am I gonna get a bag of **diamonds**?" said DiPascali, who pleaded guilty in the case and is testifying in a bid for a lighter sentence. The programmers, who said they were "in a bit of a pickle," agreed on a "fairly substantial percentage increase" to their salaries, he said.

DiPascali is the highestranking former Madoff executive to testify in the first criminal trial stemming from the con man's scheme. The five former employees are accused of aiding Madoff for decades and getting rich along the way before the **fraud** collapsed at the peak of the financial crisis in 2008.

Mr. O'Hara and Mr. Perez, who have both pleaded not guilty, are accused of writing computer programs to trick regulators and customers by printing out millions of fake statements and trade confirmations. No trading took place.

The programmers' request for a payoff came about two weeks after the men arranged a meeting in Madoff 's office in which they suggested he close his investment advisory business, DiPascali said.

Document FINP000020131211e9cb0005c

THE VANCOUVER SUN

In Brief
Canada & World
Military fraud probe uncovers jewelry stash

Vancouver Sun
99 words
5 October 2013
Vancouver Sun
VNCS
Final
B4
English

Russia's Investigative Committee has confiscated 57,000 **diamonds** and 19 kilograms of jewelry from a former defence ministry official in an ongoing investigation into corruption charges. Committee spokesman Vladimir Markin said Friday that the jewelry, worth more than $3.9 million, was discovered at the home of Yevgenia Vasilyeva and "returned to the state." Vasilyeva was charged in 2012 with **fraud** related to the sale of military assets, then said to be worth about $11 million, but estimate the total damage at about $93 million.

Document VNCS000020131005e9a500012

TORONTO STAR

BX
Portus founder ordered to pay $320K; Mendelson also slapped with ban from trading

Madhavi Acharya-Tom Yew Toronto Star
302 words
1 December 2012
The Toronto Star
TOR
ONT
S17
English

The province's stock market watchdog has permanently banned Michael Mendelson from trading stocks and becoming an officer or director of a public company for his role in the collapse of hedge fund Portus Alternative Asset Management. The Ontario Securities Commission also reprimanded Mendelson and ordered him to pay back $320,000, money that he insists he doesn't have.

"I'm just glad it's over," Mendelson said Friday, after the OSC released its decision on sanctions.

According to the order, handed down by commissioner Edward Kerwin, Mendelson is permanently prohibited from holding any securities, with the exception of mutual funds in his Registered Retirement Savings Plan.

Mendelson and his partner Boaz Manor started Portus in 2003. With referrals from huge companies such as Manulife Financial Corp., the company attracted 26,000 clients and $800 million in assets.

The fund collapsed in 2005 after regulators stepped in and froze its assets amid concerns about record-keeping and investment suitability.

Portus went into receivership after Manor fled to Israel and used investor funds to buy $8.8 million worth of **diamonds**, which have never been recovered.

Manor pleaded guilty to criminal charges and is currently serving a four-year jail sentence.

Mendelson pleaded guilty to one count of **fraud** and was sentenced to two years in jail. He served six months. He started his own company, called Mikael Meir Inc., and is now a self-employed consultant who specializes in business ethics.

In January and March of 2005, just before and after the OSC began investigating Portus, Mendelson "authorized payments to himself" of $320,000, according to documents filed in the proceedings.

He told the commission that he is a changed man.

Document TOR0000020121201e8c10003u

NATIONAL POST

Financial Post
Portus's Manor must pay $8.8M; Doesn't have it

Barbara Shecter
Financial Post
641 words
28 August 2012
National Post
FINP
National
FP1 / Front
English

TORONTO . Canada's largest capitat-markets regulator attempted to send a strong message of deterrence by permanently banning Boaz Manor, the man at the centre of collapsed hedge fund Portus Alternative Asset Management Inc., from most capitalmarkets activity and ordering him to disgorge $8.8-million.

But with Mr. Manor's lawyer acknowledging after Monday's settlement with the Ontario Securities Commission that his client doesn't have the money, the impact of that message may be muted.

Mr. Manor attended but did not speak at the OSC settlement hearing Monday, where he was also formally reprimanded.

He is on day parole from a four-year jail sentence imposed last year in connection with the Portus collapse.

"This has been a very stressful time for Mr. Manor. He is absolutely relieved to put this behind him and move on with his life," his lawyer, Robin McKechney, told OSC commissioner James Turner.

The disgorgement order, part of the settlement agreement negotiated with OSC staff, relates to Mr. Manor's purchase of **diamonds** with Portus money.

But his lawyer said Monday Mr. Manor has neither the **diamonds** nor the money to pay.

Mr. McKechney said his client began proceedings in Israel against a party he believed had the **diamonds**.

That action, the lawyer said, was taken over by the receiver in the Portus case. "Mr. Manor is not in possession of the **diamonds** nor does he know their whereabouts at this time," the lawyer said.

Asked if his client has the money to pay the millions of dollars in the disgorgement order, Mr. McKechney replied, "He does not at this time."

The OSC settlement with Mr. Manor, along with two others reached with players in the Portus saga Monday, is the culmination of an investigation launched in 2004. The following year, regulators froze the fund manager's operations amid a flurry of allegations about offshore accounts, **diamonds** and missing investor money.

As part of the OSC settlement, Mr. Manor, 38, has been banned permanently from trading securities and can purchase them only in mutual funds or exchange-traded funds for his retirement savings plan through a registered dealer.

He is also permanently banned from becoming a director or officer of any company, investment firm or fund manager in Ontario.

At its height, Portus had $730-million under management and 26,000 clients, most of them in Ontario.

Portus investors got back most of their money, but Mr. Manor left for Israel as the company fell apart. He returned in 2007, the same year he and Portus co-founder Michael Mendelson were charged criminally by the RCMP.

Mr. Mendelson pleaded guilty to a single count of **fraud** and served the mandated portion of a two-year sentence before his release in 2008.

Mr. Manor went to jail in May last year to serve the mandated portion of a four-year sentence after pleading guilty to breach of trust and disobeying a court order.

On Monday, his lawyer said the "most important" thing to Mr. Manor is that, despite the scandal, most of the money was returned to investors who did not suffer fallout from the market turbulence of 2008.

The OSC has not resolved its issues with Mr. Mendelson, who, upon his release from jail, launched a consulting business under a new name, Mikael Meir. In March, he spoke at an event at the Centre of Excellence in Responsible Business at the Schulich School of Business.

The OSC's administrative hearings into the Portus affair were put on hold in 2006 to deal with the criminal court proceedings and resumed last year.

bshecter@nationalpost.com

Darren Calabrese, National Post / Portus co-founder Boaz Manor arrives for a hearing at the Ontario Securities Commission in Toronto Monday.;

Document FINP000020120828e88s0002f

THE GLOBE AND MAIL*

Report on Business Magazine

CHASING MANOR'S MILLIONS; Seven years after the spectacular collapse of his firm Portus, the mystery persists: What became of the diamonds that Boaz Manor bought with investors' money?

BRUCE LIVESEY
5,093 words
26 October 2012
The Globe and Mail
GLOB
50
English

John Finnigan's first question for Boaz Manor was a formality. Pen poised, Finnigan asked for Manor's address.

Manor stared at the ceiling.

A silence hung in the air of the law firm's boardroom. Finally, in exasperation, Finnigan demanded: “When you left the house this morning, what was the number on the door?”

The lawyer had good reason to be frustrated. He had fought a long, draining battle in Israel's courts to force Manor to answer his questions. It was February, 2006, and Finnigan, a commercial litigator with the Toronto law firm Thornton Grout Finnigan LLP, was in Tel Aviv attempting to extract information from the 33-year-old Manor.

Finnigan wanted to know about the whereabouts of tens of millions of dollars that had gone missing after the collapse of Portus Alternative Asset Management Inc., a Bay Street firm that had operated one of Canada's largest hedge funds. Manor was the investment brains behind Portus, which had been shut down by the Ontario Securities Commission (OSC) in 2005 amid allegations of **fraud**. Finnigan had been retained by KPMG Inc., the court-appointed receiver, to help it find the money that couldn't be accounted for.

But the young financier was proving to be an elusive quarry – not only because he had bolted Canada for Israel but also because his answers were unhelpful and elliptical. At one point, Finnigan asked Manor about the identity of a man in Milan, Italy, to whom Manor had given $3 million of Portus funds. Manor didn't seem to know a thing about him.

“How old was he?” Finnigan asked.

“I'm hazy on that part,” replied Manor.

“You can't describe him?”

“I'm hazy on it. I don't want to guess.”

At another point, after Finnigan told Manor that his version of events “sounds made up,” Manor conceded: “I know that a lot of things that I'm saying are fantastic in nature. Going to Italy, going to Zurich – there's **diamonds**, there's hundreds of millions of dollars. If you lump it all together, it's sort of a fantastic story.”

By early 2005, when the OSC discovered irregularities at Portus and shut it down, the hedge fund had raised $800 million from some 26,000 retail investors. Despite the OSC's imposition of a cease-trading order, Manor went rogue, attempting to move tens of millions of dollars in investor savings to Europe.

The upshot of his efforts was that $17.6 million (U.S.) of investors' cash was never recovered, of which as much as $12 million (U.S.) could still be under Manor's control. In total, as much as $130 million was fraudulently diverted by the Portus brain trust, although investors managed to get their original investment back because most of the money had been invested in principal-protected notes held by a French bank, Société Générale SA. By the time they'd matured, the notes' appreciation covered the losses.

This June, Manor was released from prison after serving a little over a year of a four-year sentence, mostly in a residential-style minimum-security facility. Soon after his release, the OSC slapped Manor with a lifetime ban on

trading securities and sitting on the board of a public company, and with an order to disgorge $8.8 million. But the OSC is effectively accepting Manor's claim that he can't pay.

Manor may be a free man, but numerous questions hang over his head, especially about where all of that money ended up and whether his punishment fit the crime. “His sentence is a reinforcement that crime pays in Canada. It's totally inadequate. I'd do 16 months in a provincial or federal penitentiary if I could pocket millions of dollars,” says Bill Majcher, a former RCMP investigator who specialized in financial **fraud**. “I know the investors were very disappointed with the length of the sentence,” says Finnigan. Were he one of them, he says, “It would give me some heartburn that Manor was walking away with a smirk on his face feeling, ‘They came after me with everything they got and I'm now going to live a very luxurious and happy life from this point on.' That would gall me.”

Manor is not inclined to chat about the missing cash. But his lawyer is. Brian Greenspan is among Canada's top defence lawyers, famous for a bravura style of angry exhortation mixed with avuncular charm that he has wielded effectively for clients such as hockey agent Alan Eagleson, Livent co-founder Myron Gottlieb and investment banker Andrew Rankin. Although Manor pleaded guilty to breach of trust and disobeying a court order, that's as far as he'll go: He claims he doesn't have access to the $8.8 million worth of **diamonds** that he acknowledged in an affidavit he bought with investors' money. And although his sole partner was convicted of **fraud**, Greenspan insists Manor is not a master fraudster with a fortune squirrelled away somewhere. “Bo is adamant that he would defend any allegation that he intentionally diverted money to the detriment of investors and defrauded anyone,” says Greenspan. “He's a strong-willed, stubborn, smart guy who still believes, had he been given the opportunity, he would have vindicated his plan and would've provided investors with significant return on their money.”

The author of the Portus debacle was born in Israel, where his father, Daniel, developed defence systems for the Israeli military before moving his family to Canada in 1988. In Toronto, Daniel founded EIS Electronic Integrated Systems Inc., which manufactures traffic-monitoring equipment. The younger Manor had a classic Toronto Jewish upbringing, growing up in Forest Hill and attending Forest Hill Collegiate Institute. His yearbook photo for 1992, his graduating year, sported this oddly prescient and creatively spelled caption: “Into the future I see an array of precious jems, dimonds, and rubies glowing with effervesent light…and a guy named Louie yelling ‘Put the jems in the yellow bag, the **diamonds** in the green bag, and get a move on it before we get busted.'”

Manor went on to attend the University of Toronto and completed a degree in applied science, graduating in 1996. But business was his calling. After working briefly for his father's firm, Manor met entrepreneur Michael Mendelson, who was running a small merchant bank, KBL Capital. Mendelson gave Manor some work, and soon they were fast friends, united by a desire to become spectacularly rich.

After KBL Capital took a hit when the dot-com bubble burst in 2001-'02, Manor and Mendelson looked around for a new line of business and settled on hedge funds. They devised an investment plan that was brilliantly simple: They told investors that all of their money was going to be plowed into principal-protected notes issued by a large bank – in this case, the French giant Société Générale. The bank then promised the notes would be linked to returns of a basket of hedge funds.

Normally, retail investors are not allowed to invest in hedge funds; they're too risky. But this structure provided a workaround. The upshot was that, after five years, investors would be guaranteed to get at least their principal back, plus whatever was made by being linked to the hedge funds. “You're selling zero downside,” explains Mendelson. “And your upside is, you're tied to a sexy asset class.” The duo's dream was to build an investment management firm that would grow to $5 billion in assets, sell it off and pocket $250 million apiece.

They opened Portus in January, 2003, with Mendelson acting as the operations guy and Manor the investment guru. Things took off when they managed to land a referral arrangement with a group of securities dealers, including a branch of Manulife Financial Corp., one of the most solid names in the financial industry. This meant hundreds of brokers across the country were steering their retail clients to Portus. It was like striking oil, with hundreds of millions coming through the door every quarter at one point. Eventually employing 120 people, Portus leased offices on the 24th floor of BCE Place at the foot of Bay Street, with a stunning view of Lake Ontario. It was a cocky, young workplace that “reeked of arrogance,” recalls one former Portus salesman. “People wanted to work for us because we were the shit.” Hours were long, expectations high. Vacations were frowned on.

In the office, Manor was introverted and private. “Boaz was often in his office with the door closed,” says the former employee. “He was the strong, silent type. He was paranoid.” Nevertheless, Manor was the face of Portus in marketing material and on a ghostwritten book, A Guide to Alternative Investing.

Despite appearances of success, Portus had a design flaw. Its managed account agreement said Portus would be entitled to an annual management fee ranging from 1.9% to 2.25% of the market value of assets in an investor's account. But Mendelson and Manor felt this was not enough money to grow the business as fast as they wanted. In particular, they needed a lot of cash to persuade financial planners to steer clients to Portus.

Their solution, as it turned out, was illegal. Although the firm's managed account agreement explicitly said Portus was required “to invest all assets which the investor contributes,” in reality only 86 cents of every dollar was invested in the principal-protected notes. The remaining 14 cents went to meeting Portus's payroll and expanding the business by paying fees to brokers. “That was the **fraud**,” says Joel Vale, a Toronto lawyer involved in a lawsuit against Portus's auditors, PricewaterhouseCoopers LLP, after the hedge fund crashed.

Mendelson claims it was not this straightforward: He says Portus received a huge discount from Société Générale, which Portus then used, through a complex manoeuvre, to pay for operating expenses. And Portus received a thumbs-up from its lawyers that it was perfectly legal. What no one disputes is that none of this was disclosed to investors, as it should have been.

In the spring of 2004, Manor and Mendelson went to one of Bay Street's top securities lawyers, Joe Groia, and asked him to conduct due diligence on Portus. Groia was singularly unimpressed with Manor and his investment theories. “He just gives us gobbledygook,” he remembers. Groia quickly discovered that Portus was using investors' money without proper disclosure and told Manor and Mendelson that unless they ceased this practice, they could be facing dire consequences. “And they basically said, ‘Thank you very much but you're fired,’” says Groia. After receiving Groia's warnings, Portus would go on to raise another $400 million from investors.

“They disagreed with [Groia],” says Greenspan with a shrug. “[Manor] thought he was doing things in accordance with other advice he received. It's about accepting the opinion you like to hear. They had another opinion they chose to follow.”

Mendelson claims that after receiving Groia's advice, he told Manor to fix this fundamental problem. “And he didn't do it,” he says.

The end for Portus came when another provincial securities regulator triggered an OSC compliance review in January, 2005. The following month, the commission issued a cease-trading order. At that juncture, Mendelson thought they could iron out their differences with the regulators and be back in business. He was convinced Portus wasn't engaged in **fraud**. “I felt we could get out of it,” he maintains. “I thought this was a disclosure issue. That it was civil, it was not a career killer, it's not an ‘I am going to prison' thing.”

Manor's subsequent actions made any simple resolutions all but impossible. According to court documents, two weeks after Portus was shut down, on the evening of Feb. 16, 2005, and into the following day, Manor oversaw the deletion of the fund's electronic files and e-mail accounts, and the reformatting of servers and hard drives of 60 desktops and 30 laptops. He collected all backup tapes and duplicate electronic copies of records. Voluminous paper files were also removed or destroyed, and a laptop containing vital data disappeared. “I came in the next morning and people were freaking out,” says Mendelson. “It was a disaster zone.” KPMG says Manor even hired temporary employees to forge backdated documents that showed investors' money had been invested, when it had not.

Two weeks later, after KPMG was appointed as the receiver, it sent accountants to Portus's offices to examine the books. “It looked like a whirlwind had gone through the offices,” says one KPMG accountant. “We soon find out records have been deleted and the computer system had been trashed.” KPMG had to bring in forensic IT experts, who attempted to reconstitute files.

Today, Greenspan vehemently denies that Manor destroyed records, although he concedes “I am not saying [Manor] made it easy for anybody or made them accessible to them.” He insists records were later returned. But KPMG says many of the records Manor removed were never recovered.

Court documents indicate that just prior to the OSC opening its investigation into Portus, Manor and Mendelson spent millions of investor dollars on themselves, friends and family. Mendelson authorized payments to himself over and above his salary totalling $320,000 prior to and after the start of the OSC investigation. Manor paid himself, friends and family nearly $2.4 million. The two claim they were repaying people who'd loaned them start-up funds for Portus.

Up to this time, Manor and Mendelson had paid themselves relatively modestly. Over all, they were each making about $100,000 a year. “They were not spending the money on the usual toys, like big houses or cars,” says Finnigan, who was hired by KPMG soon after the receiver was appointed.

KPMG's most stunning discovery was that during its two years in operation, Portus had spent $110 million of investors' money just to keep the fund running – money investors were led to believe was being invested. Of this sum, $41 million had gone to financial planners; some of this money was then used to pay redemptions to clients, but the larger part went to the advisers themselves for recommending Portus to their clients. In an agreed statement of fact, the Ontario Crown, which alleged that **fraud** had been committed, says Portus "misappropriated" this money. But neither of the Portus founders were truly held to account by the Crown on this allegation.

When KPMG approached Mendelson to help sort out Portus's complex financial structure, he co-operated. Manor, on the other hand, refused. In March, 2005, the receiver obtained court approval to interview him. A few days later, Manor's lawyer told KPMG his client had left the country. "It was either the day of or day after the Canadian court makes the order that his lawyer says, 'Uh oh, he's not here,'" recalls Finnigan.

Greenspan says he doesn't know why Manor chose that moment to leave Canada. And initially, neither did KPMG. Manor flew to France and Switzerland before heading on to Israel. A few weeks later, KPMG received a phone call from a Swiss banker that shed light on Manor's sudden departure.

He said his name was Jean-Pierre Regli, and he was an investment adviser based in Lugano, Switzerland. His trade involved managing the assets of wealthy people and navigating the murky waters of private and offshore banking. Regli told KPMG he had been working for Manor since the previous year, setting up a bank account for him at the Banca di Roma in Italy and helping him move funds around. For instance, in the summer of 2004, $2.5 million (U.S.) of Portus investors' money was deposited into that Italian account. "[Manor] said the funds belonged to him," says Regli. "He claimed it was commission he took from investors up front." (None of this money was ever recovered.)

But what Regli said next really made Finnigan sit up and take notice. He said Manor had contacted him since he had left Canada, asking whether Regli could help him transfer between $34 million and $40 million (U.S.) from offshore bank accounts to Europe, apparently with the intention of investing the money. This, too, was Portus cash that KPMG and Finnigan had never heard about.

Regli contacted KPMG because he'd heard about the OSC investigation. Initially, Manor told Regli he wanted to use the money to buy a house in Italy and invest the rest in a Swiss bank. "And then after a few weeks, there was a new story popping up," recalls Regli. "He wanted all of the money in cash and no real estate and no Swiss bank account."

Thanks to Regli's tip, KPMG and Finnigan learned that in 2003, of the $800 million Manor and Mendelson had raised, about $53 million (U.S.) of it – derived from 900 investors – was supposed to be invested offshore. To that end, Manor had hired veteran Montreal lawyer Anthony Malcolm to set up a series of offshore trusts and companies. Malcolm later admitted he spent more than $1 million of Portus funds to make secret and unrecorded payments to bankers and board nominees in the Cayman Islands and Turks and Caicos to get the Portus companies and accounts off the ground. (Despite famously loose regulation in those jurisdictions, such payments are illegal.) Yet KPMG discovered that none of the $53 million (U.S.) had been invested; the money was languishing in the offshore accounts. Says Finnigan: "It's pretty clear there was no legitimate purpose to sending money offshore, and someone was trying to hide it and keep it from investors' reach."

Today Greenspan says that after Portus was shut down, Manor received legal advice confirming his opinion that the $53 million (U.S.) was not affected by the OSC's cease-trading order because the cash was offshore and therefore outside the commission's jurisdiction. "Bo thought the OSC had been precipitous," explains Greenspan. "I think Bo's position is that when he goes [abroad], he's trying to salvage things and make sure that the offshore money is invested." Whatever his intentions, once KPMG was appointed receiver, no Portus money was to be touched without its permission – no matter where it was.

Having learned about the offshore holdings, KPMG and Finnigan were soon unearthing a crazy quilt of offshore entities that Manor had set up over the previous two years – a total of 130 Portus accounts in 10 different countries.

They also learned that Regli was not the only proxy Manor had used to move money around. There was also Nigel Freeman, a debonair Cambridge-educated Brit who lives in Bermuda and acts as a private banker. KPMG concluded that Manor dictated instructions to Freeman through Anthony Malcolm, the lawyer in Montreal.

In 2004, Freeman had opened an account in his own name at the Credit Suisse bank in Zurich – which, to KPMG, became known as the Freeman Account. He opened a safety deposit box in Zurich as well. Freeman later testified that this account and box were used to transfer money on behalf of Manor. The only other person who

had access to the box was John Dallas Campbell, a high school buddy of Manor's who acted as a "runner" – moving money in and out of the box.

In the end, KPMG and Finnigan succeeded in finding most – about $35 million (U.S.) – of the offshore money before Manor could move it. "We traced it through these various jurisdictions before we ended up at this account in the Turks and Caicos," recalls Finnigan. But of the original $53 million (U.S.), $17.6 million (U.S.) was still missing. Where had it all gone?

Malcolm, for one, had been paid $2.7 million (U.S.) for his services, it later became clear. Another $2.5 million (U.S.) had ended up in the Italian bank account Regli had helped set up; it also disappeared. (When finally confronted by Finnigan, Manor claimed he gave that money to the mysterious man in Milan whom he could not describe or name.) Then there was the money going in and out of the Freeman Account and safety deposit box – about $1 million vanished this way.

In July, 2005, Manor provided KPMG with a list of payments made with investors' funds. One line indicated he'd spent $11.6 million (U.S.) on "Precious Metals – Precious Stones." KPMG figured out what had happened to this money when its accountants examined the Freeman Account at Credit Suisse and found that nearly $9 million (U.S.) had passed through it to banks in Hong Kong.

The "precious stones" turned out to be **diamonds** Manor had purchased. The celebrated gem is an ideal commodity for those who want to transfer wealth across borders without being traced: **Diamonds** are small, easily concealed and liquid – on the black market.

After Manor arrived in Israel, he had gone to a diamond broker and selected 100 **diamonds**, including a 22-carat stone worth $4.5 million (U.S.). The stones were then flown to Hong Kong, where they were paid for and picked up.

Why wouldn't Manor simply have paid and taken possession in Israel? Finnigan theorizes that Manor made the transaction in Hong Kong to make it more difficult for the receiver to track down the assets.

Indeed, the **diamonds** remain shrouded in mystery, although the identity of the players is known. Manor's sister-in-law, Jieying Yu, is the founder of a Hong Kong company, Bringood Investments. According to court documents, Manor had Yu pick up the stones from the Israeli diamond broker's Hong Kong office in the summer of 2005. They then were given to a man named Yitzchak Toib.

Manor had met Toib in Israel through family connections. Manor paid Toib as much as $900,000 in Portus money to fly to Hong Kong and collect the gems. Toib stored them in a safety deposit box in the city. Toib later claimed he returned to China and gave the **diamonds** back to Yu, on Manor's orders. She denies receiving them this second time.

The **diamonds** have never been found. Manor insists Toib has the stones; he launched a lawsuit against Toib, but has allowed it to go dormant. Others believe Manor has the stones himself. "I think Manor did it and he knows where they are and is keeping them for a new day," says Israeli lawyer David Tadmor, who worked for KPMG on the Manor case.

The lawyers involved say it's irrelevant where the **diamonds** are: Manor used investor money to make the purchase. "He basically embezzled the funds and took millions of dollars and bought other things for himself," says Tadmor. "Whether Toib can produce the **diamonds** or not doesn't really matter. It's Manor who stole the money and bought the **diamonds**."

Soon after Manor arrived in Israel in the summer of 2005, KPMG obtained a court order preventing him from leaving that country. Manor responded by taking $700,000 (U.S.) of investors' funds and giving it to Yehuda Weinstein, one of Israel's top criminal lawyers and today its attorney-general (most of this money was eventually frozen after Weinstein was informed of its origins). For months, Weinstein told Finnigan that Manor was too ill to be interviewed. At one point, Weinstein arranged to have a psychiatrist interview Manor; the psychiatrist said the young man, suffering from depression and suicidal thoughts, "cried like a little boy." Manor's medical issues aside, his lawyer, Brian Greenspan, blames KPMG and Finnigan's "very aggressive position" as the reason why Manor was unwilling to co-operate.

After months of delay, Manor was finally forced by an Israeli judge to answer Finnigan's questions. In February, 2006, the lawyer and a pair of KPMG accountants examined Manor in Tel Aviv. Manor's answers were a surprise: He claimed that Anthony Malcolm, the elderly Montreal lawyer he'd hired to set up Portus's offshore companies, not only controlled Portus but that he, Manor, was a mere employee of Malcolm's.

KPMG couldn't find one shred of evidence substantiating this claim. When Finnigan presented Manor with OSC documents showing his signature on the corporate filings that established Portus, Manor shrugged them off. Mendelson agrees that Malcolm did not control Portus, while Nick Mancini, who was briefly CEO of Portus in 2004, said he'd never heard of Malcolm. “The ownership was around Boaz and Michael,” Mancini says. Malcolm himself denies he controlled Portus or instructed Manor to do anything. “I don't even want to talk about it, the son of a bitch,…” he said when contacted.

In the end, the examination provided no useful information on the whereabouts of the missing **diamonds** and other funds. Manor did, however, produce a recording he'd secretly made in the fall of 2005 of a conversation between himself and Yitzchak Toib. At one point, Manor accuses Toib of taking his money, and demands that his “assets” be returned. Toib's answers are rambling and often incoherent, although he does say, “If you are willing to be patient and get out of the mess and so you can get your money, okay, you can get it. You have no patience – do what you want. Be my guest, I'm not cross…we're through.” The word “**diamonds**” is never uttered in the conversation, but Greenspan holds up this tape as evidence that Toib has the gems. “Toib is a liar,” he says.

In 2007, the RCMP laid 18 charges against Manor. That fall, after his lawyers had negotiated the terms of his return, Manor flew back to Canada, where he was arrested, released on $250,000 bail and ordered to live with his parents.

That same year, Mendelson, who'd co-operated with the RCMP and prosecutors, pleaded guilty to one charge of **fraud** and accepted a two-year sentence. While he could have fought the charges, he wanted to move on with his life and put the whole Portus episode behind him. He ended up spending six months behind bars. “I went through this spiritual transformation,” says Mendelson. “I'm raising three daughters. I can't teach them the importance of being truthful if I'm scheming and trying to figure out how to get out of this. I'm clearly implicated in all this stuff that [Manor's] doing, even though I didn't have a hand in it. I just wanted to make a new life.”

Manor, in contrast, refused to accept any blame for the Portus **fraud** or admit he'd stolen any money. After four years of negotiations and delays, Manor finally pleaded guilty to one count of breach of trust and another for disobeying a court order. Today, the Ontario Attorney-General's office refuses to discuss why the Crown prosecutor, John Pearson, cut this deal. Scott Hutchison, a well-regarded former Crown lawyer and now a Toronto criminal lawyer, observes that “four years is a pretty modest sentence for a breach of trust in the millions.”

What softened the blow was that investors got all of their original money back because most of it had been invested in principal-protected notes. Although an estimated $110 million of investors' cash had been fraudulently siphoned off, by the time the notes matured a few years later, the interest earned made up for the lost money.

But a full accounting of the mess that Manor and Mendelson made puts many more millions on the loss side of the ledger. KPMG's work cost $13.7 million – which investors ended up paying, since their assets had been recovered. Lawsuits were launched against Société Générale and Portus's auditors, PricewaterhouseCoopers; thus the case not only damaged the companies' reputations but racked up hundreds of thousands in legal bills. And more costs were accrued to deal with the OSC charges that were settled this past August.

Then there are the losses that investors suffered because their cash was never fully invested in the first place. “It's a misleading story to say there's no loss,” says one of the KPMG accountants who worked on the case. “If investors got back 100 cents on the dollar, they would've been just as well off to put that money under a mattress for three years.” Nor does it take into consideration the hardship borne by investors wondering for up to four years if they would ever see their money again. “Nobody knows how many people had strokes, heart attacks, sleepless nights waiting for years to see if they would get their money back,” says attorney Joel Vale, who was involved in a post-Portus lawsuit.

Mendelson now views his Portus experience with a mixture of regret and defiance, believing he never set out to defraud anyone. Working out of a small office in a holistic-health business complex in east-end Toronto, Mendelson operates a leadership development training agency under a new name. On a recent sunny morning, the 46-year-old sat Buddha-style in his chair, and reluctantly revisited how the two partners ended up in prison – an ordeal that almost cost Mendelson his marriage, and deep-sixed his high-flying career in finance.

“There was major greed there,” Mendelson says. “We wanted to be considered successful in the eyes of other people. It's what young ambitious guys do on Bay Street.” Since leaving prison, Mendelson has revised his life goals. “My values were misplaced,” he says. “What was important to me back then was money, prestige and success on society's terms…I have now shifted from being ego-based and self-grasping, to practising living a life of service, using my skills and talents to help others achieve their goals.”

How does he feel about Manor? “So much of my work today is around forgiveness. If you hold on to that kind of stuff, it just eats away at you….He's got his karma. Whatever he has done and whatever he's doing, I feel he will pay for in his life.”

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Portus' Manor Bought 22-Carat Diamond With Fund Investments

By Joe Schneider - October 14, 2005 13:22 EDT

Oct. 14 (Bloomberg) -- Boaz Manor, co-founder of a Canadian hedge fund that collapsed in February, spent $7.5 million of investors' money on diamonds, including a $4.5 mil ion, 22-carat stone that investigators are trying to find in China, according to the accounting firm that's probing the fund.

Manor's sister-in-law Yu Jieying acquired about 100 diamonds, including the 22-carat gem, in three separate transactions in Hong Kong at the end of June and beginning of July, Robert Rusko, a vice president of KPMG LLP, told reporters after a court hearing in Toronto today.

The 22-carat diamond is ``extremely portable and extremely valuable,'' Rusko said. ``Whoever arranged this transaction didn't want to take delivery in Israel.''

Portus, founded by Manor and Michael Mendelson three years ago, became one of the fastest-growing hedge funds in Canada. The fund's customers had invested more than C$750 million ($632 million), with companies including Manulife Financial Corp., referring their clients to the fund. Manulife refunded its clients their investments and is the fund's biggest creditor now.

Manor left Canada for Israel after the Ontario Securities Commission began investigating transactions at Portus in February.

KPMG LLP, an accounting firm appointed by an Ontario court to trace money invested in Portus, has recovered all but $17.6 million, which was moved to banks in the Caribbean.

Manor has refused to speak with KPMG's investigators. His Israeli lawyer, Yehuda Weinstein, has said in letters to KPMG that Manor is too sick to be interviewed. He could not be reached for comment today.

Tracking Down Yu

KPMG will ask an Israeli judge at a hearing scheduled for Nov. 7 to order Manor to submit to questioning in the country.

As KPMG investigators traced money movements from the Caribbean to Europe, Manor arranged further transfers including sending more than $10 million to MID (HK), a Hong Kong company

specializing in gems.

It was through MID (HK) that Manor arranged the purchase of the diamonds, KPMG's lawyer John Finnigan said.

KPMG is also working with Chinese police in trying to track down Manor's sister-in-law, Yu, Finnigan said. She failed to show up for an interview after a Hong Kong court ordered her to, he said.

``We're hopeful she will be found," Finnigan told an Ontario judge overseeing the investigation.

The case is Ontario Securities Commission v. Portus Alternative Asset Management, 05-CL-5792, Ontario Superior Court (Toronto).

NATIONAL POST

Financial Post
UBS Snitch gets US$104M payoff; U.S. tax-scam reward contrasts with Canada

John Greenwood
Financial Post With Files From Barbara Shecter
927 words
12 September 2012
National Post
FINP
National
FP1 / Front
English

Brad Birkenfeld, the man who blew the whistle on a massive tax-evasion scam that cost the U.S. government billions in lost revenue, has been awarded US$104-million by the U.S. Internal Revenue Service.

The massive payout is understood to be the largest such reward to an individual ever made. It highlights the stark difference between the United States, where even criminal whistleblowers can become fantastically wealthy for selling out their company's shady tax practices, and Canada, where critics complain there is zero incentive to point out wrongdoing.

As an executive at Swiss banking giant UBS AG in Zurich in 2007, Birkenfeld approached the IRS and the information he provided served as the basis for a landmark court case that saw UBS pay a US$780-million settlement and turn over details on thousands of U.S. holders of offshore accounts.

Birkenfeld, now 47, also revealed details of the bank's operations in Canada.

Evidence presented before a U.S. Senate subcommittee that was looking into the matter included information about a major offshore business in this country run out of UBS's offices in Switzerland, managing more than $5-billion of Canadian assets at one point.

Officials in Ottawa vowed to crack down when the information was reported but so far no Canadian holders of UBS offshore accounts have been successfully prosecuted.

"People realized that it's a question of time before we get them," Jean-Pierre Blackburn, then the minister of revenue, told the Financial Post in 2009. "I tell them, we'll get you, we'll find you."

Despite his efforts to secure immunity in the United States, Birkenfeld was himself caught up in the legal wrangling around UBS and was sentenced to 40 months in prison for conspiracy to defraud the U.S. government. (He was released on Aug 1.)

According to court documents, UBS bankers in the U.S. trolled art shows, yacht races and other high-end events in search of potential clients who were looking for ways to avoid paying income tax. As a senior member of the bank's wealth management team, Birkenfeld had a ring-side seat and also took part, at one point helping a client to stuff **diamonds** into a toothpaste tube to avoid airport security.

Under U.S. law, such practices are illegal and Birkenfeld reportedly became uncomfortable with what UBS was doing and complained to senior officials at the bank. Birkenfeld claims that it was only when his concerns were ignored that he went to the IRS.

In a statement on Tuesday the U.S. tax authority praised Birkenfeld's evidence, calling it "comprehensive" and "exceptional in both its breadth and depth. While the IRS was aware of tax compliance issues related to secret bank accounts in Switzerland and elsewhere, the information provided by the whistleblower formed the basis for unprecedented actions against UBS."

Offshore banks in Switzerland and other tax haven jurisdictions had largely avoided the gaze of tax authorities in countries such as the United States and Canada, but that changed in the wake of a series of scandals involving former employees going public with incriminating information and computerized client files.

One of the first tipsters was Heinrich Kieber, a former computer technician at LGT Bank in Liechtenstein, who sold details about account holders to Britain, France and Germany among others. Thanks to Mr. Kieber, the CRA came into possession of details of more than 100 Canadian clients of LGT bank.

The CRA subsequently obtained similar lists of offshore account holders UBS and HSBC.

Because of its efforts to chase after Canadian tax evaders and the publicity around the matter, the CRA says it has collected tens of millions of income tax that it would otherwise not have received.

But critics say it would collect a lot more if took a more aggressive approach, perhaps prosecuting tax evaders in court. Another strategy employed in the United States but not in this country is encouraging whistleblowers to come forward by offering financial rewards - as much as 30% of the tax collected as a result of the information provided.

Indeed, critics frequently complain that far from being rewarded, whistleblowers are more likely to be punished in Canada.

Howard Wetston, chair of the Ontario Securities Com-mission, raised the possibility of creating a whistleblower program in the securities industry shortly after taking top job at Canada's largest capital markets regulator in November of 2010. But nearly two years later no such program exists.

Al Rosen, founder of forensic accounting firm Al Rosen & Associates, said the failure of the CRA to aggressively pursue tax dodgers is part of a much larger problem.

"There is no investigation, no prosecution to speak of in Canada," he said.

Whether it's the tax authority, financial or securities regulators, there is no will to ensure that players follow the rules.

Mr. Rosen said he recently reported a case of tax **fraud** to the CRA "but quite likely they won't even pursue it... [far from giving out rewards for information] they don't even follow up when you give it to them for free."

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Bradley C. Bower, Bloomberg News Files / Former UBS AG banker Bradley Birkenfeld speaks during a 2009 interview at Schuylkill County Federal Correctional Institution in Minersville, Pa. Birkenfeld, who was released Aug. 1, was praised by the U.S. Internal Revenue Service.;

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THE VANCOUVER SUN

David Baines
BusinessBC
Lax securities rules at root of $50-million Freedom Investment Club calamity

David Baines
Vancouver Sun
1,022 words
7 March 2012
Vancouver Sun
VNCS
Final
C2
English

Honestly, I don't know how B.C. Finance Minister Kevin Falcon can continue to ignore the carnage that the B.C. Securities Com-mission enables promoters to wreak on investors. Talk about fiddling while Rome burns.

The problem, as I have pointed out so many times before, is centred on provisions in the B.C. Securities Act that permit unlicensed, uneducated and often unethical people to sell risky and illiquid securities to B.C. residents. It is a recipe for disaster.

These disasters occur with mind-numbing regularity - causing immense financial damage, destroying retirement plans, ruining marriages, and infusing their victims with bitterness and distrust.

The B.C. government is ultimately responsible for what's in the Securities Act, but in most cases it acts on the advice and recommendations of the commission. To date, the commission has not recommended any substantive changes to the rules and the government has not intervened. In my view, they are equally culpable.

The latest exempt-market fiasco to hit the news is the Freedom Investment Club. On Monday, BCSC enforcement staff issued a notice of hearing alleging that the two key promoters, Michael Lathigee and Earle Pasquill, committed **fraud** by raising $21.7 million from 698 investors with-out telling them that the club was on the verge of insolvency.

This is a familiar pattern: BCSC officials, with government acquiescence, open the door for promoters to flog dodgy securities to mom-and-pop investors, then call on their enforcement people to clean up the inevitable mess.

FIC is a classic example. In December 2002, I reported that Lathigee and Pasquill were promoting the club at financial motivational speaker T. Harv Eker's so-called Millionaire School.

At that point, the club had about 200 members who had invested just over $600,000. Lathigee and Pasquill - who are not licensed to sell or advise in securities - invested the money in sketchy deals such as payroll loans, coloured **diamonds** and junior stocks. The business grew rapidly through marketing seminars and word-of-mouth referrals. By mid-2007, it had grown to 2,500 members and $10 mil-lion in assets.

BCSC enforcement staff were clearly worried about this gathering storm. They intervened on several occasions and at one point ordered FIC to offer investor refunds.

"If I was an investor, I would take my money and run," I wrote in July 2007. But very few investors did so. Most were incapable of properly analyzing financial risk and reward. And by that time, the club had become a kind of cult, with many people investing on faith rather than reason.

By March 2008, the club had grown to 5,000 members and $100 million in assets, mostly Alberta development properties. I noted that the properties were highly levered and the market was softening. "A drop in value could be devastating for shareholders," I reported, which was simply stating the obvious.

In August 2008, I reiterated the structural problem: "FIC looks and acts like a conventional mutual fund, but it has none of the usual consumer safeguards. Neither the fund nor its principals are registered with the securities commission, and they operate outside the purview of the Mutual Fund Dealers Association."

THE WINDSOR STAR

News
Ponzi loot on auction; Millions in Rotschild scam

Mcclatchy Newspapers
316 words
14 July 2011
Windsor Star
WINSTR
Final
D7
English

The Rothstein collection of ill-gotten bling - world-class watches, diamond-encrusted jewelry - was auctioned off, piece by glittering piece, at a brisk pace Wednesday.

It was the second large-scale selloff of Ponzi schemer Scott Rothstein's material possessions. It got under way at 9: 30 a.m. at the Broward County Convention Center, where several hundred people came to bid, or just observe, and lasted till 3 p.m., with just a five-minute bathroom break.

An auction last year of Rothstein's yachts and exotic supercars brought in $5.8 million for victims of his $1.4 billion investment **fraud**, the largest ever in Florida. Some of the more exquisite jewelry pieces on sale Wednesday brought in tens of thousands of dollars. A white gold Piaget sold for $77,500. A men's diamond ring quickly went for $64,000. A yellow gold Patek Philippe watch sold for $61,000.

Also going under the auctioneer's gavel: a collection of stylish lighters used by Rothstein to fire up his premium cigars, two late-model Corvettes and a 2009 Mercedes SL550 sports coupe.

As Rothstein was grabbing tens of millions of dollars from his investor-victims, he spent their money lavishly on jewelry.

For his wife Kim, the now disbarred Fort Lauderdale lawyer bought **diamonds**, rubies, sapphires and pearls by the multi-carat-load, with mounts in platinum, gold and silver.

For himself, he stockpiled diamond rings, flashy cufflinks and more than 200 of the world's most prized watches - crafted by the likes of Rolex, Franck Muller, Gerald Genta, Richard Mille, Patek Philippe and Piaget.

Rothstein, 48, is serving a 50year sentence in federal prison, but prosecutors recently filed notice that they intend to ask a judge to reduce his punishment because he is co-operating in the investigation.

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THE GLOBE AND MAIL*

ON THE COAST
British Columbia News: Column

Persian rugs, biker bling, other loot for sale; Police recovered property auction displays what people have lost, not including their sense of security

STEPHEN QUINN
930 words
30 April 2011
The Globe and Mail
GLOB
S3
English

I've always approached the Vancouver Police Recovered Goods and Bicycle Auction with some degree of amusement. Among the bikes, electronics and jewellery, there are always a few odd items. Last year there were seven mascot costumes, including one adult-sized white rabbit get-up.

This year was different for me. I wasn't just there as a journalist.

The auction preview held earlier this week is always a draw for the TV cameras. It's an easy story with good pictures.

Show me the most expensive item, the weirdest item, the one with the best story. The thing someone might miss the most but never went to police to ask about. Or the item that couldn't be reported stolen for one reason or another.

This time around there are 40 machine-woven Persian rugs. Now before you go admiring the work ethic of the particular thief who hauled away hundreds of pounds of bulky woven wool, Ian Wightman, who manages the police department's stolen property room, says they are the leftovers of a police **fraud** investigation.

What's big this year? The hottest of hot items? Well, gold. With the precious metal up over $1,500 per ounce, it has been a favourite of thieves. Gold chains with jewelled crosses, and **diamonds** set around an open-mouthed Ghost Rider skull. Bulky stuff. Some of the chains so thick they look like strings of nuggets. Biker bling to be sure. There are also watches, diamond solitaire rings, cocktail rings, rubies and other gems, some with price tags as high as $10,000. All of it once belonged to someone. All of it remains unclaimed. It will be sold off to the highest bidder.

There's even a kitchen sink. A stainless steel double sink, likely lifted from a construction site, Mr. Wightman suggests. (I wonder if it wasn't just put there so auction organizers could say with authenticity: "… everything and the kitchen sink.")

This year, though, was different for me because I was looking for my own stuff. Specifically the three laptop computers, two iPods, a professional audio recorder, video camera, digital still camera, equipment bag, two purses with their contents and my wife's wallet that were all taken when our house was broken into just over a year ago.

Here's what I learned from our robbery, and from Mr. Wightman this week:

Lesson No. 1: Don't hang car-key fobs or purses near the front door.

The thieves not only got all that loot, but drove away with it in our car – along with our child seats, a stroller and various other kid-related paraphernalia (blankets, beach toys) – thanks to how easy it was to find our keys. It also meant we had to call in an emergency locksmith on a Sunday to change our locks. The car we got back a few weeks after it was stolen. It had been parked a few minutes drive from our house.

Lesson No. 2: If you have an alarm system, set it, even when you are home.

We were home. Two adults and three small children sleeping upstairs.

They came in through a kitchen window, tiptoed over the plush toys and a carpet mined with Lego, and grabbed what could be easily fenced. They left the front door open.

Lesson No. 3: Engrave your driver's licence number on everything.

Ian Wightman says it's the easiest way for police to contact you if they've recovered something that is yours. And save your proof of purchase. If you see something at the auction that once belonged to you, it will be pulled from the lot and returned if you can prove it is yours.

Walking through the tables piled with bagged and tagged property this year, I thought less about the dollar value of the merchandise and more about what it might have meant to people.

The bags of jewellery and coin collections dumped out of dresser drawers.

The tools that represented someone's livelihood, including a new set of chef knives wrapped in a case marked with the logo of the cooking school the owner was attending. “Most likely stolen from a car,” Ian Wightman guesses aloud. The cameras and iPods that once contained photos or carefully curated music collections. The electric guitars, and a student's clarinet. A walker. A wheelchair.

Then there are the bicycles. Ask anyone who has ever had his bike stolen how he felt about it and you'll know the racks containing more than 400 stolen bicycles represent a lot of misery, disappointment and anger. Not to mention bus rides.

I look past all the expensive mountain bikes and all I can see are the children's bikes, some with baskets and bells.

My stuff wasn't there. Police no longer resell laptop computers because they can't be certain the hard drives have been wiped completely clean. The physical items we lost were replaced but their contents are gone: the photos and videos that were never downloaded, the skeletal writing projects and wedding speeches held on the personal laptop. We'll never get those back.

Our sense of feeling completely secure in our house? That's gone too.

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Document GLOB000020110430e74u0001f

THE GLOBE AND MAIL*

Business

Lacroix sentenced to 13 years; Former Norbourg head given time for his role in a $130-million fraud that claimed 9,200 victims

287 words
9 October 2009
The Globe and Mail (Breaking News)
GMBN
English

Montreal --

Financier Vincent Lacroix has been sentenced to 13 years in prison for his role in a $130-million **fraud** that claimed 9,200 victims.

Mr. Lacroix - the former head of Norbourg Asset Management Inc. - was handed the sentence in Quebec Superior Court Friday morning. Last month, he pleaded guilty to 200 charges after years of protesting his innocence.

The Crown had asked for a sentence of up to 14 years, while Mr. Lacroix's defence had suggested between 10 and 12 years.

Mr. Lacroix has already served part of a prison term on a 2007 penal conviction for securities violations.

He and several Norbourg associates masterminded one of the biggest **fraud** and embezzlement schemes in Canadian history.

The associates also face criminal charges.

After Montreal-based Norbourg was shut down in 2005, the evidence that came to light included allegations that investors' money was diverted into money-laundering schemes such as real estate investments, the purchase of small financial firms as well as **diamonds** and sapphires.

There were false bookkeeping entries and falsified documents, according to the charges.

Norbourg's main line of business was selling mutual funds.

Many of the victims were modest investors who lost their life savings as a result of the financial scandal.

The lengthy criminal investigation included members of the RCMP's white-collar crime unit, the Integrated Market Enforcement Team.

Mr. Lacroix's 13-year sentence is believed to be the most severe yet in Canada for financial crimes. He will not be eligible for early release until the end of 2011.

Globe and Mail Update

Document GMBN000020120625e5a9004d8

Sentencing hearing delayed for Man., addictions centre head who defrauded Ottawa

BY MIKE MCINTYRE
CP
556 words
12 December 2008
19:08
The Canadian Press
CPR
English

WINNIPEG _ The former head of a Manitoba addictions treatment centre has delayed his sentencing hearing by requesting a review of whether his aboriginal background should earn him leniency from the justice system.

Perry Fontaine has admitted to being the architect of an elaborate **fraud** scheme that robbed the federal government of several million dollars.

The Crown is seeking a three-year prison sentence, while Fontaine has asked for two years behind bars.

He will also be forced to pay a restitution order of $2.36 million, which is the amount he personally received through the scam.

His case was halted Friday when Justice Perry Schulman agreed to order a report on a Supreme Court of Canada mandate that some aboriginal offenders be given lesser sentences based on their troubled upbringing and an overrepresentation of aboriginals in custody.

The report won't be completed until the new year.

Fontaine's case has been adjourned until at least February. He remains free on bail.

Fontaine, 55, helped set up two phoney consulting firms that skimmed millions of dollars in program payments from Health Canada to the Virginia Fontaine Addictions Foundation, court was told.

Fontaine pleaded guilty in September to charges of **fraud** and bribing a public official.

He engineered the **fraud** with two senior federal government employees: Paul Cochrane, an assistant deputy minister of health; and Patrick Nottingham, the former regional director of Health Canada in Manitoba. They pleaded guilty in the fall of 2005.

In exchange for testifying against Fontaine, Cochrane was given a one-year sentence and ordered to make $211,000 in restitution. Nottingham, who also agreed to testify against Fontaine, was given a conditional sentence of two years less a day and ordered to pay $1.14 million in restitution.

Charges against the men's wives were dropped as part of the plea.

Crown attorney Dale Harvey said Fontaine had convinced Cochrane and Nottingham to increase funding to the treatment centre over the course of several years.

In exchange, Fontaine diverted centre funds to two consulting firms _ one controlled by Nottingham and his wife, and another controlled by Fontaine.

The centre paid the consulting firms on the pretext of providing services to the centre. But in reality, the firms provided work of no value, Harvey said.

Harvey said that between 1991 and 2000, the centre received $97.5 million in funding from Ottawa and part of those funds were diverted to pay for luxury vehicles, homes, NHL hockey tickets and vacations for the three men and their families.

The scheme began to unravel with a 2000 newspaper report of a Caribbean cruise taken by Fontaine and 70 centre staff, along with Cochrane. That resulted in Health Canada ordering a forensic audit, which took three years to complete.

In addition to the criminal charges, the federal government is suing Fontaine to recover more than $800,000 he paid himself in vacation and retirement settlements after he quit the facility.

Luxury jewelry items seized from Fontaine's former condominium following his arrest in 2003 are to be auctioned off next month.

The items include rings, bracelets, earrings and necklaces made of gold and **diamonds**. One 14-karat gold diamond ring had an appraised value of $14,000.

(Winnipeg Free Press)

20081212CPCPG2390

Document CPR0000020081213e4cd00091

CALGARY HERALD

News
Ill-gotten jewelry goes to auction

Winnipeg Free Press
159 words
14 November 2008
Calgary Herald
CALH
Early
A11
English

WINNIPEG

The federal government will auction off tens of thousands of dollars in jewelry seized from the home of Perry Fontaine, former head of the scandal-ridden Virginia Fontaine Addictions Foundation, which delivered services to the Sagkeeng First Nation east of Lake Winnipeg.

Fontaine, the linchpin in an elaborate **fraud** and bribery scheme that brought down two senior Health Canada officials and saw six others also charged, pleaded guilty in September to defrauding taxpayers. He is to be sentenced in December, with the Crown seeking a three-year prison term.

The jewelry to be auctioned off in Winnipeg in January was seized by RCMP when they executed a search warrant at Fontaine's condominium in 2003. The items, valued at more than $148,000, include rings, bracelets, earrings and necklaces made of gold and **diamonds**. One 14-karat gold diamond ring alone has an appraised value of $14,000.

Document CALH000020081114e4be0000v

Search Summary

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Diamond Exports Face New Threat

by Hebert Zharare
611 words
16 June 2010
03:02
All Africa
AFNWS
English

Harare, Jun 16, 2010 (The Herald/All Africa Global Media via COMTEX) -- THE plot to criminalise Zimbabwe's diamond sector thickened this week with a Canadian-based organisation, Partnership Africa Canada, imploring the Kimberley Process Certification Scheme to redefine the term "blood **diamonds**" so that it covers gems mined in Chiadzwa.

The lobby comes ahead of a key intercessory meeting of the KP in Tel Aviv, Israel, next week where Zimbabwe will present its case and how it has been unfairly treated.

The Government will also outline how the continued denial of KP certification is slowing down economic transformation.

Mines and Mining Development Minister Obert Mpofu yesterday dismissed the PAC report, pointing out that Zimbabwe had complied with all KP requirements.

The KPCS regulates international trade in **diamonds**.

Minister Mpofu said: "We are a principled country. These people (PAC) have employed some locals to demonise their country. They are working against the people of Zimbabwe.

"We are going to deal with those peddling falsehoods to international organisations legally. These people are very lucky that they are in Zimbabwe.

"In some of these Western countries you cannot peddle State secrets to hostile organisations and get away with it," he said.

In its June report titled "**Diamonds** and Clubs: The Militarised Control of **Diamonds** and Power in Zimbabwe", PAC claims Government-sponsored smuggling of **diamonds** and human rights violations in Chiadzwa.

"Blood **diamonds** are **diamonds** involved in murder, mutilation, rape or forced servitude. PAC endorses this definition and calls on the KP to adopt it at the earliest possible opportunity," part of the report reads.

The Canadian organisation said the KP's definition of conflict **diamonds** failed to encapsulate Zimbabwe.

"(The) definition is outdated and needs changing. It erroneously assumes all governments are legitimate and does not recognise that such governments in whole or part could engage in acts of **terror** or criminality as egregious as any rebel movement."

PAC said the KP had lost direction and credibility.

Irish Aid, Foreign Affairs and International Trade Canada, the International Research Centre among others funded the compilation of the 32-page report.

KP monitor for Zimbabwe Mr Abbey Chikane of South Africa recently adjudged the country to be in compliance with their minimum requirements.

Government in May banned the export of all **diamonds** until Chiadzwa **diamonds** got KP certification.

Apart from Mbada Holdings and Canadile Miners, who are exploiting the Chiadzwa resource, Murowa **Diamonds** and River Ranch are also into mining of the gemstones elsewhere in Zimbabwe.

Minister Mpofu yesterday said: "When Mr Chikane came here for the first time, he produced a report against us and we never complained.

"This time we have complied with the requirements and we are going by that. We will not listen to anyone."

PAC said Mr Chikane "sold out" Farai Maguwu - an NGO worker facing criminal charges in the courts for peddling confidential State information -- by alerting police to what he was up to.

However, Minister Mpofu responded: "Let the law take its course. If we interfere and order his release, they are the same people who will also complain."

PAC, in its report, recommended that the KP suspend Zimbabwe immediately and that mining licences given to Mbada and Canadile be revoked.

"The United Nations Security Council should place an immediate embargo on Zimbabwean **diamonds** until such a time as there is legitimate and competent governance of the country's diamond resources."

The attempt to use the UN Security Council to push Western agendas in Zimbabwe is not new and last year one such effort was thwarted by Russia, China, South Africa and other progressive members of the international community.

Document AFNWS00020100616e66g0008h

TORONTO STAR

Greater Toronto

Crime syndicate exposed: Police 'They themselves believe they're untouchable' Unsolved killings; A dozen alleged members of deadly Shower Posse among 78 people nabbed in 1000-officer sweep

Rosie DiManno Columnist

With files from Jesse McLean, Jennifer Yang and Henry Stancu
1,610 words
5 May 2010
The Toronto Star
TOR
ONT
GT1
English

"I ran it like a CEO of a Fortune 500 company. The only difference is that instead of litigating in a court of law, we held court in the streets."

Vivian Blake, the late co-founder of the Jamaican Shower Posse

Legions of cops turning over the rocks of two gun and drug street gangs in Toronto found slime traces of a notoriously lethal international crime syndicate underneath.

Project Corral - unleashed in the early-morning hours Tuesday as more than 1,000 officers fanned out across the GTA, Ottawa, Sault Ste. Marie and Windsor - nailed a dozen alleged members of the deadly Shower Posse among the nearly 80 people arrested by late afternoon.

The suspected Shower Posse contingent is being portrayed as the cream of the criminal crew crop, an über institution of importers and wholesalers criminally superior to the street-level clot represented by the two gangs that had been specifically targeted: the well-known-to-police Falstaff Crips and Five Point Generalz.

Project Corral has emerged as a rare infiltration of a sophisticated criminal operation that has long managed to keep its fingerprints off narcotic trafficking and gun violence on Toronto's streets, in large part by staying above the bloody neighbourhood level fray contested by their client gangs, police say. They'll supply everybody, police say, and let the bullets fall where they may.

"Over the past several months, this investigation has focused not only on the gunmen and the drug traffickers, but the source of those drugs and those firearms," Toronto Police Chief Bill Blair told a news conference where the arrests and seizures were revealed.

"We always believed there was a criminal organization, even a criminal intelligence, that was operating behind many of the activities of the street gangs. This investigation has given us an opportunity to identify some of those individuals, to apprehend them and to compromise their ability to continue to supply drugs and firearms into these communities."

The alleged Shower Posse members have evolved from their roots in the "garrisons" of the poorest ghettoes in Kingston, Jamaica, where they spent decades fighting for turf with archrivals, most especially the Spanglers Posse. Both groups had deep ties to Jamaica's two main political parties; were indeed born out of allegiances to politicians who provided them with protection from prosecution in return for turning out the vote.

While it was speculated as far back as 15 years ago that the Shower Posse had secured a foothold in Toronto, they're barely mentioned in the annals of local crime as reflected in arrests and prosecutions. Internationally, however, they have a massive profile and feared reputation, believed responsible for more than 1,400 murders in the United States.

American law enforcement officials have been trying without success for the past year to extradite Christopher Coke, believed to be the current Shower Posse boss in the Jamaican capital. Vivian Blake, co-found of the posse

with Coke's father (who died in a prison cell fire on the day he was to be extradited to the U.S.), passed away in Jamaica in March from kidney failure and diabetes. He warranted a lengthy obituary in the New York Times.

Investigators in the joint-forces operation launched their nine-month project last August following a spike of violent incidents in Toronto's northwest region, apparently a spree of internecine bang-bang between the Cripps and the Generalz over drugs and territorial control. That conflict is blamed for two unsolved homicides.

"Over the course of this investigation, a more significant crime involvement was identified," said Blair. "We've identified an international organization which has tentacles into these street-level organizations and is supplying them with both drugs and guns, organizing and profiting from their criminal activities."

As part of the probe, and working with the Canada Border Services Agency, three Toronto residents were recently arrested in the Dominican Republic over 72 kilograms of seized cocaine. The drugs were allegedly bound for Toronto.

Staff Insp. Mike Earl, head of the guns and gangs task force that led Project Corral, said the Shower Posse was at the hierarchical apex, supplying drugs and weapons to local gangs for street-level purchases.

Shower Posse members don't necessarily look or behave like their client gangs, said Earl. "They're older members. They're not young kids. They're a well-organized Jamaican criminal organization" that's largely functioned off the police radar. "They're very sophisticated. They're very smart. But I can't tell you much more about them. It's not like they're going to be wearing colours or you're going to run into them on a day-to-day basis. They don't wear do-rags."

They also appear to be unafraid of law enforcement.

"I don't think they've been touched before. They themselves believe they're untouchable. We've finally made a step in the right direction," Earl said.

Project Corral, which was put into raid mode around 5 a.m. Tuesday, simultaneously executed 105 search warrants by officers from 19 organizations and 35 tactical squads. Three Toronto police stations were designated to process the arrests as many of the accused started routing through bail hearings at a Finch Ave. courthouse.

In Toronto neighbourhoods, some residents awoke to police banging on the door though others slept through the whole shebang.

"I was half asleep when I heard a loud bang and wondered what the heck it was," said Cindy Wood, who lives in an apartment above stores on John St., north of Lawrence Ave. W., in the Weston neighbourhood.

Tactical officers used a pry bar to break open the street-level door to the staircase leading to the second floor units, where police had a suspect named in a search warrant.

"They came and knocked down two doors - one on the second floor and one on a higher floor," said Mike, property manager of a highrise on Martha Eaton Way, near Trethewey and Black Creek Drs.

As of 3 p.m. Tuesday, police had made 78 arrests, including females discovered as found-ins.

Blair admitted that communities might feel traumatized by the raids but argued that police have an obligation to "disrupt and dismantle" gang operations that cause ordinary people to live in **terror**.

Police claim their seizure of guns, drugs and cash will cripple the activities of the Cripps and Generalz. Among the material seized: 10 firearms, $30,000 in cash, $10,500 in casino cheques, **diamonds**, cocaine, crack cocaine, marijuana, hashish oil, more than 10,000 ecstasy pills, body armour and vehicles.

Charges laid run the gamut from trafficking in firearms and drugs, possession of prohibited firearms with ammunition, robbery, committing a criminal offence in association with a criminal group and living on the avails of prostitution.

One of the Canadians charged in the Dominican had allegedly been a major player in the Jamestown Cripps a few years ago. The three Toronto residents were identified by Dominican authorities as Oliver A. Willis, David George Daniel Parker and Mauro Giuseppe. The 69 packages of cocaine had been hidden in the bed of a pickup truck.

But at least equal in significance to the drugs and guns seized in Toronto was the small inroad police have made into the mysteries of the Shower Posse - so named, allegedly, because of the tendency of their gunmen to spray victims (often innocent bystanders as well) in a "shower" of bullets.

The posse hadn't been heard from hereabouts since the early '90s. It's unclear if they went away and came back or just dug down deeper.

"Unfortunately, I don't think any of the more traditional crime groups do go away," said Toronto police Supt. Greg Getty. "Sometime they may be crippled, sometime they may change and morph into a different entity."

The Shower Posse, said Getty, was known to have offshore resource links. "In our experience, the higher level organized crime groups all across the country or across the GTA are not out on the street committing random acts of violence, so the insulation factor around them makes them much difficult for law enforcement to focus on.

"There was a crack in the armour and investigators were able to exploit that successfully."

Project Corral has unearthed information on two unsolved homicides.

In December 2009, 19-year-old Aeon Grant and three friends were shot in the 15th-floor stairwell of 30 Falstaff Ave. Grant was hit in the head and died.

Elaine Sawyers, Grant's grandmother, said she was relieved to hear the police may have new leads to find her grandson's killer.

The other case is eerily similar: On Feb. 8, 2010, Tyrell Duffus was gunned down in a stairwell of 20 Falstaff Ave., just minutes away from where Grant was killed.

Duffus had been returning home to his apartment around 6:30 p.m. The 22-year-old lay there for four hours before a neighbour found his body.

His family said he had spent time in and out of jail but wasn't involved in anything gang-related.

With files from Jesse McLean, Jennifer Yang and Henry Stancu

A member of the police emergency task force on Parkway Forest Dr. Canadians David Parker, left, Mauro Giuseppe and Oliver Willis sit in a Dominican court in March after police seized 72 kilograms of cocaine.

Manny Rodrigues photo Eduardo Munoz/Reuters

Document TOR0000020100505e65500021

Former official with US consulate in Toronto sentenced to 1 year in visa bribery scheme

BY NEDRA PICKLER
CP
744 words
29 July 2009
19:20
The Canadian Press
CPR
English

WASHINGTON _ A former official at the U.S. consulate in Toronto was sentenced to a year in prison Wednesday for expediting visas in exchange for gifts of jewelry and trips with exotic dancers.

Mike O'Keefe admitted he expedited 21 visas for employees of STS Jewels between 2004-2006 and in return got the presents from the chief executive officer, Sunil Agrawal. The pair, who still call each other friends, were sentenced together in Washington by U.S. District Judge Paul L. Friedman.

Agrawal, a 50-year-old native of India who lives in New York City, got probation and a $100,000 fine, which prosecutors said was one of the largest ever imposed by the Washington court for the misdemeanour charge of illegal supplementation of salary. Agrawal told the judge he wasn't aware that giving the gifts to O'Keefe created a conflict of interest.

O'Keefe, a 62-year-old who now lives in Portsmouth, New Hampshire, was sentenced to the felony charge of accepting an illegal gratuity. He must return four rings and a necklace made of gold, rubies, **diamonds** and tanzanite he received for himself and his wife. He also must pay $5,000 to compensate for trips to New York with two exotic dancers and Las Vegas with three strippers from Toronto's Brass Rail Tavern, where he was a regular customer.

``I took gifts of jewelry and essentially cashed in my career," O'Keefe told the judge, explaining he was unhappy at work and being treated for depression at the time of the crime. ``I knew these were inappropriate gifts and I never should have accepted them. To this day, I don't know why."

O'Keefe did not mention his relationship with the dancers. But O'Keefe's attorney, Bernard Grimm, said his client is medically unable to have sex.

O'Keefe's wife Ann tearfully asked the judge to be lenient on her husband, saying he's a good man and the crime was small compared to his 40 years of public service. Besides more than 20 years as foreign service officer, he served in the U.S. Air Force, six years as a Democratic member of the New Hampshire State House in the 1970s and most recently as a professor at Southern New Hampshire University. Grimm said O'Keefe was fired by the school the day he pleaded guilty in the case in February.

Friedman told O'Keefe he recognized his public service and did not think he would commit another crime. But the judge said he was sentencing him to prison to send a message that bribery will not be tolerated among government workers.

At the time of the crime, O'Keefe was deputy non-immigrant visa chief at the U.S. consulate in Toronto, the last stop in a long State Department career that took him to posts across Latin America and Africa.

He met Agrawal in 2002 when he went to a gem fair in Tuscon, Ariz., and delivered speech about a government investigation that found tanzanite, a gem mined in Tanzania that represented a large part of STS Jewels' business, was not being sold to finance terrorist operations.

The next year O'Keefe was posted in Toronto and began to personally handle STS's application for Indian national employees to enter the United States on a fast track. Since the **terror** attacks of 2001, the United States has tightened controls over non-immigrant visas like those granted to students, tourists and workers.

According to email cited in court documents, O'Keefe wrote to Agrawal that he was growing tired of the visa arguments and frustrated with younger subordinates who were ``determined to find problems" and reject STS

applications. He overturned their rejections, even when a subordinate noted that terrorists use jewelry to raise money.

He also hinted about gifts he would like to receive, asking whether Agrawal could help him find a necklace to give his wife for Christmas in one email and in another recalling a conversation they had about making a trip to Las Vegas.

``For some reason I really love Las Vegas," O'Keefe wrote. ``I guess it is because it is a place where I can lose my stiff diplomatic persona and just act like everyone else. Let me know if we can work anything out."

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Document CPR0000020090730e57t000an

NATIONAL POST

Canada
Guilty plea in crime ring stung by lost luggage; Bank robbery proceeds used to finance terror

Mike McIntyre
Winnipeg Free Press
542 words
8 March 2008
National Post
FINP
National
A6
English

WINNIPEG - They duped banks out of millions of dollars, held police at bay for years and used their electronic wizardry on victims around the globe.

Yet the Canadian-based Blanchard Criminal Organization nearly came unglued, thanks to the most unlikely of foes: the airline industry.

A piece of luggage containing a King's ransom--$50,000 cash, some **diamonds** and a few hundred stolen credit cards -- somehow got lost when one of the accused was attempting to fly from Egypt to Africa.

The missing suitcase has never been found, a Winnipeg court heard yesterday.

The owner, Balume Kashongwe, pleaded guilty to fraud and participating in a criminal organization in one of the most sophisticated operations uncovered by Canadian police.

Kashongwe, 35, was sentenced to two years of time already spent in custody. He was set to be released from jail yesterday and plans to resume living in British Columbia, where a job in the forestry sector apparently awaits.

Kashongwe admitted he helped the leader of the criminal network, Gerald Blanchard, steal an estimated $250,000 from several banks in Cairo in late 2006.

The money was then funnelled to a mysterious Lon-don-based man called "The Boss" and used to finance terrorism in the Middle East, court heard.

Blanchard, Kashongwe and four others spent 10 days in Egypt and used data from 633 stolen credit cards to access various bank accounts. The group wore burkas to avoid detection from surveillance cameras.

Kashongwe was supposed to leave Cairo and go to Africa to continue the thefts, but stunned Blanchard when he called to report his suitcase had gone missing.

The money and **diamonds** inside were destined for the British boss, forcing Blanchard to pay the man out of his own pocket, court heard.

Provincial court Judge Kelly Moar told Kashongwe the fact his criminal actions indirectly helped terrorist activities is a major concern.

"When these attacks occur, innocent people die. That money being obtained by yourself and others was used to do that," Judge Moar said.

Blanchard, 35, pleaded guilty last November to 16 charges and was given an eight-year prison term.

He admitted he was the brains behind several sophisticated attacks on banks in Winnipeg, Edmonton and British Columbia, which netted his group millions of dollars.

Six co-accused remain before the courts. Blanchard, Kashongwe and other co-accused were not charged with any terrorism-related crimes.

Winnipeg police began investigating in 2004 after the theft of $510,000 from seven automatic banking machines inside a new CIBC branch.

They would later learn Blanchard and associates had secretly installed a pinhole camera and two listening devices -- including a baby monitor -- inside the walls and roof of the bank while it was still under construction.

The true "gem" of the investigation involved recovering the Koechert Pearl Diamond from Blanchard's grandmother's house in Winnipeg last year.

The historic jewel-encrusted brooch once belonged to Elisabeth, the Empress of Austria, during the 19th century. It was stolen from a castle in Vienna in 1998.

No one has been charged with the theft. Blanchard admitted to possession of stolen goods.

Document FINP000020080308e4380004f

Search Summary

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News Filters	Subject: Crime/Courts

Dubai refinery Kaloti, DMCC caught up in $5bn global gold scandal

ARTICLE VIDEOS

By Staff Writer Wednesday, 26 February 2014 11:52 AM

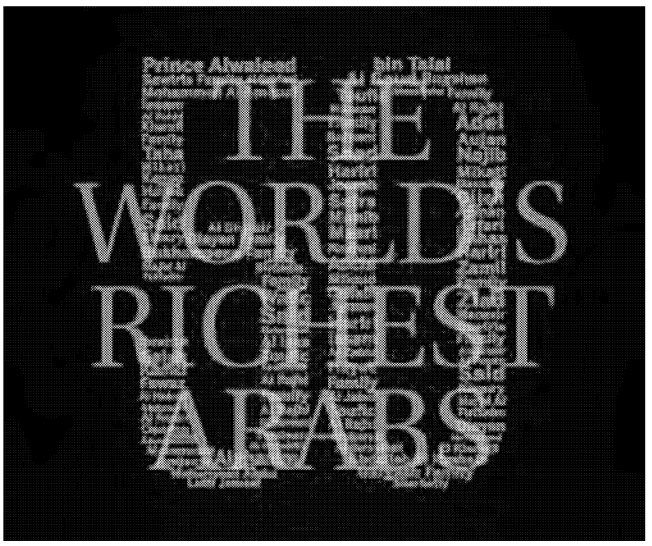
Ahmed Bin Sulayem, executive chairman of Dubai Multi-Commodities Centre (DMCC)

A Dubai-based gold refinery has been accused of flouting new international rules aimed at stopping trade in so-called conflict gold, amid claims it paid more than $5bn in cash for the precious metal and accepted gold from more than 1,000 customers without paperwork, London's *The Guardian* newspaper has reported.

Citing a confidential 2012 inspection report by Ernst & Young, the Kaloti Group, a $12bn refining and trading business which owns the largest refinery in the Middle East, is also accused of also taking millions of dollars of gold plated in another metal and seemingly smuggled out of Morocco.

It comes as it also reported that the Dubai Multi-Commodities Centre (DMCC), which was set up by Dubai ruler Sheikh Mohammed in 2002 to promote and regulate the gold industry and is headed by executive chairman Ahmed Bin Sulayem, changed its rules in a way which resulted in the the full details of the inspection reports being kept confidential.

The newspaper said the leaked E&Y report showed Kaloti paid out $5.2bn in cash-for-gold deals – equivalent to almost 45 percent of its business in 2012.



It also accepted 2.4 tonnes of gold in more than 1,000 transactions with customers who provided no paperwork and paid cash to Sudanese suppliers who had hand-carried gold to Dubai that was sourced from small-scale, artisan mining operations without checking for mining licences.

The Guardian said while there was no evidence that Kaloti accepted conflict gold, a term which refers to underground trade linked to African warlords and human rights abuses, major breaches in new gold trading guidelines were uncovered.

The new international rules, being championed by US President Barack Obama, the UN, EU and campaign groups, aim to stamp out illicit trade in conflict gold, with the UN pointing to growing evidence linking extortion at hundreds of mines in the Democratic Republic of Congo to armed groups involved in war crimes.

Quoting former E&Y partner-turned whistleblower Amjad Rihan, who was in charge of the inspection division, *The Guardian* report said DMCC had altered its reporting rules, with pressure put on E&Y over the report.

The report findings, published in December, are mentioned only briefly in a DMCC press release, which hailed the inspection outcome, saying Kaloti was compliant, certified and offered conflict-free gold.

"I am not a lawyer, but in my opinion, what is 'ethical' and what is

'legal' should not conflict," Rihan was quoted as saying.

"The DMCC, Ernst & Young and Kaloti were all aware that the risk of conflict gold entering Dubai had been very high. In my opinion the way they acted is appalling, amoral and extremely unethical."

Kaloti said in a statement to *The Guardian* that it "had shortcomings in the initial stages of the long, multi-staged audit process" but its "fully compliant final result was confirmed by Ernst & Young".

The DMCC rejected that it had sought to influence or interfere in the review process "or that it altered or softened the review process to favour any member refinery".

"All our findings have been made public and the review and reporting processes are robust," it was quoted as saying.

E&Y Dubai managing partner Joe Murphy reportedly said that it took the views of Rihan "very seriously" and undertook its own review of the report before it was issued.

The firm rejected it was under pressure to soften the findings.

At the time of going to press, Ernst & Young, the Kaloti Group and DMCC has not responded when contacted by *Arabian Business* to comment on the allegations made by *The Guardian* report

Dubai Refiner Kaloti Group Linked to Conflict Gold Scandal by E&Y Whistleblower

By M Rochan , Published: February 26, 2014 14:59 PM | Updated: February 28, 2014 09:47 AM

E&Y findings reveal Dubai gold refiner Kaloti Group bought conflict gold. Reuters

Dubai's Kaloti Group, one of the world's leading gold refineries, has ignored international rules about so-called "conflict gold" and is alleged to have purchased billions of dollars worth of the precious metal from unethical sources with no provenance, a whistleblower from Ernst & Young (E&Y) has stated.

Confidential papers shown to the Guardian, by Amjad Rihan, who was charged with inspecting Kaloti for E&Y, detail how, in 2012 the refinery group disregarded guidelines issued to halt the trade in suspect gold, which can be linked to African warlords and comes at a cost of atrocious human rights abuses.

Kaloti paid more than $5bn (£3bn, €3.6bn) in cash for the metal - equivalent to almost 45% of its business in 2012 - and accepted gold from over 1,000 customers who walked in off the street without any paperwork, according to

E&Y documents.

The Guardian report states that while there is no evidence that the refinery accepted conflict gold, major breaches in new guidelines were uncovered, raising concern about the history of huge volumes of shipments.

Details of the damning findings have not been spelled out in full in public documents, but have been uncovered in the Guardian's investigation. The leaked papers are also being reported by BBC2's Newsnight, al-Jazeera and the campaign group Global Witness.

A spokesman for Kaloti said: "We reject all allegations that we did not comply with the audit process or new regulations, and any suggestion that we have sourced gold from conflict zones is totally false. While we accept that we had some shortcomings in our initial report, these were quickly rectified to the full satisfaction of our external auditors and the regulators."

Kaloti is a $12bn refining and trading business based in Dubai. It owns the largest refinery in the Middle East and is at the centre of Dubai's gold industry, estimated to be worth $70bn in 2012.

Both Dubai rules and international standards set by the OECD maintain that the purpose of publishing reports, on the outcome of independent inspections, is to display transparency in relation to refineries' performance on responsible sourcing measures in order to "generate public confidence".

However, before the inspectors' work was finished and their reports filed, the Dubai authorities learned of E&Y's findings and changed their own rules to prevent the verdict from being publicised.

The Dubai Multi-Commodities Centre (DMCC) said rules were changed to keep them in line with similar international standards.

Covert Pressure

Emails showed how some at E&Y felt a regulator, "keen to promote the Dubai gold industry," had pressurised them, reported the Guardian.

“The DMCC, Ernst & Young and Kaloti were all aware that the risk of conflict gold entering Dubai had been very high.”

- Amjad Rihan of E&Y Dubai

That pressure compelled Amjad

Rihan, the man in charge of the inspection division, to break ranks and come forward as a whistleblower.

Rihan said he was horrified that Dubai authorities had changed their rules and that E&Y had signed off as "fair" public reports blocking out full details of Kaloti's failings.

"DMCC strongly refutes any allegation that it sought to influence or interfere with the review process, or that it altered or softened the review process to favour any member refinery," it said, adding: "All findings have been made public and the review and reporting processes are robust."

Rihan said: "I am not a lawyer, but in my opinion, what is 'ethical' and what is 'legal' should not conflict. The DMCC, Ernst & Young and Kaloti were all aware that the risk of conflict gold entering Dubai had been very high. In my opinion, the way they acted is appalling, amoral and extremely unethical."

International rules are in place to tackle the underground trade in blood gold, much of which is linked to African warlords and human rights abuses.

Earlier in the year, both Apple and Intel announced that all gold used in the circuitry of their phones, computers and other devices was conflict free.

Confidential papers raise fears over conflict gold

Papers show firm accepted gold from customers walking in off the street with no paperwork

Simon Bowers and **Juliette Garside**
The Guardian, Wednesday 26 February 2014

Hundreds of millions of dollars worth of suspect gold has poured into the global markets as major breaches occurred in new international rules designed to tackle an underground trade linked to African warlords and human rights abuses.

Confidential papers shown to the Guardian by a whistleblower detail how, in 2012, one of the world's biggest gold refineries ignored guidelines designed to stop the trade in so-called conflict gold.

It paid more than $5bn (£3bn) in cash for the metal and accepted gold from more than 1,000 customers who walked in off the street with no paperwork.

While there is no evidence that the refinery accepted conflict gold, major breaches in new guidelines were uncovered, raising concern about the history of huge volumes of shipments. Details of the damning findings have not been spelled out in full in public documents, but have been uncovered in a Guardian investigation. The leaked papers are also being reported by BBC2's Newsnight, al-Jazeera and the campaign group Global Witness.

Allegations that the full scandal has not been laid bare are a huge setback to international efforts – championed by Barack Obama, the UN, the EU and campaign groups – to stamp out the illicit trade in conflict gold by requiring the world's largest refineries to be independently audited to check that they are sourcing gold responsibly

and publishing the findings.

Full details of the findings are set out in confidential inspection reports from Ernst & Young, which was brought in to review the practices of the Kaloti Group, a $12bn refining and trading business based in Dubai. Kaloti owns the largest refinery in the Middle East and is at the centre of Dubai's booming gold industry, estimated to be worth $70bn in 2012. Documents show the group systematically flouted new rules on conflict gold.

The UN has been pushing for tough international guidelines covering the trade in gold and other "conflict minerals" because of mounting evidence linking extortion at hundreds of mines in the Democratic Republic of Congo to armed groups involved in war crimes.

The UN's largest peacekeeping force is deployed in the country, with more than 20,000 uniformed personnel. More than 5 million people are estimated to have died in the DRC or its neighbours in the last two decades, making it the most deadly conflict since the second world war.

All refiners around the world must be able to show they meet the new international standards, and have been independently inspected, if they want to continue trading with US multinationals from May this year. Guidelines recommend companies "make and receive payments for gold through official banking channels where they are reasonably available, avoid cash purchases where possible, and ensure that all unavoidable cash purchases are supported by verifiable documentation".

The rules of the Dubai Multi-Commodities Centre, set up by Dubai's ruler Sheikh Mohammed in 2002 to promote and regulate the gold industry, require refiners to make extra checks on suspicious, cash-in-hand deals above 40,000 dirhams (£6,540). Kaloti had no system in place to do this in 2012.

In fact Kaloti paid out $5.2bn in cash-for-gold deals – equivalent to almost 45% of its business in 2012. E&Y Dubai's inspectors also found the refinery group had:

• Taken millions of dollars of gold knowing it was plated in another metal and seemed to have been smuggled out of Morocco.

• Accepted 2.4 tonnes of gold in more than 1,000 transactions with customers who provided no paperwork.

• Paid cash to Sudanese suppliers who had hand-carried gold to Dubai – sourced from small-scale, artisan mining operations – but did not check whether they had approved

mining licences.

These details from E&Y inspections have never been disclosed before. In Kaloti's much-delayed compliance report, published last December, the failings are mentioned only briefly and in terms that do not leave the reader with a clear picture of the inspectors' findings. Kaloti maintains all failures in its procedures were rectified by November last year, with all but one of its remedial measures having been independently verified by E&Y. In a statement to the Guardian, it said: "Kaloti had shortcomings in the initial stages of the long multi-staged audit process ... Our fully compliant final result was confirmed by Ernst & Young."

Both Kaloti and E&Y stressed all shortcomings were properly reported and acknowledged in published reports. Other comparable reports from major refineries in Dubai and elsewhere also offer only very scant descriptions where inspectors have discovered failings, suggesting this may be emerging as common industry practice for these new reports.

The Guardian has seen no evidence that published reporting of Kaloti failings was out of line with regulatory rules or industry practice. But leaked emails show their proper presentation in published filings was hotly contested.

Both Dubai rules and international standards set by the OECD say that the purpose of publishing reports on the outcome of independent inspections is to demonstrate transparency in relation to refineries' performance on responsible sourcing measures in order to "generate public confidence". But before the inspectors' work was finished and their reports filed, the Dubai authorities learned of E&Y's findings and changed their own rule book in a way that meant that the overall verdict of inspectors would stay confidential.

The Dubia Multi-Commodities Centre insists these changes were made simply to keep rules in line with similar international standards. "DMCC strongly refutes any allegation that it sought to influence or interfere with the review process, or that it altered or softened the review process to favour any member refinery," it said, adding: "All findings have been made public and the review and reporting processes are robust."

Emails show how some at E&Y felt pressure had been put on them by a regulator "keen to promote the Dubai gold industry", pressure that led Amjad Rihan, the partner in charge of the inspection division, to break ranks and come forward as a whistleblower. Rihan said he was horrified that the Dubai authorities had altered the rules and that E&Y had signed off as "fair" public reports obscuring full details of Kaloti's failings.

So brief were eventual descriptions of the failings reports published last December that in press releases the DMCC and Kaloti made no mention of them, celebrating the inspection outcome and stressing Dubai's leading refinery had ended the audit fully compliant, certified as offering conflict-free, responsibly sourced gold.

Rihan said: "I am not a lawyer, but in my opinion, what is 'ethical' and what is 'legal' should not conflict. The DMCC, Ernst & Young and Kaloti were all aware that the risk of conflict gold entering Dubai had been very high. In my opinion, the way they acted is appalling, amoral and extremely unethical."

At one stage, so serious had E&Y's concerns about how to treat the Kaloti findings become that the case was referred to some of the firm's top global executives and legal experts in London. At one stage, Mark Otty, E&Y's managing partner for Europe, Middle East, India and Africa (EMEIA) based in London, said in an email: "Rest assured that we are taking this issue very seriously ... I have taken the lead in relation to our investigation of it." Otty said later that he was satisfied with the outcome because "both client and regulator will report deficiencies".

A spokesman for both E&Y divisions declined to answer questions from the Guardian. "This matter ... concerns work done by EY Dubai, in Dubai, for a Dubai-based client under guidelines promulgated by the DMCC, a Dubai regulatory body."

Joe Murphy, managing partner at E&Y Dubai, said: "EY Dubai took the views of our former partner [Rihan] very seriously and prior to issuing our ... report undertook a comprehensive review, including consulting with internal and external experts, who supported the actions we took. We firmly believe that by identifying elements of non-compliance we have played an important role in achieving improvements in the client's supply chain controls."

E&Y's global code of conduct says: We are robust and courageous in our challenge to clients and are not afraid to deliver unwelcome information to them ... We support people and will withdraw from working for any clients that put our people under undue pressure". Rihan does not feel that is what happened in Dubai "I went to senior figures at EY asking them to back me up in my professional opinion but instead I think they went to great lengths to please the client and they pushed me out."

EY deny this. "EY Dubai took the views of our former partner very seriously and prior to issuing our ... report undertook a comprehensive review; including consulting with internal and external experts, who supported the actions we took".

New international guidelines have emerged to tackle conflict gold, after similar to curb

the trade in blood diamonds.

According to a UN report at the end of 2011: "A significant proportion of gold financing armed groups and criminal networks [within the DRC military] continues to end up in the United Arab Emirates, making the due diligence of refiners, smelters and jewellers based in that country of particular importance."central Africa, unless from long-standing industrial suppliers or well-known global traders. Kaloti, the UN report said, insisted it "had not purchased artisanal gold from the region for three years."

Dubai is one of the world's global hubs and attracts business from all quarters. Last October the Responsible Jewellery Council, whose members include Cartier, Tiffany & Co, H Samuel, Ernest Jones and Argos, signed a deal recognising Dubai's conflict gold refinery inspection programme and permitting RJC jewellers to market gold bought from the emirate as conflict free.

In recent weeks both Apple and Intel have also announced that all gold used in the circuitry of their phones, computers and other devices is now conflict free.

Gold rush hits Calgary precious metals dealers

Wednesday, August 10, 2011

Hundreds of people stood outside the Bank of Nova Scotia to bet their savings on the precious metals market.

Among them were a 13-year-old Calgary Herald paper boy, an art gallery operator from Cochrane and Elaine Abercrombie, who was trading her retirement fund for silver bars.

"The dollar isn't going to be worth much," Abercrombie told the Herald after buying 150 ounces of silver.

The value, she said, "is going to go up again. It's an investment. Paper money isn't any good."

It was Jan. 4, 1980.

Within weeks, the precious metals market crashed.

Gold dropped hundreds of dollars, prompting lines of dejected buyers to return to the bank, sell their investment and eat their losses. By March, monopolies on the silver market had been broken. Within a few short years, the price of silver dropped to $5 an ounce from a high of about $50.

With hindsight, it was easy to see that gold and silver had been in a bubble - like Nortel stock and American homes, their value was artificially inflated by feverish demand.

In 1980, gold reached a peak of $850 per ounce. More than 30 years later, gold and silver are again breaking price ceilings.

Gold reached a record $1,800 per ounce on Wednesday. Likewise, silver is commanding rates of about $40 per ounce.

As they did in the '80s, those prices are prompting long lines at bullion exchanges.

Calgarians are sorting through buckets of old coins looking for pre-1967 silver quarters. They are wrapping their broken chains and orphan earrings in Ziploc bags and crumpled paper, hoping to cash in on the scrap hiding in the back of their jewelry boxes.

Even highbrow jewelry seller Birks has jumped in. For the past year, it has bought its customers' gold. The jeweller is holding several consultations in Calgary this week.

There's a tidy profit in store for those who would sell otherwise unworn or unloved gold and silver.

Buying such metals, on the other hand, is a riskier strategy.

Experts and skeptics of silver and gold's new price run are already warning that the commodity is wildly overvalued. In short, they say, this is just another bubble.

But those warnings were not heeded at Albern Coin & Foreign Exchange on 16th Avenue earlier this week. Amid displays of collector's coins framed in velvet boxes, the phone is ringing off the hook.

Behind thick glass and locked doors, the line of customers continues unabated all day.

"It's stupid panic is what it is," says Don Carlson, the general manager. "This is more like Y2K, when people were afraid every computer would shut down."

In a store staffed with white-haired men, Carlson now sits behind a series of living graphs and Microsoft Excel spreadsheets listing the latest values. Prices change by the minute.

Every time a seller steps up to the glass window, he prints out the latest price sheet, which is stapled to a baggie filled with coins or jewels.

Cufflinks, clasps, commemorative medallions and tarnished rings (sans stones) are then whisked to the back of the office to be tested. The gold buyers also take dental fillings, as long as all tooth material is removed.

Nothing to declare': Russian busted smuggling 26,000 diamonds (VIDEO)

Published time: March 11, 2013 15:29
Edited time: March 11, 2013 16:58

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A Russian passenger trying to smuggle in 26,000 diamonds was detained at Moscow's Sheremetyevo Airport on his way back from Dubai.

Tags
Crime, Russia

"Various gemstones were found during the customs inspection. There were diamonds of different colors and cuts packed in plastic bags," said the press service of the Federal Customs Service of Russia on Monday.

The diamonds are worth about 5 million rubles (about US$163,000) according to preliminary estimates in the media.

The baggage also contained 249 boxes with iPhone5s and five other devices that were not packed.

The man, who appears to be an unemployed 37-year-old Russian citizen, walked down *"nothing to declare"* customs lane. This is in spite of the fact that Russia requires that gems and precious metals whose value exceed $10,000 should be divulged and are subject to taxes.

The man further claimed that the gems and other goods do not belong to him as he was just asked by a friend to transport them, RIA Novosti says.

The valuable parcels were sent to the Customs Service for examination. The man could face a huge fine in addition to the customs duties on the smuggled gems.

Rush to cash in gold attracts tarnish of possible scams

SHIRLEY WON, PAUL WALDIE
The Globe and Mail
Published Thursday, Nov. 11 2010, 7:03 PM EST
Last updated Thursday, Aug. 23 2012, 4:10 PM EDT

The gold frenzy has sparked a rush to sell everything from tooth fillings to old rings from ex-beaus, but it has also spawned a new type of gold digger.

As people rush to profit from a booming gold price – heading to gold parties, cash-for-gold stores and pawn shops – authorities are issuing warnings about seamier outfits luring consumers, through the Internet, to mail in jewellery.

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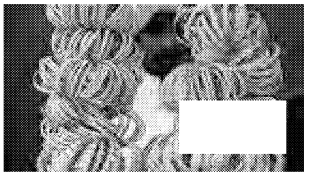

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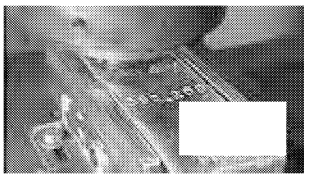

VIDEO
How to play gold

"It's like the Wild West," said Jo-Ann Sperano, a mediator specialist at New York-based Jewelers Vigilance Committee (JVC), a watchdog for the jewellery industry.

"There are too many of these people ready to take advantage of consumers for a quick buck."

On Thursday, gold reached $1,403.30 (U.S.) an ounce.

The cash-for-gold phenomenon is gaining momentum in Canada, but the darker side of this unregulated industry is the mail-order business, companies offering cash to consumers who send them jewellery.

In the United States and Great Britain, government agencies have launched several investigations. U.S. consumer groups say they have discovered companies making low-ball offers – as much as 80 per cent below the gold's real value.

Ms. Sperano said she has been trying to stop some virtual gold buyers from "stealing" her organization's logo to put on their home pages.

"It [the logo]ensures consumer confidence," she said, adding that her organization fielded many calls from consumers about one website that solicited gold and diamonds and disappeared earlier this week. It was the subject of 57 complaints filed to the Ottawa Better Business Bureau.

The site gave an Ottawa address, which turned out to be a mailbox service, where the jewellery that was mailed in was redirected, said Diane Iadeluca, president of the Ottawa BBB.

"All the complaints were unanswered," she said. "All these customers have sent in different types of jewellery and never saw a return [of money]or a very small cheque. It's very sad."

Chantal Croteau says she got caught in this.

As a way to help pay legal costs for her divorce, she shipped her gold-and-diamond engagement ring and wedding band in September to a man named "Andrew," who had agreed to pay about $2,500 for her jewellery.

"I never heard from them again," she said. "I felt kind of silly. Then, I got a cheque for $4.36. It was a joke."

These kinds of complaints spurred high-end Montreal-based jewellery retailer Birks & Mayors to start an online division a year ago to offer a mail-in jewellery service branded the Birks Gold Exchange.

"A lot of our customers were asking for it" because they didn't feel comfortable sending their jewellery to faceless virtual gold buyers, said Jeanne Gilbert, Internet director at Birks & Mayors. "They trust us. We are a company that is recognized."

Complaints are more common in the United States, where the U.S. Postal Service received more than 1,300 loss claims between 2008 and 2009 from consumers who sent jewellery to Florida-based Cash4Gold, one of the largest U.S.-based mail order businesses.

The company, which advertises heavily on television, has said that packages in the mail get lost or are stolen, according to documents submitted to a U.S. congressional subcommittee. It says it receives as many as 20,000 packages a week.

Jeff Aronson, the chief executive officer of Cash4Gold, stands by the company's practices and says the vast majority of its customers accept the appraisals and the company's offers for their jewellery. Mr. Aronson helped launch the business three years ago and says it has recorded more than 900,000 transactions.

Gold buyers sell the scrap metal to refiners, who melt it into bars. Gold

from rings or necklaces make its way back to jewellers or to the investment industry where it's made into bullion bars bought by exchange-traded funds and the like.

It's all part of the frenzy surrounding gold's spectacular runup.

Gold parties, which are legitimate, started in the United States three years ago amid the recession. Payouts to consumers vary after the company, hostess, and refiners get their cut. Toronto-based Gold Party Princess, one of the pioneers in this country, is also in the midst of selling franchises.

Sherry Wilson, who went to a gold party last Saturday that was hosted by a colleague at her suburban Toronto home, dumped six 10-karat gold rings, two pairs of earrings, a chain and four tiny pendants onto a table in front of gold buyers with GoldSmart Network.

Once the jewellery was tested and weighed, she was given $238 in bills.

"This is a nice treat," said the 37-year-old mother of twin boys. "Some of the rings are from ex-boyfriends. One would be horrified if he knew I just made money from them. … But I wouldn't ever wear them again – they would have sat in my jewellery box for years."

Gold parties, which also grow by referrals, have a "built-in mechanism that forces people to treat others better," but consumers still need to be on their toes, warned Keith Perrin, co-owner of Toronto-based GoldSmart Network and a former president of Jewellers Vigilance Canada, an industry watchdog.

"There are a lot of people who are in this business, and all they did was buy a gold-testing machine and some business cards ...

"A common trick is to confuse people with units of measure," said Mr. Perrin, a former general manager of a metals refinery.

Editor's Note: Some information contained in the original newspaper version and an earlier online version of this article has been deleted from this online version.

Bling losing its lustre

A discreet sign outside the Birks store in the Eaton Centre advises couples they can get up to $1,000 off their wedding bands if they buy a diamond engagement ring at least 0.70 carats in size.

COLIN MCCONNELL / TORONTO STAR Order this photo

Mark Mani, owner of Mani Jewellers in Toronto, says he has been forced to adapt to the economic downturn by carrying more affordably priced pieces (July 15, 2009).

By: Dana Flavelle Business reporter, Published on Thu Jul 16 2009

A discreet sign outside the Birks store in the Eaton Centre advises couples they can get up to $1,000 off their wedding bands if they buy a diamond engagement ring at least 0.70 carats in size.

In the worst economic downturn in decades, even emotion-laden purchases such as wedding rings are being discounted. Stores of all kinds are feeling the impact of rising unemployment and sagging stock portfolios. An unseasonably cool, wet spring hasn't helped.

On the floors below Birks, there are signs of deep price discounting by major retailers: Sears, Esprit, The Children's Place, Pottery Barn.

Sales of clothing, furniture, appliances and electronics are all down. But purveyors of luxury goods are really feeling the pinch. It is a tough time to be in the jewellery business, especially in the United States where a string of chains have filed for bankruptcy as sales plummeted.

"Jewellery is probably one of the most discretionary, delayable purchases there is except for your Sweet 16th or your 25th anniversary where you've got to cough up something," said John Williams of the Toronto-

based retail-consulting firm J.C. Williams Group.

"Also, there's an attitude out there that being frugal is cool," he added. "In the '80s, it was all about `if you've got it, flaunt it.' That's over."

Mark Mani, owner of Mani Jewellers, sees it in his independent store in Toronto's financial district.

Jewellery is still a popular gift but some people are spending less, said Mani, who is stocking fewer "high-ticket" items of $3,000 and up.

"We've had to adapt by stocking more lower-priced items," he said. "I'm carrying lines that are 14-carat gold, instead of 18-carat. Or they're of medium quality finishes versus high-end finishes. Or the diamond quality is one notch down."

He's also still carrying the higher quality merchandise, he said. And in an apparent contradiction, the store's decision to move its bridal collection upmarket is paying off by attracting people who are willing to spend $15,000 or more on an engagement ring.

The decline and fall of the retail sales is particularly challenging for luxury goods firms, that are loath to tarnish their brand by deeply discounting their goods.

Some manufacturers have chosen instead to introduce new lines at lower price points, sometimes under different names.

Gucci has launched a line of watches under its own name that start at $600 instead of $1,000. Simon G has launched lower-priced diamond rings, pendants and necklaces under the Zeghani brand.

Others, such as Tiffany & Co., say they are "staying the course."

"We are not engaging in discounting or changing our marketing or merchandise strategy. We remain confident that the future is bright," Andrea Hopson, vice-president of Tiffany Canada, said.

The big publicly traded jewellery firms, Tiffany, Birks & Mayors, and Zale Corp., which owns Peoples, have all reported dramatic declines in sales, especially in the U.S., where last fall's credit crisis sparked the global downturn.

Sales at the very high-end stores owned by Canadian diamond miner, Harry Winston Inc., fell a dramatic 30 per cent in the spring quarter. Still, that was an improvement over the 60 per cent plunge it felt over Christmas, traditionally the jewellery industry's best season. The stores are outside Canada.

At Tiffany, sales at U.S. stores open more than a year were down 34 per cent in the latest quarter although it is still making money. Other U.S. chains have filed for bankruptcy, including Fortunoff, Whitehall, Friedman's, Christian Bernard and Ultra Stores, the start of what could be an industry shakeout.

The Canadian market, buoyed by a relatively strong banking sector and global demand for oil, has proved to be relatively robust. Still, consumer demand for discretionary big-ticket items, such as jewellery, is at best flat.

Birks & Mayors, whose business is divided between the southern U.S. and Canada, reported sales fell 23.3 per cent in the quarter ending March 28. Same-store sales fell 16 per cent at Mayors chain in the U.S. but were

flat at its Birks stores in Canada. The two chains carry similar merchandise but most of Mayors stores are Florida.

"The economic downturn continues to have a significant impact on the retail industry and luxury goods products in particular," Birks & Mayors' president and chief executive Tom Andruskevich told analysts on a conference call July 6.

The Montreal-based company, which operates 69 stores, has cut 160 jobs, or 15 per cent of its workforce, since the start of the year and frozen management bonuses. It also plans to close its store in St. Catharines at the end of July.

But some observers said what they're seeing is partly a return to more rational industry behaviour.

"Gone are the days of ridiculous mark-ups to pay for the jeweller's Porsche," said Paul Aguirre, editor of *Canadian Jeweller* magazine. "Now, it's more about getting a 10 per cent profit margin and creating a relationship with the client."

He sees jewellery designers moving to address the new "trading down" mentality.

Economic uncertainty has delivered a double whammy, driving the price of gold bullion above $1,000 (U.S.) an ounce as investors flock to hard assets in the face of a fluctuating U.S. dollar.

At the annual JCK trade show in Las Vegas last month, Aguirre said he saw a lot more platinum in place of gold, and a lot more exotic woods in place of gemstones. Pandora, a popular maker of charm bracelets, recently added a line of "eco-chic" wooden beads to its collection of gold, silver and gemstones, he said.

"We also saw a lot of silver. Well-mined, well-produced silver is making a comeback in everything from necklaces, to earrings, rings, and cufflinks," Aguirre said. "I wouldn't be surprised to see silver engagement rings next, if things don't improve."

Looking ahead to the Christmas season, some jewellery retailers are being even more cautious, ordering fewer and less expensive pieces.

"We believe that we have to reduce inventory," Andruskevich of Birks said. "We've given our merchants the responsibility to bring some fresh new products into the business, even though they may have a smaller purchasing budget than a year ago."

OP-ED

Stop Buying and Selling Blood Diamonds

The Kimberley Process and World Diamond Council are a sham.

By Martin Rapaport

Severe human rights violations, including murder, rape and forced labor, have taken place in the diamond fields of Marange, Zimbabwe. Recent reports from Human Rights Watch (HRW) indicate that these horrific conditions continue to take place.

Blood diamonds from Marange, Zimbabwe, have been issued Kimberley Process (KP) certificates and imported into the cutting centers, where they were cut and polished and then sold to dealers, jewelry manufacturers and retailers. Tens of thousands of carats of blood diamonds are now in dealers' inventories and jewelers' showcases — and are being actively sold to consumers.

The jewelry trade's purchase and distribution of blood diamonds is funding a continuing cycle of horrific human rights violations. Our industry is providing money and distribution to those who murder, rape and enslave. Every time we buy or sell a blood diamond, we are sending a message of encouragement to the perpetrators of these inhuman crimes. We are legitimizing their dirty business. We become their partners in crime.

We must face the fact that the KP has been issuing certificates for Marange blood diamonds. The KP has made these "certified blood diamonds" perfectly legal. Customs officials did not — and do not — have the right to stop Marange diamonds with KP certificates. Instead of eliminating blood diamonds, the KP has become a process for the systematic legalization and legitimization of blood diamonds. When you get right down to it, the KP has become a blood diamond laundering system. The KP is not just a sham; it's a scam.

To understand how this could happen, we must define "blood diamonds" and compare our definition to the KP definition of "conflict diamonds."

Rapaport definition: *"Blood diamonds are diamonds involved in murder, mutilation, rape or forced servitude."*

KP definition: *"Conflict diamonds means rough diamonds used by rebel movements or their allies to finance conflict aimed at undermining legitimate governments, as described in relevant United Nations Security Council (UNSC) resolutions insofar as they remain in effect, or in other similar UNSC resolutions which may be adopted in the future, and as understood and recognised in United Nations General Assembly (UNGA) Resolution 55/56, or in other similar UNGA resolutions which may be adopted in future…"*

The KP definition of conflict diamonds does not address human rights violations and does not include blood diamonds. It is a legal definition established by governments to limit the scope and authority of the KP. The KP is a highly politicized process controlled by governments for governments. Its primary function is to protect governments and their revenue — legitimate or not — from rebel forces and consumer boycotts. The KP is

essentially agnostic when it comes to human rights. As HRW concluded in its November 6, 2009, report: "This diamond monitoring body has utterly lost credibility."

In spite of the above, there is a common misconception in the jewelry trade that diamonds with KP certificates are free of human rights abuses. Trade organizations, under the misguided leadership of the World Diamond Council (WDC), have promoted and continue to promote the KP as an acceptable standard for ensuring human rights compliance, even though they know that the KP has been issuing certificates for blood diamonds that have penetrated the diamond and jewelry supply chain. The WDC refuses to inform the trade that the KP cannot be relied upon to ensure human rights compliance and that polished blood diamonds are in the supply chain. The WDC has lost its moral compass. Its primary loyalty is now to the KP and not to the diamond industry or even the basic principles of human decency.

What To Do?

• **Raise Consciousness.** We need to raise consciousness within the jewelry industry about the problem of blood diamonds so that people will stop trading them. Industry organizations that should play a role need to be awakened. I suggest sending emails to Terry Burman, chairman of Jewelers of America (JA), director of the Responsible Jewellery Council (RJC) and the WDC, at tburman@jewels.com; Matt Runci, president and chief executive officer (CEO) of JA, chairman of the RJC, director of the WDC, atmatt@jewelofam.org; Cecilia Gardner, president and CEO of the Jewelers Vigilance Committee (JVC), director of the WDC and CIBJO, at clgjvc@aol.com. You might want to cc the email to other leaders and send a copy to us.

Ask these leaders to confirm that polished blood diamonds are in the distribution system and ask what you or they can do about it. Ask them to use their organizations to inform the trade about the problem. If you know anyone on the board of these organizations, give them a call and ask them to have their organization let people know about blood diamonds.

Email us at fairtrade@rapaport.com if you would like to help us raise consciousness. We will be holding conferences to discuss the issue at BaselWorld on Friday, March 19, 2010, at the Basel Congress Center from 2:00 p.m. to 4:00 p.m., and the JCK Vegas Show, Monday, June 7, 2010, at the Sands Convention Center from 2:00 p.m. to 4:00 p.m. We need new ideas and solutions. We need your help to get organized.

• **Stay informed.** Visit diamonds.net/zimbabwe for background information and google Marange diamonds to stay up to date. Help us stay informed. If you know about people or companies that are selling Marange diamonds, email us. While we don't have the resources to investigate all claims, if a name comes up enough or the case is compelling, we will quietly notify relevant investigative authorities.

• **Return diamonds that you suspect may be blood diamonds.** Pay careful attention to diamonds that have a green hue. Unless you are absolutely sure of where the diamond came from, it is probably a good idea to return all diamonds with a green or green/gray hue in the D to Z and light green color range, not fancy green colors. While there are green diamonds from other places, about 60 percent of Marange's cuttable diamonds are green and tens of thousands of carats have come onto the market over the past year. Furthermore, we are getting reports that the color of some green Marange diamonds is unstable and may worsen.

While many in the industry are opposed to the idea of returns, the hard fact is that you are going to have to make a personal decision about what to do. Thanks to the KP, blood diamonds are perfectly legal and you have no right to return them. On the other hand, do you really want to be selling what may be blood diamonds? It's a financial and ethical issue with a high dose of uncertainty. There may be no clear answers. You might want to talk to a spiritual or ethical adviser.

• **Ask Before You Buy.** As noted in the HRW campaign*, "Zimbabwe's Blood Diamonds, Ask Before You Buy," asking is probably the most important thing you can and should do. Recognize that you are responsible for what you buy and that someone's life may be at stake. Make sure you know who your suppliers are and ask them serious questions to ensure that the diamonds you buy are not from Marange nor involved in other serious human rights abuses. Err on the side of caution. Tell your supplier you really care about where your diamonds come from. If they know you care, they also will care. Make it a point to personally talk to every diamond supplier about human rights issues and how important they are to you.

You will also want your supplier to sign a document promising to refund payment for any diamonds that turn out to be associated with human rights violations. But don't rely solely on the paper; remember to have the talk.

Conclusion

It's time to transcend Kimberley and the WDC. One wonders how many lives will have to be destroyed before the demonstrations begin — before victims come marching down Fifth Avenue, as they did a decade ago. What will it take to get our trade to stop buying and selling blood diamonds?

I know that there are many good and decent people in the diamond and jewelry trade. And I know that many of you care but are frustrated and feel the situation is hopeless. I urge you to reconsider. I urge you not to give up.

We can and will beat this problem. It will take time and unprecedented levels of cooperation. But I do believe that there are enough people in our industry who really care about human rights and that we can make a difference by working together. There is so much good that we can do. I am confident that when the right people come together, we can and will build a more fair and ethical diamond market. We can and will create solutions that will make the world proud of us and our diamonds.

Article from the Rapaport Magazine - February 2010. To subscribe click here.

THE GLOBE AND MAIL

GEMS

Canada to unveil diamond market

Brenda Bouw
VANCOUVER — From Thursday's Globe and Mail
Published Thursday, Jan. 28 2010, 12:00 AM EST
Last updated Thursday, Aug. 23 2012, 1:43 PM EDT

Canada is set to open its first official diamond trading marketplace in downtown Toronto, a move spurred by the rush in recent years to mine and market the homegrown stones both nationally and worldwide.

The Diamond Bourse of Canada opens Monday and will be the first forum of its kind in the country where both polished and rough stones will be bought and sold.

There are 28 diamond bourses in places such as Belgium, Israel and South Africa. The Canadian bourse will become the 29th on the international circuit, which is overseen by the World Federation of Diamond Bourses. Canada produces about 15 per cent of the world's annual rough diamonds.

"It's only logical for Canada to establish a full-fledged bourse," federation president Avi Paz stated yesterday. "While Canada's population is small compared to its huge southern neighbour, the country's jewellery industry and trade, as well as its consumer market, have been growing steadily."

Diamonds were first discovered in Canada in the Northwest Territories in 1991. Since then, Canada has grown to become the third-largest producer of gem-quality stones valuing about $2.4-billion in 2008. (Botswana and Russia are number one and two, respectively.)

The Canadian bourse will begin by trading polished diamonds, and expects to later move into the trade of rough diamonds. Currently, a small portion of Canadian rough production has been available for sale in the NWT, which hasn't been considered a top buying destination for diamond dealers. It's considered more cost effective to travel to places such as South Africa, where there's also a wider selection.

Colleen Peyer, general manager at the Diamond Bourse of Canada, said the bourse is expected to change that, and will provide a secure space for people to trade the stones. "We'd like to see all Canadian diamonds traded on Canadian soil, rough and polished," she said.

To trade, you have to be a member of the bourse; there are now about 35 members. Only Canadian members can sell at the Canadian-based bourse, although any international members can buy there.

Bourse chairman Bhushan Vora, of diamond wholesaler Gemstar Inc., said the Canadian marketplace was a long-time coming. "This was one element in the industry was missing."

He said the Ontario government took the lead on the bourse project and matched the $140,000 in funds raised to help create the bourse.

Mr. Vora said the bourse will be self-financed through its $1,500 annual membership fees, as well as commissions on activities such as tenders, which are basically auctions for diamonds, and services such as storage and supplies.

THE GLOBE AND MAIL

DIAMONDS

Skilled immigrants staff Sudbury gem plant

Andy Hoffman
Globe and Mail Update
Published Wednesday, Oct. 14 2009, 8:00 PM EDT
Last updated Friday, Jan. 14 2011, 9:10 PM EST

On the eighth floor of a nondescript office building in downtown Sudbury, a group of highly skilled workers slice, score and sever millions of dollars worth of merchandise each day.

Most have been practising their trade for years and their work is destined for sale at some of the world's most exclusive retailers. But the exact location of the facility, the first of its kind in Ontario, is a secret, because of the nature of the goods - diamonds.

"We've been warned by the local police in Sudbury that there is a certain amount of biker activity. It's something we have to be aware of," said Dylan Dix, marketing director for Crossworks Manufacturing Ltd., which operates the factory.

The operation was envisaged as a job creation initiative by the Ontario government, part of its effort to spur new business and employment by positioning the province as a key link in the global diamond trade.

For now, though, all 27 workers at Ontario's only diamond polishing and cutting facility have had to be flown in from Vietnam.

In a city where the unemployment rate is 10 per cent, it's not that there's a shortage of available workers. But diamond polishing and cutting is a highly specialized skill that isn't learned overnight.

The Sudbury factory's production will all be labelled as Ontario diamonds, but staffing the new Sudbury facility with local workers is likely to take years, concedes Ron Gashinski, chief gemmologist of the diamond sector unit at Ontario's Ministry of Northern Development, Mining and Forestry.

"It's extremely difficult. You're not working on a $2 bolt here," he said. "Some diamonds will be worth thousands of dollars or tens and hundreds of thousands of dollars. The expertise required to do that takes quite a while to get."

The Vietnamese diamond cutters arrived in the Northern Ontario city in August. They are being housed at an apartment building leased by Crossworks, a privately held Vancouver company that specializes in processing rough diamonds for sale to the jewellery industry.

The workers have been quietly cutting and polishing diamonds sourced from De Beers Canada's Victor Mine near James Bay for about a month now.

About $25-million worth of diamonds sourced from the Victor mine are to be processed each year at the Sudbury diamond factory. As part of an agreement with the government of Ontario, the South African diamond giant agreed to make 10 per cent of Victor's annual production available to diamond cutting and polishing operations in the province.

Diamonds have been mined in Canada for more than a decade - first in the Northwest Territories and more recently in Ontario - but the vast majority of the production ends up being shipped to traditional diamond polishing and cutting centres such as India, Africa or Vietnam, where workers are paid far less than they would be in Canada. Ontario wants to be part of the "international diamond pipeline," processing and trading the stones as well as unearthing them.

Mr. Dix said Crossworks is able to cut and polish diamonds in a high-cost environment and still be profitable by working with more valuable stones.

"If your [polishing]cost is $100 on a $1,000 stone, it's 10 per cent. If it is $100 on a $10,000 stone, it's 1 per cent. In general, what we are polishing is a more expensive product, so we are willing to absorb the costs," he said.

In addition to operations in Namibia, Ho Chi Minh City and Vancouver, Crossworks operates a polishing facility in Yellowknife that processes diamonds from the Diavik and Snap Lake Mines. Currently, none of the 11 polishers at the Yellowknife factory are locals, and the staff have been drawn from Vietnam and Vancouver.

Crossworks expects to reach an agreement with a local college in Sudbury to develop and host a training course that will be used to eventually staff the new factory.

Despite the high unemployment rate, Sudbury Mayor John Rodriguez said his city has welcomed the new diamond factory and its Vietnamese workers.

"I know it will take time to train them properly. I do have the commitment that these folks that are here cutting and polishing are here to get the operation started. When our workers are trained, they will take up those jobs," Mr. Rodriguez said.

http://www.financialpost.com/related/topics/RCMP+issues+warning+diamonds/5231287/story.html

RCMP issues warning on diamonds

Stanley Tromp, Financial Post · Aug. 10, 2011

The RCMP has warned that Canada's fast-growing diamond industry is at serious risk for money laundering by organized crime and terrorists, according to a document released to the Financial Post under the Access to Information Act.

"The Canadian diamond industry remains largely unregulated," the partially censored report says, and leaves dealers vulnerable to money laundering and a law enforcement system ill-equipped to handle the problem.

"The RCMP can only enforce existing legislation," said RCMP Sergeant Julie Gagnon. "The trade in precious metals and stones is a self-regulated industry where instances of money laundering do occur."

She said an update to the 2009 Project SHYNE report by the RCMP's criminal intelligence branch is expected to be publicly released this fall.

Canada is the world's third largest producer of rough diamonds, and in the next decade its share will likely rise.

But in the global context, Canada is a reasonably new diamond net exporter, the report says, "with no tradition in policymaking or industry regulation."

The diamond exploration boom that began in the early 1990s in the far north is well known, but the secondary diamond industry is also expected to grow in Canada, leading to more cutting and polishing centres.

It is the immense profit potential in these secondary industries that could be lucrative for organized crime groups in Canada, the report adds.

There are 6,500 dealers of precious metals and stones in Canada's highly fragmented market. Unlike other industries with easy entrances, the jewellery business is often a family affair and fuelled by personal contacts, and as a result it is so much harder for police to access.

Diamond smuggling could be used to import or export criminal profits through airports because the items are so small, odourless, non-metallic and easily hidden (even within a person's body), and they are not considered "monetary instruments" in law.

A major problem is the "value manipulation" of diamonds. Dealers can alter the jewellery's price by falsifying documents, or by not declaring the nature of diamonds at the point of sale. As well, retailers now often buy more diamonds from underground markets than from legitimate

wholesale dealers, perhaps partly due to more jewellery store robberies across Canada, which has helped lead to "the growth of a parallel, illicit market among dealers."

Auction houses are at special risk from money launderers for three reasons, the report noted. First, auction houses are not covered under the rules of Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). In law, they are not considered to "purchase or sell" jewellery in the auction process, but are "mere intermediaries or agents" between buyers and sellers.

Second, at the largest auction houses, bidders can be sophisticated in knowing the true value of the jewellery, and they can be agents for the real buyer who wants anonymity. Third, jewellery pieces are often sold as a part of an entire lot, and the lot numbers are compiled in a catalogue that is distributed only to industry insiders.

Information on dealers' sales and clientele is "guarded with the utmost secrecy," the report stated.

Pierre Leblanc, president of Canadian Diamond Consultants Inc., said in an interview that the jewellery industry is so competitive, it is fair that such commercially sensitive information be guarded closely.

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NATIONAL POST

Financial Post

Peoples gets new parent

Armina Ligaya

Financial Post, Bloomberg News
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Two of the U.S.'s biggest diamond sellers - including the owner of Canada's Peoples Jewellery and Mappins - have agreed to a multi-million dollar marriage of convenience.

Signet Jewelers Ltd.'s acquisition of Zale Corp., a deal valued at US$1.4-billion including debt, is the latest sign of industry consolidation as chains and mom-and-pop shops increasingly battle online upstarts for customers.

The top two U.S. mid-priced jewellers announced Wednesday they have entered into an agreement in which Signet will acquire all of its smaller rival's issued and outstanding stock at US$21 in cash per share, a 41% premium over the closing price on the NYSE a day earlier.

With this acquisition Signet, the largest specialty retailer in the U.S. and the U.K., boosts its store locations from 1,900 to 3,600 and becomes the leading trinket retailer in Canada, said Mike Barnes, the chief executive and director of Signet Jewelers.

"We are not only number one in the U.S. and the U.K.; this acquisition will also make our newly combined company number one in Canada as well and it will allow us to continue building a platform for potential future geographic expansion," he said during a conference call Wednesday.

Investors seemed to like the pairing as Zale stock rose more than 40% to close at $20.92 on the New York Stock Exchange - impressive given that it hovered as low as $3.80 last March. Signet's stock rose 18% Wednesday.

The combined company will generate approximately US$6-billion in sales and more than US$700-million in EBITDA, and will have nearly 30,000 associates, Mr. Barnes said.

With Signet's jewellery brands Kay and Jared, which are leaders in the mid-priced and the upper-midpriced segments, the addition of Zale's equally mall-friendly brands "will help us maximize our midmarket success," he said.

The new company is also expected to see US$100-million in synergies by the third year of operation, in large part due to stronger buying power and cost improvements, Signet executives said on the conference call. The Zale brand will operate as a separate standalone division within Signet, led by Zale's chief executive Theo Killion.

This acquisition, subject to shareholder approval, would cap what has been a tumultuous run over the years for Zale, and Peoples Jewellery.

Peoples was founded in Toronto 1919 by the Gerstein family, which grew the business over the following decades into a chain of jewellery stores with as many as 280 locations by the 1980s.

In 1986, Peoples teamed up with Switzerland's Swarovski International to swing the junk-bond financed US$650-million purchase of Zale, which at the time was a firm more than five times its size. In 1989, the company later bought Gordon Jewelry Corp for US$311-million.

But after recession hit in the early 1990s, combined with high interest payments, Zale was pushed to the brink, filing for bankruptcy in 1992. In 1993, Peoples followed it down. In an odd twist, by 1999, a stronger, financially-healthier Zale bought Peoples Jewellery for US$115-million.

Many years later, consolidation in the jewellery industry at all price points continues, said David Wu, luxury goods analyst at Telsey Advisory Group in New York.

Hamilton, Bermuda-based Signet had previously discussed buying Zale but those talks ended in 2006 after Zale's board decided to stay independent, according to Bloomberg. After Zale saw slumping sales in recent years, it embarked on a multiyear restructuring which is "starting to bear fruit," said Mr. Wu, drawing a suitor.

Zale Corp.'s holiday sales results showed overall comparable store sales up 2%, with Zales' branded stores up 4.4% and Peoples performing strongly at 2%. Mappins, however, saw sales drop more than 6%.

In both Canada and the U.S., this sector of retail remains fragmented with independent retailers and momand-pop stores competing with the jewellery giants, but consolidation is increasing as chains look to benefit from economies of scale.

"Consolidation has been happening, but at a very slow pace," Mr. Wu. said. "This acquisition does speed up the pace."

The U.S. jewellery industry is also consolidating as stores face online challengers such as Blue Nile Inc., Ken Gassman, president of the Jewelry Industry Research Institute, told Bloomberg.

Mr. Wu said the deal potentially allows to roll out its brands north of the border and providing Zale with access to "best in class" management.

"It really gives Signet an entry way into the Canadian market," he said. "I wouldn't be surprised if Signet uses some of the real estate it currently has in Canada and potentially convert some of the underperforming Mappins stores into potentially a Kay store or a Jared store ... which I think would be very well-received."

aligaya@nationalpost.com

Scott Eells, Bloomberg News / Traffic passes in front of a Zale Corp. retail store in New York. Signet Jewelers Ltd., operator of the Kay and Jared brands, agreed to buy Zale Corp. for about US$1.4 billion, expanding its leadership as the largest jeweller in North America. The deal also affects the Peoples chain in Canada which is owned by Zales.; Scott Eells, Bloomberg News / Traffic passes in front of a Zale Corp. retail store in New York. Signet Jewelers Ltd., operator of the Kay and Jared brands, agreed to buy Zale Corp. for about US$1.4 billion, expanding its leadership as the largest jeweller in North America. The deal also affects the Peoples chain in Canada which is owned by Zales. [NTNP_20140220_All_but_Toronto_FP1_02_I001.jpg];

National Post

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Grant Thornton

Reporting Entity Sector Profiles: Securities Dealers Appendices

Prepared for FINTRAC | March 31, 2014

Appendix A: Industry statistics and reporting entity data

Securities Dealers Industry NAICS Codes

Code	Description
5231	Securities and commodity contracts intermediation and brokerage
52311	Investment banking and securities dealing US
523110	Investment banking and securities dealing US
52312	Securities brokerage US
523120	Securities brokerage US
52313	Commodity contracts dealing US
523130	Commodity contracts dealing US
52314	Commodity contracts brokerage US
523140	Commodity contracts brokerage US
5232	Securities and commodity exchanges
52321	Securities and commodity exchanges
523210	Securities and commodity exchanges
5239	Other financial investment activities
52391	Miscellaneous intermediation US
523910	Miscellaneous intermediation US
52392	Portfolio management US
523920	Portfolio management US
52393	Investment advice US
523930	Investment advice US
52399	All other financial investment activities US
523990	All other financial investment activities
6211	Security Brokers, Dealers, and Flotation Companies
6221	Commodity Contracts Brokers and Dealers
6282	Investment Advice

Securities Sealers SIC Codes

Code	Description
6211	Security Brokers, Dealers, and Flotation Companies
6221	Commodity Contracts Brokers and Dealers
6282	Investment Advice

Using NAICs codes, searches for statistical data on the Real Estate Industry sectors were carried out on Industry Canada's Canadian Industry Statistics (CIS) site.

Banking and Securities Dealing (NAICS 52311)

This industry comprises establishments primarily engaged in acting as principals (investors who buy or sell on their own account), generally on a spread basis, in originating, underwriting and/or distributing issues of securities of businesses, governments and institutions. Establishments primarily engaged in making markets (dealing or trading) in securities are included.

Number of establishments in Canada by type and region: December 2012
Inverstment Banking and Securities Dealing (NAICS 52311)

Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	134	263	397	15.7%
British Columbia	180	294	474	18.7%
Manitoba	18	45	63	2.5%
New Brunswick	20	16	36	1.4%
Newfoundland and Labrador	9	11	20	0.8%
Northwest Territories	1	1	2	0.1%
Nova Scotia	21	38	59	2.3%
Nunavut	0	1	1	0.0%
Ontario	407	681	1,088	43.0%
Prince Edward Island	6	6	12	0.5%
Quebec	131	175	306	12.1%
Saskatchewan	38	31	69	2.7%
Yukon Territory	1	1	2	0.1%
CANADA	966	1,563	2,529	100%
Percent Distribution	38.2%	61.8%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Inverstment Banking and Securities Dealing (NAICS52311)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	69	63	2	0
British Columbia	60	117	2	1
Manitoba	6	12	0	0
New Brunswick	8	12	0	0
Newfoundland and Labrador	2	7	0	0
Northwest Territories	0	1	0	0
Nova Scotia	5	16	0	0
Nunavut	0	0	0	0
Ontario	162	224	15	6
Prince Edward Island	1	4	1	0
Quebec	48	77	6	0
Saskatchewan	10	28	0	0
Yukon Territory	0	1	0	0
CANADA	371	562	26	7
Percent Distribution	38.4%	58.2%	2.7%	0.7%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Securities Brokerage (NAICS 52312)

This Canadian industry comprises establishments primarily engaged in buying or selling securities for others on a commission basis

Number of establishments in Canada by type and region: December 2012 Securities Brokerage (NAICS 52312)				
Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	107	64	171	10.6%
British Columbia	170	110	280	17.3%
Manitoba	43	17	60	3.7%
New Brunswick	15	8	23	1.4%
Newfoundland and Labrador	4	2	6	0.4%
Northwest Territories	1	0	1	0.1%
Nova Scotia	31	13	44	2.7%
Nunavut	0	0	0	0.0%
Ontario	430	268	698	43.1%
Prince Edward Island	6	2	8	0.5%
Quebec	131	144	275	17.0%
Saskatchewan	41	10	51	3.2%
Yukon Territory	2	0	2	0.1%
CANADA	981	638	1,619	100%
Percent Distribution	60.6%	39.4%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Securities Brokerage (NAICS52312)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	67	35	4	1
British Columbia	105	57	7	1
Manitoba	23	20	0	0
New Brunswick	9	6	0	0
Newfoundland and Labrador	3	1	0	0
Northwest Territories	1	0	0	0
Nova Scotia	19	12	0	0
Nunavut	0	0	0	0
Ontario	252	151	24	3
Prince Edward Island	3	3	0	0
Quebec	59	66	5	1
Saskatchewan	26	15	0	0
Yukon Territory	2	0	0	0
CANADA	569	366	40	6
Percent Distribution	58.0%	37.3%	4.1%	0.6%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Securities and Commodity Exchanges (NAICS 52321)

This industry comprises establishments primarily engaged in providing marketplaces and mechanisms for the purpose of facilitating the buying and selling of stocks, stock options, bonds or commodity contracts. The establishments in this industry do not buy, sell, own or set the prices of the traded securities and/or commoditie

Number of establishments in Canada by type and region: December 2012 Securities and Commodity Exchanges (NAICS 52321)				
Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	12	26	38	14.4%
British Columbia	15	43	58	22.1%
Manitoba	2	8	10	3.8%
New Brunswick	2	2	4	1.5%
Newfoundland and Labrador	2	0	2	0.8%
Northwest Territories	0	0	0	0.0%
Nova Scotia	2	4	6	2.3%
Nunavut	0	0	0	0.0%
Ontario	26	77	103	39.2%
Prince Edward Island	0	0	0	0.0%
Quebec	6	28	34	12.9%
Saskatchewan	1	7	8	3.0%
Yukon Territory	0	0	0	0.0%
CANADA	68	195	263	100%
Percent Distribution	25.9%	74.1%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Securities and Commodity Exchanges (NAICS52321)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	8	4	0	0
British Columbia	13	1	1	0
Manitoba	1	1	0	0
New Brunswick	2	0	0	0
Newfoundland and Labrador	0	2	0	0
Northwest Territories	0	0	0	0
Nova Scotia	1	1	0	0
Nunavut	0	0	0	0
Ontario	10	11	3	2
Prince Edward Island	0	0	0	0
Quebec	2	3	1	0
Saskatchewan	0	1	0	0
Yukon Territory	0	0	0	0
CANADA	37	24	5	2
Percent Distribution	54.4%	35.3%	7.4%	2.9%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Portfolio Management (NAICS 52392)

This Canadian industry comprises establishments primarily engaged in managing the portfolio assets of others on a fee or commission basis. These establishments have the authority to make investment decisions, with fees usually based on the size and/or overall performance of the portfolio. Examples of establishments in this industry are pension fund managers and mutual fund managers.

Number of establishments in Canada by type and region: December 2012 Portfolio Management (NAICS 52392)				
Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	362	1,585	1,947	10.3%
British Columbia	495	1,919	2,414	12.8%
Manitoba	113	436	549	2.9%
New Brunswick	33	186	219	1.2%
Newfoundland and Labrador	12	59	71	0.4%
Northwest Territories	11	12	23	0.1%
Nova Scotia	46	253	299	1.6%
Nunavut	1	2	3	0.0%
Ontario	1,168	6,059	7,227	38.4%
Prince Edward Island	6	31	37	0.2%
Quebec	627	5,044	5,671	30.1%
Saskatchewan	79	275	354	1.9%
Yukon Territory	1	15	16	0.1%
CANADA	2,954	15,876	18,830	100%
Percent Distribution	15.7%	84.3%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Portfolio Management (NAICS 52392)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	237	115	9	1
British Columbia	342	142	11	0
Manitoba	70	37	4	2
New Brunswick	21	10	2	0
Newfoundland and Labrador	9	3	0	0
Northwest Territories	2	8	1	0
Nova Scotia	30	15	1	0
Nunavut	1	0	0	0
Ontario	708	387	57	16
Prince Edward Island	4	2	0	0
Quebec	376	228	20	3
Saskatchewan	42	33	4	0
Yukon Territory	1	0	0	0
CANADA	1,843	980	109	22
Percent Distribution	62.4%	33.2%	3.7%	0.7%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Investment Advice (NAICS 52393)

This Canadian industry comprises establishments primarily engaged in providing investment advice to others on a fee basis, provided that they do not also have the authority to execute trades. Establishments in this industry may communicate their advice both directly to their clients and via printed or electronic media as part of a subscription service. Establishments providing financial planning advice, investment counseling and investment research are included. (e.g. financial investment advice services, customized, fees paid by clients, investment advice counselling services, customized, fees paid by clients.

Number of establishments in Canada by type and region: December 2012 Investment Advice (NAICS 52393)				
Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	297	1,057	1,354	16.7%
British Columbia	391	841	1,232	15.2%
Manitoba	92	127	219	2.7%
New Brunswick	47	46	93	1.1%
Newfoundland and Labrador	20	49	69	0.8%
Northwest Territories	0	5	5	0.1%
Nova Scotia	45	111	156	1.9%
Nunavut	0	0	0	0.0%
Ontario	1,190	2,503	3,693	45.5%
Prince Edward Island	2	18	20	0.2%
Quebec	342	697	1,039	12.8%
Saskatchewan	87	151	238	2.9%
Yukon Territory	3	3	6	0.1%
CANADA	2,516	5,608	8,124	100%
Percent Distribution	31.0%	69.0%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Investment Advice (NAICS52393)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	258	39	0	0
British Columbia	327	63	1	0
Manitoba	69	22	1	0
New Brunswick	39	8	0	0
Newfoundland and Labrador	14	6	0	0
Northwest Territories	0	0	0	0
Nova Scotia	36	9	0	0
Nunavut	0	0	0	0
Ontario	898	282	8	2
Prince Edward Island	2	0	0	0
Quebec	266	74	2	0
Saskatchewan	69	18	0	0
Yukon Territory	2	1	0	0
CANADA	1,980	522	12	2
Percent Distribution	78.7%	20.7%	0.5%	0.1%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Sic Code 6282 - Services Allied with the Exchange of Securities - Investment Advice

Province	Number of Establishments
Alberta	
British Columbia	1223
Manitoba	260
New Brunswick	104
Newfoundland and Labrador	62
Northwest Territories	5
Nova Scotia	176
Nunavut	1
Ontario	3485
Prince Edward Island	29
Quebec	1176
Saskatchewan	189
Yukon	4
Grand Total	7689

NAICS 52311 - Investment Banking and Securities Dealing

Province	Number of Establishments
Alberta	34
British Columbia	50
Manitoba	2
New Brunswick	3
Newfoundland and Labrador	1
Northwest Territories	1
Nova Scotia	2
Ontario	212
Quebec	40
Saskatchewan	7
Grand Total	352

NAICS 523130 - Commodity Contracts Dealing

Province	Number of Establishments
Alberta	26
British Columbia	90
Manitoba	9
New Brunswick	1
Nova Scotia	2
Ontario	147
Quebec	28
Saskatchewan	3
Grand Total	306

NAICS 523120 - Securities Brokerage

Province	Number of Establishments
Alberta	1
British Columbia	4
Ontario	11
Quebec	5
Saskatchewan	1
Grand Total	22

523140 – Commodity Contracts Brokerage

• Province	• Number of Establishments
Alberta	4
British Columbia	4
Manitoba	4
Ontario	10
Grand Total	22

523920 - Portfolio Management

• Province	• Number of Establishments
Alberta	2
British Columbia	11
Manitoba	1
Nova Scotia	2
Ontario	28
Quebec	6
Grand Total	50

NAICS - 52393 - Investment Advice

Province	Number of Establishments
Alberta	977
British Columbia	1,213
Manitoba	259
New Brunswick	105
Newfoundland and Labrador	62
Northwest Territories	5
Nova Scotia	174
Nunavut	1
Ontario	3,467
Prince Edward Island	29
Quebec	1,179
Saskatchewan	189
Yukon	4
Grand Total	7,664

SIC 6211 - Security Brokers, Dealers, and Flotation Companies

Province	Number of Establishments
Alberta	672
British Columbia	907
Manitoba	103
New Brunswick	64
Newfoundland and Labrador	34
Northwest Territories	2
Nova Scotia	146
Nunavut	1
Ontario	1,854
Prince Edward Island	14
Quebec	565
Saskatchewan	128
Yukon	6
Grand Total	4,496

SIC 6282 - Investment Advice

Province	Number of Establishments
Alberta	975
British Columbia	1,222
Manitoba	260
New Brunswick	104
Newfoundland and Labrador	62
Northwest Territories	5
Nova Scotia	176
Nunavut	1
Ontario	3,486
Prince Edward Island	29
Quebec	1,176
Saskatchewan	189
Yukon	4
(blank)	
Grand Total	7,689

SIC 6221 - Commodity Contracts Brokers and Dealers

Province	Number of Establishments
Alberta	4
British Columbia	5
Manitoba	5
Ontario	14
(blank)	
Grand Total	28

Gross domestic product (GDP) at basic prices, by North American Industry Classification System (NAICS) - (dollars x 1,000,000)

	Canada Annual GDP	Financial investment services, funds and other financial vehicles
2000	14,841,865	118,128
2001	15,050,832	128,749
2002	15,446,975	134,700
2003	15,774,145	140,616
2004	16,262,665	154,572
2005	16,751,040	167,604
2006	17,219,219	192,156
2007	17,600,292	204,528
2008	17,784,972	197,868
2009	17,259,612	180,444
2010	17,870,712	190,272
2011	18,360,060	194,544
2012	18,696,924	196,068
2013	19,065,087	211,074

Appendix B: Case examples and typologies

The enclosed articles have been sourced from; news media databases, books and the Internet, and provide specific examples of the risk factors identified in the report.

1. IIROC News Release - Personal Financial dealings and Outside Business Activities: IIROC Rule Changes Improve Transparency and Reduce Potential Conflicts, June 13, 2013.

2. IIROC News Release - In the Matter of Frederic Lavoie – Discipline Decision – Liability and Penalty – October 15, 2013.

3. IIROC News Release – In the Matter of James Charles Dennis – Penalty – June 29, 2011.

4. IIROC News Release – IIROC announces settlement agreement for Todd William Stefiuk, March 22, 2011.

5. IIROC News Release – In the Matter of Malcolm McKimm – Discipline, August 16, 2010.

6. IIROC News Release – In the Matter of Konstantine Dariotis and Alfonso Fiumidinisi – Settlement Accepted, February 13, 2012.

7. IIROC News Release – In the Matter of Malcolm Joseph McKimm – Settlement, September 8, 2010.

8. IIROC News Release – In the Matter of Acadian Securities Inc. – Settlement, January 29, 2009.

9. IIROC News Release – In the Matter of Stephane Rail – Discipline, July 22, 2008.

10. IIROC News Release – In the Matter of Sandy Joseph Bortolin – Discipline decision – Liability and Penalty, April 13, 2012.

11. OSC – In the Matter of Mrs Sciences Inc. (Formerly Morningside Capital Corp), Americo Derosa, Ronald Sherman, Edward Emmons, Ivan Cavric and Primequest Capital Corporation, February 2, 2011.

12. OSC – In the Matter of Firestar Capital Management Corp., Kamposse Financial Corp., Firestar Investment Management Group, Michael Civarella and Michael Mitton.

13. Reorganized crime; Our Mafia and Hells Angels have grown in a nice, co-operative Canadian way. Now, big-time crime is run so much like a business that the boundary between legit and crooked is beginning to blur. The Globe and Mail, September 26, 2008.

14. Vancouver promoter implicated in international bribery scandal; Naeem Tyab arranged $2-million payment to wife of Chadian ambassador, according to court document. Vancouver Sun, February 2, 2013.

15. Surry man banned for bogus gold scheme; Securities commission also issues cease-trade order against Bahamian firm. Vancouver Sun, May 24, 2012.

16. The Wild West of investing: The biggest financial market you've never heard of. Golden Girl Finance, April 2, 2012.

17. Welcome to Canada's exempt market: Exclusive, anything goes investments – but play at your own risk. Financial Post, June 15, 2013.

18. UANI condemns AGF for maintaining investments in fraudulent bonds that support illicit Hizballah and Iranian activities, Business Wire, September 11, 2012

19. Disgraced investment firm ordered to forfeit $15M, pay $750K penalty, Belleville Intelligencer, September 12, 2012.

20. Hearing underway in $400-milliion Ponzi scheme case. Calgary Herald, September 6, 2012.

21. Regulator for mutual fund dealers tries to stay relevant. The Globe and Mail, December 29, 2013.

22. Tougher advisors' standards up for debate. The Bottom Line, March 2014.

23. More consolidation as boutique investment dealers struggle to survive. Financial Post, January 27, 2014.

24. St. Albert man charged with fraud; Concrete Equities raised millions for Mexico condominium project. Edmonton Journal, January 23, 2014.

25. 'The wolf? He's still big and bad,' says one of 1,500 real-life fraud victims. Postmedia Breaking News, January 19, 2014.

26. TD Bank fined $5.2 million by Federal regulators. Dow Jones News Service, September 23, 2013.

27. Accused money launderer and admitted stock offender cross paths in Naramata; Erwin Speckert's B.C. company is listed as the owner of lakefront property, but Ingo Mueller and his wife live there and call it their own. Vancouver Sun, April 17, 2013.

28. FROG Genmed's Harris pleads not guilty in L.A. Canada Stockwatch, March 7, 2013.

29. Woman accused in $135-million scheme; Payday-loan operator had hundreds of investors in alleged Ponzi scam. Victoria Times Colonist, January 22, 2013.

30. Calgary men, companies face $54-million in sanctions for 'massive fraud'; ASC issues penalties in fraud case for Brost, Morice and Sorenson. The Globe and Mail, September 28, 2012.

31. Victoria 'wealth creation' firm closes doors after string of bad investment recommendations; President and owner of Wealth by Design, Denise Andison, now promoting fledgling recycling company. The Vancouver Sun, September 8, 2012.

32. Investment advisor found guilty of obstruction; Was fined for a similar crime in 2009. Montreal Gazette, August 14, 2012.

33. Canadian man charged in U.S. Ponzi scheme. Calgary Herald, April 18, 2012.

34. Four charged in $16m investment scheme; Hamilton and Halton residents invested in what police say were bogus companies; restitution ordered. The Hamilton Spectator, April 12, 2012.

35. Fraud isn't likely to disappear even with convictions. Victoria Times Colonist, March 29, 2012.

36. West Vancouver stock promoter languishes in Austrian jail; Aly Mawji has been in prison for 10 months awaiting outcome of multimillion-dollar manipulation charges. Vancouver Sun, March 29, 2012.

37. Securities fraud still largely undetected in Canada and the U.K. – CFA Institute study. Business Vancouver, September 3, 2013.

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Personal Financial Dealings and Outside Business Activities

IIROC Rule Changes Improve Transparency and Reduce Potential Conflicts

June 13, 2013 (Toronto, Ontario) – The Investment Industry Regulatory Organization of Canada (IIROC) today announced that firms will have six months to implement rule amendments relating to prohibited personal financial dealings and permissible outside business activities (Attachment A). IIROC's rule amendments take effect December 13, 2013, with the exception of trustee or executor type arrangements which must be compliant by June 13, 2014.

The amendments, approved by its recognizing regulators, codify IIROC's prior position by specifically prohibiting employees and Approved Persons of IIROC-regulated dealer firms from directly or indirectly engaging in personal financial dealings with clients. To achieve this, IIROC Dealer Member Rule 43 includes a general prohibition on engaging in personal financial dealings with clients and provides a non-exhaustive list of prohibited dealings.

The amendments to Dealer Member Rule 18.14 expand the scope of the current rules that apply to "other gainful occupations" to include all "outside business activities". Further, the rules clarify that a Registered Representative/Investment Representative must inform their IIROC-regulated firm of any outside business activity and obtain their firm's advance approval to engage in any such outside business activity.

The rule amendments follow extensive consultations with stakeholders over the past three years and are consistent with other IIROC initiatives designed to improve relationship disclosure, enhance transparency and reduce potential conflicts.

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IIROC is the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. Created in 2008 through the consolidation of the Investment Dealers Association of Canada and Market Regulation Services Inc., IIROC sets high quality regulatory and investment industry standards, protects investors and strengthens market integrity while maintaining efficient and competitive capital markets.

IIROC carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees and through setting and enforcing market integrity rules regarding trading activity on Canadian equity marketplaces.

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13-0258

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IN THE MATTER OF Frédéric Lavoie – Discipline Decision – Liability and Penalty

October 15, 2013 (Montréal, Québec) – Following a disciplinary hearing held on May 22, 2013, in Montréal, Québec, a Hearing Panel of the Investment Industry Regulatory Organization of Canada (IIROC) found Frédéric Lavoie liable for the following violations: failing to use due diligence to ensure that he had the necessary knowledge of the features and risks inherent in leveraged Exchange-Traded Funds before recommending such an investment to his clients, and failing to inform his employer that he was engaging in an outside business activity.

The Hearing Panel's decision, dated September 3, 2013, is available at http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=D89F615BAB214379AB9086C912205031&Language=en.

Specifically, the Hearing Panel ruled that Mr. Lavoie did commit the following violations:

(a) Between March 8, 2008 and March 2, 2009, Mr. Lavoie failed to use due diligence by neglecting to ensure that he had the necessary knowledge of the features and risks inherent in leveraged Exchange-Traded Funds before recommending such an investment to two of his clients, contrary to IIROC (formerly the IDA) Dealer Member Rule (By-Law) 1300.1(a);

(b) Between March 8, 2008 and March 2, 2009, Mr. Lavoie failed to use due diligence by neglecting to ensure that his investment recommendations in leveraged Exchange-Traded Funds constituted a suitable investment for two of his clients, given their

financial and personal circumstances and their investment objectives, contrary to IIROC (formerly the IDA) Dealer Member Rules (By-Law) 1300.1(a), (p) and (q); and

(c) Between January 20, 2006 and April 30, 2009, Mr. Lavoie engaged in an outside business activity without the knowledge of the IIROC Dealer Member with whom he was employed and without the latter's consent, contrary to IIROC (formerly the IDA) Dealer Member Rule (By-Law) 29.1.

The Hearing Panel imposed the following penalties on Mr. Lavoie:

(a) A fine in the amount of $45,000;

(b) A two-year suspension of approval in any capacity with an IIROC-regulated firm;

(c) Strict supervision for 12 months, with monthly reports from his employer, in the event of his re-approval with an IIROC-regulated firm; and

(d) Repeat and pass the Conduct and Practices Handbook Course within six months following his re-approval with an IIROC-regulated firm.

The Hearing Panel also ordered Mr. Lavoie to pay IIROC costs in the amount of $40,000.

Documents related to ongoing IIROC enforcement proceedings - including Reasons and Decisions of Hearing Panels - are posted on the IIROC website as they become available. Click here to search and access all IIROC enforcement documents.

IIROC formally initiated the investigation into Frédéric Lavoie's conduct in May 2011. The violations occurred when Mr. Lavoie was a Registered Representative with the Sainte-Foy branch of Laurentian Bank Securities Inc., an IIROC-regulated firm. Mr. Lavoie is no longer a registrant with an IIROC-regulated firm.

* * *

IIROC is the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. Created in 2008 through the consolidation of the Investment Dealers Association of Canada and Market Regulation Services Inc., IIROC sets high quality regulatory and investment industry standards, protects investors and strengthens market integrity while maintaining efficient and competitive capital markets.

IIROC carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees

and through setting and enforcing market integrity rules regarding trading activity on Canadian equity marketplaces.

IIROC investigates possible misconduct by its member firms and/or individual registrants. It can bring disciplinary proceedings which may result in penalties including fines, suspensions and permanent bans or terminations for individuals and firms.

All information about disciplinary proceedings relating to current and former member firms is available in the Enforcement section of the IIROC website. Background information regarding the qualifications and disciplinary history, if any, of advisors currently employed by IIROC-regulated firms is available free of charge through the IIROC *AdvisorReport* service. Information on how to make investment dealer, advisor or marketplace-related complaints is available by calling 1 877 442-4322.

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11-0197
June 29, 2011

IN THE MATTER OF James Charles Dennis – Penalty

Following a disciplinary hearing held on November 23 and 24, 2010, in Toronto, Ontario, a Hearing Panel of the Investment Industry Regulatory Organization of Canada (IIROC) found that James Charles Dennis was liable of engaging in conduct unbecoming a registered representative for failing to disclose certain outside business activities to his employer and its compliance staff.

The Hearing Panel's Decision and Reasons on Liability, dated January 21, 2011 are available at:
http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=90A402BBDA9E45B1A9958618F38880E6&Language=en

Specifically, the Hearing Panel found that the Respondent failed to disclose to his employer, IPC Securities Corp. certain outside business activities, contrary to IIROC Dealer Member Rule 29.1.

The penalty hearing was held on April 28, 2011. In its written decision, the Hearing Panel imposed the following penalties on Mr. Dennis:

1) The Respondent shall pay a fine in the amount of $321,855.14, which includes an amount of $291,855.14 representing a disgorgement of the net profit earned by the Respondent as a result of engaging in the outside business activity which was

not reported to his employer, as specified in the charges and a further amount of $30,000.00 to reinforce the importance of deterring conduct of this nature.

2) The Respondent shall be required to re-write and pass the examination based on IIROC Conduct and Practices Handbook Course as a condition of being re-engaged as a registered representative/approved person in a business regulated by IIROC.

3) The Respondent shall be subject to strict supervision by his employer for a period of one year from the date of being re-engaged as a registered representative/approved person in a business subject to the regulatory authority of IIROC.

4) The Respondent shall pay part of the costs incurred by IIROC in connection with this proceeding in the amount of $15,000.00.

The Hearing Panel's Decision and Reasons on Penalty, dated June 21, 2011 are available at:
http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=EA4A1C8B602145D6B78A24641F8A5195&Language=en

IIROC formally initiated the investigation into the Respondent's conduct in October 2008. The violations occurred when he was a Registered Representative with the Toronto branch of IPC Securities Corp., an IIROC regulated firm. The Respondent is no longer a registrant with an IIROC regulated firm.

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IIROC announces settlement agreement for Todd William Stefiuk

March 22, 2011 (Calgary, AB) – A Hearing Panel of the Investment Industry Regulatory Organization of Canada (IIROC) has accepted a Settlement Agreement, with sanctions, between IIROC staff and Todd William Stefiuk.

In the agreement, Mr. Stefiuk admits his failure to disclose certain outside business activities to his firm and his involvement with clients in what is called an off-book investment violated IIROC rules.

Mr. Stefiuk agrees to a $35,000 fine and to pay $5,000 in costs. Furthermore, as a condition of re-approval in any category, Mr. Stefiuk must successfully complete the Conduct and Practices Handbook examination, and be subject to strict supervision for one year.

Specifically, Mr. Stefiuk admits to conduct unbecoming or detrimental to the public interest, contrary to IIROC Rule 29.1, by:

- Failing to disclose to his firm his outside business activities in approximately eight corporations; and
- Facilitating and participating in the purchase and sale of securities on behalf of 42 investors, 37 of whom were his clients, in a private placement that was not done through his firm.

The violations occurred approximately between March 2006 and October 2008, when he was a Registered Representative with the Calgary branch of MGI Securities Inc., an IIROC-regulated firm. IIROC began its formal investigation into Mr. Stefiuk's conduct on February 19, 2009. He is no longer registered with an IIROC-regulated firm.

* * *

IIROC investigates possible misconduct by its member firms and/or individual registrants. It can bring disciplinary proceedings which may result in penalties including fines, suspensions and permanent bans or terminations for individuals and firms.

All information about disciplinary proceedings relating to current and former member firms is available in the Enforcement section of the IIROC website. Background information regarding the qualifications and disciplinary history, if any, of advisors currently employed by IIROC-regulated firms is available free of charge through the IIROC *AdvisorReport* service. Information on how to make investment dealer, advisor or marketplace-related complaints is available by calling 1.877.442.4322.

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IIROC carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees and through setting and enforcing market integrity rules regarding trading activity on Canadian equity marketplaces.

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10-0221
August 16, 2010

IN THE MATTER OF Malcolm McKimm – Discipline

SUMMARY

NOTICE is hereby given that a hearing, which was scheduled to commence on August 17, 2010 has been postponed and will be held before a Hearing Panel of the Investment Industry Regulatory Organization of Canada (IIROC), on August 19, 2010 at the Calgary TELUS Convention Centre, located at 120-9 Ave SE, Calgary, Alberta, at 10 a.m. or as soon thereafter as possible.

The hearing concerns matters for which the Respondent may be disciplined as a Regulated Person of IIROC pursuant to Part 10 of IIROC Dealer Member Rule 20. The substantive allegations against the Respondent are that from 2002 to 2007, he engaged in outside business activities without the prior knowledge or consent of his Member firm, contrary to IDA By-law 29.1 and Dealer Member Rule 29.1.

IIROC formally initiated the investigation into the Respondent's conduct on January 29, 2008. The violations occurred when the Respondent was a Registered Representative with the Red Deer, Alberta sub-branch of Wolverton Securities Ltd. The Respondent is not currently registered with an IIROC regulated firm.

The Hearing Panel's decision and reasons will be made available to the public.

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IN THE MATTER OF Konstantine Dariotis and Alfonso Fiumidinisi – Settlement Accepted

February 13, 2012 (Montreal, Quebec) - On January 25th, 2012, a Hearing Panel of the Investment Industry Regulatory Organization of Canada (IIROC) accepted a Settlement Agreement between IIROC staff and Mr. Konstantine Dariotis and Mr. Alfonso Fiumidinisi.

Mr. Dariotis and Mr. Fiumidinisi admitted that they engaged in outside business activities without proper disclosure and authorization from their employer.

Specifically, Mr. Dariotis and Mr. Fiumidinisi admitted to the following violation:

(a) During the approximate period between 1991 and 2005, Mr. Dariotis and Mr. Fiumidinisi engaged in outside business activities without proper disclosure and authorization from their Dealer Member employer by:

   a) referring individuals including clients of its Dealer Member employer to offshore banks;

   b) obtaining and acting upon trading authority over most of these offshore accounts; and

   c) facilitating these individuals to invest in offshore funds for which Mr. Dariotis and Mr. Fiumidinisi had an interest to earn fees and commissions.

   all of which is business conduct that is unbecoming or detrimental to the public interest, contrary to IDA By-law 29.1 (now Dealer Member Rule 29.1).

Pursuant to the Settlement Agreement, Mr. Dariotis and Mr. Fiumidinisi agreed to the following penalties:

(a) To pay to IIROC a total fine in the amount of $350,000; and

(b) To each be suspended from any registered capacity with IIROC for a period of 2 months, to be served consecutively;

Mr. Dariotis and Mr. Fiumidinisi also agreed to pay costs to IIROC in the amount of $50,000.

The Settlement Agreement and the panel's decision dated January 25th, 2012, are available at http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=78CE4D35727747B3B0C16F751D50F13A&Language=en. Documents related to ongoing IIROC enforcement proceedings – including Reasons and Decisions of Hearing Panels – are posted on the IIROC website as they become available. Click here to search and access all IIROC enforcement documents.

IIROC formally initiated the investigation into Mr. Dariotis and Mr. Fiumidinisi's conduct in November 2006. The conduct occurred when Mr. Dariotis and Mr. Fiumidinisi were Registered Representative with the Montréal branch of RBC Dominion Securities Inc., an IIROC-regulated firm. Mr. Dariotis and Mr. Fiumidinisi are now employed with CIBC World Markets Inc. an IIROC-regulated firm.

* * *

IIROC is the national self-regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. Created in 2008 through the consolidation of the Investment Dealers Association of Canada and Market Regulation Services Inc., IIROC sets high quality regulatory and investment industry standards, protects investors and strengthens market integrity while maintaining efficient and competitive capital markets.

IIROC carries out its regulatory responsibilities through setting and enforcing rules regarding the proficiency, business and financial conduct of dealer firms and their registered employees and through setting and enforcing market integrity rules regarding trading activity on Canadian equity marketplaces.

IIROC investigates possible misconduct by its member firms and/or individual registrants. It can bring disciplinary proceedings which may result in penalties including fines, suspensions, permanent bars, expulsion from membership, or termination of rights and privileges for individuals and firms.

All information about disciplinary proceedings relating to current and former member firms is available in the Enforcement section of the IIROC website. Background information regarding

the qualifications and disciplinary history, if any, of advisors currently employed by IIROC-regulated firms is available free of charge through the IIROC *AdvisorReport* service. Information on how to make investment dealer, advisor or marketplace-related complaints is available by calling 1.877.442.4322.

-30-

IIROC OCRCVM
Investment Industry Regulatory Organization of Canada
Organisme canadien de réglementation du commerce des valeurs mobilières

IIROC NOTICE

Enforcement Notice
Decision

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10-0240
September 8, 2010

IN THE MATTER OF Malcolm Joseph McKimm – Settlement

SUMMARY

On August 19, 2010, a Hearing Panel of the Investment Industry Regulatory Organization of Canada (IIROC) accepted a Settlement Agreement between IIROC Staff and Malcolm McKimm.

Mr. McKimm admitted that from 2002 to 2007 he conducted his business in a manner that is unbecoming or detrimental to the public interest contrary to IDA (now part of IIROC) Rules. Mr. McKimm agreed that he provided business advice and consultation to certain business acquaintances, friends and clients while, at times, receiving compensation for his services. All of this business activity was without the prior knowledge or consent of his Member firm employer.

Pursuant to the Settlement Agreement, Mr. McKimm agreed to a fine of $50,000 and payment of costs of $5,000.

In the agreement, Mr. McKimm admitted to the following misconduct:

From 2002 to 2007, inclusive, Mr. McKimm engaged in outside business activities without the prior knowledge or consent of his Member firm, contrary to IDA By-law 29.1 and Dealer Member Rule 29.1.

IIROC formally initiated the investigation into the Respondent's conduct on January 29, 2008. The violations occurred when the Respondent was a Registered Representative with the Red Deer, Alberta sub-branch of Wolverton Securities Ltd., an IDA regulated-firm. The Respondent is not currently registered with an IIROC-regulated firm.

The Hearing Panel issued its Reasons and Decision on August 30, 2010. The Settlement Agreement and the Hearing Panel's Decision and Reasons are available at

http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=611D01765DEC401994E604D798527967&Language=en

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IIROC NOTICE

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09-0025
January 28, 2009

IN THE MATTER OF Acadian Securities Inc. – Settlement

SUMMARY

On January 16, 2009, in Halifax, Nova Scotia, a Hearing Panel of the Investment Industry Regulatory Organization of Canada (IIROC) accepted a Settlement Agreement between IIROC Staff and Acadian Securities Inc. (the "Respondent"). Pursuant to the Settlement Agreement, the Respondent admitted that:

(a) From April 21, 1996, the Respondent failed to implement proper controls to ensure complete identification of any related or connected issuers and written monitoring of outside business activities of certain registered representatives, officers and directors, in compliance with IIROC Rules 29.1, 17.2, 17.2A and Regulation 200.1.

Pursuant to the Settlement Agreement, the Hearing Panel imposed the following penalty against the Respondent:

(a) The Respondent has engaged a Consultant, acceptable to IIROC, to review and evaluate the Respondent's policies and procedures and make recommendations to the Board of the Respondent. The Consultant has made a report to the Respondent and IIROC on the findings and the recommendations made to the Respondent's Board;

(b) The Respondent will pay a global fine in the amount of the $100,000; and

(c) The Respondent shall pay the full costs of engaging the Consultant, as described above in (a).

IIROC formally initiated the investigation into the Respondent's conduct on or about August 29, 2007. The violations occurred when the Respondent was a Member of the IDA. The Respondent is currently a Dealer Member of IIROC.

The Hearing Panel's Decision and Reasons is available at:
http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=59A72457D8984A26BB8B1DF2DCF67053&Language=en .

The Settlement Agreement is available at:
http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=D2309F03068A4A45B52EFD7A7A263C51&Language=en .

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Investment Industry Regulatory Organization of Canada
Organisme canadien de réglementation du commerce des valeurs mobilières

IIROC NOTICE

Enforcement Notice
Decision

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08-0043
July 22, 2008

IN THE MATTER OF STÉPHANE RAIL – DISCIPLINE

SUMMARY

Following a disciplinary hearing held on January 15, 16 and 18 and March 4, 5 and 6, 2008, in Montréal (Québec), a Hearing Panel of the Investment Dealers Association of Canada (IDA), by a majority decision, has found Stéphane Rail (the Respondent) guilty on Count 1 a) as alleged, namely that, in 2000, while employed as a Registered Representative of TD Securities Inc. (hereinafter, TD), he engaged in conduct unbecoming or detrimental to the public interest when he engaged in outside business activities without the consent and without the knowledge of his firm, by introducing one of his clients, HC, to another of his clients, LV, with the aim of facilitating the obtaining of a loan for LV, knowing that his firm had already determined that this loan was too risky and that such behaviour was not consistent with his responsibilities as a registered representative, contrary to Association By-law 29.1;

The Hearing Panel does not uphold Count 1 b), which alleged that Stéphane Rail engaged in conduct unbecoming or detrimental to the public interest, when he engaged in outside business activities without the consent and without the knowledge of his firm, by introducing the owners of P. Inc., PP, DP and RG, to his current client, LV, in order to propose a financial solution to benefit LV, for an amount of $1,000,000, without the consent and without the

knowledge of the firm and knowing that such behaviour was not consistent with his responsibilities as a registered representative.

The Hearing Panel has found Stéphane Rail guilty on counts 2 and 3 of the Notice of Hearing, as alleged, which read as follows:

2. In the year 2000, the Respondent, while employed with TD as a registered representative, made inappropriate use of personal and confidential information regarding two clients, HC and LV, by introducing them to one another in order to facilitate a financing project to benefit LV, thereby engaging in conduct unbecoming and detrimental to the public interest, contrary to IDA By-law 29.1;

3. On or about September 18, 2000, while employed with TD as a registered representative, the Respondent failed to use due diligence to make sure that the cheque made by P. Inc., dated September 14, 2000, in the amount of $333,000 and payable to COC, was properly invested in the account belonging to COC, thereby engaging in conduct unbecoming and detrimental to the public interest, contrary to IDA By-law 29.1;

When the hearing resumed on March 4, 2008, Stéphane Rail entered a guilty plea on counts 4, 5 and 6, acceptance of which plea has been confirmed by the decision of the Hearing Panel. These three counts read as follows:

4. In June and July 2000, the Respondent, while employed with TD as a registered representative, failed to use due diligence and engaged in conduct unbecoming and detrimental to the public interest, by creating an investors group, to which he belonged, for the purpose of investing over $150,000, when he knew or should have known, as a registered representative, that this stratagem constituted a means of illegally taking advantage of the provisions concerning the prospectus exemption stipulated in section 51 of the Québec Securities Act, contrary to IDA By-law 29.1;

5. On or about June 22, 2000, while employed with TD as a registered representative, the Respondent engaged in conduct unbecoming and contrary to the public interest, by depositing in a personal capacity an amount of $48,112 in the account of his client RS, for the purpose of making a private investment, contrary to IDA By-law 29.1;

6. On or about July 18, 2000, the Respondent, while employed with TD as a registered representative, engaged in conduct unbecoming and contrary to the public interest, by depositing in a personal capacity an amount of $35,000 in the account of his client RS, contrary to IDA By-law 29.1.

As for count 7, the Hearing Panel does not uphold Stéphane Rail's guilt. This count alleged that Mr. Rail, on or about October 30, 2000 and on or about March 1, 2001, while employed

as a registered representative with TD, engaged in conduct unbecoming and contrary to the public interest, when he used TD letterhead without the latter's consent and without its knowledge, allowing P. Inc. and its shareholders to believe that they were doing business with the firm, whereas it [P. Inc.] was never a client of the firm, contrary to IDA By-law 29.1.

The IDA had formally launched an investigation into the conduct of Stéphane Rail on June 22, 2005. The misconduct occurred while Stéphane Rail was employed as a registered representative at the Ste-Foy, Québec branch of TD Securities Inc. Since 2002, Mr. Rail has worked as a branch manager with Canaccord Capital Inc., suite 2940, 2600 Laurier Blvd., Ste-Foy, G1V 4M6.

The parties shall be summoned to a penalty hearing, on a date to be determined by the National Hearing Coordinator, in order to hear their representations regarding penalties. The decision and reasons of the Hearing Panel may be viewed at http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=B17C7EBCF6BE47C9B1FE4FDBB58EA177&Language=en.

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NOTICE / NEWS RELEASE

For immediate release

Enforcement Notice
Decision
12-0133

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IN THE MATTER OF Sandy Joseph Bortolin – Discipline decision – Liability and Penalty

April 13, 2012 (Toronto, Ontario) — Following a disciplinary hearing held February 28, 29 and March 1, 2012, a Hearing Panel of the Investment Industry Regulatory Organization of Canada (IIROC) found Sandy Joseph Bortolin liable for breach of IIROC Dealer Member Rule 29.1 in conducting undisclosed off-shore business activities, engaging in personal financial dealings with clients, facilitating suspicious transactions including insider trading and engaging in money laundering, and misleading IIROC staff in their investigation of his activities.

The panel's decision, dated March 15, 2012, is available at
http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=4304F2A18D06463F8394B283A403E2F2&Language=en
Documents related to ongoing IIROC enforcement proceedings – including Reasons and Decisions of Hearing Panels – are posted on the IIROC website as they become available. Click here to search and access all IIROC enforcement documents.

Specifically, the panel found Mr. Bortolin contravened IDA By-law 29.1 and IIROC Dealer Member Rule 29.1 by committing following violations:

From as early as 2003 and continuing until 2008, Mr. Bortolin:

(a) carried on outside business activities without the knowledge or approval of his member firm;
(b) engaged in personal financial dealings with his clients without the knowledge or approval of his member firm;
(c) facilitated suspicious transactions; and

(d) misled IIROC staff in their investigation of his activities, hampering the investigation.

The Hearing Panel imposed the following penalty on Mr. Bortolin:

(a) a permanent prohibition from registration with IIROC; and
(b) a $500,000 fine.

Mr. Bortolin is also required to pay costs in the amount of $100,000.

IIROC formally initiated the investigation into Mr. Bortolin's conduct in February 2009. The violations occurred when he was a Registered Representative with the Toronto branch of BMO Nesbitt Burns Inc., an IIROC-regulated firm. Mr. Bortolin is no longer a registrant with an IIROC-regulated firm.

* * *

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Ontario Securities Commission | Commission des valeurs mobilières de l'Ontario | P.O. Box 55, 19th Floor, 20 Queen Street West, Toronto ON M5H 3S8 | CP 55, 19e étage, 20, rue queen ouest, Toronto ON M5H 3S8

IN THE MATTER OF THE *SECURITIES ACT*
R.S.O. 1990, c.S.5, AS AMENDED

- AND -

IN THE MATTER OF
MRS SCIENCES INC. (FORMERLY MORNINGSIDE CAPITAL CORP.), AMERICO DEROSA, RONALD SHERMAN, EDWARD EMMONS, IVAN CAVRIC AND PRIMEQUEST CAPITAL CORPORATION

REASONS AND DECISION

Hearing:	May 7, 8, 11 and 13, 2009 June 10, 11, 12, 22 and 26, 2009 September 3 and 4, 2009 October 7, 2009	
Decision:	February 2, 2011	
Panel:	Patrick J. LeSage, Q.C. Carol S. Perry	- Commissioner (Chair of the Panel) - Commissioner
Counsel:	Derek Ferris	- for Staff of the Ontario Securities Commission
	Peter-Paul DuVernet	- for MRS Sciences Inc., Americo DeRosa, Ronald Sherman, Edward Emmons, Ivan Cavric, and Primequest Capital Corporation

**IN THE MATTER OF THE SECURITIES ACT,
R.S.O. 1990, c. S.5, AS AMENDED**

- and -

**IN THE MATTER OF
FIRESTAR CAPITAL MANAGEMENT CORP.,
KAMPOSSE FINANCIAL CORP., FIRESTAR INVESTMENT MANAGEMENT
GROUP, MICHAEL CIAVARELLA AND MICHAEL MITTON**

STATEMENT OF ALLEGATIONS
OF STAFF OF THE ONTARIO SECURITIES COMMISSION

Staff of the Ontario Securities Commission make the following allegations:

The Respondents

1. Michael Ciavarella is an individual who resides in the Province of Ontario.

2. Michael Mitton is an individual who resides in British Columbia and/or Ontario. Mitton has been convicted of at least 103 counts of fraud, many of which have involved securities fraud. Mitton and his wife, Janet Mitton, are currently subject to a 20 year cease trade order in British Columbia.

3. Kamposse Financial Corp. ("Kamposse") is a corporation incorporated in Ontario with its head office in Richmond Hill, Ontario.

globeandmail.com

Reorganized crime; Our Mafia and Hells Angels have grown in a nice, co- operative Canadian way. Now, big-time crime is run so much like a business that the boundary between legit and crooked is beginning to blur

globeandmail.com
Fri Sep 26 2008, 6:00am ET
Section: Business
Byline: Bruce Livesey

John Xanthoudakis's introduction to the intimate connection between conventional business and criminal business came in the form of brass knuckles. Late on a Friday afternoon in November, 2005, the investment banker arrived at a law office in Place Ville Marie in downtown Montreal. Xanthoudakis was the former CEO of a $1-billion hedge-fund firm, Norshield Financial Group. It was a dire time for Xanthoudakis: Norshield had collapsed a few months earlier, with more than $400 million of investors' money lost. Even his own palatial house in Laval had been seized.

Xanthoudakis had come to the law firm for a meeting with some investors, who turned out to be three lieutenants of Montreal's notorious Rizzuto crime family. The three men got down to business quickly, demanding Xanthoudakis make good on the $5 million the Rizzutos had apparently lost in Norshield's meltdown.

"We represent a group of people who aren't very happy," the largest of the men told Xanthoudakis. "As a matter of fact, they are very unhappy and their unhappiness makes me very, very unhappy."

To drive home the point, "one guy sneaked behind John and whacked him," relates Montreal businessman William Urseth, a friend of Xanthoudakis's. "There was blood all over the room." The brass knuckles snagged Xanthoudakis just above his right eye, leaving a gash.

There was nothing complicated in the assault-the Rizzutos simply wanted their money back. The incident is unusual only in that it has become public. Countless points of contact exist between the legitimate business world and organized crime. "If you look closely, you will see there are distinctions in the underworld that reflect crudely the distinctions in the upper world," says Diego Gambetta, an Oxford University sociologist and expert on the Mafia. "[The Mafia]wouldn't have lasted 150 years if they had been just a gang of extortionists. They served the interests of various portions of the business world."

The pattern is reflected in the case of the Rizzutos. Led by Nicolò Rizzuto and his son Vito-with Vito acting as CEO and front man, and his father and a close-knit group of top lieutenants functioning as senior management-this crime family began infiltrating the business community decades ago. "These are guys who think globally and make full use of global financial markets," says Lee Lamothe, a Toronto journalist who co-authored a book on the Rizzutos, The Sixth Family. "They use lawyers and sharp accountants, and weaknesses in stock market regulation, and are able to get the money they need to do deals." Today, the Rizzuto leadership is mostly behind bars. Sixty-two-year-old Vito is languishing in a prison in Colorado for participating in the 1981 gangland slaying of three fellow mobsters, while his 84-year-old father and 90 of their street bosses and soldiers were swept up two years ago in an RCMP-led crackdown called Projet Colisée. Facing roughly 1,000 charges for drug importing, extortion, gangsterism and bookmaking, the Rizzuto gang are slated to go to trial this fall.

The trial, if it proceeds, will inevitably underline how organized crime can simply be commerce of a different hue, involving the same sorts of challenges with personnel and competition that legitimate businesses face. Carlo Morselli, a criminologist at the Université de Montréal, believes that successful gangsters require exceptional business skills. They work on a tightrope of alternately competing against, and working with, their rivals, while agreeing to deals that can't be enforced by law. Not to mention risking everything at the hands of the police. "The only difference between them and real businessmen is there's no room for error," says Pierre Boucher, a lieutenant with the Sûreté du Québec who has investigated organized crime for many years. Actually, there's one other difference. "You can kill your competition."

More important than the resemblance between the two spheres is the way the border between the two is blurring. While dollar sums are impossible to compile, police sources and other evidence suggest organized crime is growing in Canada, and increasingly bleeding into the legitimate economy. The old stereotypes of greasy goombahs and bikers is being supplanted by profit-minded professionals with top legal help. And Canada, with its porous borders, proximity to the U.S. market, and light sentences for criminal activity, is considered by police to be a haven for organized crime.

Internationally, annual revenues generated by organized crime exceed $800 billion (U.S.)-up dramatically from $595 billion (U.S.) in 2001-according to estimates by Friedrich Schneider, an economist at the Johannes Kepler University of Linz in Austria. Estimates of the portion of the GDP controlled by organized crime reach as high as 13.1% in Italy and, startlingly, 11% in the U.S. As for Canada, the International Monetary Fund suggests that money laundering alone accounts for between 2% to 5% of GDP-or somewhere between $30 billion and $77 billion. Nationwide narcotics sales may be as high as $40 billion a year-as much as our domestic mining production-or even higher. In B.C. , as much as 5% of GDP is estimated to stem from marijuana production.

So why is organized crime prospering? "It's because of income distribution" and the potential for easy money, says Schneider, who observes that the growing chasm between rich and poor is driving the world's indigent toward crime out of necessity. In countries like Colombia, Mexico, Russia, Brazil and Italy, criminal syndicates and drug cartels control swaths of both the real economy and the state, creating, in extreme cases like Colombia, anarchic narco-nations.

Another factor may be the celebration of bikers and mobsters in North American popular culture. Canada, however, is different from the U.S. Our criminals are often less inclined to violence, and more toward co-operation with their rivals.

Money made in the criminal milieu travels various paths. But the general pattern in narcotics-the bedrock criminal commodity-begins with importers, who supply networks of distributors. The money earned by the importers and retailers then flows to bankers and lawyers who launder the loot in the mainstream economy.

The Rizzuto organization extends across Canada, into the U.S. and as afar afield as Latin America, Italy and the banking havens of Switzerland and Liechtenstein. "These guys are so sophisticated it's unfuckingbelievable!" exclaims Salvatore (Big Sal) Miciotta, a former capo and hitman with the Colombos, one of New York's five Mafia families. "Because you're talking about big, big, gigantic money here..They have the gross income of small countries. They are able to sway bond markets, that's how big they are."

While Miciotta may be exaggerating their wealth and ability to influence markets, it's undeniable the Rizzutos created an awe-inducing cash machine. Police say their bookmaking operations in Montreal, Toronto and Ottawa alone did from $500 million to $1 billion in business in one 11-month period in 2005. And that, of course, is only a sideline to the narcotics business. The family is so affluent that Italian authorities claim that in 2005 the Rizzutos were assembling a consortium for the purpose of laundering money via a $7-billion bridge that was to join Sicily to mainland Italy (the money would likely have been laundered through construction companies).

"Vito was involved in everything," says André Cedilot, a veteran journalist at La Presse in Montreal who has followed the Rizzutos' fortunes for years. "He's a co-ordinator, a referee..He received a commission for everything."

Before his incarceration, Vito Rizzuto's days were spent doing what other businessmen do-taking meetings. He tended to get up late at his Tudor-style mansion located on "Mafia row," a secluded street on the north side of the Island of Montreal. It was grand accommodation for someone who was registered for a time as an employee of a funeral home, and later on as a vice-president of a construction company that had sales of all of $34,032 in 2003. Vito's father, Nicolò, who lived two doors down, was officially a pensioner living off $26,574 worth of old-age security and investment income, although he had a condominium in Milan, $5.2 million in Swiss bank accounts, an estimated $1.8 million in blue-chip stocks, and a 1987 Jaguar XJ12 and a 2001 Mercedes E430 in his driveway.

Upon leaving home, Vito would always be on the move (he maintained a Lincoln, a Mercedes-Benz, a Jaguar and more than one Corvette). Often he headed to one of the better golf courses in the area to meet colleagues. Otherwise, he visited cafés, restaurants, nightclubs and bars. A favourite spot was the quiet corner of a raucous nightclub. Vito spoke to people individually, mouths pressed close to ears, his bodyguard Lorenzo Giordano keeping watch on who was coming and going.

These meetings had many purposes, but importing drugs was the key one. A typical deal might involve ordering a

shipment of cocaine into Canada through Rizzuto's Colombian contacts. "He was the only one who had those type of connections," says Normand Brisebois, a former debt collector and the bodyguard of one of Vito's mistresses. Rizzuto might meet with members of the West End Gang-which controlled the passage of drugs through Montreal's port-or the Hells Angels, to see if they were interested in investing in his shipment. "They would make a joint venture," says Cédilot.

A document filed in court describes how the business allegedly worked. Once an order was made, the drugs would be sent from Colombia to a country like Haiti or Jamaica. From there, the Rizzutos would arrange importation via the Pierre Elliott Trudeau International Airport in Montreal. At each point in the process, the legitimate economy had to be twisted to the drug trade's purposes. The Rizzutos' contacts in Jamaica would hide the drugs in containers or baggage with secret compartments, or in the ceilings of planes. Or couriers would bring it in for $500 per kilo. Having corrupted airline employees, baggage handlers, customs officials and staff of transport companies working at the Montreal airport, the Rizzutos knew drugs would arrive and be delivered safely.

Like mainstream business, crime is globalized. Central to their success as importers were the Rizzutos' international connections. They worked with both the Sicilian and Calabrian Mafias, the Caruana-Cuntrera crime syndicate (which branched out from Sicily to Canada and South America), Colombian drug cartels and the five Mafia families of New York, in particular the Bonannos and Gambinos. These relationships were exposed last October when Italian authorities announced they'd uncovered a money-laundering and drug-smuggling scheme involving a Rome-based company called Made in Italy Inc. Ostensibly a company that was promoting Italian wares internationally, Made in Italy was headquartered across the Rome street from where the Italian cabinet meets; the head of the company had political ambitions. The Italian police claim Made in Italy is a front for laundering $600 million in drug profits through Swiss bank accounts. Vito Rizzuto was caught on wiretaps from his U.S. prison cell talking to the head of Made in Italy, which was shipping cocaine from Venezuela to Canada and then on to Italy. In total, 19 people, including bankers, stockbrokers and other businesspeople who helped with laundering cash, were arrested. Two bank workers in the Veneto area in northern Italy were allegedly responsible for depositing huge quantities of drug money into two Swiss bank accounts.

As the case of Norshield showed, the Rizzutos' contacts in the business world were widespread.

> In the '80s, Vito controlled Penway Explorers Ltd., a junior resource company listed on the Alberta Stock Exchange that was used in a pump-and-dump scam. Vito was forced to pay a hefty tax bill on his profits of $1.4 million from Penway.

> When Vito was arrested for impaired driving in 2002, he was behind the wheel of a Jeep Grand Cherokee that belonged to the director of the Quebec division of OMG Media Inc. OMG was an Ontario garbage recycling company that, after extensive lobbying, landed a contract with Toronto city council to place advertising-laden recycling bins on city streets.

> Police have tied Rizzuto associates to Financement Malts Inc., a Laval- based loan and mortgage company that police say was the centre of a money laundering web. Police allege that Rizzuto associate Francesco del Balso funnelled money through nine Montreal-area companies, including sports bars, car leasing companies and two supermarkets. A lawyer who represented Malts also sits on the municipality of Laval's executive committee.

Vito Rizzuto's style of business was a striking contrast to flamboyant American mobsters like John Gotti. Rizzuto stayed at the top of Canada's criminal underworld by keeping a low profile, working only with trusted people close to the family, and spreading the wealth around. In the end, he was brought down not by the cleverness of Canadian law enforcement but by the treachery of his American brethren. A leader in the Bonanno family told the FBI that Rizzuto was one of the shooters in the murder of three Bonanno capos in 1981. Vito is now serving a 10-year sentence in an American prison. Still, in spite of Projet Colisée and other setbacks, the clan's enterprises continue to prosper. Says former Colombo hitman Miciotta: "Right now they are in transition mode, to hand it over to a successor, maybe a distant relative-people they feel they can trust."

For importers like the Rizzutos to be successful, they need competent distributors. And no one runs a better network than the Hells Angels, whose Canadian arm has perfected the art of criminal franchising.

Walter Stadnick was a David among the hirsute Goliaths who make up the Hells Angels. Just 5 feet 4 inches tall, "Nurget" rose through the ranks to become the genius behind the Hells Angels' spectacular growth in Canada.

When Stadnick joined the Hells Angels in 1982, the motorcycle gang had just two chapters in Quebec and fewer

than 30 full-patch members. By the time Stadnick was arrested in 2001 for murder and drug trafficking, the organization had metastasized into 36 chapters across Canada and nearly 500 full-patch members. "Stadnick's legacy is a coast-to-coast empire of crime," says Julian Sher, co-author of two books on the gang. The Hells Angels, who boast chapters in 29 countries and 2,500 members globally, have long embraced a franchising model. The leadership meets regularly to discuss how the chain can be expanded.

In Canada, Stadnick was responsible for turning the Hells Angels from a bunch of violent party boys into one of the richest, most powerful and wiliest organized crime groups in North America. The decentralized network of chapters was designed not only to market narcotics but to withstand police efforts to drive them out of business. The long-time head of the organization in Quebec was Maurice (Mom) Boucher. "Mom Boucher was the thug, the Al Capone who was going to barrel his way to the top by shooting people and prison guards," says Sher. "But Stadnick was the one who also had the business plan. Stadnick was the CEO."

Founded in San Bernardino, California, in 1948 as an outlet for war vets seeking thrills, the Hells Angels were originally all about having a good time and occasionally breaking bones for mobsters. But by the '60s, the Hells Angels had discovered the lucrative business of selling drugs to hippies.

The first Hells Angels chapter in Canada was established in Montreal in 1977. In those days, the bikers seemed more interested in killing each other than in building a criminal enterprise. "It was disorganized crime-they made money for themselves in an often clumsy way," says Jerry Langton, author of a 2006 biography of Stadnick, Fallen Angel.

Growing up in Hamilton, Stadnick was a cunning and ambitious youth who became a small-time drug dealer in high school before forming his own short- lived motorcycle gang. Rejected by the local Satan's Choice chapter, he rode to Montreal and showed up at one of the city's two Hells Angels clubs in 1982. Although he did not speak the language of the francophone clubs, he was immediately accepted as a prospect.

Three years later, the Hells Angels' Sorel club president decided to wipe out five members of the Laval chapter who were snorting more cocaine than they were selling. This massacre marked a turning point for the Hells Angels in this country. "The Hells Angels had divided," says Langton. "There were the guys who wanted to have a good time, make a few bucks if possible, get drunk and kick up shit, and there were the new ones who wanted to make money. These were the guys with short hair who didn't have big bellies and some of them didn't even have motorcycles."

Stadnick and Boucher exemplfied this new breed of business-oriented Hells Angel. "[Stadnick]is part of that key cocaine industry that turns the Hells Angels from basically gofer boys of the Mafia into powerbrokers who are sitting down with the Mafia and negotiating the price of cocaine," explains Sher.

In fact, a Hells Angels chapter is a perfect entrepreneurial franchise for criminality. Each autonomous chapter is led by a president who presides over an executive and a collection of usually about 20 full-patch members. No chapter answers to any other-which means that if the police raid one club, the others keep on functioning. A full-patch member is akin to a "made man" in the Mafia- there are many who aspire but only a few who are chosen. They are basically self-employed businessmen, their value to the chapter rooted in their ability to earn money, says the Sûreté du Québec's Pierre Boucher. While full-patch members are entrepreneurs, they "are working toward a main goal collectively," explains Boucher. All full-patch members give a small portion of their profits to the chapter.

A full-patch member runs his own little empire. "Each Hells Angels member can represent 100 people below him," says Boucher. They have access to puppet clubs-less powerful bikers who do the bidding of the Hells Angels, selling and distributing drugs, running strip bars and prostitution rings, and acting as enforcers. Managing all this keeps the Angels busy. "They start their day with meetings and end their day with meetings and go from one meeting to another," says Boucher.

The Hells Angels have long claimed they are a mere motorcycle club. They market their logo on everything from T-shirts and leather jackets to knickknacks. Their members also own real estate, play the stock market and run legitimate companies. In B.C., for example, leading members of the Hells Angels have owned motorcycle stores, apartment buildings, supermarkets, cafés, construction and waste disposal companies, and cellphone and clothing stores. Then there are the businesses that are legal but seamy. Starnet Communications, a B.C. company run by the Hells Angels during the '90s, became a multimillion- dollar porn and online gambling operation. It got start-up funds via a $2.2- million private placement, and at one point was valued at $900 million on paper. Not surprisingly, members of the gang's provincial leadership live in mansions in some of Vancouver's swankier neighbourhoods. Here and elsewhere, the Angels are as intimate with the mainstream Canadian economy as former biker chick Julie Couillard was with the federal cabinet.

When Stadnick became national president in 1988, his plan was to establish chapters across Canada. The Hells Angels had a burgeoning presence in Quebec, Halifax and B.C., but were completely cut out of Ontario and the Prairies, which were controlled by rival biker gangs. Ontario, with its rich drug market, was especially critical for the Angels. Two approaches were available to Stadnick. He could kill his competitors, or woo them. While the Hells Angels in the U.S. and other parts of the world often wipe out rival gangs-a tendency that was shared by Mom Boucher in Quebec-Stadnick chose a Canadian approach: diplomacy. In Ontario, Stadnick's first effort was to persuade the dominant Outlaws and Satan's Choice gangs to join the Angels. He tried to do the same in Winnipeg, an important distribution hub for drugs. "An informant told me that if he could boil down Walter's philosophy to one sentence, it would be: 'He would rather buy his rival a drink than kick his head in.'" says Langton.

Rebuffed, Stadnick got innovative: In Manitoba, he formed the Redliners club in 1995 to compete with the entrenched Los Brovos and Spartans clubs. Two years later, he was victorious; Stadnick merged the Redliners with Los Brovos and the Spartans to form a Hells Angels chapter. By then, he'd already conquered Alberta, where the Angels had been warmly welcomed.

Ontario proved more difficult. Finally, Stadnick had an epiphany. He knew that full-patch members of the Outlaws and Satan's Choice did not relish the prospect of being reduced to junior status if they joined the Hells Angels. They didn't see the point of getting onside. Stadnick's solution was simple: All full-patch members of those clubs would automatically become full-patch members of the Hells Angels. Thus, 179 members of the Outlaws, Para-Dice Riders, Satan's Choice, Lobos, Last Chance and Rock Machine were "patched over" in just one day in December of 2000, giving Stadnick his lock on Ontario. The power and prestige of the Hells Angels brand was part of the appeal to the lower-profile clubs. "If you can't beat them, buy them," says Sher. "That's exactly what he did..It was a brilliant strategy." Stadnick also helped create a narcotics pipeline to feed his growing network of franchises. As the Hells Angels became established in Quebec, they occupied the mid-level drug distribution tier just below the Mafia. Led by Mom Boucher, they aggressively sought more turf in the cocaine market, leading to a war with the rival Rock Machine biker gang that took more than 160 lives.

The Hells Angels created a new corporate structure to profit from and manage their exploding drug business. In 1994, they founded the Nomads, a superchapter that was not bound by territory. "In Quebec, the Nomads were just the toughest and meanest and most powerful," says Sher. An elite circle of five Nomads, called La Table, set prices and managed the drug trade. "Stadnick and his partners were able to build a pyramid structure that put the Nomads on top of all the other clubs," says Sher, "which you don't see anywhere else. And La Table was a powerful clique, which is why they amassed such huge fortunes."

The Nomads ordered cocaine and hashish shipments and then demanded that all Hells Angels clubs in Quebec buy product only from them. In 2000, La Table had so much clout that it arranged a meeting with Vito Rizzuto at a Montreal restaurant to set the price of a kilo of cocaine at $50,000 and divide up the city's market.

Police got an inkling of just how much money the Nomads were making when, in 2000, they discovered the gang had set up their own bank in a series of apartments in Montreal. Here, cash from drug deals was delivered, counted and stored. Records from the bank show that between March 30, 1999, and December 19, 2000, the Nomads sold $111.5 million worth of cocaine and hashish. Stadnick and one of his Hells Angels buddies had an account code-named "Gertrude," through which the two men bought 267 kilos of cocaine and 173 kilos of hashish from the Nomads, worth $11.1 million, during an 11-month period. Police estimate the duo's profits were between $2 million and $3 million.

But Stadnick's days at the top were coming to an end. Just as his plan for a national chain was realized, he was arrested in March, 2001, as part of Operation Printemps, which took down the Quebec leadership of the Hells Angels. He was charged with drug trafficking and conspiring to commit more than a dozen murders, eventually receiving a 20-year sentence, less double time served.

His network remains very much intact. "Part of Walter's genius is he went to parts of Canada where the Mafia didn't exist," observes Langton. "There is no Mafia in Thunder Bay-but there are bikers. Same as Saskatoon and North Battleford. And you know what? People there want drugs, too."

As criminal organizations like the Hells Angels have grown more skilled at making mountains of money, they increasingly need the services of bankers, accountants and lawyers to help launder their ill-gotten gains. Given the sums involved, they never lack for willing recruits.

Cal Broeker is a gregarious American, a bear of a man with a profane patter that served him well when he infiltrated the criminal netherworld as an undercover operative for the RCMP and the U.S. Secret Service. In 1997, Broeker

began getting close to the Rizzutos, claiming to be a money launderer with ties to Eastern European banks. He once had coffee with Vito Rizzuto in a restaurant in Montreal's Little Italy to talk business. "They wanted me to handle the money laundering for the Hells Angels," recalls Broeker. "The Hells were using [the Rizzutos]to launder their cash. The volume was huge. I had an airtight plan located out of Bulgaria....These guys were freaking over it. The Rizzutos offered me all of the money laundering for the Hells."

The deal never happened, but Broeker gained insight into the white-collar end of organized crime. "When we say 'Mafia,' you think of so many images-least of them is a bank manager with a plastic penholder and round glasses and a short haircut," he says. "But he is as lethal as any enforcer or hitman as far as what he can accomplish for the gangs."

Broeker says the Rizzutos laundered money through an extensive network that one of the family's enforcers told him even included one of the Big Three auto companies in Detroit, thanks to a corrupt contact. "They would send cash along with a false invoice to this contact in Detroit who would put the money through one of the company's divisions," explains Broeker. "In turn, the contact would issue a cheque to the Rizzutos, claiming the payment was for something like car parts when, in fact, it was for this dirty money needing laundering."

Criminals can take a variety of routes into the financial system. The white- collar professionals they employ include lawyers, accountants, stockbrokers, insurance agents, real estate agents and staff at financial institutions and car dealerships. "Within the criminal milieu, money laundering has taken on a life of its own and has become an integral component in the operations of criminal organizations," York University criminologist Margaret Beare has written. "A distinct criminal career has opened up to provide laundering services."

Police forces say Canada is a haven for money laundering, thanks in part to a crazy-quilt regulatory system and a banking industry whose priorities are elsewhere. Take the case of the 'Ndrangheta, the powerful Mafia from Calabria that has annual revenues estimated at $68 billion. Italian magistrates, like Alberto Cisterna of the Anti-Mafia Directorate, say the 'Ndrangheta launders drug profits through Canadian banks and companies (as well as through restaurants, franchises and travel agencies), and even pays for its cocaine shipments from Colombia via its Canadian division. Yet few Canadians have ever heard of the 'Ndrangheta.

Not long ago, money laundering simply involved corrupting a few bank branch officers. In the '80s, the police found that the Rizzuto and Caruana-Cuntrera families laundered at least $35 million (U.S.) through Montreal's City and District Savings Bank (now Laurentian Bank of Canada) and two other financial institutions in exactly this fashion. But this method is no longer as viable, given laws governing the deposit of large amounts of paper money in banks.

The launderers have become more inventive, as was demonstrated by Bermuda Short, a joint FBI-RCMP sting operation. One of the targets was Martin Chambers, an Oxford-educated lawyer. In 1967, Chambers set up his legal practice in Vancouver. "He was very bright and unusual and almost anti-establishment," says one of his peers in the Vancouver bar. Chambers also had a toxic streak in his personality that was eventually accentuated by a cocaine habit.

Canadian lawyers like Chambers have long been favourites of mobsters, especially for money laundering, mainly because they can move cash through trust accounts with little scrutiny by the banks. "If I were a criminal," observes one former RCMP officer, "I would want to become a lawyer." A 2004 study by criminologist Stephen Schneider of York University found that of 149 major money-laundering and proceeds-of-crimes cases the RCMP solved in a five-year period in the '90s, lawyers played a role in half of them, albeit often unwittingly. That lawyers in Canada can set up opaque trust accounts for clients is unusual by global standards. Regulations introduced by the federal government to close this loophole in 2000 were met with lawsuits from the legal profession, which was concerned that the changes would undermine the bedrock principle of solicitor-client privilege. The courts ruled in the lawyers' favour.

Chambers had a history of trouble: In 1981, for instance, he was charged for his role in a conspiracy to import a kilo of cocaine from Miami to Vancouver. He was convicted, but fought the case all the way to the Supreme Court of Canada. He won, but was forced to quit practising law (he was never disbarred per se).

Chambers also tried to help a motorcycle gang named Satan's Angels incorporate their chapters and set up their holding companies. In 1993, he assumed a behind-the-scenes role in a publicly traded company, Marlat Resources Ltd., one of whose principals was allegedly linked to the Russian Mafia. Chambers also became involved in a cigarette smuggling scheme, and borrowed money from Eron Mortgage Corp., a Vancouver mortgage-brokering firm that raised $200 million from B.C. investors in the mid-'90s before going bust amid charges of fraud.

One of Chambers's acquaintances was a Vancouver stock promoter, Jack Purdy. By the late '90s, Purdy had piqued the curiosity of both the RCMP and FBI, who believed he was in cahoots with mobsters. Accordingly, in 1999, the Bermuda Short team assigned veteran RCMP undercover officer Bill Majcher to represent a fictitious Colombian cartel that had bags of cash to launder-up to $2 million a day. The sting was set up in Florida.

Soon enough, Majcher came to the attention of Purdy and his colleague, Kevan Garner, who together ran Garner Purdy Venture Capital, a Vancouver stock promoter. In early 2002, Garner flew to Fort Lauderdale and met with Majcher. Majcher made it clear he had drug profits to wash. Garner returned to Vancouver, then flew back to Florida, where he picked up a "damned big" bag stuffed with $500,000 (U.S.). He laundered some of the money by buying a shell company.

By laundering on the stock market, criminals can increase their profits many times over. "We used to say dumb ones make millions, the semi-smart ones make tens of millions, and the really crafty make hundreds of millions," says Ross Gaffney, a former FBI agent who oversaw Bermuda Short. Using shell companies, criminals can employ pump-and-dump schemes to multiply their wealth. "It's not unheard of to have a stock starting in the pennies and [the promoters]ending up making 40 or 100 times their investment," says Gaffney.

According to testimony given in court, Garner soon returned to Florida, this time with Chambers in tow. In the spring of 2002, Chambers, Garner and Majcher met aboard a boat in Fort Lauderdale's harbour to talk business. Majcher produced a bag containing $500,000 (U.S.), remarking to Chambers that he needed a total of $26 million (U.S.) laundered per year. Chambers quickly agreed to help. Majcher says he next set up a corporation, which was used to open an account at Key West Swiss Investment Bank, based in the Bahamas. The money was then laundered through a casino and a chain of restaurants connected to the bank, as well as through a company of Chambers's called Mystar Holdings, which in turn had an account with the Royal Bank of Canada. "It's called layering-to hide the origins of the money," says Majcher.

Another lawyer ensnared by Bermuda Short was Simon Rosenfeld, a sole practitioner with an office in a handsome brownstone in downtown Toronto. In 2001, Rosenfeld had been convicted and fined $2.8 million (U.S.) by U.S. regulators for operating a pump-and-dump scheme at a company called Synpro Environmental Services Inc. He declared bankruptcy in the wake of that penalty.

In March of 2002, Rosenfeld flew down to Miami to meet with Majcher. According to court testimony, Rosenfeld insisted that any transactions be carried out in Toronto, as he feared the consequences of getting caught in the States. He told Majcher that he'd laundered more than $150 million over the years. "Rosenfeld also explained that in the early '90s, he was a banker in Sicily, and told me about a relationship with the Hells Angels and Vito Rizzuto, " says Majcher.

In June of 2002, Majcher went to Rosenfeld's Toronto office with a bag containing $250,000. He handed Rosenfeld a piece of paper with the number of an account in a bank in Miami. Using a legitimate foreign exchange company in Montreal called Denarius Financial Group, Rosenfeld made three wire transfers to shift the money from Canada to the Miami bank.

In August, 2002, the FBI and RCMP made their move, arresting Purdy, Garner, Chambers, Rosenfeld and more than 50 other alleged launderers, many of whom worked at dodgy brokerages. Of the 58 men arrested, a third were Canadians. In 2003, Chambers received a 15-year sentence. Garner served 15 months in jail and went on to invent a money-laundering board game. A broken man, he apparently took his own life in September of this year. Purdy was acquitted. In 2005, Rosenfeld was given three years in prison and fined $43,230. Five days later, he was released on bail of $1.95 million.

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THE VANCOUVER SUN

Vancouver promoter implicated in international bribery scandal; Naeem Tyab arranged $2-million payment to wife of Chadian ambassador, according to court document

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Vancouver stock promoter Naeem Tyab has found himself at the centre of an international bribery scandal.

According to an agreed statement of facts signed last month by federal Crown prosecutors and Griffiths Energy International Inc., Tyab arranged for the Calgary-based company to pay $2 million to the wife of the Chadian ambassador for "consulting services."

The company also sold four million founder's shares to the ambassador's wife and her nominees for one-tenth of a cent each, for a total of $4,000.

The company has been recently selling its shares for $6 each, which means those four million shares are now worth $24 million.

On Jan. 25, the company pleaded guilty to violating the Corruption of Foreign Public Officials Act and agreed to pay $10.35 million in fines.

Crown prosecutors are trying to recover the cash and shares on grounds that they are proceeds of crime.

The Globe and Mail and the National Post have written lengthy stories about the illicit payments, but have not provided any background information on Tyab, even though the agreed statement of facts indicates he played a central role in the scheme. (It should be noted that Tyab left the company in July 2011, after the events in question. He was not a party to the agreed statement of facts and was not charged with any offence.)

Tyab, 45, has had a long but not-so-illustrious career in the Vancouver securities market. I have written extensively about him.

In 1996, Tyab's brother, Parvez Tyab, incorporated Foresight Capital Corp. and the following year registered it as a securities dealer in B.C.

Naeem Tyab was the firm's principal shareholder and corporate secretary. Naeem's close associate, Gilbert Wong, served as the firm's president and chief executive officer.

In December 1997, B.C. Securities Commission examiners found "significant deficiencies" in the firm's compliance procedures. In particular, they found it was selling risky exempt securities without determining the suitably of those investments for their clients.

Despite repeated warnings, the firm failed to address these deficiencies. Finally, in August 2001, the commission ordered the firm to stop selling exempt securities and ordered Wong to step down as the firm's compliance manager.

In December 2002, the firm - under pressure by BCSC officials - terminated its registration and went out of business, but that didn't end the matter.

In December 2004, BCSC enforcement staff issued a notice of hearing alleging that Foresight, Naeem Tyab and Wong failed to properly supervise client transactions and ensure that its employees complied with securities rules.

For reasons that were never explained, the commission dropped Tyab as a defendant and Wong was later cleared by a BCSC hearing panel on grounds that earlier compliance measures taken by commission staff had effectively dealt with the firm's breaches.

In August 2003, Tyab and Vancouver promoter Larry Kristof suffered the indignity of being accosted by Bellingham detectives while being parked in a rented van at the Bellis Fair Mall.

The detectives found $30,100 in U.S. currency in the vehicle. Tyab and Kristof - as well as Sabir Khan, a cousin of the Tyabs who was on the scene - gave conflicting stories about where the money came from.

The detectives brought in a drug-sniffing dog, which responded positively to the money. Police seized the cash, suspecting that it was the proceeds of drug trafficking. No actual drugs were found.

Khan - who had been arrested on two prior occasions on drug-related matters - later applied to get the money back. The Bellingham city examiner said the evidence established that it was drug money and refused to return it. Nobody was ever charged.

In 2006, Tyab and his brother Parvez, along with Gilbert Wong, reunited in a company called Mogul Energy International Inc., which was based in Seattle and traded on the OTC Bulletin Board in the United States.

Naeem served as Mogul's president, and he and Wong each owned 1.5 million shares. Parvez was the largest shareholder with nine million, or 26 per cent, of its shares.

This is where the narrative in the attempted bribery case picks up.

According to the agreed statement of facts, Naeem and Parvez Tyab - along with late Bay Street financier Brad Griffiths - had been pursuing oil concessions in Chad since mid-2008, first through Mogul and later through Griffiths Energy and Resources Inc.

(Griffiths was known as a smart, colourful and hard-drinking investment executive. During his 30 years on Bay Street, he held senior positions with CIBC, Gordon Capital and Canac-cord Capital, but is best known as a cofounder of Toronto investment dealer Griffiths McBurney Partners.)

According to the agreed statement of facts, Griffiths and Naeem Tyab established contact in 2008 with Chad ambassador Mahamoud Adam Bechir, who arranged an introduction to Chad's minister of petroleum and energy.

In August 2009, the trio incorporated Griffiths Energy to pursue the concessions. Griffiths served as the company's chairman. The head office was initially located in Toronto and later moved to Calgary.

In August 2009, the company prepared a contract agreeing to pay $2 million to a private company, wholly owned by the ambassador, for consulting services.

However, Griffith Energy's outside counsel advised Tyab, who had signed the agreement on behalf of the company, that the ambassador was a government official and could not legally receive a benefit.

The following month, the company drew up a second agreement, with identical terms, except that the named consultant was a company wholly owned by the ambassador's wife, Nouracham Niam. Once again, Tyab signed the agreement on the company's behalf.

The company also sold the ambassador's wife 1.6 million seed shares of Griffiths Energy at one-tenth of a cent each, and another 2.4 million shares at the same price to people nominated by the ambassador's wife, who immediately took steps to transfer 1.6 million of the shares into her personal account.

The agreed statement of fact notes that the shares were among 40 million seed shares sold at one-tenth of a cent during the "founders' seed round."

The following month - in October 2009 - Tyab (on behalf of Griffiths Energy) and the minister of petroleum and energy (on behalf of the government of Chad) signed a memorandum of understanding.

In January 2011, the company finally signed a "production sharing contract" with the Chadian government. Terms included a $40-million US payment to the government. Several days later, the company transferred $2 million into the company account of the ambassador's wife in Washington, D.C., according to the agreed statement of facts.

The Crown did not allege, and the company did not admit, that it actually realized any benefit as a result of the illicit payments.

In July 2011, Griffiths died in a boat accident in Muskoka Lake. That same month, Tyab left the company. New management discovered the payments in question and voluntarily reported the matter to the Crown, RCMP and U.S. law enforcement agencies. They also entered a guilty plea before charges were formally laid.

It was a costly process. The company spent $5 million on lawyers and accountants to investigate the matter. The company also withdrew its planned initial public offering, causing it to write off $1.8 million in attendant expenses. And it agreed to pay $10.35 million in fines.

As of November, Tyab was the second largest shareholder of TSX Venture Exchange-listed Hunter Oil & Gas Corp. (Brad Griffiths' estate is listed as the largest shareholder.)

Tyab is not an officer or director of the company, but in December, his brother Parvez became a director. The company's shares are trading at a mere two cents each.

Tyab is currently serving as chairman of Mogul Energy, whose fortunes have also waned. Despite a five-for-one share consolidation last year, its shares are now trading on the lowly "pink sheets" in the United States at one cent each.

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Illustration:
• Darryl Slade, Postmedia News Files / Bob Sigurdson, Crown prosecutor, and Kris Robidoux, counsel for Griffiths Energy International, outside the Calgary Courthouse Jan. 25. The company was fined $10.35 million on a corruption charge for bribing the ambassador of the African country of Chad regarding production possibilities.

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Surrey man banned for bogus gold scheme; Securities commission also issues cease-trade order against Bahamian firm

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The B.C. Securities Commission has permanently banned a Surrey man from the B.C. securities market after he defrauded German and Swiss investors of $1.5 million in a bogus gold futures and foreign-exchange trading scheme.

And in a separate action, the commission issued a cease-trade order against a Bahamian brokerage firm after it traded securities for B.C. residents without being registered in this province.

In the first action, a BCSC hearing panel found that Michael Robert Shantz, who is in his late 20s, set up a dummy office in downtown Vancouver and persuaded 11 European investors to invest $1.53 mil-lion with his company, Canada Pacific Consulting Inc., ostensibly for trading gold futures and foreign exchange currency.

However, instead of investing the money as promised, he wired $1.2 million to bank accounts in Spain and used another $210,000 for personal purposes. Only $18,000 was remitted to investors.

"There is no evidence that Canada Pacific was engaged in any legitimate business," the panel stated.

"Canada Pacific lied to investors, stole their money and took elaborate steps to make the whole scam appear legitimate."

The hearing panel found Shantz had engaged in an illegal distribution of securities and committed fraud. In addition to his market ban, he was ordered to pay to the commission the $1.53 million he obtained as a result of his illegal activity, as well as an administrative penalty of $630,000.

In the second action, a BCSC hearing panel issued a cease-trade order against Gibraltar Global Securities Inc., which is registered as a securities dealer in the Bahamas, for trading and advising in securities in B.C. without being registered here, and for refusing to pro-vide BCSC staff with information relating to B.C. residents who have held accounts with the company.

The panel said BCSC enforcement staff provided evidence that more than two dozen B.C. residents were trading securities through accounts at Gibraltar, and several of those clients have been the subjects of past and ongoing investigations by the BCSC.

The panel also said Gibraltar had opened accounts with Global Securities Corp., a Vancouver-based brokerage firm. Gibraltar had maintained that trading in those accounts was "proprietary and not for the benefit of its clients," but the panel said BCSC staff provided multiple examples where Gibraltar was taking instructions from clients for trading in those accounts, which consisted mainly of shares of TSX Venture Exchange companies.

(The commission earlier issued a freeze order against Gibraltar's accounts at Global, freezing about $2.2 million in cash and securities. That order remains in effect.)

The panel also noted that BCSC staff had asked Gibraltar to provide full details of its B.C. clients and their trading, but the firm had refused. The panel said this refusal rendered Gibraltar "unsuitable to engage in securities related activities in, or connected with, British Columbia."

The Wild West of investing: The biggest financial market you've never heard of

April 2nd, 2012 by Golden Girl Finance

The exempt market is big, unbridled and full of opportunity - but it's not for the faint of heart

If you thought the TSX was the only game in town, you're missing out on a piece of the securities market - a very big piece, as it turns out. Although you may not be familiar with the exempt securities market, at least as much money changes hands here as in the public market.

But while this market provides the high stakes many investors crave, compared to the highly regulated public market, it's a bit of the Wild West. Find out what you need to do to ride this frontier with the hopes of hauling in an investment with blazing potential. But beware: it's not for the inexperienced or the faint of heart.

An investing frontier

Although the exempt securities market has faced stiffer regulation since exempt market dealers (those who sell these securities) came to be regulated by the Canadian Securities Administrators, it still suffers from

limited reporting, low liquidity and higher risk, says Geoff Ritchie, executive director of the Exempt Market Dealers Association of Canada. This is why exempt market dealers must ensure that exempt securities are suitable for the investors who buy them.

This adventure is not for everyone

Just like some of the cowboy-inspired footwear hitting the runway this spring, the exempt securities market isn't the right fit for all investors. Because this market can be risky, investments here are limited to a certain group of investors, namely those who are affluent, savvy and/or able to stomach a wild ride. There are three classes of investors who can buy in (note: rules may vary by province):

- **Accredited Investors:** These are the fat cats of the investing world, including banks, hedge funds and pension funds, as well as high-net-worth individuals. This means investors with $1 million in investable assets, or $5 million in assets, or a before-tax income of at least $200,000. They can invest as much as they want - and they don't have to use a registered dealer.
- **Eligible Investors:** In Alberta, Manitoba, Saskatchewan, Quebec, Prince Edward Island and the Northwest Territories, this type of investor needs at least $400,000 or more in net assets, or an annual net income before taxes of $75,000 for at least two years (or $125,000 with a spouse).
- **Family, Friends and Associates:** If you have a family member or friend who's raising money through the exempt market - or your own company's raising the funds - this can offer a way in (*and* a way to really get to know the investment you're buying).

The good...

The fact that so much money trades over the exempt market isn't happenstance; the exempt market has a lot going for it. This market deals mostly in start-ups, which means that when investors get it right, they'll be holding on to an investment that leaves most others in a cloud of dust. This is because exempt security investors get in so early, they have the opportunity to ride a successful stock all the way to the top. After all, many major Canadian stocks, such as Research in Motion (before its recent challenges), got their start with private funding and went on to produce huge profits for early investors.

Plus, exempt securities tend to be much more focused than those found on the TSX because they represent small companies with limited interests. This means that for investors keen on real estate or resources, for example - two key areas for exempt securities in Canada - this market provides a targeted way to add specific exposure to their portfolios.

Finally, not all exempt market securities are small, back-room deals: many large, public companies also raise money through private issues, providing higher-profile opportunities for exempt market investors.

The bad...

Investors who can stomach exempt securites may ride off with some loot, but compared to typical stocks, this is a relatively unbridled market. Companies can raise equity without being held down by the expensive and cumbersome process required to get onto a stock exchange. This can mean limited access to company

information and reporting for investors. That's why it's so important for investors to do their own due diligence, says Ritchie. This means reading whatever disclosure documents come with the security you're considering and finding out everything you can about the company, its business and its management. Most investors should also make sure they're buying securities through a registered dealer.

The ugly...

Even in the public market, startup companies face a high risk of failure. The exempt market is filled with small, fly-by-night companies whose businesses are untested. If they fail, investors lose. This is especially true with investments structured around projects, Ritchie says, such as a new mining operation.

Lack of liquidity can also be an issue in the exempt securities market, making these strictly buy-and-hold investments. This is because the market is small, and there's no secondary market (i.e. a stock exchange) that allows investors to trade easily with one another. If an investor wants to sell an exempt market security, it can't be done through an online brokerage at the click of a button; it's a process that will take some time. One exception: exempt securities sold by large, public companies may escape this risk. Those shares may become part of the public company's regular, tradable equity, Ritchie says. Exempt securities may also find a sort of secondary market among private equity and venture capital investors. In this case, the size of the company and the sector in which it trades can make a big difference.

New investments, new challenges

It comes down to this: with (careful) risk often comes reward. For those who've been riding the markets successfully for a while, the exempt market can provide new investments with new challenges. Play your cards right, and you may just ride off into the sunset a little bit richer.

Welcome to Canada's exempt market: Exclusive, anything goes investments — but play at your own risk

BARBARA SHECTER | June 15, 2013 7:00 AM ET
More from Barbara Shecter

John Wilson, former senior salesman for First Leaside Group, leaves the Ontario Securities Commission during a hearing about allegations of securities fraud in Toronto on Wednesday, June 5, 2013. Matthew Sherwood for National Post

It's been more than 18 months since Horst Wizemann got news that would wipe out half of his retirement savings — and he's still not sure what happened.

After years of investing his RRSP contributions with bank-owned and independent dealers and insurance companies, he had moved his money — more than a quarter of a million dollars — to a firm that operated in Canada's loosely regulated exempt market. Many investors with enough income or valuable enough assets, or even a big enough lump sum investment, have been drawn to this segment of the capital markets in recent years, often because they could obtain higher

returns than were available from Canada's public markets or government bonds.

But a couple of high-profile blowups in Ontario with nearly half a billion dollars of investor money on the line — and widespread problems uncovered by a recent regulatory sweep of the sector by the Ontario Securities Commission — have raised concerns about the exempt market, even as Canadian regulators consider broadening the profile of investors who qualify to play.

"I am still not sure what really happened," Mr. Wizemann said after watching a day of hearings unfold last week in a fraud case launched by the Ontario Securities Commission against the founder of the First Leaside Group of Companies, the company in which Mr. Wizemann invested along with about 1,000 other Canadians.

"It is a sad story, but it happens all the time," said Mr. Wizemann. "This time, I am in the middle of it."

To be sure, many legitimate firms and dealers operate in this segment of the capital markets.

But there are also cases like First Leaside, which sold real estate limited partnerships, and New Solutions Group, which was in the business of "factoring" receivables, that are keeping regulators busy. Though none of the allegations have been proven in either case, the large dollar amounts of investor money on the line have prompted calls for more scrutiny from groups such as the Foundation for the Advancement of Investor Rights (FAIR).

At its peak, First Leaside had raised $370-million, about $280-million through the sales of proprietary debt and equity securities, and New Solutions had raised more than $200-million. Just last week, the British Columbia Securities Commission accused a former mutual fund salesman of a $65-million fraud involving almost 500 clients with "now worthless" investments in the exempt market.

The OSC sweep of exempt market dealers also exposed

Meltdowns in the Exempt Market

New Solutions Group

Primary Business: Making and administering loans to various businesses, backed by receivables purchased from companies at a discount (factored).

Amount of money raised from investors: About $212-million.

OSC allegations: Ron Ovenden, the 57-year-old "controlling mind" of New Solutions, "misled" or "failed to properly inform investors and potential investors about the true state of affairs of NSFC (New Solutions) and its underlying portfolio."

Expected return to investors from CCAA wind-down: "Gross realization" on securities is 8¢ for every dollar invested.

First Leaside Group of Companies

Primary Business: Purchasing properties in Canada and the U.S. and selling debt and equity securities in real estate limited partnerships and funds.

Assets under management at peak: $370-million, including about $280-million of proprietary First Leaside securities.

OSC Allegations: By failing to disclose a "viability" report, founder David Phillips and former senior salesman John Wilson "engaged or participated in an act, practice or course of conduct relating to securities which he knew, or reasonably ought to have known, would perpetrate a fraud on investors."

Expected Return to investors from CCAA wind-down: About $25-million after repayment of mortgages, but before professional

problems concerning the individuals to whom investments are being sold and how firms collect and track key information about their clients. The exempt market does not require extensive and expensive offering documents and often documentation does not have to pass muster with regulators at all because the firms are supposedly dealing with sophisticated investors who meet minimum investment, income or asset thresholds.

But nearly one-fifth of the dealers reviewed by the OSC in its sweep were selling securities to people who did not fall into the required category of "accredited" investor. And three-quarters of the dealers were found to have "inadequate" processes for collecting, documenting and maintaining information about clients, including their investment objectives and risk tolerance.

The sweep was undertaken after OSC chair Howard Wetston drew attention to the growth of the exempt market, in which capital raising levels had outstripped activity in the public markets, according to the most recent statistics. The regulator says at least $86.5-billion was raised in 2011 alone, the second year in a row of double-digit growth. In a speech last month, Mr. Wetston said the OSC, Canada's largest capital markets regulator, would be "willing to consider the introduction of new tools in the exempt market" — but only if the industry commits to ensuring that investors can be protected.

"In our view, more work needs to be done by the industry to, at minimum, consistently meet existing requirements," Mr. Wetston said.

costs.

Michaels Wealth Management

Primary Business: Advising on the sales of securities to investors.

Amount of money involved: Former mutual funds salesman David Michaels advised 484 clients to purchase over $65-million of "exempt" market securities.

BCSC (B.C. Securities Commission) allegations: Perpetrated a fraud on clients by "repeatedly and falsely claiming that he gave up his registration in 2006 because he foresaw the stock market crash and wanted his clients' money out of the stock market, and omitting to tell the truth that he resigned in the face of an ongoing IDA investigation." Breached securities laws by advising his clients to purchase exempt market securities without being registered to do so.

Expected return to investors: BSCS says "virtually all of the roughly $65-million invested by Michaels' clients is now worthless, leaving many of them financially destitute while their home equity loans remain."

Related

First Leaside before OSC to answer fraud allegations

OSC sweep finds 'substantive' problems in exempt market

Ontario gives OSC new firepower

FAIR lays the blame not only on industry players, but also on the regulators and their "weak"

record in the exempt market.

"Non-compliance with the rules, weak enforcement, and a perception of weak enforcement [including difficulties for investors to obtain recovery of any funds] harms investors and weakens confidence in the exempt market and our capital markets," FAIR said in a submission to the OSC this spring.

FAIR was also critical of regulators' record-keeping on the exempt market, saying that part of the problem is a lack of sufficient data to design effective policy.

"We don't [even] have the statistics to tell us how much fraud there is," says Ermanno Pascutto, executive director of FAIR.

A recent push by proponents of the exempt market to bring even more investors to the party through popular U.S. methods such as crowdfunding — where small investments from a large number of people are pooled — has drawn even sharper criticism from FAIR.

"Crowdfunding, if allowed, will bring Ontarians back to the good 'ol days before modern securities regulation was introduced, a time when promoters would sell 'moose pasture' to naïve consumers," FAIR declared in a newsletter posted to its website on May 30.

That view is countered by groups and individuals who point to the importance of the exempt market for small and medium-sized businesses who have don't have the time, money or expertise to raise money through public markets. They say a few "bad apples" shouldn't spoil the development of this important market segment for the rest.

A "roundtable" organized by the OSC this week to bring players together to discuss crowdfunding drew about 100 people. An informal poll of the group of investors, small business operators and lawyers and other professionals indicated there was widespread interest in allowing more avenues for private investing.

The OSC is compiling the results of a more formal online poll of retail investors and preliminary results indicate that although just over 50% of those who responded indicated no interest in crowdfunding, about 14% expressed "strong" interest. Advocates are urging regulators not to put up

OSC Sweep by the Numbers

• Three-quarters of exempt market dealers had "inadequate" processes for collecting, documenting and maintaining information about clients such as investment

barriers because of the bad experiences of some who have chosen to play in the exempt market.

"It seems every time there's a bad apple in the industry, all the remaining honest and largely compliant players are left to pay the price with yet another regulation," says Stephanie McManus, a principal at Compliance Support Services, an adviser whose clients include those in the financial industry.

She urged regulators "to pause and reflect before overhauling the regulatory landscape yet again" to try to deal with those who flout existing rules. Ms. McManus, who is a lawyer by training and also a board member of the National Exempt Market Association, said the market helps small and medium-sized businesses that account for half the country's GDP to finance their operations "without breaking the bank" on listing fees and other regulatory expenses.

objectives and risk tolerance.

- Nearly 1/5 selling to people who did not fall into the required category of "accredited investor.
- 22% of the dealers made inadequate investment suitability assessments due to inadequate paperwork on how suitability determination is made.
- Two exempt market dealers and one portfolio manager discontinued operations after the regulatory review.
- Regulatory action taken against one exempt market dealer and one portfolio manager.
- "Deficiency" reports issued to 62% of exempt market dealers and portfolio managers in the sweep.

"However," she acknowledged, "the challenge is to ensure that these issuers and the dealers who sell their securities are subject to enough scrutiny by the regulators to keep them on track. It's a difficult balancing act."

Craig Skauge, president of the National Exempt Market Association, says the sector is feeling the impact of the recent regulatory sweep and enforcement actions.

"There are always short-term effects when these types of things come up," he said.

However, he is quick to add that the number of cases where the most serious infractions are alleged is small.

"I'd like to believe that investors and regulators alike are wise enough to not paint an entire industry with the same brush due to a few miscreants," Mr. Skauge said.

He acknowledged that it was "disheartening" to learn that 18% of the players caught in the OSC sweep had "deficiencies" related to who investments were sold to, but he said he is pleased regulators are considering expanding the list of who is qualified to make private investments beyond accredited investors. In Ontario, these well-heeled but not necessarily financially savvy investors must have annual incomes of at least $200,000 and assets, not including a principal residence, of $1-million.

The group is small – less than 4% of the population, according to the OSC.

"While there is no excuse for not following the rules, I can't say that I'm shocked that this [non-compliance] is happening," given that the OSC only allows the products limited to accredited investors to be sold to a tiny percentage of the population, Mr. Skauge said.

Investors outside the "accredited investor" club can still qualify, however, if they have a sizeable minimum investment. And the OSC sweep of 42 exempt market dealers unearthed a troubling trend: some dealers appeared to be encouraging investors who were not accredited to put "a high proportion of their investable assets in a single product" solely to meet that minimum investment threshold.

In the case of Ontario, the minimum investment is $150,000.

UANI Condemns AGF for Maintaining Investments in Fraudulent Bonds that Support Illicit Hizballah and Iranian Activities

741 words
11 September 2012
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Business Wire
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NEW YORK--(BUSINESS WIRE)--September 11, 2012--

On Tuesday, United Against Nuclear Iran (UANI) called on Canadian investment firm AGF Management Limited ("AGF") to divest from its Lebanese bonds, and stop supporting the Iranian regime's efforts to circumvent sanctions.

AGF holds fraudulent Lebanese sovereign bonds that support illicit Hizballah and Iranian activities, yet in discussions with UANI AGF has said it will not divest from them, since "there are currently no U.S. or Canadian laws that restrict or prohibit investment in Lebanon."

UANI finds this response to be wholly inadequate in the context of a discussion about fraudulent terror financing, and calls on AGF to immediately reconsider its position.

In a letter to AGF Chairman, President, & CEO Blake Goldring, UANI CEO, Ambassador Mark D. Wallace, wrote:

... UANI is surprised and disappointed to hear your response, especially in the wake of the continuing turmoil in Lebanon and the terrible attack by Hizballah in Bulgaria. I urge you to reconsider this important matter. Determining that there is not currently an explicit legal prohibition on this investment (while nonetheless incorrect) cannot be the end of your inquiry as a fiduciary under U.S., and pursuant to the similar duty of care owed by an investment adviser under Canadian law, and so I recommend that you engage in appropriate diligence with respect to the issues at stake. If you do so, I believe you will realize that, far from being a conflict with your duty to act in your clients' best interest, divesting from Lebanese debt is entirely consistent with (and mandated by) that duty.

As you recall, in our letter we called on AGF to divest from all Lebanese sovereign bond and credit default swaps ("CDS") that it invests in directly, or on behalf of clients or funds, and we showed that the value of these **securities** is based on a massive fraud, one that masks a **money-laundering** operation that not only permits Lebanon to portray a false image of economic stability but also supports terrorism by Hizballah and Iran. I further expressed UANI's belief that Banque du Liban ("BDL") and the Lebanese banking system ("LBS") meet the criteria for determination under Section 311 of the USA PATRIOT Act as a jurisdiction of primary **money laundering** concern that would result in their ban from the U.S. financial system.

UANI believes that divesting from these **securities** is not only the ethical thing to do, but that continuing to hold these **securities**, given what you now know about them, would be a problematic position to take from a compliance and fiduciary perspective, which creates an insupportable level of risk in a variety of areas. Indeed, failure to divest from these **securities** could present an unjustifiable risk to AGF's reputation, its duty to its clients and fund investors, and possibly its efforts to comply with its regulatory obligations.

Firstly, an investment in these **securities** is riskier than it would appear, which does a disservice to you, your clients and investors. Second, your role in facilitating this investment perpetuates an unjustifiable veneer of respectability, masking BDL and LBS's true activities. Finally, because any investment in these **securities** facilitates **money laundering** operations and also shields the true financial health of the Lebanese economy from investors, a facilitating financial institution may subject itself to heightened legal and reputational risks, even with respect to **securities** that, as you note, have not yet been specifically sanctioned by the U.S. or Canadian government authorities. ...

In July, UANI announced the results of a three month-long investigation into the influence of Iran and Hizballah in the Lebanese banking system (LBS) and Lebanon's sovereign bond market, and announced a campaign to compel legitimate financial institutions into divesting from Lebanon's bond market.

UANI has previously announced that Erste-Sparinvest, Eaton Vance, Nord Est Asset Management, Aktia, and Ameriprise Financial have already divested from Lebanese bonds.

Click here to read UANI's full letter to AGF.

Click here to read UANI's June 8, 2012 letter to AGF.

Click here to read the July 3 Wall Street Journal article, "Banks Get Pressed on Beirut."

Click here to view UANI's research, "HIZBALLAH, LEBANON & IRAN: PARTNERS IN A SOVEREIGN **MONEY LAUNDERING** SCHEME."

United Against Nuclear Iran | Nathan Carleton, 212-554-3296 | press@uani.com | SOURCE: United Against Nuclear Iran

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News

Disgraced investment firm ordered to forfeit $15M, pay $750K penalty

PATRICK MALONEY, QMI AGENCY

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12 September 2012
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English

LONDON -- A disgraced investment firm founder has reached a deal with the province's **securities** watchdog to hand over more than $15 million and pay a $750,000 penalty.

Vincent Ciccone, head of Cambridge, Ont.-based Ciccone Group, had been facing multiple Ontario **Securities** Commission (OSC) charges of fraud and misleading investors out of a total of about $19 million between April 2008 and June 2010.

Ciccone sold shares in a Delaware-based company called Medra, which was presented to investors as specializing in resort real estate development and land buys. But, according to the OSC settlement, Ciccone "misappropriated Medra investor funds and used those funds for purposes completely unrelated to real estate development and land acquisition."

Ciccone admitted his conduct was "contrary to the public interest."

In addition to being forced to "disgorge" of $15.5 million and pay the $750,000 penalty, Ciccone must pay $100,000 to the OSC. He's also permanently banned from trading **securities**.

According to the agreement, Ciccone says he was introduced to Medra by a man who called himself John Gel and stated he was involved in developing time-share properties in Cancun, Mexico. Ciccone says Gel "convinced" him to become Medra's CEO.

Ciccone says he later learned Gel was actually Harris Ballow, who had pleaded guilty to one count of **money laundering** in 2003 in the U.S. and fled before sentencing. Once he became aware of Ballow's true identity, he "advised staff of the (Ontario **Securities**) Commission of these facts."

Ciccone's case has grabbed attention in London, Ont., because of his lifelong ties to local Mayor Joe Fontana, a friend since childhood in their shared hometown of Timmins, Ont.

Fontana has said he was not associated with the investment firm, but in statements to the official receiver in the bankruptcy of Ciccone Group in 2011, the investment firm founder said Ciccone Group "used Joe Sr.'s influence to provide credibility to our products" during a period Fontana was out of politics.

In 2007, Ciccone founded Trinity Global, a charity and tax shelter that's attracted tens of millions of dollars with the promise of providing meals to hungry kids in Canada and medicines for HIV/AIDS sufferers in Africa. Fontana joined the board in 2008, a post he still holds, and his son, Ugo Joseph, or Joe Jr., is president.

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CALGARY HERALD

City & Region

Hearing underway in $400-million Ponzi scheme case

Daryl Slade

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A preliminary hearing began this week for two Calgary-area men charged with running a massive Ponzi investment scheme that may have bilked investors of up to $400 million.

Gary Allen Sorenson and Milowe Allen Brost each face two counts of fraud over $5,000 and theft over $5,000 and one count each of possession of stolen property and **money laundering**.

Crown prosecutors Brian Holtby and Peter Mackenzie are expected to call dozens of witnesses in the hearing before Provincial Court Judge Mike Dinkel that is set to run until Dec. 21.

Shamsher Kothari, Brost's lawyer, said it is hoped the hearing to determine if there is sufficient evidence to go to trial can be shortened by as much as two months, but added, "it all depends on how the evidence comes out."

"Currently, the (Crown) disclosure is in excess of 92,000 documents," Kothari said outside court. "Definitely, it's been a voluminous matter, to say the least.

"Disclosure is still coming in witness statements and transcripts from the RCMP and Alberta **Securities** Commission."

Kothari said there are witnesses scheduled to testify from China and other countries around the world by video link in the mammoth case.

No evidence can be reported because of a publication ban.

Both accused have elected to have their trials heard by judge and jury.

Sorenson, who has been out on bail since shortly after he was charged on Sept. 14, 2009, is represented by lawyer Brenda Edwards.

Brost was previously granted bail of $1 million but has not been able to raise the cash.

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Calgary Herald

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THE GLOBE AND MAIL

Regulator for mutual fund dealers tries to stay relevant

JANET McFARLAND AND JACQUELINE NELSON
The Globe and Mail
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The watchdog for Canada's mutual fund dealers is searching for ways to be less burdensome on its members, as increased regulation and changing investor demands reshape a maturing business.

In the 11 years since the Mutual Fund Dealers Association of Canada (MFDA) opened its doors to regulate fund sellers, its membership has fallen by nearly half, from 220 firms to just 115 today. Most of those firms are small; 84 of them have less than $1-billion in assets under administration.

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Much of the decline is due to mergers of companies that say the high cost of MFDA compliance and regulation makes it inefficient to run a small fund dealer. While the MFDA's remaining members have grown over the past decade, mutual funds have also grown significantly outside of the regulator's purview.

The association's job is to ensure that individual advisers and firms are following the rules when they sell or trade mutual funds, and to bring action when they're not. The MFDA now oversees companies that handle about $360-billion, or nearly 40 per cent, of Canada's mutual fund assets, a reduction from 56 per cent in 2002. Brokerage firms and portfolio managers – which are regulated by other bodies – have expanded their investment fund operations and captured a bigger share of the market.

The result has been soul-searching within the MFDA about how to become more efficient to attract and retain members.

MFDA president Mark Gordon, who took over the top job at the regulator in October, 2012, says he is concerned that investment firm mergers are being spurred by the cost of the association's regulation. MFDA rules require firms to monitor daily trading and client interactions, which has forced funds to greatly increase their compliance staff and introduce new computer technology to track transactions.

"When our members resign, we ask them why you are resigning, and the majority say, 'The cost is too great to run my own dealer – I'd rather become a branch and focus on my book [of client business] and let somebody else worry about compliance infrastructure,'" Mr. Gordon says.

The trend has prompted the MFDA to revamp its processes to make its regular compliance reviews less onerous. One key change, Mr. Gordon says, is that it has decided to start doing compliance reviews of low-risk firms every four years instead of three, while higher-risk firms will be reviewed every two years.

The regulator is also trying to do quicker reviews of targeted issues rather than "a full review that takes two weeks when you've only got one high risk area you want to look at," Mr. Gordon said.

The MFDA is also working with firms to start fixing issues as soon as it notices them during compliance reviews. The result has been far fewer cited deficiencies when final reports are completed.

"We need to strike that balance between investor protection and regulatory burden and find that right balance, because there are consequences to the burden," he said.

Joanne De Laurentiis, chief executive officer of the Investment Funds Institute of Canada, a trade association for mutual fund companies, says the rule book for MFDA members has grown enormously in the past decade. The cost of hiring highly-trained compliance officers has made smaller firms less viable.

"The need to hire fairly expensive professional individuals, who are now adding to the expense side of the ledger, pretty much forced a reassessment of what size of dealer model made economic sense," she said. "And so you saw consolidation."

Member firms have given the MFDA "an earful" about the costs of undergoing four full regulatory audits in 12 years, Mr. De Laurentiis said, but she believes they now believe the regulator is responding to their concerns.

The pace of industry mergers and the cost of regulation have also fuelled a low rumble of discussion about whether the MFDA should pursue a merger of its own with its larger regulatory cousin, the Investment Industry Regulatory Organization of Canada (IIROC), which oversees brokerage firms.

The MFDA rejected proposals to merge with IIROC in 2005 when talks were under way for a merger between IIROC (then called the Investment Dealers Association of Canada, or IDA) and a third organization, known as Market Regulation Services Inc. (RS), which regulated trading on stock exchanges in Canada.

While the IDA and RS ended up merging in 2008, the MFDA stayed out of the talks.

Ian Russell, chief executive officer of the Investment Industry Association of Canada, an industry association for brokerage firms, says he is in favour of a merger between the MFDA and IIROC because there should be efficiencies for regulatory organizations that combine back office tasks like human resources, administration and IT.

However, Mr. Russell also worries that a merger could be costly and time consuming at a time when the industry is already facing many changes. "The experience with mergers hasn't been a good one in Canada," he said.

Mr. Gordon says the MFDA has not pursued any merger talks because two polls of its members in 2006 and 2011 found "no clear direction" for or against mergers.

He said the organization decided to drop the matter until the fate of a possible new national securities regulator is decided, because it is not clear how self-regulatory organizations like the MFDA or IIROC would fit into a new system.

"I think it's fair to say that members would want a business case made for it. How is it going to impact their operations, are they going to save money, how is it going to impact them," he said. "Our focus, given the lack of clear direction right now, is to just stick with our day jobs."

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Tougher advisors' standards up for debate

By Luis Millan

Canada's securities regulators, under pressure to follow in the footsteps of international regulatory developments, are considering a fiduciary duty on financial advisors and dealers that would require them to act in the best interests of retail clients at all times.

But a former chair of the Ontario Securities Commission says this latest initiative does little to alter the landscape because it is just a tentative re-exploration of ground already covered.

On top of that, a brokerage industry lobby group is against the idea, citing bad timing at the very least.

The Canadian Securities Administrators, the umbrella group for Canada's provincial securities commissions, published a paper last fall calling for comments until Feb. 22 over a tougher standard that would raise the bar for financial advisors nearly to the same level as doctors and lawyers. The CSA, which has taken no position on the issue, made no promise that it would introduce change following the consultation. But if it does forge ahead, it will need to draft and specific proposals for further comment.

"The paper was disappointing," remarked Toronto lawyer Edward Waitzer, a former chair of the OSC, who is calling for reforms. "It is not particularly accessible, the issues have been addressed many times and presented a lot more simply, it doesn't take a position, and it doesn't move the ball down the hill at all. The publication of the paper doesn't give one cause for optimism that the securities commissions are going to take a leadership role."

The controversial proposition, opposed by the investment industry but commended by investor advocates, would overhaul the statutory regime and put it in line with international developments. After the 2008 global financial crisis, the United Kingdom, the European Union and Australia introduced legislation that strengthened investors' legal rights while raising the professional bar for investment advisors. The United States also is contemplating making changes. The U.S. Securities and Exchange Commission has recommended that a uniform standard be introduced for broker-dealers and investment advisers.

At present, registered advisers and dealers in Canada are required to deal fairly, honestly and in good faith with their clients, but without a general fiduciary obligation. However, there are four provinces — Alberta, Manitoba, Newfoundland and Labrador, and New Brunswick — that have enacted a statutory "best interests" requirement that applies to advisers or dealers, but only if they have a discretionary authority over their clients' investments.

The CSA consultation paper points out that there has not been a single court or regulatory decision concluding that the current requirement is the equivalent to a fiduciary duty.

"There is a big gap between what everybody thinks and what the law is," noted Marian Passmore, the associate director of the national non-profit advocacy group Canadian Foundation for Advancement of Investor Rights (FAIR Canada). "Investors believe that investment advisers are already acting in their best interests, and are not aware that that is not the standard."

FAIR Canada, which has been calling for a best-interest standard for years, hopes that the securities regulators act expeditiously, particularly since governments and employers are gradually shifting the burden of providing for retirement on to the shoulders of individuals. "I fear that it will be a slow process because a lot of initiatives that have come out of the CSA have taken a long time to come to fruition," says Passmore.

However, any move towards a fiduciary standard will face stiff opposition from the financial services sector. According to Michelle Alexander, the director of policy for the Investment Industry Association of Canada (IIAC), an industry organization for brokerage firms, the timing is not right to implement a higher duty of care. Alexander argues that the CSA and two Canadian securities self-regulatory organizations — the Investment Industry Regulatory Organization of Canada and The Mutual Fund

Dealers Association of Canada — have spent years developing a comprehensive, investor protection regulatory regime that is still being implemented. The regime, called the client relationship model, embodies most of the essential elements of a fiduciary standard, including improved cost and compensation disclosure and performance reporting, says Alexander. The new regulatory regime, approved a year ago and being rolled out in stages, should be allowed to be fully implemented and then be evaluated to determine if there are remaining areas that require further investor protections, adds Alexander.

"At this point the timing is not right to implement a fiduciary standard," said Alexander. "The costs and training that are going on with the client relationship model is huge for the industry — let them grapple with that before going on to something new."

The industry organization also believes that the imposition of a statutory fiduciary standard on advisors would have many negative consequences for both investors and themselves. Besides onerous compliance requirements and increased exposure to risk and liability for advisors, small investors would likely face a fee hike in financial advisory services and reduced access to financial products, contends IIAC in a paper it submitted on the issue last year to the CSA.

That's because the lower the client's sophistication, the higher duty of care; small investors would cost advisors more to serve while increasing their exposure to liability. "We're concerned that those clients would be pushed out of the advice channel and perhaps have to go to the discount brokerage channel," said Alexander.

Vancouver securities lawyer David Mitchell also believes the status quo is working well. He points out that in Canada investment advisors can be held to a fiduciary duty depending on the situation. While there is no such duty for sophisticated retail investors, the courts have recognized that a fiduciary duty exists in cases when unsophisticated retail investors rely exclusively on their investment advisor. The onus of establishing a fiduciary duty, however, rests with the investor.

"The status quo works well right now, other than your unsophisticated retail investor who faces the challenge of establishing a fiduciary duty to obtain relief from the court," said Mitchell. "But I think the system works well for most people. The duties are context-specific."

If securities regulators are "not prepared to take a leadership stance" on a fiduciary standard, there are other actions they can take that will lead to the same result, says Waitzer. Regulating the compensation structures and eliminating commissions for retail investment products as the U.K. and Australia have done "would make a difference," said Waitzer. So too would far more aggressive enforcement. "Instead of spending another 10 years spinning our wheels, let's move on to something else that regulators would be more comfortable doing," said Waitzer.

More consolidation as boutique investment dealers st to survive

Barbara Shecter | January 27, 2014 8:53 AM ET
More from Barbara Shecter

National Post

Mid-sized investment dealers were riding high in 2007, feasting on healthy markets and booming commodity prices that drove underwriting, trading and acquisitions.

But today, the approximately 180 smaller or boutique firms in Canada are struggling with chronic weak business conditions in an increasingly tough competitive landscape.

The Investment Industry Association of Canada and other industry watchers have been warning for a couple of years that many of Canada's smaller firms are on precarious ground and many could cease to exist without a significant recovery in the small-cap trading and underwriting business.

Related

Edgecrest Capital set for major expansion as it acquires Stonecap Securities

"The traditional model of the independent firms relying on trading and corporate finance is broken, at least for the moment," says John Turner, a partner who heads to global mining practice at Toronto law firm Fasken Martineau DuMoulin LLP.

On Monday, Stonecap Securities Inc. was swallowed up by Edgecrest Capital, a relatively new player in the industry.

The consolidation follows the closure last April of independent investment dealer Fraser Mackenzie Ltd., which shut its doors after nearly 10 years in business. The firm, which was among those heavily exposed to the fortunes of the junior resource sector, cited difficult business conditions and mounting regulatory expenses.

Another indication of recent trends came in last year's resignation of longtime industry player Loewen Ondaatje McCutcheon Ltd. from membership in its primary regulator. Industry watchers suggested the independent firm planned to pursue business outside the purview — and fee requirements of the Investment Industry Regulatory Organization of Canada.

Some of the difficulties for the independent dealers can be traced to shortly after a banner year in 2007. That was when Canaccord Capital surprised Bay Street by displacing a number of the big banks to claim second place in the league tables of new equity and trust issues.

At the time, commodity prices were booming and the mid-tier brokers were profiting from their expertise and relationships in commodities-driven sectors like junior mining.

But the financial crisis in 2008 dried up a lot of financing and trading activity, conditions that caused the big banks to move "downstream" into the traditional territory of smaller dealers. When deal-making did occur, analysts said, the big banks were most often the winners because they could offer a suite of services to companies — including loans.

The crisis also forced smaller dealers to back away from risky trading, a move that crimped their profits.

"No question the independent brokers focused on the mining sector have had a tough time [in the past few years]," says Mr. Turner.

Still, the Faskens lawyer says, there have been recent signs the independent model is evolving.

"The model going forward will be much more relationship driven, in effect a merchant banking model," he says.

Among the positive signs Mr. Turner sees is the re-emergence of independent stalwarts such as David Beatty, a co-founder of Westwind Partners, and Bob Sangha, formerly of Dundee Securities Corp.

Mr. Beatty has a new firm, Edgecrest Capital, which announced a major financing this month for North American Paladium Ltd. On Monday, Edgecrest said it will acquire the Canadian and U.S. business of independent dealer Stonecap Securities Inc., subject to regulatory approval.

Mr. Sangha has launched Maxit Capital and recently landed work as a financial advisor for Osisko Mining Corp., alongside BMO Capital Markets. Montreal-based Osisko is facing a hostile bid from Goldcorp Inc.

"It's not game on yet for the independent brokers," says Mr. Turner. "However, if it's not the beginning of the end of the downturn for the independents, it seems to be, as Churchill said, at least the end of the beginning."

In the meantime, the country's "big six" banks and two large and diversified independents are prospering, according to the Investment Industry Association of Canada.

Though no longer pushing to the front of the line in competition with Canada's big banks, Canaccord continues to be counted by the IIAC among the eight top dealers. Notably, though, some of those spoils come from a savvy investment in the United Kingdom in 2012 that added operations in the United States and Europe to Canaccord's arsenal, as well as listings capabilities in Singapore.

It's also noteworthy that, in 2010, Canaccord bulked up by merging with another Canadian independent, Genuity Capital Markets. Genuity was founded by former senior investment bankers from the Canadian Imperial Bank of Commerce.

Raymond James rounds out the top eight firms tracked by the IIAC. The industry group says these integrated firms were responsible for nearly all of the securities industry's "respectable earnings rebound" in 2013 a 27% gain in operating profit which reached $4.8-billion on an annualized basis.

In a report last week, the IIAC described the divide between the large and small players as a "feast or famine" situation.

"This divergence in earnings performance [in the past year] is consistent with the pattern over the past five years," Ian Russell, the president of the IIAC, said in a letter to members. He pointed to the "relatively strong earnings at the largest firms, contrasted with mediocre results at the specialized boutiques."

FACTIVA DOW JONES

EDMONTON JOURNAL

Business

St. Albert man charged with fraud; Concrete Equities raised millions for Mexico condominium project

Amanda Stephenson

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Criminal charges have been laid against two men who allegedly used a fraudulent real estate scheme in Mexico to bilk victims out of $23 million.

David Nelson Humeniuk of St. Albert and Varun (Vinny) Aurora, former executives of Concrete Equities - the Calgary-based firm that went into receivership in 2009 after raising $120 million from 3,700 investors - are both charged with three counts of fraud over $5,000 and one count of theft over $5,000.

Humeniuk, who faces an additional count of theft and **money laundering** for allegedly taking $1 million of investors' funds for his personal use, has been arrested and released to appear in Calgary Provincial Court on February 27. A Canada-wide warrant has been issued for Aurora's arrest.

The criminal charges come more than two years after Humeniuk, Aurora, and two other people associated with Concrete Equities were found to have breached Alberta **securities** laws. In January 2012, the Alberta **Securities** Commission slapped Humeniuk, Aurora, David Jones, and Vincenzo De Palma with combined penalties topping $5.6 million - including the largest ever levied on an individual in Alberta.

But while the charges mark the culmination of a 12-month RCMP investigation that involved three full-time investigators, the analysis of more than 1,000 documents, and the extensive tracking of funds that had allegedly been funnelled to multiple business ventures across North America, some victims say it's not enough.

"Maybe it makes some people feel better that they've been charged, but being charged and being convicted and serving time are two different things," said Terry Town, a Calgary businessman who lost $80,000 in Concrete Equities' 'El Golfo de Santa Clara' project. "If we heard they were going to jail for 10 years, that would be a whole other story. But I'd be surprised if they get six months."

Even if the accused go to jail, Town said, it won't make things better for the thousands of people - many of them seniors - who are still seriously hurting in the aftermath of the scandal. "There are people who lost their homes," Town said. "If you lost your life savings, it's gone. There's nothing to be done."

Under the Criminal Code, a conviction for fraud over $5,000 carries a maximum penalty of 14 years in jail.

Concrete Equities was founded in 2005 and went on to offer units in eight realestate-based limited partnerships. They invested in Calgary strip malls and office buildings and in raw land in Mexico.

In July 2009, Concrete and seven of the partnerships were placed in receivership. According to the receiver's report, only five of some 40 Concrete projects had enough value for there to be a chance of some recovery for the investors.

Sgt. Conal Archer of the Calgary Financial Integrity Unit said RCMP chose to focus their investigation on the Mexican condo project, which had 1,300 victims from Alberta, B.C., Saskatchewan, and Ontario. "We had to make a decision," Archer said. "We looked at the egregiousness of this particular fraud. They (victims) were being promised over 500 per cent return on their investment, so it was fairly serious. These people thought they were going to be getting quite wealthy, and of course, that never happened."

Though Jones was Concrete's president and later CEO, he was not a director of the particular partnership that handled the El Golfo deal, Archer said.

No charges have been laid against either Jones or De Palma. In 2012, Jones was levied a $1.2 million penalty by the Alberta **Securities** Commission, while De Palma was issued a $600,000 penalty.

In its ruling, the Alberta **Securities** Commission said Concrete Equities sold investors units of commercial properties, but overstated purchase prices, misled investors about the commissions to be paid, and co-mingled funds from individual projects.

The receiver told the ASC hearing that Concrete couldn't list all its bank accounts.

In its sanction decision, the ASC levied a $3.3 million penalty against Humeniuk, who was at one point senior vice-president and general manager of Concrete. He was also permanently barred from trading in or purchasing **securities**, or acting as an officer or director for any issuer. The sanction was the highest ever issued by the ASC.

Aurora was given a $500,000 penalty, a five-year ban on trading or purchasing **securities**, and a nine-year ban on acting as an officer or director for any issuer.

RCMP are asking anyone with information as to the whereabouts of Aurora contact Sgt. Conal Archer at 403-699-2500 or Crime Stoppers anonymously at 1-800-222-8477.

Two investors speaking on condition of anonymity said friends close to the situation told them Aurora has left the country, and is now living in India.

Edmonton Journal

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OnLine

'The wolf? He's still big and bad,' says one of 1,500 real-life fraud victims

Jacqui Goddard

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When Leonardo DiCaprio's new film The Wolf of Wall Street opened in Bob Shearin's hometown of Manhattan Beach, California, the 66 year-old was one of the first to buy a ticket.

Released on Christmas Day in the United States, and in Britain two days ago, the film, directed by Martin Scorsese, came garlanded with praise by critics who called it "exhilarating" and "hilarious".

But Shearin's interest had nothing to do with the reviews or the lurid trailer which promised three hours of sex, drug-taking and depravity among a group of amoral stockbrokers in Nineties America.

Quite the opposite. The businessman wanted to see the film because he had first-hand experience of the events it depicted, as a victim of the real-life "wolf", Jordan Belfort.

Belfort, played by DiCaprio, was the founder and president of the New York investment banking firm Stratton Oakmont which, between 1989 and 1997, made outrageous profits - even by Wall Street's high standards - while conning small investors out of millions of dollars.

As one of them, Shearin is appalled by the way the film seems to glory in its protagonist's crimes, playing his hedonistic lifestyle for laughs.

"The harm that was done to people around Belfort, and to the small investors, and what that meant - you see none of that," said Shearin. "His depiction is annoying and disturbing, because it makes him more into a mythical figure and skips the reality of what he was about. And what he was about was harming people financially."

Belfort's 1,500 victims are also furious that the con man, who has admitted he was a "greed-fuelled animal", has failed to pay back the money despite a $110 million restitution order by a federal judge, part of his sentence for fraud and **money laundering** in 2003.

The victims, many of whom lost their savings, are also disappointed that DiCaprio made a 30-second video for Belfort's motivational-speaking business, extolling him as a "shining example of the transformative qualities of ambition and hard work".

"It's really time for people to stop glorifying the crooks on Wall Street and for justice to be done," said Diane Nygaard, a **securities** and investment fraud lawyer in Kansas City, Missouri, who has represented several of Belfort's victims. "I was appalled at DiCaprio because he clearly doesn't have a clue as to the heartache this con man cost so many hard-working Americans. I think the film should be called 'My Adventures with other People's Money', because that's what it boils down to. You can steal more money with a pen than you can with a gun."

Three hours long, with more than 500 utterances of the F-word, a feature-film record, The Wolf of Wall Street tells of the upstart New Yorker whose first business - a meat-selling enterprise - left him bankrupt at 24. From the steak market he leaped into the stock market and two years later banked an income of $49 million - and complained "it was three shy of $1 million a week".

With such wealth came a decadent lifestyle. There were private jets, luxurious properties, bodyguards, champagne, wild sex - once on a mattress of $3 million in banknotes - poolside parties, prostitutes, and, in Belfort's words, "enough drugs to sedate Guatemala". At one point, he was hooked on 22 drugs, including cocaine and Quaaludes.

His first expensive car was a white Ferrari Testarossa. Later, he bought a vintage Aston Martin that he kitted out like James Bond's, complete with a gadget to scatter nails on the road to burst the tires of potential pursuers.

From its beginnings in a cupboard at a used-car salesroom, Stratton Oakmont grew swiftly until it was filled with the collective roar of 1,000 young stockbrokers, all urging investors over the telephone to buy. But often they were selling empty promises. Between 1990 and 1997, the firm targeted customers in a classic "pump-and-dump" scam. Brokers would buy large blocks of small public companies, then hard-sell the rest of the shares to inflate the price, before dumping their own shares into the market, causing the price to plummet. This made colossal profits for Belfort and his staff, but left investors' portfolios worthless.

"It started out as a phone call selling me good stock, one of the better brands that made me money, then after they had me hooked they started selling me nothing, just a lot of hot air," said Dr Alfred Vitt, 81, who lost $250,000.

"They were such high pressure people, very persistent, they wouldn't take no for an answer. Sometimes you would just have to hang up on them but other times to get them off the line I'd cave in, unfortunately. Everyone wants to strike it rich, so I borrowed money and I went deep."

Stratton Oakmont's brokers made a minimum of $250,000 in their first year, progressing to seven figures by year three. Even the switchboard operator earned $80,000.

Nothing was taboo. The film opens with a scene in which crazed staff vie for a $25,000 prize in a dwarf-throwing contest; in another, a young female assistant has her head shaved before baying colleagues in exchange for a $10,000 breast implant.

Office sex got so out of hand that notices from the management were handed out declaring the premises a "--? free zone" between 8 a.m. and 7 p.m.

"It was nothing short of a good old fashioned gold rush," Belfort wrote in his 2008 memoir, on which the film is based. "They were drunk on youth, fuelled by greed and higher than kites. And day by day the gravy train grew longer."

The train hit the buffers in 1998 when the FBI and the **Securities** and Exchange Commission pounced. Belfort pleaded guilty to 10 counts of **securities** fraud and **money laundering**. He was sentenced to four years in prison but was released after 22 months, having cut a deal with prosecutors for turning over a number of cronies and agreeing to make restitution. Today, he claims to be a reformed man. Aside from his speaking work, he sells a $2,000 home study course in how to get rich quick "without sacrificing integrity" and hires himself out to companies including Virgin Airlines and Deutsche Bank.

Joel Cohen, a former federal prosecutor who led the case against Belfort, complains that Scorsese's film gives Belfort's business free publicity, especially in its final scene, when DiCaprio appears alongside the real-life Belfort. "What reason could they have for putting the real Belfort on screen as they did in front of a placard advertising his motivational speaking business?"

Last October, the U.S. Attorney's Office for the Eastern District of New York filed a court motion asking for Belfort to be held in default of the restitution order. Of the $11.6?million collected against his $110 million debt, it stated, most came from the sale of seized assets, and Belfort has paid just $243,000 over the past four years

despite receiving $1.7?million from his two books and the film rights. He opposed the motion, arguing that the requirement to pay restitution had expired. The US Attorney's Office has since withdrawn the motion, in order to keep negotiations with Belfort open.

On his Facebook page, Belfort insists "100 per cent of the profits of both books and the movie", amounting to "countless millions of dollars", are destined for the restitution fund. But Robert Nardoza, a spokesman for the attorney's office, countered: "Belfort's Facebook posts are inaccurate. The government has seen nothing to suggest that even 100 per cent of Belfort's profits from his books and movie would yield 'countless millions'. They would not be enough to cover the losses inflicted on the victims."

Shearin, who lost $130,000, said Belfort had "managed to weasel out of" the payments, adding: "That makes me suspicious of the 'recovery' he's claiming."

It is a suspicion based on close observation - Belfort's seafront home is also in Manhattan Beach.

"He's short, cocky, kind of strutting around," said Shearin. "Maybe I should have some resentment, but where would that get me? I'm not going to run up to him and say 'You're a scumbag.' He's just doing what he does. That's what scumbags do."

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DOWJONES | Newswires

TD Bank Fined $52.5 Million by Federal Regulators

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23 September 2013
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Dow Jones News Service
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By Jacqueline Palank and Michael R. Crittenden

WASHINGTON--U.S. regulators fined TD Bank a total of $52.5 million over its role in helping imprisoned attorney Scott Rothstein carry out a $1.2 billion Ponzi Scheme.

The **Securities** and Exchange Commission, Office of the Comptroller of the Currency and the Financial Crimes Enforcement Network announced the charges and fines on Monday. Mr. Rothstein has already pleaded guilty to bilking investors out of more than $1.2 billion and is currently serving a 50-year prison sentence.

The SEC alleged that TD Bank and a former official, Frank Spinosa, defrauded investors by creating misleading documents and making false statements about the accounts that Mr. Rothstein, the founder of a South Florida law firm, held at the bank and used to carry out his Ponzi scheme.

Mr. Spinosa faces penalties and a permanent injunction under the SEC's complaint, filed in the U.S. District Court for the Southern District of Florida. Attorneys for Mr. Spinosa couldn't immediately be reached for comment Monday afternoon. TD Bank didn't admit any wrongdoing under the settlement.

Mr. Spinosa allegedly told investors that TD Bank restricted Mr. Rothstein's ability to move the funds, when it didn't, and that certain accounts held millions of dollars when their balances were actually less than $100 or zero, according to the SEC complaint.

"Financial institutions are key gatekeepers in the transactions and investments they facilitate and will be held to a high standard of accountability when their officers enable fraud," Andrew J. Ceresney, co-director of the SEC's enforcement division, said in a statement. "TD Bank through a regional vice president produced false documents on bank letterhead and told outright lies to investors, failing in its gatekeeper role."

The OCC said in a legal filing the bank also failed to alert the government about suspicious activities in the accounts tied to the Ponzi scheme. For more than a year, bank officials ignored suspicious activities that had triggered the bank's anti-**money laundering** alert system. Officials at the bank incorrectly decided the questionable activities were not suspicious and did not file appropriate reports with the government, the agency said.

The failure to file suspicious activity reports "were significant and egregious for a number of reasons, including the number of alerts generated by these accounts and the volume and velocity of funds that flowed through them," the OCC said in a statement.

TD Bank has previously agreed to pay more than $72 million in a separate settlement reached in the bankruptcy case of Mr. Rothstein's now-defunct law firm, Rothstein Rosenfeldt Adler.

Creditors pushed the Florida law firm into involuntary bankruptcy protection in November 2009, weeks before Mr. Rothstein's arrest. Creditors received their first payment last month, nearly four years into the firm's wind-down. [09-23-13 1519ET]

Dow Jones & Company, Inc.

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THE VANCOUVER SUN

David Baines
BusinessBC

Accused money launderer and admitted stock offender cross paths in Naramata; Erwin Speckert's B.C. company is listed as the owner of lakefront property, but Ingo Mueller and his wife live there and call it their own

David Baines

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In previous columns, I noted that Swiss fiduciary Erwin Speckert has been closely associated with West Vancouver promoter Ingo Mueller.

Mueller has a regulatory history. In 2006, the B.C. **Securities** Commission suspended him from the B.C. **securities** market for three years after he admitted he had disseminated false information about a bulletin board company called Exotics.com Inc.

The U.S. **Securities** and Exchange Commission made similar allegations, which he settled in 2010 without admitting nor denying any wrongdoing, but nevertheless agreeing not to participate in any penny stock offering for the next five years.

BCSC enforcement staff recently accused Speckert of funnelling millions of dollars to an Abbotsford man, Colin McCabe, to secretly promote sketchy stocks quoted on the OTC Bulletin Board in the United States. A hearing is pending.

Manitoba RCMP have also charged Speckert with possessing and laundering the proceeds of an illegal gambling enterprise in Ontario after he was caught last year at a Winnipeg bus depot with $1.3 million in his backpack while en route to Vancouver. That case is also pending.

As noted in previous columns, Speckert and Mueller have been close associates. Among other things, Speckert was a co-director of Mueller's private firm, St. Georges Capital Corp., until he ran into trouble with the BCSC.

I have also linked Speckert and Mueller to a $2.15-million lakefront residential property in Naramata.

The property, located at 4785 Mill Rd., is registered in the name of Naramata Golden Properties Ltd., whose sole director and officer is listed as Speckert.

However, I have been reliably informed that the property is used exclusively by Mueller and his wife, and that they refer to it as their property. This raises the question: Is Speckert simply acting as a front for Mueller?

If he is, it wouldn't be the first time. As noted in my last two columns, the estranged wives of Vancouver-area promoters James Michie and Richard Coglon claimed that Speckert was helping them hide assets through companies he represented. Michie and Coglon denied they had any interest in the assets, but the court found otherwise.

I tried to ask Mueller whether he was the beneficial owner of the Naramata property, but he did not return my call Tuesday.

-

One of the bulletin board companies that the BCSC alleges Speckert and McCabe conspired to promote was Guinness Exploration Inc., which is closely associated with Coglon.

Guinness was being promoted on the basis of prospective gold claims in the Yukon, which it had acquired for cash and restricted shares from Eagle Trail Properties Inc., a private Saskatchewan company owned by Coglon and an associate, Robert Sim.

BCSC investigator David Salzano raised Coglon's name while he interviewing Speckert about funding McCabe's promotion of Guinness. (Transcripts from that interview were tendered at a preliminary hearing into the matter.) "And you know, there's people I know who are involved with the company (Guinness) that I think paid for it (the promotion), and I think they're people you might have heard of, like Richard Coglon or (names one other individual)," Salzano said to Speckert.

"Door No. 1, so far," Speckert replied.

When I called Coglon last week, he adamantly denied any involvement in the management or promotion of Guinness. He also denied he had any dealings with Speckert with respect to Guinness.

-

Speckert has also been involved in bulletin board companies with Ontario **securities** offender James Pincock.

In an August 2002 settlement agreement with the Ontario **Securities** Commission, Pin-cock admitted he had solicited at least $2 million from 150 investors, pooled the funds in offshore accounts, then used the proceeds to buy large blocks of shares from seven junior companies. He then broke up the blocks and distributed the shares to the investors, thereby circumventing minimum investment rules.

Pincock admitted he had not been registered to sell or advise in **securities**, or to act as a portfolio manager. He also admitted he had distributed the shares without filing a prospectus or having an exemption from prospectus requirements. For these offences, he was suspended from the Ontario **securities** market for five years.

He subsequently changed his name to James Werth Longshore.

When his suspension expired, Longshore began promoting a bulletin board company called Xtra-Gold Resources Corp., which is working on a gold project in Ghana. Significant shareholders included:

- G.M. Capital Partners Ltd., a Geneva-based firm owned by Michie. It owned six million shares.

- Alpine Atlantic Asset Management AG, a Zurich-based firm that provided asset management and protection services for its clients. Alpine was owned by G.M. Capital, Michie served as chairman and Speck-ert as a manager. It held just over 250,000 shares.

- Speckert's close business associate, Mikkel Lind of Liechtenstein, who controlled just over one million shares through two companies based in St. Lucia in the Caribbean. (Lind and Speckert are currently listed as co-directors of a private B.C. company called Fun City Properties Inc., business unknown.)

As always, the overarching question is, who were the beneficial owners of these shares?

Whoever they were, they stood to make big money.

Those shares, which they acquired for pennies each, peaked at $2.38 in December 2010, just after the company obtained a listing on the Toronto Stock Exchange. Since then, they have declined to 63 cents, nearly one-quarter their all-time high.

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/ Erwin Speckert: charged with money laundering by RCMP.; / Erwin Speckert: charged with money laundering by RCMP. [VASN_20130417_Final____C2_124893_I001.jpg];

Vancouver Sun

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FROG Genmed's Harris pleads not guilty in L.A.

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7 March 2013
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FrogAds Inc (:FROG)

Thursday March 07 2013 - Street Wire

See Genmed Holding Corp (:GENM) Street Wire

by Mike Caswell

Mark Harris, the former Vancouver promoter facing criminal charges in the United States for several pump-and-dumps, has pleaded not guilty. He entered the plea in a brief appearance before a judge in Los Angeles on Feb. 27, 2013. The judge then allowed his release on a $700,000 bond, with the conditions to include house arrest. (All figures are in U.S. dollars.)

Prosecutors claim that Mr. Harris, 56, was part of a group of serial market manipulators that generated $30-million in illegal profits from a number of pump-and-dumps. The group secretly took control of OTC Bulletin Board companies and promoted the stocks with false or misleading information. The men then allegedly dumped millions of shares and moved the proceeds from the scheme offshore.

Mr. Harris was initially arrested in Arizona on Feb. 13, 2013, when a pair of indictments against him and 13 others were unsealed in California. The U.S. Marshals Service transported him to Los Angeles, where he remained in custody until he pleaded not guilty last week. After he entered the plea, the judge fixed his bond at $700,000, of which $100,000 his wife Jonni would satisfy and the remainder he and his wife would jointly provide.

The judge also ordered him to remain under house arrest at his home in Arizona, to be enforced by electronic monitoring. He may only leave to drive his son to and from school. Other terms of his release include travel restrictions, avoiding contact with his co-defendants, and submitting to drug and alcohol testing.

The move from jail to home will be a substantial upgrade in accommodations for Mr. Harris. The address listed in his release documents is for a 4,407-square-foot home in Scottsdale, Ariz. According to an old real estate advertisement, the house has five bathrooms, a pool and parking for three cars. The average list price of homes in his ZIP code is $1.55-million.

Fraud charges

The charges against Mr. Harris are detailed in a pair of indictments unsealed in the Central District of California on Feb. 13, 2013. The charges included **securities** fraud, wire fraud and international promotional **money laundering**. Prosecutors claimed that Mr. Harris and others ran a pump-and-dump scheme that began around 2009 and continued until at least December, 2012. The promotions, as described in the indictments, all followed a similar pattern: the men took control of an OTC-BB company, promoted it with false or misleading news, and then dumped their shares.

One of the examples prosecutors provided was Genmed Holding Corp., a Dutch company that claimed to be developing generic drugs. The Genmed scheme, as described in the indictment, began in early 2011, when then stock was thinly traded and was around 30 cents. According to prosecutors, the men took control of the

company and then arranged a touting campaign that included paid promoters, a celebrity video and mass mailings that overstated the company's revenues.

(The recipients of that promotional money, as listed in the indictment, included a West Vancouver company called Raincity Marketing Group. The indictment did not accuse Raincity of any wrongdoing, but said that it received $165,000 through wire transfers to HSBC Bank Canada.)

As the promotion began, the stock became far more active, trading hundreds of thousands of shares per day, and reaching a 52-cent high. The company issued a news release in which it claimed to have an agreement with a pharmaceutical distributor in Ireland that would see its products sold in several countries.

Part of the promotion, according to prosecutors, was a video news release with a known actor. (Prosecutors did not identify the actor, but one of the other companies in the indictment claimed to have Pamela Anderson pitching its products.) The video shoot was the subject of a string of text messages that Mr. Harris received on March 20, 2011, prosecutors claimed. One text said the video would be distributed on "CNN Bloomberg, msnbc, local tv as well as cable across the nation ... I believe it will [be] a great tool for [the third party stock promotion groups]."

One of Mr. Harris's co-defendants, Grover Nix, had high expectations for the promotion, according to the indictment. In an intercepted conversation he said, "I'm fucking truly excited like a kid at Christmas." In all, prosecutors claim that the men made $2.1-million from the Genmed promotion.

The defendants, in addition to Mr. Harris, are Sherman Mazur, Ari Kaplan, Grover "Colin" Nix, Regis Possino, Edon Moyal, Joseph Davis, Curtis Platt, Dwight Brunoehler, Tarun Mendiratta, Ivano Angelastri, Joseph Scarpello, Julian Spitari, Peter Dunn and William Mackey. Most of the men are from California.

The stocks, in addition to Genmed, were Sport Endurance Inc., Empire Post Media Inc., FrogAds Inc. and Biostem U.S. Corp. None of the companies are named as defendants.

The case is scheduled for a trial by jury starting April 23, 2013.

Prior to Arizona, Mr. Harris lived in Vancouver on and off for many years, holding himself out as an investor relations man. He ran a private firm called Skylla Capital Corp., which operated from an office on Burrard Street. The Vancouver Sun's David Baines reported in 2006 that he had a child with former Northern **Securities** Inc. broker Jonni-Colleen Sissons.

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Business

Woman accused in $135-million scheme; Payday-loan operator had hundreds of investors in alleged Ponzi scam

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The B.C. **Securities** Commission accused a woman on Monday of running an elaborate Ponzi scheme and raising $135.4 million from at least 800 investors in Canada and the United States.

The regulator alleged Doris Nelson operated a payday-loan business called the Little Loan Shoppe and told investors that because her business was so profitable, she could afford promissory notes paying annual interest rates of 40 per cent to 60 per cent.

"Nelson paid out purported returns to some investors, but her business was not profitable," the regulator said. "Instead it consistently lost money due to its high rate of customer loan defaults. Nelson was able to create the appearance of profitability, and to pay high rates of interest on the promissory notes, only because she used money obtained from later investors to make payments to earlier investors."

The commission accused Nelson, a Canadian citizen living under house arrest in Colbert, Washington, of fraud and making false statements to the commission.

The allegations have not been proven.

The regulator said Nelson paid out a total of $118 million to investors, including $2.2 million in commissions to recruiters.

It's alleged that operating losses, money she withdrew from the business for her own use and other unaccounted-for losses made up the remaining $17.4 million, which the regulator said did not appear recoverable.

Nelson stopped making payments to investors in 2009, and three months later a group of investors petitioned one of Nelson's companies into bankruptcy, and another filed a voluntary petition for bankruptcy.

The B.C. regulator's case follows charges in the U.S. where Nelson is awaiting trial on 71 counts of wire fraud, 22 counts of mail fraud and 17 counts of international **money laundering**.

Victoria Times Colonist

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THE GLOBE AND MAIL

Business

Calgary men, companies face $54-million in sanctions for 'massive fraud'; ASC issues penalties in fraud case for Brost, Morice and Sorenson

JEFF GRAY Law Reporter

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The Globe and Mail (Breaking News)
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Three Calgary men and their companies have been ordered to pay nearly $54-million in sanctions by the Alberta **Securities** Commission for bilking investors in "a systemic massive fraud."

In a decision released Friday, an ASC panel handed down the sanctions against Dennis Morice, Milowe Brost, Gary Sorenson and their companies, The Institute for Financial Learning Group of Cos. Inc. and Merendon Mining Corp. Ltd.

An ASC panel in April previously found that they had orchestrated a $46-million fraud.

In addition to the large monetary penalties, Friday's order also permanently bans the three men from trading or purchasing **securities**, advising others on **securities** or acting as a director or officer of an issuer.

In April, the Alberta regulator said that the group had "perpetrated a deliberately complex, co-ordinated, far-reaching and massive – almost $46-million – fraudulent investment scheme."

Mr. Brost and Mr. Sorenson have also faced investigations and charges by the U.S. **Securities** and Exchange Commission and the RCMP in connection with other alleged frauds.

The SEC won an order in 2010 ordering the two men to pay more than $310-million (U.S.).

Mr. Brost and Mr. Sorenson also face criminal charges of fraud, theft, possession of stolen property and **money-laundering** in connection with their alleged Ponzi investment scheme. A preliminary hearing in the case got under way earlier this month in a Calgary courtroom.

Globe and Mail Update

The Globe and Mail Inc.

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THE VANCOUVER SUN

David Baines
BusinessBC

Victoria 'wealth creation' firm closes doors after string of bad investment recommendations; President and owner of Wealth By Design, Denise Andison, now promoting fledgling recycling company

David Baines

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VNCS
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C2
English

Wealth by Design, the Victoria financial planning firm that promised to make its clients "financially free" then saddled them with a host of underperforming investments, appears to have shut down its business.

A reader told me this week that the company's office has been shuttered, and I note the company's website is no longer operative. The company's voicemail is still active, but nobody returned my calls on Friday.

As reported in March, Wealth by Design billed itself as a "financial ser-vices education and capital-raising company."

It held seminars and "boot camps" where it purportedly taught attendees how to become "financially free within 10 years or less."

It offered an array of investment products that would purportedly help attendees achieve that goal, but in fact, had the opposite effect.

The president and owner of Wealth by Design was Denise Andison, and the firm's chief executive officer was Stephen McClure.

Among the investments that McClure recommended were Meren-don Mining, which turned out to be a Ponzi scheme; Canadian Humanitarian Trust, a charitable donation tax shelter that was disallowed by Canada Revenue Agency; and Borealis Inter-national Inc., which was shut down by the Ontario **Securities** Commission.

In April, after my columns were published, McClure left the firm, but Wealth by Design carried on. It began promoting another questionable investment offering, One World Polymers Corp., a fledgling company that plans to sell waste plastic products to offshore countries. This is not exactly an arm's-length recommendation: Andison also serves as One World's chief operating officer, which raises a conflict-of-interest question.

Andison has also been heavily involved in the Victoria Real Estate Investors Club, which is run by her husband, Gord Knox. It has been a very symbiotic relationship, with Knox recommending his wife and her firm. He has also presented many other high-risk investments, including distressed property in Arizona. As always, attendees should keep their guard up. Last month, PI Financial Corp. announced it would acquire Union **Securities** Ltd.'s client accounts and its employees - consisting of about 70 advisers and assistants, and about 30 administrative staff.

After the deal closes, which is scheduled for Oct. 15, Union **Securities** will cease operations as a registered dealer, marking the end of its 49-year existence.

The combination solves two problems: The first is that Union was skating pretty close to the edge in terms of capital adequacy. As Union chairman and CEO Norm Thompson pointed out in a release, joining with PI is "a prudent step in providing our clients with the confidence and stability that is needed in these difficult market conditions." The second problem it solves is the terrible public relations image that Union and its advisers created through repeated run-ins with regulators.

Union was founded by Thompson's father, Norman Sr., in 1963. The firm initially focused on Vancouver Stock Exchange-related business, but gradually shifted emphasis to stocks quoted on the OTC Bulletin Board in the United States. This attracted shady clients and errant brokers who, in turn, attracted regulatory attention.

In the summer of 2005, the Investment Dealers Association of Canada pronounced that Union had developed a "culture of indifference toward compliance issues" and ordered the firm be placed under the supervision of Grant Thornton LLP.

The following year, the firm and its three most senior officers - Norm Jr. and his brothers, Rex and John Thompson - admitted to a host of trading and compliance breaches and agreed to pay a total $1.775 million in fines.

The settlement also required Union to retain Grant Thornton to "review and test" the firm's compliance systems and policies for the next three years.

That did not end the matter, how-ever. In succeeding years, a string of Union brokers were named in regulatory actions. (Just this week, Reginald Groome, a broker in Union's Montreal office, was cited for allegedly permit-ting his clients to buy shares of a company that was under a cease-trade order. A hearing is pending.)

PI Financial and its advisers have also had many run-ins with regulators, also due to the firm's fascination with bulletin board stocks.

In August 2001, the B.C. **Securities** Commission cited the company and nine of its most senior officers and directors for allegedly turning a blind eye to mob-related **securities** fraud and **money laundering**. Among them was Max Meier, who still serves as the firm's chairman and CEO.

The hearing - the longest in BCSC history - ended in September 2006 with a split decision absolving the respondents of any wrongdoing. But the adverse publicity - combined with many other instances where PI brokers were named in B.C. and U.S. regulatory actions and court cases - caused the firm immense reputational damage.

Since then, PI - which is 25-per-cent owned by a subsidiary of National Bank of Canada - has done a good job of keeping out of trouble. Hopefully, it will be able to teach some of Union's more adventuresome brokers how to do the same.

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Vancouver Sun

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The Gazette

News

Investment adviser found guilty of obstruction; Was fined for a similar crime in 2009

PAUL DELEAN

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Montreal Gazette
MTLG
Final
A7
English

A high-profile Montreal investment adviser, Michel Marcoux of Avantages Services Financiers, has been found guilty of obstructing **securities** regulators in an investigation of offshore accounts.

The disciplinary committee of the Chambre de la sécurité financière, the body that oversees financial professionals in Quebec, rendered the verdict and will hold a hearing on sanctions at a future date.

Marcoux was convicted of having failed to act "with honesty and integrity" during an Autorité des marchés financiers (AMF) inspection in 2004 by falsely declaring he didn't know the identity of clients of Dominion Investments Ltd. that had accounts with Avantages under names like Martien, Popoye, Banane and Discus.

He was convicted of the same infraction for having told the AMF in 2006 and in 2007 that Dominion Investments and/or its Bahamasbased liquidator owned the accounts.

Dominion Investments, based in the Bahamas, was the investment services company of Quebecer Martin Tremblay, sentenced in 2007 to four years in U.S. jail for **money laundering** after he was videotaped offering to launder $20,000 for two undercover government agents.

The company was put into liquidation after his arrest in 2006.

The disciplinary committee was told Marcoux referred about 50 of his clients to Dominion, of which "eight to 10" opened accounts.

Marcoux, an investment adviser for 17 years, author of several books and regular presenter at workshops hosted by the Chambre de la Sécurité Financière, said he'd always acted honourably and done nothing illegal.

The fact he pleaded guilty in Quebec Court to the same allegations in 2009 and was fined $15,000 for securitieslaw violations is not an admission of the infractions or sufficient evidence for professional sanctions, he argued.

He told the disciplinary committee he pleaded guilty on the advice of his former lawyer and after consulting people in the industry.

Given that he had talked to other people, and is an educated person with considerable industry experience, it's hard to believe he'd have made the admissions without a pretty good understanding of the case against him, the committee said.

It noted the testimony of one witness who said Marcoux not only knew his pseudonym, Gala, "he's the one who asked us to choose one."

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Montreal Gazette

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CALGARY HERALD

News

Canadian man charged in U.S. Ponzi scheme

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CALH
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English

The former owner of the Ontario Hockey League's Cornwall Royals has been charged in the United States with operating "a massive Ponzi scheme," to the tune of $129.5 million US.

William Wise, 62, originally from Cornwall, Ont., and California resident Jacquline Hoegel, 55, are accused of marketing and selling fake certificates of deposit to more than 1,200 people.

The U.S. attorney's office says the money was "used to enrich Wise and Hoegel."

According to court documents, Wise and Hoegel opened the Caribbean-based Millennium Bank in 1999 and were allegedly issuing the fraudulent certificates until March 2009, when the **Securities** and Exchange Commission shut down the scheme. Victims of the scheme lost more than $75 million US, according to the indictment papers.

Wise is facing 23 counts, including conspiracy, mail and wire fraud and **money laundering**. Hoegel is charged with four counts of making and subscribing a false tax return, one count of obstruction and one count of false statements.

Calgary Herald

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Local / News

Four charged in $16m investment scheme; Hamilton and Halton residents invested in what police say were bogus companies; restitution ordered

Molly Hayes The Hamilton Spectator mhayes@thespec.com 905-526-3214

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HMSP
First
A3
English

HALTON -- An estimated 150 investors, some from in and around the Hamilton-Halton region, are out millions of dollars in what police describe as a $16-million Ponzi scheme.

Four Halton residents - two of whom were jailed more than a year ago after ignoring a stop-trading order from the Ontario **Securities** Commission - are facing charges in the alleged investment scam.

Police say the investors from across southern Ontario and the United States were led to believe they were buying into offshore oil **securities**, poised to generate big profits fast.

But police allege it was a Ponzi scheme; some funds were filtered back to investors in the early rounds of investing but over five years, those investors lost $8 million.

The 18-month investigation began when one investor came forward to Halton Regional Police.

"Many, many more investors" were tracked down through banking documents, said Detective Constable Lorena Mallinson.

Six companies, all based in the Hamilton-Halton region, were investigated. They included: North American Carrier Services; Hillcorp International Services; Hillcorp Wealth Management; Suncorp Holdings (no relation to Suncor Energy); Exxon Holdings (no relation to Exxon Mobil); and Petro Properties (no relation to Petro Holdings).

Police allege the companies were essentially fronts for the scam.

"There may have been some legitimate usage that took place at some point for these companies, but not during this (investigation's) time frame," Mallinson said.

Their investigation - with assistance from the Ontario **Securities** Commission, which regulates the industry in this province - resulted in the arrests of four people.

Paul DiNardo, 52, of Burlington, is charged with two counts each of fraud over $5,000, **money laundering** and possession of proceeds of crime.

Rita DiNardo, 64, of Milton, Danny DeMelo, 43, of Milton, and Steven John Hill, 52, of Burlington, have been charged with single counts of fraud over $5,000, **money laundering**, and possession of proceeds of crime.

DeMelo and Hill were sentenced to 90 days in jail and 12 months probation last year after pleading guilty to breaching OSC cease-trade orders first made against them and their affiliated companies in July 2009, according to documents from the quasi-criminal proceedings.

At that time, Hill was listed as the sole director of "162 limited," which operated as Hillcorp International Services. DeMelo identified himself then as the senior investment adviser (CFO) of Hillcorp Wealth Management - a division of Hillcorp International.

In their OSC sentencing last year, DeMelo and Hill were also ordered to pay restitution of almost $1 million to 22 Ontario investors. Mallinson said that amount is part of the $8-million loss cited in their police investigation.

In the OSC decision, the pair and their affiliated companies - including Hillcorp International Services, Hillcorp Wealth and Suncorp Holdings - were also permanently prohibited from trading. Hill and Paul DiNardo are in custody and appear in court Thursday and Friday. The next appearance for Rita DiNardo and DeMelo is April 23.

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Vern Krishna
Business

Fraud isn't likely to disappear even with convictions

Vern Krishna

Financial Post
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Victoria Times Colonist
VTC
Final
D2
English

Accounting and **securities** frauds continue unabated and in increasing amounts. The recent conviction of financier R. Allen Stanford on 13 counts of fraud involving US$7-billion - including **money laundering** and obstructing investigators - is the most recent example, but not the last.

The methods vary depending upon the underlying purpose: managing earnings to boost financial performance, stock prices and executive bonuses; evading income taxes; or just old fashioned Ponzi selling.

North America has seen its fair share of all these types of fraud over the years.

We see confidence, creative bookkeeping, and the respectability of pedigree - the essential ingredients of fraud - in McKesson & Robbins, a classic case from the late 1930s in which Canada played a leading role.

The story begins with Philip Musica - a high school dropout - twice convicted of commercial fraud. Upon his release from prison, Musica reincarnated himself as "F. Donald Coster" and upgraded his academic pedigree by conferring upon himself two advanced degrees, an MD and a PhD from Heidelberg University - the most elite and respected educational institute in Germany at that time. The newly minted "Herr Dr. Dr. Coster" then acquired McKesson & Robbins - a publicly listed pharmaceutical company on the New York Stock Exchange.

Coster wanted to make the company look successful and profit from its publicly listed shares. He incorporated a Canadian company in Windsor, hired his cousin and bought five typewriters. Coster and his cousin then created a fictitious paper financial empire. They did all the things accountants do, but without any underlying business. They typed fictitious sales, purchase and delivery invoices - each on different typewriters - and created substantial paper profits. They went through the entire accounting cycle, recording nonexistent inventories and account receivables of about $35-million on the company's books.

McKesson & Robbins had to comply with **securities** laws and the formalities of preparing financial statements. The company retained one of the most respectable blue-chip accounting firms - Price Waterhouse - as its auditors. As a director of the company testified at trial, "I just took it that when you put PW on the bottom of a statement, it was sterling silver, and everything went." The markets bought the fiction. The company's stock soared.

In 1937, auditing standards did not require auditors to "kick the tires" by physically examining inventories or confirming accounts receivables with debtors. PW auditors phoned Coster's cousin in Windsor. He confirmed that all was well with the Canadian subsidiary and that they had all assets on hand. Coster managed to conceal his fraud for 12 years, always showing substantial inventories and accounts receivable on the books from ever-increasing fictitious sales.

The bubble eventually burst and Coster put a gun to his head. The accounting profession learned a lesson and changed its auditing stan-dards to require physical inspection of all material inventories stated on the financial

statements. The company survived, too; McKesson Corp. is today one of the largest pharmaceutical and medical technology companies in the world.

In what has come to be called the Great Salad Oil Swindle of the 1960s, Anthony "Tino" DeAngelis turned to science to perpetrate his fraud. DeAngelis controlled Ally Crude Vegetable Oil and Refining Corp. Ally's auditors - having learned the risks of not physically verifying inventory in McKesson & Robbins - physically inspected the company's inventory of salad oil at a "tank farm" in New Jersey. They examined each barrel of oil and even inserted a dipstick into the tanks to ensure that they actually contained oil.

However, not all auditors are versed in Archimedean principles. Having created phantom inventory through fictitious warehouse receipts and inventory records, DeAngelis filled the tanks with water and added a little bit of oil. Since oil floats on water, the dipstick readings did not detect the depth of the oil. As the auditors moved ahead from tank to tank with their dipsticks, the company's employees repainted the numbers on the tanks behind them. Thus, as in a Marx Brothers comedy, not only did the auditors count water as oil, but they also counted the same water as oil over and over, thereby multiplying the value of the company's inventory.

The Crazy Eddie fraud had an unusual twist. Eddie Antar was an officer, director and employee of Crazy Eddie Inc., a chain of consumer electronic stores. New York-based Crazy Eddie's management initially falsified the corporate books in the traditional manner - they skimmed cash at their stores and paid employees "off the books." Management reduced corporate taxable income by approximately 20%, and the family deposited more than US$6-million between 1980 and 1983 in offshore bank accounts.

However, Antar's success became his albatross: Where to hide the skimmed money? The Antar family decided to cover up their fraud by going public! Prior to going public, however, they decided to skim less money each year. By stealing less, they increased profit margins and net income. Actual profits rose by 13% from 1980 to 1983. The company's reported profits rose by more than 170%.

The company went public in September 1984 (CRZY) on the Nasdaq at a price of about US$8. Within 18 months, Crazy Eddie stock traded at more than US$75 per share (after accounting for share splits).

The frauds would have remained undetected had it not been for Eddie's bedroom antics. Eddie became involved in an extramarital relationship and was caught out by his wife on New Year's Eve. He learned that hell hath no fury like a woman scorned. The entire fraud, which had been a nice family enterprise, unravelled. At trial, Eddie Antar admitted that he caused the value of the inventory of Crazy Eddie that he reported to the auditors to be overstated by about US$2 million.

As accounting and **securities** frauds evolve and become more sophisticated, they retain their basic features: overstate, understate and shift income between fiscal periods depending upon the ultimate goal. In respectable circles, we speak of this as "earnings management."

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Victoria Times Colonist

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THE VANCOUVER SUN

David Baines
BusinessBC

West Vancouver stock promoter languishes in Austrian jail; Aly Mawji has been in prison for 10 months awaiting outcome of multimillion-dollar manipulation charges

David Baines

Vancouver Sun
955 words
29 March 2012
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VNCS
Final
D3
English

When we last left West Vancouver stock promoter Aly Babu Mawji in May 2011, he was not in West Vancouver, rather he was in jail in Austria in connection with the alleged multimillion-dollar manipulation of De Beira Goldfields Inc.

Stuttgart public prosecutor Claudia Krauth confirmed in an email this week that Mawji is still in jail. She gave no indication when the case would be dealt with.

Meanwhile, the 33-year-old promoter has sold his luxurious 6,100-sq.-ft home at 627 Kenwood Rd. in the

British Properties. It was listed for $3.79 million and ultimately sold for $3.35 million. He also leased a 2006 Ferrari F430 Spyder.

De Beira was a sham exploration company that went public on the OTC Bulletin Board in the United States in early 2006.

Immediately after clearing the company's shares for resale, the company's president, Vancouver longshoreman Mike Fronzo, handed control to a pair of Australian promoters, Reginald Gillard and Klaus Eckhof.

Gillard and Eckhof announced an option to explore a project in Colombia and - before drilling a single hole - the company's market capitalization jumped from practically nothing to $600 million US.

The stock was co-listed on the Frankfurt Stock Exchange and heavily promoted by German newsletter writer Pascal Geraths, who has also been charged in connection with the alleged manipulation. (A third man has also been charged, but his name has not been released.) Mawji was closely involved in the company's affairs. During an earlier interview, he told me he had introduced the company to the Australian promoters. Also, his personal telephone number was listed on De Beira's press releases, and the company's website was registered in his name.

In June 2006, the B.C. **Securities** Commission issued a cease-trade order against the company on grounds that it had not made proper disclosure of its mineral interests. The stock subsequently unravelled.

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When we last left Vancouver chartered accountant James Philip on March 21, he was still serving on the board of Vancouver-based NovaGold Resources Inc. even though he and Bodog founder Calvin Ayre had been indicted three weeks earlier by the

U.S. Department of Justice for operating an illegal gambling enterprise and **money laundering**.

I noted that the U.S. charges had caught the attention of the Institute of Chartered Accountants of B.C., of which Philip is a member. "We are monitoring the situation and treating it seriously," Chris Utley, the institute's director of ethics, told me in an interview.

I also noted that unlicensed gambling and **money laundering** are also considered offences in Canada, which means that Canadian authorities - if requested by the U.S. Department of Justice - could arrest him and extradite him to the United States.

That raised the question: Would Philip appear at NovaGold's special meeting for shareholders at the Pan Pacific Hotel on Wednesday?

The question became academic on Monday when NovaGold issued a release announcing that Philip had resigned for "personal reasons." It also wished him luck (in his future endeavours).

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The B.C. **Securities** Commission's criminal investigations team has been busy these days.

The team investigates **securities** cases with a view to prosecuting the alleged offenders in criminal court, rather than before an administrative tribunal. In court, they can get fines and jail terms. At a hearing, they can get only fines and market suspensions.

So far this month, the team has collared three alleged **securities** offenders:

. On March 6, members of the team, accompanied by Coquitlam RCMP, arrested Amir Beiklik in his Coquitlam home and charged him with one count of fraud and one count of theft. Crown counsel Brian McKinley said the case relates to about $345,000 that a woman gave to Beiklik for investment purposes between October 2004 and May 2008. The Crown alleges he diverted the money for other purposes.

. On March 7, members of the criminal prosecutions team, this time accompanied by Langley RCMP, arrested Hal (Mick) Allan McLeod at his home for breaching a lifetime ban against selling **securities**.

McLeod (who has legally changed his name to Michael Carter Smith) was the mastermind behind the Manna Humanitarian Foundation and related entities, which raised $16 million US from about 800 investors, many of them B.C. residents, between 2005 and 2007.

Investors were told their money would be used to trade foreign exchange currencies, and they would earn up to seven per cent monthly. In fact, it was a Ponzi scheme. Investors lost more than $10 million.

In August 2009, a BCSC hearing panel imposed a permanent **securities** ban on McLeod and three associates, David John Vaughan, Kenneth Robert McMordier (also known as Byrun Fox) and Diane Sharon Rosiek.

RCMP conducted a criminal investigation but ultimately decided there was not enough evidence to recommend charges.

McLeod, meanwhile, began promoting another investment scheme in Surrey called Provina Capital. BCSC enforcement staff conducted an under-cover operation, which led to him being charged with breaching his ban. In a separate matter, RCMP have charged him with uttering forged documents.

. On March 16, members of the team, this time accompanied by Nanaimo RCMP, arrested Michael Chodorowski at the Nanaimo airport and charged him with four counts of fraud, three counts of theft and one count of laundering the proceeds of crime.

Chodorowski allegedly told investors that, if they gave him money, he could generate high returns for them. The total amount of the alleged fraud is more than $2 million.

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Vancouver Sun

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Search Summary

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BUSINESS VANCOUVER

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ECONOMY AND FINANCE

Securities fraud still largely undetected in Canada and the U.K. – CFA Institute study

Complex legal system, lack of national securities regulator and enforcement among key factors hindering stock fraud deterrence in Canada

By Richard Chu

If investors think they're less likely to get bilked by investing in companies traded on Canada's main stock exchange, they should think again.

A soon-to-be published study commissioned by the CFA Institute and conducted at York University's Schulich School of Business has found that there were more litigated securities fraud cases involving TSX-listed companies than there were for companies listed on the TSX Venture Exchange between 2005 and 2011.

Douglas Cumming, one of the study's authors, said he was surprised that there were fewer frauds detected on the junior exchange compared with the senior market.

"That was definitely not what we expected in Canada."

The study is the first of its kind to break down the number of fraud cases by stock exchange. Cumming noted there's no easy way for investors on any exchange in Canada, the U.S. or the U.K. to determine the number of frauds occurring on their respective exchanges.

In Canada, the Canadian Securities Administrators recently began listing fraud as a category within its 2012 annual enforcement report, but the organization doesn't break out where the frauds originated. It took Cumming and his team of six MBA students an entire summer to collect and compile the data from the various regulators for their study.

"It was very time-consuming to gather this information. Nowhere can you find statistics that report fraud on an exchange-by-exchange basis. We think that's quite useful information," said Cumming. "Certainly, it would help people decide where to allocate their capital and the associated risks."

On the TSX, the largest category of fraud was non-financial fraudulent misrepresentation and disclosure followed by financial fraud, illegal distribution and one litigated case of insider trading.

On the TSX Venture Exchange, illegal distribution of shares and financial fraud were the two largest fraud categories followed by fraudulent misrepresentation.

The U.K. followed the Canadian pattern with more cases involving companies listed on the country's main board, the London Stock Exchange, than on the junior Alternative Investment Market.

By comparison, the number of litigated frauds in the U.S. was highest on the non-regulated Pink Sheets, followed by the Nasdaq and the New York Stock Exchange (NYSE).

Jim Allen, the CFA's head of capital markets policy, said the study's results confirmed their expectations that smaller companies would have more problems in the U.S. But he said it was surprising that was not the case in Canada or the U.K.

Cumming warned, however, that, given the relatively low number of litigated frauds in both countries, the results underestimate securities fraud in Canada and the U.K.

According to the study, there were 3,037 litigated frauds between 2005 and 2011 in the U.S. on the three exchanges analyzed in the study but only 48 in Canada and 49 in the U.K. in the same period of time.

"Having such a low rate of fraud in Canada could infer that Canadians are super-ethical," Cumming said sardonically. "But more realistically, more needs to be done in Canada to detect fraud."

Toronto-based independent forensic auditor Al Rosen of Rosen and Associates agreed.

"Ninety per cent aren't reported," he said. "There is this feeling in Canada that you are safe. You don't have anything to worry about, and it's not just so. A lot of our cases are foreign people who have come to Canada because they know we are stupid. They know we won't prosecute; we won't even investigate."

He said the low number of litigated frauds is "a matter of where the bucks are" with lawyers having to consider if it's worth pursing and if there is a strong enough chance of winning a favourable decision.

Rosen added that part of the problem is that investors must clear a host of high legal hurdles to try to get some of their money back. The primary way investors pursue fraudsters is through class-action lawsuits, which can take years, even decades to resolve.

Brent MacLean, a Vancouver associate counsel at Davis LLP, said there are also liability caps against issuers for claims of secondary market trading fraud of $1 million or 5% of a company's market capitalization, whichever is greater.

"This is small potatoes compared [with] similar U.S. class-action claims."

The BC Securities Commission (BCSC) launched its criminal investigations team in 2007. But its success rate has been equally low. According to the BCSC, provincial Crown counsel has laid charges in only 26 cases over the past seven years. Two dozen people have been formally charged and only 10 have been convicted.

Stuart Morrow, a Vancouver partner at Davis, noted that even if investors win a favourable decision, they might still not get any money because the perpetrators are bankrupt.

"Evaluating your potential for recovery is an essential precondition to initiating litigation."

National securities regulator needed to protect investors

Cummins suggests having a national securities regulator would help simplify the process for cheated investors. Morrow noted that the CSA has done a good job in terms of preserving and protecting provincial interests and the maintenance of healthy capital markets. But "where effective action against securities perpetrators is concerned, one single national body would be more effective."

Added MacLean, "The SEC [the U.S. Securities and Exchange Commission] has much more substantial powers to commence commercial litigation than our provincial securities commissions do by a long shot to protect investors."

Morrow pointed out that increasing help for bilked investors requires far greater federal and provincial political will than exists today.

But Rosen said that before politicians do anything about Canada's securities laws, investors have to "wake up."

"We've got a system in Canada that is so backward, it's beyond belief. And yet, Canadians are willing to believe they are protected. It's exasperating. Canadians are too trusting of the system they have. There are people who think Canadians are easy prey. They just know Canadians are gullible."

Story URL: http://www.biv.com/article/20130903/BIV0102/309039912/0/BIV0109

Grant Thornton

Reporting Entity Sector Profiles: Accountants Appendices

Prepared for FINTRAC | March 31, 2014

Appendix A: Industry statistics and reporting entity data

Accounting Industry SIC Codes

Code	Description
872	Accounting, Auditing, and Bookkeeping Services
8721	Accounting, Auditing, and Bookkeeping Services

Accounting Industry NAICS Codes

Code	Description
5412	Accounting, Tax Preparation, Bookkeeping and Payroll Services
541211	Offices of Certified Public Accountants
541213	Tax Preparation Services
541214	Payroll Services
541219	Other Accounting Services

Establishments: Accounting, Tax Preparation, Bookkeeping and Payroll Services (NAICS 54121)

Number of establishments in Canada by type and region: December 2012
Accounting, Tax Preparation, Bookkeeping and Payroll Services (NAICS 54121)

Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	2,859	3,374	6,233	16.7%
British Columbia	2,952	3,594	6,546	17.6%
Manitoba	463	555	1,018	2.7%
New Brunswick	282	256	538	1.4%
Newfoundland and Labrador	190	115	305	0.8%
Northwest Territories	16	20	36	0.1%
Nova Scotia	353	318	671	1.8%
Nunavut	4	5	9	0.0%
Ontario	5,306	8,355	13,661	36.7%
Prince Edward Island	65	45	110	0.3%
Quebec	2,817	4,227	7,044	18.9%
Saskatchewan	440	582	1,022	2.7%
Yukon Territory	21	23	44	0.1%
CANADA	15,768	21,469	37,237	100%
Percent Distribution	42.3%	57.7%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments
by employment size category and region: December 2012
Accounting, Tax Preparation, Bookkeeping and Payroll Services (NAICS54121)

Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	2,333	512	11	3
British Columbia	2,276	661	12	3
Manitoba	320	136	7	0
New Brunswick	205	73	3	1
Newfoundland and Labrador	120	69	1	0
Northwest Territories	6	9	1	0
Nova Scotia	259	88	6	0
Nunavut	1	3	0	0
Ontario	4,025	1,231	41	9
Prince Edward Island	43	22	0	0
Quebec	1,975	818	17	7
Saskatchewan	302	136	2	0
Yukon Territory	15	6	0	0
CANADA	11,880	3,764	101	23
Percent Distribution	75.3%	23.9%	0.6%	0.1%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Establishments: Offices of Accountants (NAICS 541212)

Exclusions - Establishments primarily engaged in:

- providing tax return preparation services, without also providing accounting or auditing services (541213, Tax Preparation Services); and
- providing bookkeeping, billing and payroll processing services, without also providing accounting or auditing services (541215, Bookkeeping, Payroll and Related Services).

Number of establishments in Canada by type and region: December 2012
Offices of Accountants (NAICS 541212)

Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	1,992	1,873	3,865	18.0%
British Columbia	1,926	1,815	3,741	17.4%
Manitoba	316	292	608	2.8%
New Brunswick	192	144	336	1.6%
Newfoundland and Labrador	101	69	170	0.8%
Northwest Territories	9	12	21	0.1%
Nova Scotia	222	167	389	1.8%
Nunavut	2	1	3	0.0%
Ontario	3,238	4,021	7,259	33.8%
Prince Edward Island	40	19	59	0.3%
Quebec	1,852	2,543	4,395	20.5%
Saskatchewan	280	333	613	2.9%
Yukon Territory	7	5	12	0.1%
CANADA	10,177	11,294	21,471	100%
Percent Distribution	47.4%	52.6%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments
by employment size category and region: December 2012
Offices of Accountants (NAICS541212)

Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	1,618	367	5	2
British Columbia	1,439	482	3	2
Manitoba	217	96	3	0
New Brunswick	136	53	3	0
Newfoundland and Labrador	59	42	0	0
Northwest Territories	5	3	1	0
Nova Scotia	157	63	2	0
Nunavut	1	1	0	0
Ontario	2,405	817	10	6
Prince Edward Island	26	14	0	0
Quebec	1,240	599	8	5
Saskatchewan	187	91	2	0
Yukon Territory	5	2	0	0
CANADA	7,495	2,630	37	15
Percent Distribution	73.6%	25.8%	0.4%	0.1%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Establishments: Tax Preparation Services (NAICS 541213)
Exclusions - Establishments primarily engaged in providing a range of accounting services (541212, Offices of Accountants).

Number of establishments in Canada by type and region: December 2012
Tax Preparation Services (NAICS 541213)

Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	168	142	310	14.0%
British Columbia	189	164	353	16.0%
Manitoba	47	52	99	4.5%
New Brunswick	25	16	41	1.9%
Newfoundland and Labrador	30	3	33	1.5%
Northwest Territories	5	0	5	0.2%
Nova Scotia	40	21	61	2.8%
Nunavut	0	1	1	0.0%
Ontario	448	504	952	43.1%
Prince Edward Island	7	4	11	0.5%
Quebec	115	129	244	11.0%
Saskatchewan	58	38	96	4.3%
Yukon Territory	1	2	3	0.1%
CANADA	1,133	1,076	2,209	100%
Percent Distribution	51.3%	48.7%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments
by employment size category and region: December 2012
Tax Preparation Services (NAICS541213)

Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	119	47	1	1
British Columbia	136	53	0	0
Manitoba	31	16	0	0
New Brunswick	14	11	0	0
Newfoundland and Labrador	21	9	0	0
Northwest Territories	0	5	0	0
Nova Scotia	30	10	0	0
Nunavut	0	0	0	0
Ontario	324	123	1	0
Prince Edward Island	5	2	0	0
Quebec	73	41	1	0
Saskatchewan	31	27	0	0
Yukon Territory	0	1	0	0
CANADA	784	345	3	1
Percent Distribution	69.2%	30.5%	0.3%	0.1%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Establishments: Bookkeeping, Payroll and Related Services (NAICS 541215)

Exclusions - Establishments primarily engaged in:

- providing a range of accounting services (541212, Offices of Accountants); and
- providing tax return preparation services, without also providing accounting or auditing services (54213, Tax Preparation Services).

Number of establishments in Canada by type and region: December 2012
Bookkeeping, Payroll and Related Services (NAICS 541215)

Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	699	1,359	2,058	15.2%
British Columbia	837	1,615	2,452	18.1%
Manitoba	100	211	311	2.3%
New Brunswick	65	96	161	1.2%
Newfoundland and Labrador	59	43	102	0.8%
Northwest Territories	2	8	10	0.1%
Nova Scotia	91	130	221	1.6%
Nunavut	2	3	5	0.0%
Ontario	1,620	3,830	5,450	40.2%
Prince Edward Island	18	22	40	0.3%
Quebec	850	1,555	2,405	17.7%
Saskatchewan	102	211	313	2.3%
Yukon Territory	13	16	29	0.2%
CANADA	4,458	9,099	13,557	100%
Percent Distribution	32.9%	67.1%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments
by employment size category and region: December 2012
Bookkeeping, Payroll and Related Services (NAICS541215)

Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	596	98	5	0
British Columbia	701	126	9	1
Manitoba	72	24	4	0
New Brunswick	55	9	0	1
Newfoundland and Labrador	40	18	1	0
Northwest Territories	1	1	0	0
Nova Scotia	72	15	4	0
Nunavut	0	2	0	0
Ontario	1,296	291	30	3
Prince Edward Island	12	6	0	0
Quebec	662	178	8	2
Saskatchewan	84	18	0	0
Yukon Territory	10	3	0	0
CANADA	3,601	789	61	7
Percent Distribution	80.8%	17.7%	1.4%	0.2%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Searches from Onesource

Sic Code – 8721 - Accounting, Auditing, and Bookkeeping Services

Province	Number of Establishments
Alberta	1,386
British Columbia	1,940
Manitoba	290
New Brunswick	218
Newfoundland and Labrador	75
Northwest Territories	13
Nova Scotia	268
Nunavut	3
Ontario	3,006
Prince Edward Island	34
Quebec	1,520
Saskatchewan	354
Yukon	26
Total	9,133

Source: Onesource

NAICS Code – 541211- Accounting, Tax Preparation, Bookkeeping and Payroll Services

Province	Number of Establishments
Alberta	1,697
British Columbia	2,197
Manitoba	411
New Brunswick	301
Newfoundland and Labrador	172
Northwest Territories	17
Nova Scotia	386
Nunavut	3
Ontario	2,176
Prince Edward Island	54
Quebec	2,036
Saskatchewan	439
Yukon	28
Total	9,917

Source: Onesource

NAICS Code – 541213- Tax Preparation Services

Province	Number of Establishments
Alberta	312
British Columbia	262
Manitoba	121
New Brunswick	83
Newfoundland and Labrador	97
Northwest Territories	4
Nova Scotia	119
Ontario	1,366
Prince Edward Island	20
Quebec	526
Saskatchewan	88
Yukon	2
Total	3,000

Source: Onesource

NAICS Code – 541214- Payroll Services

Province	Number of Establishments
Alberta	9
British Columbia	17
Manitoba	8
Newfoundland and Labrador	3
Nova Scotia	6
Ontario	39
Prince Edward Island	1
Quebec	19
Saskatchewan	2
Total	104

Source: Onesource

NAICS Code – 541219- Other Accounting Services

Province	Number of Establishments
Alberta	325
British Columbia	491
Manitoba	70
New Brunswick	37
Newfoundland and Labrador	19
Northwest Territories	5
Nova Scotia	112
Nunavut	1
Ontario	781
Prince Edward Island	17
Quebec	235
Saskatchewan	108
Yukon	13
Total	2,214

Source: Onesource

Canada's Accounting Top 30

Rank by Revenue 2013	Rank by Revenue 2012	Accountant/Year End/ Head Office	Revenue 2013 ($000)	Revenue change (%)	Partners / Principals (+/-)	Professional Staff (+/-)	Revenue per professional staff	Number of offices	Revenue splitting A&A/MAS/ Tax/Other
1	1	Deloitte LLP / June 1, 2013 / Toronto	1,776,000	-5.6	865 (+2)	5,316 (-145)	334,086	55 (-1)	N/A
2	2	PricewaterhouseCoopers LLP / June 30, 2013 / Toronto	1,211,200	0.7	513 (-18)	4,263 (+132)	284,119	25	N/A
3	3	KPMG LLP / Sept. 30, 2013 / Toronto	1,203,102	3.5	696 (+35)	3,795 (+240)	317,023	37 (+2)	N/A
4	4	Ernst & Young LLP / June 28, 2013 / Toronto	968,000	6.3	358 (+17)	2,992 (+166)	323,529	17	N/A
5	5	Grant Thornton Canada[1] / December 31, 2013 / Toronto	582,000	6.8	404 (-5)	2,983 (+146)	195,106	135	N/A
6	7	MNP LLP / December 31, 2013 / Calgary	487,000	13.3	357 (+28)	1,026 (+108)	474,659	58	N/A
7	6	BDO Canada LLP / December 31, 2013 / Toronto	465,000	4.3	392 (+9)	2,229[2] (+106)	208,614	111 (+6)	N/A
8	8	Collins Barrow National Co-operative / Dec. 31, 2013 / Kitchener, Ont.	177,570	13.2	207 (+24)	541 (+46)	328,226	41 (+4)	N/A
9	9	Richter / December 31, 2013 / Montreal	80,289	0.4	58 (+10)	415 (+78)	193,467	2 (+1)	40/25/30/5
10	10	Mallette / August 31, 2013 / Québec	63,982	13.0	66 (+7)	472 (+30)	135,555	24 (+2)	60/15/20/5

[1] Includes Grant Thornton LLP and Raymond Chabot Grant Thornton (Quebec)
[2] BDO Canada's 2012 professional staff count amended to 2,123

Rank by Revenue 2013	Rank by Revenue 2012	Accountant/Year End/ Head Office	Revenue 2013 ($000)	Revenue change (%)	Partners / Principals (+/-)	Professional Staff (+/-)	Revenue per professional staff	Number of offices	Revenue splitting A&A/MAS/ Tax/Other
11	11	HLB/ Schwartz Levitsky Feldman / Dec. 31, 2013 / Montreal	38,000	-4.0	46 (-2)	176 (-8)	215,909	7	66/4/17/13
11	12	Crowe MacKay LLP / December 31, 2013 / Vancouver	38,000	-0.8	36	171 (-9)	222,222	7	69/6/18/7
13	13	Crowe Soberman LLP / December 31, 2013 / Toronto	35,309	-0.4	23	86 (-23)	410,570	1	66/8/18/8
14	14	Welch LLP / January 26, 2014 / Ottawa	26,800	-3.9	38 (-8)	227 (+67)	118,062	12	74/3/17/6
15	15	PSB Boisjoli LLP / December 31, 2013 / Montreal	22,918	4.4	17	70 (+13)	327,400	1	48/27/19/6
16	17	Ginsberg Gluzman Fage & Levitz LLP/ Dec. 31, 2013 / Ottawa	21,725	7.3	12 (+2)	80 (+5)	271,563	9	35/2/10/53
17	18	KNV Chartered Accountants LLP / Dec. 31, 2013 / Surrey, B.C.	21,045	4.7	13	123 (+22)	171,098	3	52/6/37.5/4.5
18	19	Manning Elliot LLP / December 31, 2013 / Vancouver	20,050	0.3	23 (+1)	97 (-8)	206,701	2	79/5/16/0
19	16	Davidson & Company LLP / December 31, 2013 / Vancouver	19,000	-9.5	15 (+1)	62 (-16)	306,452	1	80/0/20/0
20	24	Demers Beaulne / December 31, 2013 / Montreal	18,672	14.4	15	79 (-1)	236,354	1	50/18/32/0

Rank by Revenue 2013	Rank by Revenue 2012	Accountant/Year End/ Head Office	Revenue 2013 ($000)	Revenue change (%)	Partners / Principals (+/-)	Professional Staff (+/-)	Revenue per professional staff	Number of offices	Revenue splitting A&A/MAS/ Tax/Other
21	20	Millard Rouse & Rosebrugh LLP / July 31, 2013 / Brantford, Ont.	18,562	0.1	21 (-2)	70 (+6)	265,171	6	67/7/23/2
22	22	Zeifmans LLP / January 31, 2014 / Toronto	18,550	6.0	12 (+1)	63 (+3)	294,444	1	54/16/30/0
23	21	DMCL LLP / December 31, 2013 / Vancouver	18,350	0	17 (+2)	78 (-84)	235,256	3	68/1/31
24	25	Durward Jones Barkwell & Co. LLP / Dec. 31, 2013 / St. Catharines, Ont.	16,685	3.1	25 (-4)	72 (+27)	231,736	8	55/15/19/11
25	23	Smythe Ratcliffe LLP / December 31, 2013 / Vancouver	16,241	-4.9	13	101 (-20)	160,802	4	72/0/12.5/15.5
26	27	Kingston Ross Pasnak LLP / Dec. 31, 2013 / Edmonton	15,402	13.7	18 (+2)	66 (+7)	236,954	2 (+1)	62/4/24/10
27	28	Lemieux Nolet / August 31, 2013 / Levis, Quebec	13,327	1.1	19	76 (+1)	175,355	4	68/3/15/14
28	30	RLB LLP / December 31, 2013 / Guelph, Ont.	12,932	5.3	12 (-1)	74 (+33)	174,757	3	54/9/29/8
29	29	Wolrige Mahon LLP / December 31, 2013 / Vancouver	12,700	2.4	18 (+1)	70	181,429	1	65/15/20/0
30	--	Segal LLP / December 31, 2013 / Toronto	12,622	3.2	13 (-5)	26 (-9)	485,462	1	80/3/16/1

Source: The Bottom Line – April 2014

Accounting Industry - Market Value
Canada Accountancy Market Value: US$ billion, 2008-2012

Year	US$ billion	% Growth
2008	11.3	
2009	11.6	1.9%
2010	11.6	0.5%
2011	11.9	2.2%
2012	11.9	0.2%
Compound Annual Growth Rate (CAGR): 2008-2012		1.2%

Source: MarketLine, August 2013

Accounting Industry - Market Value Forecast
Canada Accountancy Market Value Forecast: US$ billion, 2012-2017

Year	US$ billion	% Growth
2012	11.9	0.2%
2013	12.0	0.8%
2014	12.1	1.2%
2015	12.3	1.3%
2016	12.5	1.4%
2017	12.6	1.4%
Compound Annual Growth Rate (CAGR): 2012-2017		1.2%

Source: MarketLine, August 2013

Accounting Industry – Market Segmentation
Canada's Accountancy Market Category Segmentation: US$ billion, 2012

Category	2012	%
Audit	5.2	43.7%
Advisory	3.6	30.3%
Tax	3.1	26.0%
Total	11.9	100%

Source: MarketLine, August 2013

Accounting Services – Canada - $ millions

	2008	2009	2010	2011	2012p
Operating revenue	12,796.80	13,197.20	13,942.50	14,274.90	14,959.20
Operating expenses	9,191.60	9,517.80	10,034.00	10,192.10	10,777.70
Salaries, wages and benefits	5,142.10	5,338.60	5,577.90	5,674.40	6,009.70
Operating profit margin	28.20%	27.90%	28%	28.60%	28%

Source: Statistics Canada

Appendix B: Examples and typologies

The enclosed articles have been sourced from news media databases, books and the Internet, and provide specific examples of the risk factors identified in the report.

1. Vatican official charged with money laundering. Associated Press, Jan 21, 2014.
2. Ex-Vatican accountant hit with new money laundering charge. Digital Journal, January 21, 2014.
3. Accountant sentenced for money laundering. Montreal Gazette, January 15, 2014.
4. Mississauga chartered accountant sentenced to jail and fined for tax fraud scheme. Canada Revenue Agency. May 6, 2013.
5. Ontario court approves $117-million settlement with Sino-Forest auditors. Globe and Mail, March 20, 2013.
6. Livent auditors appeal misconduct ruling. Canadian Business, June 6, 2008.
7. Corrupt tax auditor gets three years. The Toronto Star, Jan 29, 2014.
8. Former accountant gets 7-year prison term for tax fraud. Torstar News Service, June 17, 2013.
9. OSC accuses Ernst & Young of shoddy audit of TSX Venture-listed Zungui Haixi. The Globe and Mail, June 24, 2013.
10. Accountant sentenced for money laundering. The Champion, January 17, 2014.
11. Accountancy giant EY's GBP750,000 Farepak fine. The Scotsman, December 20, 2013.
12. KPMG pays €7 million to settle Dutch bribery case. The FCPA Blog, January 13, 2014.
13. Deloitte to pay $2 million to settle charges over audit rule violations. Reuters, October 22, 2013.
14. Deloitte fined $10mn in US money laundering case. Live mint. June 19, 2013.
15. Big Four Chinese units face US suspension. ICAS.org.UK, Jan 23, 2014
16. KPMG to pay USD 8.2m to settle SEC auditing charges. Deccan Herald, January 24, 2014.
17. PWC fined $2.17 million by U.K. regulator over JP Morgan client-money audit. Bloomberg, January 5, 2012

18. Accountants fined pounds 14m over MG Rover; Watchdog says Deloitte in serious ethical breaches: Record-breaking penalty for Phoenix Four advisors. The Guardian, September 10, 2013.

19. Deloitte under investigation over Rover; Nearly seven years after the collapse of car manufacturer MG Rover, its advisor Deloitte has been placed under investigation by industry regulators. The Telegraph Online, February 2, 2012.

20. MG Rover debacle can't hide accounting regulation failures. The Conversation, September 10, 2013.

21. When accountants play role of bankers. The New York Times, September 13, 2013.

22. The Big Four's new math; A decade after Sarbanes-Oxley forced them to scale back on consulting work, accounting giants are beefing up the business of dishing out advice. Crain's Chicago Business, October 7, 2013.

23. Former Detroit public schools accountant sentenced on fraud and money laundering charges. Federal Bureau of Investigation, December 18, 2013.

24. Accountants' professional conduct in relation to taxation. Lexology. March 18, 2014.

25. Auditors at big firms cited for more deficiencies. CFO Journal, October 1, 2013

Vatican Official Charged With Money Laundering

NICOLE WINFIELD, ASSOCIATED PRESS ON JAN 21, 2014

VATICAN CITY (AP) — A Vatican monsignor already on trial for allegedly plotting to smuggle 20 million euros ($26 million) from Switzerland to Italy was arrested Tuesday in a separate case for allegedly using his Vatican bank accounts to launder money.

Financial police in the southern Italian city of Salerno said Monsignor Nunzio Scarano, dubbed "Monsignor 500" for his purported favored banknotes, had transferred millions of euros in fictitious donations from offshore companies through his accounts at the Vatican's Institute for Religious Works.

Police said they seized 6.5 million euros in real estate and bank accounts Tuesday, including Scarano's luxurious Salerno apartment, filled with gilt-framed oil paintings, ceramic vases and other fancy antiques.

A local priest was also placed under house arrest and a notary public was suspended for alleged involvement in the money-laundering plot. Police said in all, 52 people were under investigation.

Scarano's lawyer, Silverio Sica, said his client merely took donations from people he thought were acting in good faith to fund a home for the terminally ill. He conceded, however, that Scarano used the money to pay off a mortgage.

"We continue to strongly maintain the good faith of Don Nunzio Scarano and his absolute certainty that the money

came from legitimate donations," Sica told The Associated Press.

The Salerno investigation was already under way when Scarano was arrested in June in Rome on the smuggling accusations.

Police and Sica have said the money involved in both the Swiss smuggling case and the Salerno money-laundering case originated with one of Italy's most important shipping families, the d'Amicos.

On Tuesday, financial police said more than 5 million euros had been made available to Scarano by the D'Amicos via offshore companies.

Police and Sica described the laundering plot as follows: Scarano allegedly withdrew 555,248 euros from his Vatican account in cash in 2009 and brought it into Italy. Since he couldn't deposit it in an Italian bank without drawing suspicion, he selected 50 friends to accept 10,000 euros apiece in cash in exchange for a check or wire transfer in that same amount.

The money then went to pay off a mortgage on a Salerno property held in the name of a company Scarano partly owned.

The D'Amico family, from Scarano's hometown of Salerno, denied its involvement in a July 1 statement. Their communications firm did not immediately respond to a request seeking new comment Tuesday. No one in the family has been arrested in either case.

Scarano was fired from his job as an accountant in the Vatican's main financial office and Vatican prosecutors seized the 2.3 million still in his accounts after his arrest.

The Vatican's top prosecutor said last week that the Holy See had responded to two official requests from Italy for information about Scarano's accounts, while making its own request to Italian authorities for help in its own money-laundering investigation of him.

The Vatican's own investigation into Scarano's banking activity showed that some 7 million euros had come into and out of his Vatican accounts over the past decade.

The Vatican's documentation arrived on Salerno prosecutors desks in recent weeks, leading to his re-arrest on Tuesday, Italian media reported.

Scarano's original arrest in June led to the resignations of the Vatican bank's top two managers and accelerated efforts to make the troubled institute conform to international anti-money-laundering norms.

Pope Francis has made reforming the bank a priority and has named a fact-finding commission to look into its activities and legal structure.

Scarano's initial arrest in the smuggling case was reduced to house arrest because of his ailing health. Sica said the prelate would serve the new arrest warrant also under house arrest.

In the Rome smuggling case, prosecutors say Scarano, a financier and a carabinieri officer devised an elaborate plot to transport 20 million euros in a private jet from Switzerland to Italy avoid paying customs duties. The plot

fell apart because the financier reneged at the last minute.

Sica has said Scarano in that case was merely acting as a middleman.

DIGITAL JOURNAL
http://www.digitaljournal.com/news/world/ex-vatican-accountant-hit-with-new-money-laundering-charge/article/366822

Ex-Vatican accountant hit with new money laundering charge

Posted Jan 21, 2014 by Dario Thuburn (AFP)

A former Vatican accountant already under house arrest and on trial for alleged corruption and attempted money laundering has been notified of fresh charges against him, Italy's financial police said on Tuesday.

, Italy's financial police/AFP

This handout picture taken from a video released by the Italian financial police on June 28, 2013 shows Nunzio Scarano (front left) shortly after he was arrested in Rome

A former Vatican accountant already under house arrest and on trial for alleged corruption and attempted money laundering has been notified of fresh charges against him, Italy's financial police said on Tuesday.

The police said in a statement that they had seized Monsignor Nunzio Scarano's luxury 17-room apartment and blocked nearly 9.0 million euros ($12 million) on current accounts linked to the senior Italian cleric.

The Vatican in July last year said it had already frozen assets belonging to Scarano and the police on Tuesday said these funds amounted to 2.2 million euros.

"This is very significant," the police said in a statement, a reference to unprecedented levels of cooperation between Vatican and Italian judicial authorities on a high-profile financial crime case.

Vatican bank spokesman Max Hohenberg told AFP: "All activity on his accounts over the past 10 years has been extracted, analysed and submitted to authorities.

"This investigation is based on information provided by the Vatican," he said.

The police said a priest in Scarano's hometown of Salerno who was an aide to the monsignor, Father Luigi Noli, has also been charged and put under house arrest.

A total of 52 people are being investigated in the case, including a notary who allegedly helped organise the money laundering scheme and lawyers, doctors and businesspeople who are suspected of making use of it.

Scarano is accused of taking cheques marked "Donation for the Poor" and in return giving cash from accounts at the Vatican bank, officially known as the Institute of Religious Works or IOR under its Italian acronym.

The police said they had seized two bank accounts at a branch near the Vatican of Italy's UniCredit, one in Scarano's name and the other belonging to a company in which the prelate held 99 percent of shares.

One of the cash withdrawals made by Scarano and traced by police was for 588,248 euros and the police said he gave it to 50 people and used it to pay back a mortgage.

Gabriel Bouys, AFP/File

The headquarters of the Institute for Religious Works (IOR) in the Vatican, on February 18, 2012

They said they managed to find at least five million euros that Scarano "had at his disposal" and alleged he made extensive property investments in Salerno.

The prelate's lawyer, Silverio Sica, said his client used the money for charity and could not be responsible for the provenance of donations he received.

"These are donations we received over the years from wealthy people. They are free donations. It is not up to us to say where the money came from," he told AFP.

Silverio Sica said the latest accusations had been a "blow" for Scarano and that he had requested that a psychiatrist be allowed to visit him, adding: "He is completely in shock, he is very disoriented."

The police said their suspicions were first aroused in January 2013 when Scarano reported a theft from his home of "several million euros' worth of valuables".

They said the sum was "significantly disproportionate" to Scarano's declared income.

Scarano was arrested in June of last year on suspicion of being an intermediary for suspect payments from Monaco to Italy, carried out through the Vatican bank.

The clergyman has since been suspended from his duties as chief accountant for APSA, the organisation that manages the Vatican's vast real estate portfolio.

Investigators said Scarano used IOR accounts to make transfers to friends and attempted to repatriate from Switzerland 20 million euros that were untaxed, on behalf of a family of ship owners from Naples.

Scarano's trial started in December last year.

The Vatican, the world's smallest sovereign state, has launched a series of reforms aimed at bringing its bank into line with international standards against money laundering.

The bank has been plagued by scandals in the past and its former president, Paul Marcinkus, sheltered in the Vatican for years to fight off repeated attempts by Italian judicial authorities to arrest him in the 1980s.

The Gazette

News

Accountant sentenced for money laundering

PAUL CHERRY

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An **accountant** arrested as part of an investigation into an alleged plot to launder dirty money through the construction of residential developments has been sentenced to a threeyear prison term for his role in the affair.

Jean Siminaro, 47, appeared relaxed as a special constable placed handcuffs on him before he entered the prisoner's dock in the third-floor courtroom at the Montreal courthouse, where Superior Court Justice Claude Champagne delivered the sentence. The prison term was part of a joint recommendation, so there was no element of surprise for Siminaro. He even shared a joke with a special constable as he was cuffed.

Last year, Siminaro pleaded guilty to conspiracy, **money laundering** and a gangsterism charge.

The **accountant** was arrested in 2009 and charged, along with 13 other people, in Operation Diligence, a Sûreté du Québec investigation into Normand Marvin (Casper) Ouimet, 44, alleged to be a member of the Hells Angels, and his involvement with construction companies. The case against Ouimet and eight other people is still pending as Champagne continues to hear motions filed in the case. Champagne has placed a general publication ban on all evidence presented in the case because of the possibility it will eventually be heard by a jury. For that reason, details of Siminaro's role in the plot cannot be published.

His lawyer, Marc Labelle, read from a statement detailing what Siminaro did. He also noted that Siminaro has no criminal record and, previous to his arrest, was very active as a volunteer coach for youth soccer, hockey and football programs in Repentigny. Labelle suggested the sentence will take a heavy toll on Siminaro's personal life. He is a father of three and has already been stripped of his professional title.

The defence lawyer suggested that the Parole Board of Canada tends to be tough on inmates who have been convicted of a gangsterism charge and Labelle made reference to a civil lawsuit Siminaro is facing. It appears to be a reference to a $750,000 lawsuit that a construction company filed against Siminaro last year.

"We both added water to the wine," Labelle said in reference to the negotiations with prosecutor Marlene Archer to reach an agreement on the length of the sentence. "It's his first sentence, so three years is not nothing."

Archer said that while Siminaro had no criminal record before his arrest "that is often the way it is in **money laundering** cases." She also said the recommended sentence was in line with what two other men - François Boivin, 54, and Yves Lafontaine, 48 - arrested in Operation Diligence have already received. Both men were sentenced to twoyear prison terms after pleading guilty to gangsterism charges filed in Operation Diligence.

Champagne described the sentence recommendation as "more mild than harsh" before he agreed with it. He

also wished Siminaro "good luck" before he was led away into custody.

"I hope there isn't a next time," Champagne said.

"I hope so, too," Siminaro replied.

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GAZETTE FILES / Normand Marvin (Casper) Ouimet, the focus of Operation Diligence.; GAZETTE FILES / Normand Marvin (Casper) Ouimet, the focus of Operation Diligence. [MTGZ_20140115_Early_A6_01_I001.jpg];

Montreal Gazette

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Mississauga chartered accountant sentenced to jail and fined for tax fraud scheme

Brampton, Ontario, May 6, 2013...The Canada Revenue Agency (CRA) announced today that Mr. Imad Kutum pleaded guilty on November 27, 2012 in the Ontario Court of Justice in Brampton, to one count of fraud over $5,000 under the *Criminal Code*. He was sentenced to two years in jail and a fine of $100,000.

Mr. Kutum, a chartered accountant, operated Kutum and Associates, providing tax preparation services and accounting related services. A CRA investigation discovered that false charitable donation claims totalling $3,674,000 were made on 487 income tax returns prepared by Mr. Kutum for clients for the 2003 to 2008 tax years. The false claims were supported by fraudulent charity receipts. The false claims reduced the amount of federal taxes owed by $1,045,111.

The information in this news release was obtained from the court records.

"Canadian taxpayers must have confidence in the fairness of the tax system," said Darrell Mahoney, Assistant Commissioner, Ontario Region, CRA. "To maintain that confidence, the Canada Revenue Agency is determined to hold tax evaders accountable for their actions."

Taxpayers who claim false expenses, credits or rebates from the government are subject to serious consequences. They are liable not only for corrections to their tax returns and payment of the full amount of tax owing, but also to penalties and interest. In addition, if convicted of tax evasion, the court may fine them up to 200% of the tax evaded and sentence them for up to a five-year jail term.

Taxpayers who have not filed returns for previous years, or who have not reported all of their income, can still voluntarily correct their tax affairs. They may not be penalized or prosecuted if they make a valid disclosure before they become aware of any compliance action being initiated by the CRA against them. These taxpayers may only have to pay the taxes owing, plus interest. More information on the Voluntary Disclosures Program (VDP) can be found on the CRA's Web site at www.cra.gc.ca/voluntarydisclosures.

Further information on convictions can also be found in the Media Room on the CRA website at www.cra.gc.ca/convictions.

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THE GLOBE AND MAIL

Ontario court approves $117-million settlement with Sino-Forest auditors

JEFF GRAY - **LAW REPORTER**
The Globe and Mail
Published Wednesday, Mar. 20 2013, 8:15 PM EDT
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An Ontario judge has approved a $117-million deal to settle allegations levelled by investors in Sino-Forest Corp. against Ernst & Young LLP for allegedly failing to properly scrutinize the books of the scandal-plagued company.

The ruling, issued on Wednesday, dismisses objections to the deal raised by a small group of investment funds with holdings in the insolvent Toronto-based Chinese forestry firm. Sino-Forest had a market capitalization of $6-billion before a short seller alleged the company was a "Ponzi scheme" in June, 2011, and caused its shares to plummet.

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The E&Y deal, first announced last year, would see Sino-Forest's primary auditors settle the allegations against them contained in a $9.18-billion class-action lawsuit launched on behalf of Sino-Forest investors against the company, its former executives, auditors and underwriters. E&Y did not admit liability as part of the deal.

The accounting firm still faces serious allegations from the Ontario Securities Commission that it showed a "lack of diligence" in reviewing the documentation of Sino-Forest's purported ownership of standing timber reserves in China. E&Y has denied those allegations and says its work met professional accounting standards. Sino-Forest and some of its former senior executives are also facing OSC fraud allegations, and the RCMP launched an investigation in the case.

The E&Y settlement was first announced as part of Sino-Forest's court-supervised restructuring to transfer the company's subsidiaries to its debt holders after no suitable buyer could be found. But the deal immediately stirred up a controversy.

Lawyers acting for the group of dissident Sino-Forest investors, which includes Invesco Canada Ltd.,

Northwest & Ethical Investments LP and Comité Syndical National de Retraite Bâtirente Inc., tried to block the settlement.

They argued it unfairly precluded them from opting out of the class-action and suing Ernst & Young on their own, by wrongly using Sino-Forest's insolvency court proceedings as a shield. They also questioned whether the settlement, which proponents say is the biggest ever extracted from an auditor in a case like this in Canada, was adequate.

But Mr. Justice Geoffrey Morawetz of the Ontario Superior Court dismissed their arguments, saying that class-actions have often been settled in the same way, as part of an insolvency proceeding. A lawyer for the investment firms could not be reached for comment. It was not known if the group would seek to appeal the ruling.

Sino-Forest's restructuring deal also includes a list of other defendants in the class action, such as some of the company's former directors and executives, who would be eligible to negotiate settlements similar to Ernst & Young's.

But Dimitri Lascaris, a class-action lawyer for the Sino-Forest investors, said no such deals are in the works before April, when the lawsuit is due back in court: "Our intention is to pursue these claims vigorously."

Livent auditors appeal misconduct ruling

While lawyers representing Livent co-founders Garth Drabinsky and Myron Gottlieb were trying to convince a criminal court judge that their clients were not guilty of criminal fraud charges in connection with the collapse of the theatre company, a second set of lawyers representing the auditors from Deloitte & Touche were in a courtroom of another sort trying to overturn the decision of a panel of accounting judges who ruled their clients' handling of Livent's audit amounted to professional misconduct. Over the past week lawyers representing former Livent auditors Douglas Barrington, Claudio Russo and Anthony Power have been arguing before the Institute of Chartered Accountants of Ontario Appeals Committee that a rulingby the ICAO disciplinary panel last February erred in finding their clients guilty of professional misconduct. The panel ruled that the accountants failed to exercise the required professional skepticism when they continued to rely on the representations of the company's senior managers even after company officials lied to them. "The auditors said that their skepticism was `sky high,'" the panel ruled last year. "However, with respect to the impugned conduct, the evidence disclosed that the auditors failed to exercise the professional skepticism required." The panel could have thrown the men out of the accounting profession, but instead ordered the three receive written reprimands and pay fines and penaltiesof more than $1.25 million the highest fine ever meted out by the Institute that oversees the professional conduct of Ontario's chartered accountants. Two of the Deloitte auditors Douglas Barrington and Anthony Power have retired. Only Claudio Russo remains employed with Deloitte. The accountants were never charged with failing to detect the alleged massive fraud that ultimately destroyed the once high-flying theatre company. However, the appeal touches on some of the most contentious and important issues regarding how auditors deal with company managers, namely: just how much trust should accountants place in the representations of managements and how should auditors react once it has been proven that managers have lied to their auditors? Besides a host of legal and procedural grounds, the appeal of the accountants essentially boils down to three main issues: first, the accountants were found guilty of conduct for misbehaviour that was not included in the original charges; second, that the

panel ignored the evidence of experts who testified that the accountants did act appropriately and lastly, that the panel's finding that the auditors reach "a correct conclusion" in their audit work is incompatible with the legal definition of professional misconduct. The accountants are asking the panel to set aside the decision, as well as to strike down the fines levied against them. Much of the evidence in the original disciplinary panel ruling, as well as the appeal, centres on how the Deloitte accountants dealt with the issue of a secret "Put Agreement" between Livent and Dundee Realtyregarding redevelopment of the Pantages Theatrein Toronto that allowed Dundee to pull out of the project ahead of other investors. Livent managers told Deloitte the agreement had been cancelled since the agreement would disqualify Livent from booking any revenue associated with the project until a later time. However, Deloitte accountants auditing Dundee"s books learned the agreement had not been cancelled and was, in fact, still in place. The accountants demanded letters of explanation from Livent co-founder Myron Gottlieb (who was also a member of the audit committee of Dundee Realty's parent company), and Dundee and Livent's outside lawyers. All three provided letters that said the agreement had already been cancelled. However, explanations as to when and how the agreement was dropped differed significantly. Those inconsistencies should have cast doubt on all of the assertions of Livent's managers and caused Deloitte to increase its scrutiny of the company, the panel ruled. "The auditors failed to consider the broader implications of the admitted deception, including the representations made by management throughout the audit," the panel said in their original ruling. But considerations about the Dundee agreement should not have been used to determine professional misconduct since the original charges made no mention of it, lawyers for the accountants argue. "By making the Put Agreement, an aspect of the fraud and a matter that was not a subject of the Charges, `fundamentally important` to its decision the Panel materially changed the case against [the accountants] and unjustly denied them a fair hearing," lawyers for the accountants argue. And even if the panel does choose to consider the impact of the Put Agreement, there is not enough evidence to prove that the agreement was still in effect at the time of the audit, the lawyers contend. After all, there was no evidence that Livent managers were lying about the cancellation of the put and even a re-audit of Livent's books after the massive alleged fraud was uncovered, failed to determine once and for all whether the agreement was still in force or not. Lawyers representing the ICAO's professional standards committee argue just the opposite. There was not enough evidence for the auditors to conclude the put was cancelled in the first place. The fac

that accountants who re-audited the books after the fraud was discovered could not determine whether the Put Agreement was in force or not proves the original auditors did not have enough evidence to allow Livent to recognize the revenue in the first place. "The appellants did not have sufficient appropriate audit evidence to conclude that the representations of management were true," committee lawyers write (wrote?) in their response to the accountants' appeal. "Notwithstanding the lack of audit evidence they released their audit opinion based upon the representations of management." The fact that managers lied should have caused a reasonable accountant to re-assess every decision made in the audit that was based on representations of management, professional committee lawyers say. "(They) did not revisit the representations of management as required by generally accepted standards of practice of the profession." The put agreement was not included in the original charges because the accused accountants themselves introduced most of the evidence relating to the agreement hoping it would bolster their case that they were innocently duped by Livent's managers. However, the disciplinary committee saw it as evidence that the accountants failed to live up to their professional obligation and are entitled to consider the evidence in their decision, the professional standards committee says. That failure to question management occurs again and again during the Livent audit when auditors accepted the verbal assurances of the company's senior managers regarding invoices that were booked to the company's fixed assets with no supporting documentation to a whopping $27.5 million write-off of pre-production costs that Livent managers insisted upon after the accountants had completed their work. "All of these facts should have heightened the level of concern of the auditors with respect to the veracity of management representations," the professional committee states. It is interesting to note that while the Dundee Put Agreement is the mainstay of the ICAO's case against Deloitte, it is not mentioned once in the crown's criminal fraud charges against Drabinsky and Gottlieb. It appears, when it comes to Livent, there is enough alleged fraud to go around for everyone. It could be several months before the ICAO appeal committee delivers its decision. Who knows, by then there may be a decision in the Livent criminal trial as well. (Note: A previous blog post suggested that ICAO fines could only be collected from current members of the Institute. This is not the case. In fact, fines may be filed and collected through the Ontario court. The post has been corrected.)

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Corrupt tax auditor gets three years

Wed Jan 29 2014
Section: News | Toronto Star
Byline: Marco Chown Oved(https://author.thestar.com/content/thestar/authors.oved_marco.html)
Illustrations: Jeffrey Granger has been sentenced to three years in prison after pleading guilty to accepting bribes.

He went from wearing Harry Rosen suits to panhandling on the streets. And after pleading guilty to accepting over a million dollars in bribes, former government tax official Jeffrey Granger is now going to prison.

At Newmarket court Wednesday, Granger, 39, was sentenced to three years for his involvement in a scheme to help wealthy developers evade taxes and frame Caledon's mayor for taking kickbacks.

Speaking slowly and articulately, the former Canada Revenue Agency((www.cra-arc.gc.ca)) team leader apologized for the harm he caused the mayor but said the plot also destroyed his life.

Since his arrest in 2010, Granger says he's lost his wife, his kids, his home, job and assets. His health has suffered - he's put on more than 70 pounds - and he's entered treatment for alcoholism and gambling addiction.

Granger pleaded guilty in November to breach of trust by a public officer, accepting bribes and fraud over $5,000.

At the plea hearing, the Crown and Granger submitted an agreed statement of facts that describes how several major developers in Peel Region paid Granger $1.1 million to stymie government tax audits of their businesses and attempt to frame Caledon Mayor Marolyn Morrison((m.thestar.com)) for taking bribes.

The developers deny these allegations and maintain Granger was hired as a legitimate tax consultant.

Morrison could not be reached for comment on Wednesday.

Morrison angered developer Benedetto (Benny) Marotta when Caledon town council blocked development on a tract of land he owned in 2008. He threatened to sue the city for $500 million.

Tensions grew worse in June of that year, when Morrison's husband was threatened and assaulted((www.thestar.com)) at their home by a man who demanded she change her vote on the development. No one was ever arrested or charged in the assault.

According to the agreed statement of facts, Marotta asked his accountant, Edward Favot, to investigate rumours that Morrison was corrupt and accepting bribes from developers.

Favot brought in Granger, who used his computer access at the CRA to initiate an audit into Morrison, the document says.

Marotta later gave police a USB stick containing digital copies of cheques other developers had made out to Morrison.

Because Morrison had not declared these cheques in her taxes, they appeared to show she had been taking bribes.

Police later determined the cheques were falsified.

Granger denies he provided this USB stick to Marotta.

Both before and after the forged documents were given to police, Marotta wrote Granger nine cheques for more than $500,000. Marotta's lawyer previously told the Star that those payments were for legal tax consulting services.

No one else has been charged in the case.

In an elevator during a court recess, Granger expressed frustration that he was the only person charged in the scheme.

"This is bigger than me," he said. "I'm the scapegoat."

Describing himself as a softie, in the same conversation with the Star, he said he spent all the money on his family, buying a Harley-Davidson for his father's retirement and living in a million-dollar house with his now ex-wife. He gambled much of the money away and donated large sums to charity, he said.

But Justice Joseph Kenkel said such large sums of money don't simply disappear and that his explanation of lavish expenditures wasn't credible.

After receiving his sentence, Granger stood up calmly. As the court officer handcuffed him, he quietly said, "Thank you."

Former accountant gets 7-year prison term for tax fraud

By Staff
Torstar News Service

There's only so much money to go around. Welfare recipients would be hurt by proposed changes to a federal grant program, opponents say. Torstar News Service

A 68-year-old, former chartered accountant, who lived lavishly in a Markham mansion by swindling Canadian taxpayers of almost $10 million in just five years, will soon be residing in much more modest surroundings.

A judge sentenced soft-spoken Roy Francis Smith to seven years and eight months in prison on Monday for a massive fraud in which he collected $9.8 million in refunds from the federal government after submitting phoney returns for the goods and services tax (GST) on behalf of a big energy company.

And before a police officer slipped a pair of handcuffs on the nattily attired Smith and led him away from a Newmarket court, Mr. Justice Simon Armstrong also slapped the fraudster with a $935,506 fine for dodging his own personal income taxes for several years. He must pay the penalty within a year.

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"It was a deliberate and flagrant fraud," Justice Armstrong told Smith, who showed little emotion. "It was a fraud of the public purse and, as such, affects everyone."

Sporting a white shirt and dark sweater at the sentencing, the thin, greying, bespectacled Smith had pleaded guilty to fraud earlier this month. Crown prosecutors dropped several other related charges against him. He would be eligible for parole after serving a third of his sentence.

The Canada Revenue Agency (CRA) had charged Smith in early 2010 but he claimed police had infringed on his rights in the seizure of evidence under the Charter of Rights and Freedoms. He lost the Charter challenge after two years of proceedings and then pleaded guilty just before the start of the trial.

The Crown dropped several related charges against Smith, who had three previous convictions for impersonation, forgery and fraud.

A statement of facts in the case showed Smith, who is married with adult children, used the refunds from his complex scheme to fund major renovations at his sprawling mansion in an exclusive enclave of multimillion-dollar estate homes in Markham's northwest end. His former house included pitched roofs, a stone exterior, a three-car garage, circular driveway and mature trees.

"He definitely lived high," said Crown prosecutor Ghazala Zaman.

Zaman, who sought an eight-year prison term, said outside court that Smith spent about $1.7 million in renovations and landscaping alone on the mansion.

The CRA placed a lien on the mansion to recover any equity and it continues to pursue other assets such as properties he bought in Florida. To date, the agency has seized about $700,000 in assets, according to Zaman.

"Hard-working Canadians who pay their taxes are entitled to have these cases pursued vigorously and to see a just outcome," she noted.

Smith eventually moved to a modest townhouse in another part of Markham after the CRA charged him.

The scheme unfolded in 2000 when Direct Energy Marketing hired Smith on a short contract to put its financial affairs in order, after Centrica of the United Kingdom bought the firm along with NGW Natural Gas Wholesalers. Smith's work involved looking at arrangements between the two Canadian firms and an audit of the NGW Natural transaction.

The statement of facts indicated Smith gained access to NGW's books and then posed as a company official to change the company's mailing address to one that he rented and controlled in Richmond Hill. Smith also asked for the addition of his name as an authorized contact for NGW Natural and also incorporated a similarly named company NGW Inc. to ease deposits of GST refunds at a bank.

In early 2001, he opened an account in the name of NGW Inc. at a credit union in Toronto and held signing authority as its first director. During the next five years unbeknownst to NGW Natural, he submitted 58 fictitious monthly GST returns to the agency and received 55 refund cheques.

"Smith collected nearly $190,000 per month consecutively for approximately five years," Zaman said.

connection to Smith, who hadn't worked with NGW for years. An investigation ensued which included getting account records from U.S. banks.

Mark Cullen, another federal prosecutor, said the Crown has sought longer jail sentences in the last year to reflect the scale of fraud and tax evasion, and the harm to victims.

Furthermore, he said the stiffer sentences will hopefully act as deterrent to others contemplating fraud.

THE GLOBE AND MAIL

REGULATION

OSC accuses Ernst & Young of shoddy audit of TSX Venture-listed Zungui Haixi

JANET McFARLAND
The Globe and Mail
Published Monday, Jun. 24 2013, 1:51 PM EDT
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Ernst & Young LLP is facing allegations from the Ontario Securities Commission that it failed to properly audit the books of a small Chinese athletic-shoe manufacturer.

The case unveiled Monday is the second from the OSC in the past six months in which Ernst & Young is accused of doing poor work auditing the books of a Chinese-based company. In December, the OSC alleged the firm was negligent as auditor of failed forestry giant Sino-Forest Corp., which collapsed in 2011.

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No allegations have been proven in either case.

The latest allegations involve shoe manufacturer Zungui Haixi Corp., which listed its shares on the TSX Venture Exchange in 2009, raising $39.8-million in its initial public offering.

Ernst & Young audited the firm's books in preparation for the IPO, but the OSC has alleged the audit was not in accordance with generally accepted auditing standards. The OSC also alleged Ernst & Young did not do appropriate work on Zungui's 2010 year-end audit.

The OSC alleged the auditors "failed to treat multiple red flags about the company's revenue and earnings with appropriate skepticism" and said Ernst & Young "failed to conduct a sufficient review of the audit evidence, leaving the review of key evidence in the hands of a staff member with limited experience."

The OSC also alleged Ernst & Young identified a risk that Zungui could use fictitious distributors to fraudulently inflate its revenue, but then disregarded evidence that suggested the company had

indeed "grossly exaggerated its sales to purported distributors."

Ernst & Young said in a statement that problems at Zungui were revealed as a result of its audit work, and it will "vigorously defend" itself against the OSC allegations.

"Issues concerning Zungui Haixi came to light as a result of actions we took during our 2011 audit," the firm said. "We brought these issues to the attention of the audit committee and management, and eventually resigned as auditor. We have co-operated with the OSC throughout its subsequent investigation.

"A statement of allegations, by its nature, is designed to present one side of events, and not the whole picture. The evidence will show that the OSC allegations do not fully describe all of Ernst &Young's audit work, which met all professional standards."

The OSC alleged the initial senior manager on the audit file informed the partner in charge of the file that she was not the right person to handle it because she did not speak Chinese and had no experience with audits of China-based companies. She was replaced with another senior manager who also did not speak Chinese and had no experience with Chinese company audits, the OSC alleged.

The manager on the IPO audit was a new employee who had recently joined the firm from a South African auditor, the OSC added. He had never audited a China-based firm and had never done an audit with Ernst & Young before.

"However, despite this limited experience, the manager was given significant responsibility for overseeing and reviewing key audit work," the OSC alleged.

Zungui announced in August, 2011, that Ernst & Young had suspended its audit of the firm, sending its share price plummeting. The company's independent directors and chief financial officer resigned days later.

In November, 2011, the OSC filed allegations against the company and its remaining directors, alleging multiple violations, including a failure to file financial statements. The company's shares were permanently cease-traded in 2012.

The case involving Ernst & Young's audit of Sino-Forest is still ongoing and hearing dates have not been scheduled. The firm has also denied the allegations.

Accountant sentenced for money laundering

Posted by Carla Parker on January 17, 2014 in Crime, DeKalb News No comments

An accountant with an office in south DeKalb was sentenced to six years in federal prison for his connection to a national drug trafficking and money laundering organization.

Matthew Ware, 57, of Tucker was convicted after a jury trial in January 2013 on one count of money laundering conspiracy. On Oct. 29, U.S. District Judge Richard W. Story sentenced him to six years in federal prison, followed by three years of supervised release.

Ware, owner of Padgett's Business Services in Lithonia, was the accountant of Jiles and Shannon Johnson, who owned KC Pit BBQ Restaurant in Sandy Springs. The Johnsons used their barbecue restaurant to cover up their illegal activity.

Ware was convicted of accepting bags of cash in excess of $10,000 from Jiles Johnson, according to the U.S. District Attorney's office. Ware provided the cash to some of his accounting firm's clients and they repaid him with checks made payable to Johnson and his businesses.

Ware and the Johnsons were among 14 people from metro Atlanta, Pennsylvania and California who were connected to the drug trafficking and money laundering organization and were sentenced to federal prison terms ranging from two to 15 years. All the defendants entered guilty pleas except for Ware.

"Businesses and professionals who use legitimate organizations to filter laundered drug proceeds denigrate legitimate earnings while destroying the jobs of those who work in those businesses," said U. S. Attorney Sally Quillian Yates. "Illegal drugs lure many into that lifestyle with offers of big money, easily made. In the end, what really happens is lives are destroyed, businesses close, and the dealers go to jail. We will continue working to remove harmful drugs from our streets."

In 2003, Jiles Johnson, who was also a commercial truck driver, began driving kilograms of cocaine from California to Philadelphia on behalf of Mark Walker to supplement his restaurant income, according to the U.S. District Attorney's office. Walker was a Philadelphia cocaine distributor with access to street-level dealers, including his brother and others. Johnson also supplied cocaine to Kansas City and Washington D. C., according to the U. S. Attorney's Office

As Johnson and Walker generated cash from cocaine sales, they purchased real estate in Georgia through Linda Tong, a local real estate broker. Tong made "structured" deposits of more than $500,000 into bank accounts. According to the U.S. District Attorney's office, "structuring" occurs when a person breaks down more than $10,000 in cash into smaller deposits under $10,000 to avoid the filing of a Currency Transaction Report (CTR) by a financial institution.

The Johnsons invested more than $3 million in real estate holdings, including an 80-acre motorcycle racetrack in Twiggs County, according to the U. S. District Attorney's office.

Ware accepted the bags of cash from Johnson and then provided the cash to some of his clients. When the cash volume increased, Ware connected Johnson to another client, financial planner Jacques Degaule, to assist with the laundering.

Degaule traveled to banks in Georgia, Missouri, Pennsylvania and New Jersey where he deposited more than $7 million. No Internal Revenue Service 8300 Forms were filed, which are required when a trade or business receives cash more than $10,000, according to the U. S. District Attorney's office.

The Johnsons used the funds to underwrite their investments and their restaurant's operations. Evan Francis, a local car broker, coordinated the delivery of loads of cocaine, solicited customers and structurally deposited cash, according to the U. S. District Attorney's office. Schawn Lemon Wortham laundered Walker's funds while he remained incarcerated.

The cocaine originated from Mexico and was supplied from California by Jose Gastelum and Lorenzo Vargas, according to the U. S. District Attorney's office. When Johnson experienced financial losses, Gastelum and Vargas collateralized his drug debt on behalf of the source of supply by taking ownership interests in his restaurant and racetrack. Ware assisted them in the process.

The organization broke down in 2010 when Johnson and two associates attempted to deliver 35 kilograms of cocaine to Philadelphia. The cocaine was intercepted by law enforcement, which ultimately led to the organization's dismantlement.

Harry S. Sommers, the Special Agent in Charge of the DEA Atlanta Field Division, said all of the defendants in the case were deserving of the sentences handed down.

"Several of these individuals masked themselves as legitimate businessmen, while everyone lined their pockets with excessive profits gained from drug trafficking," Sommers said. "These sentences should serve as a clear reminder to those business operators who facilitate fraud and money laundering schemes that while you think you may be flying under the radar, you are not. It's just a matter of time before you get caught and brought to justice. I express gratitude to the law enforcement partners who helped make this case a success."

Ware was an active community leader in south DeKalb. He was president of the 100 Black Men of DeKalb County, a mentoring organization for youth that he headed for two years. He was also the organization's treasurer.

According to his accountant firm's website, he was the vice chairman and chairman of the board of directors of the Georgia Lottery from 2000 to 2005. He is married to E. Noreen Banks-Ware, an attorney and special assistant administrative law judge and they have two children, according to the website.

The Scotsman

Accountancy giant EY's GBP750,000 Farepak fine

The Scotsman (Edinburgh, UK)
Fri Dec 20 2013
Page: 36
Byline: Martin Flanagan

Seven years after the failure of Christmas savings club Farepak Food and Gifts, its **auditor**, EY, has been **fined** GBP750,000 for sub- standard work.The Financial Reporting Council (FRC) also reprimanded EY - formerly known as Ernst & Young - and ordered it to pay GBP425,000 in costs, while individual **auditor** Alan Flitcroft, who carried out the work for EY, was **fined** GBP50,000 and reprimanded.Farepak went bust in 2006, owing GBP37 million to 120,000 customers who had put money into the club as a way of spreading the cost of Christmas over several months.The FRC said EY and Flitcroft admitted in a settlement with the watchdog on 12 December that their conduct fell below the standards reasonably to be expected."The result in this case underlines the FRC's commitment to promote public confidence and ensure the accountancy profession has proper regard for the technical and professional standards expected of members," Paul George, FRC executive director of conduct, said.The FRC said EY and Flitcroft "failed to properly consider Farepak's ability to continue as a going concern".EY said the settlement reached with the watchdog did not allege any "causative link" between EY and Flitcroft's conduct and Farepak's entry into administration and losses suffered by the savers. "However, EY regrets that aspects of our 2005 audit fell beneath our usual high standards," the accountancy firm added.Flitcroft, who could not be reached for comment, left EY in 2008 to become chief operating officer of Cardiff City Football Club, and later finance director for Ascot Racecourse, a position he stepped down from in October. EY is to pay Flitcroft's fine and costs.

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KPMG pays €7 million to settle Dutch bribery case

Monday, January 13, 2014 at 3:58AM

Geert Vermeulen in Auditors, Ballast Nedam, KPMG, Netherlands, Transparency International, accountants

Accountants should provide reasonable assurance that the books and records of their clients accurately reflect the reality and that the internal accounting controls of their clients meet certain standards. There have been a number of cases in recent years where non-compliant behavior of issuers was egregious but accountants weren't charged.

That changed just before the end of the year in a remarkable case in The Netherlands. On December 30, KPMG reached a €7 million settlement with the Dutch authorities. The total settlement consists of a fine of €3.5 million and a forfeiture of €3.5 million.

KPMG allegedly helped their client, the Dutch construction company Ballast Nedam, disguise suspicious payments. Ballast Nedam itself settled with the Dutch authorities in 2012 for €17.5 million, including a €5 million fine and waiver of efforts to recover €12.5 million from tax authorities.

Ballast Nedam made a number of suspicious payments between 1996 and 2003 to foreign agents in order to obtain business in Saudi Arabia. According to the Dutch public prosecutor, KPMG knowingly failed to verify the payments to foreign agents between 2000 and 2003 and could not determine the ultimate beneficiary of the payments.

The Netherlands hasn't had an impressive anti-bribery enforcement record. In a report issued a couple of months ago, Transparency International put the country in the 'limited or no enforcement' category. Recent developments seem to indicate that the Dutch authorities are determined to change this.

This investigation started once the Dutch tax authorities approached Ballast Nedam in 2009, at least 6 years after the last suspicious payments were made. Ballast Nedam started an internal investigation and provided the results to the Dutch authorities in January 2011. Almost 2 years later, Ballast Nedam settled with the Dutch authorities and it took another year for the authorities to settle with KPMG.

KPMG said they "are shocked by the facts that have emerged from this case and find these totally unacceptable." They said 2 of the 3 accountants involved have retired and the employment of the third accountant has been ended. Disciplinary measures have been taken and KPMG has agreed to implement additional compliance measures. The firm is also still investigating services delivered to other clients by the three (former) accountants and to clients in similar industries.

The public prosecutor is also still investigating the three former accountants, as well as some of the former managers of Ballast Nedam.

Geert Vermeulen is a compliance professional. He is a frequent speaker at international compliance conferences and teaches at the Dutch Compliance Institute. He is also a Board member of the Dutch Compliance Officers Association. Recently he wrote a chapter on third party due diligence in the first Dutch book on anti-corruption (Ondernemen zonder corruptie). This article reflects the personal views of the author.

REUTERS

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Deloitte to pay $2 million to settle charges over audit rule violations

Tue Oct 22, 2013 7:31pm EDT

By Sarah N. Lynch

WASHINGTON (Reuters) - Deloitte & Touche DLTE.UL will pay a $2 million penalty to settle civil charges that it violated federal audit rules, in one of the largest civil penalties ever imposed by the U.S. audit watchdog.

The Public Company Accounting Oversight Board, which is tasked with policing auditors, said on Tuesday that it was censuring Deloitte for allowing its former partner to continue participating in the firm's public company audit practice, even though he had been suspended over other rule violations.

The former partner, Christopher Anderson, settled with the PCAOB in 2008 by agreeing to a $25,000 fine and one-year suspension after the watchdog said he violated rules during a 2003 audit of the financial statements for a unit of Navistar International Corp (NAV.N).

A spokesman for Deloitte said the company is pleased the matter has been resolved. "Deloitte takes very seriously all orders and actions of the PCAOB," the spokesman said.

The penalty matched a record PCAOB fine last year against Ernst & Young.

The PCAOB was created by the 2002 Sarbanes-Oxley Act in response to the accounting scandals at companies like Enron and Worldcom. It sets audit standards, conducts routine inspections and disciplines rule breakers in the audit industry.

The oversight board said on Tuesday it first launched disciplinary proceedings against Deloitte in March, but because of secrecy provisions in the Sarbanes-Oxley law, the board was not able to make them public until now.

"When the board suspends an auditor, it does so to protect investors," said James Doty, the head of the PCAOB.

"Deloitte permitted the former partner to conduct work precluded by the Board's order and put investors at risk."

According to the board, Anderson previously worked as a partner in Deloitte's Chicago office.

The PCAOB said that Anderson gave Navistar and Navistar Financial Corp a clean audit opinion on its 2003 financial statements, even though $19.7 million in errors, that led to an overstatement of the company's assets and earnings, had been uncovered.

After he settled the case and agreed to a one-year suspension, the PCAOB said Deloitte placed Anderson into another position that still allowed him to be involved in the preparation of audit opinions.

Allowing a suspended auditor to continue working in that capacity is a violation of PCAOB rules, unless the Securities and Exchange Commission gives the firm permission.

Jonathan Gandal, the spokesman for Deloitte, said that while the audit firm took "several significant actions" at the time of Anderson's suspension to restrict his activities, "more could have been done" to monitor compliance.

"The robust policies and monitoring procedures we have since instituted fully address the issue and will prevent a similar matter from arising in the future," he added.

(Reporting by Sarah N. Lynch; Editing by Tim Dobbyn)

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Wed, Jun 19 2013. 09 33 AM IST

Deloitte fined $10 mn in US money laundering case

New York state imposes fine on Deloitte for its actions in advising Standard Chartered Bank over money laundering

The New York Department of Financial Services said the fine, which the company agreed to in a settlement, was to cover its "misconduct, violations of law, and lack of autonomy" in advising Standard Chartered. Photo: Brent Lewin/Bloomberg

New York: Big accountancy Deloitte was fined $10 million by New York state on Tuesday for its actions in advising Standard Chartered Bank over money laundering.

Deloitte's unit Deloitte Financial Advisory Services Llp was fined and also banned for one year from work in New York state after state authorities said it did not carry out its duties independently in advising the bank on how to avoid money laundering.

Standard Chartered was fined $667 million by federal and New York state authorities last year for permitting hundreds of billions of dollars to be laundered through its US branch by clients from Iran, Myanmar, Libya and Sudan, in violation of US sanctions on the countries.

The transfers took place mainly between 2001 and 2007.

In 2004, the New York Department of Financial Services required the London-based bank to contract an independent adviser to help it comply with money-laundering statutes.

But even after Deloitte Financial Advisory Services took that role, the laundering continued.

The department said the fine, which the company agreed to in a settlement, was to cover its "misconduct, violations of law, and lack of autonomy" in advising Standard Chartered.

"At times, the consulting industry has been infected by an 'I'll scratch your back if you scratch mine' culture and a stunning lack of independence," said Benjamin Lawsky, New York superintendent of financial services, in a statement.

"Today, we are taking an important step in helping ensure that consultants are independent voices—rather than beholden to the large institutions that pay their fees."

In a statement Deloitte emphasized that its advisory unit was not accused of participating in the laundering.

"We are pleased that, as the agreement states, a thorough investigation by DFS found no evidence that Deloitte FAS knew of, or aided, abetted or concealed any alleged violation of law" by Standard Chartered.

"Deloitte FAS looks forward to working constructively with DFS to establish best practices and procedures that are ultimately intended to become the industry standard."

Big Four Chinese unit face US suspension

23 Jan 2014

The Chinese arms of all Big Four accounting firms face a six-month ban on practicing in the US in the latest development in a long-running row over giving regulators greater access to audit documents for work conducted by Chinese accounting firms for Chinese companies that list in the US markets.

In a new ruling, Securities and Exchange Commission (SEC) Judge Cameron Elliot has censured the Chinese affiliates of KPMG, Deloitte & Touche , PwC and EY, saying they had 'willfully' failed to give US regulators the audit work papers of certain Chinese companies under investigation for accounting fraud. A fifth firm, Dahua, was also censured by the judge but not suspended.

The auditors have cited concerns about violating Chinese secrecy laws as the reason for failing to hand over the audit details. Last year, the US announced that an agreement had been reached whereby Chinese regulators would hand over some audit documents of US-listed Chinese companies to the SEC. However, the papers filed in the latest case suggest that not all the papers requested were produced, according to *Reuters*.

The Big Four firms have indicated that they intended to appeal against the ruling, issuing a joint statement saying: 'In the meantime the firms can and will continue to serve all their clients without interruption.'

Paul Gillis, an accounting professor at Peking University, said: 'This decision will be a huge shock in Beijing. The SEC has pushed a lot of chips out on the table.'

Gillis claimed that if the ban goes ahead, mid-tier firms might find it hard to take over auditing of the Chinese companies previously handled by the Big Four because of the workload and capacity required.

Pat Sweet
Online reporter

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Related Article

SEC fines KPMG 5m for independence violations (/sec-fines-kpmg-5m-independence-violations)
KPMG has agreed to pay $8.2m (£5m) to settle charges by the US Securities and Exchange Commission (SEC) that the firm violated the rules around auditor independence in its work for three US clients

27 Jan 2014

The SEC had sought to have a permanent bar imposed on the Big Four's Chinese affiliates, but the judge in the case said a six-month bar was in the public interest, and that he had 'little sympathy' for the firms.

Matthew Solomon, chief litigation counsel in the SEC's enforcement division, said: 'These records are critical to our ability to investigate potential securities law violations and protect investors.'

The ruling will not take effect immediately, and the issue is now likely to be addressed through diplomatic channels.

KPMG to pay USD 8.2 mn to settle SEC auditing charges

Washington, Jan 24, 2014, (AFP)

US accounting firm KPMG violated rules aimed at maintaining auditors' independence from their clients and will pay USD 8.2 million to settle the charges, regulators said today.

The Securities and Exchange Commission found that KPMG broke the rules by providing prohibited non-audit services such as bookkeeping, corporate finance and expert services to affiliates of companies whose books they were auditing.

In addition, the SEC said in a statement, some KPMG personnel also owned stock in companies or affiliates of companies that were KPMG audit clients, in a further violation of the rules designed to ensure auditors maintain objectivity and impartiality in reviewing a client's books.

"KPMG compromised its role as an independent audit firm by providing prohibited non-audit services to companies that it was supposed to be auditing without any potential conflicts," John Dugan, associate director for enforcement in the SEC's Boston regional office, said in the statement.

"Auditors are vital to the integrity of financial reporting, and the mere appearance that they may be conflicted in exercising independent judgment can undermine public confidence in our markets."

According to the SEC, KPMG repeatedly represented in audit reports through the 2007-2011 period that it was "independent", despite providing services to three audit clients "that impaired KPMG's independence."

KPMG did not admit to or deny the SEC findings.

But it agreed to pay USD 5.3 million in disgorgement of fees received from the three clients plus interest of USD 1.2 million, and a USD 1.8 million penalty, the SEC said.

The SEC did not identify the clients.

The regulator also said the company pledged internal changes to enhance compliance with auditor independence rules and to hire an independent consultant to monitor the changes.

KPMG, in an emailed statement to AFP, said it was "fully committed" to ensuring its independence as an auditor.

"In the years since the events discussed in this SEC action, KPMG has

implemented internal changes that are designed to ensure its ability to comply with restrictions on providing non-audit services to SEC audit clients and/or their affiliates," the company said.

Bloomberg

PwC Fined $2.17 Million by U.K. Regulator Over JPMorgan Client-Money Audit

By Ben Moshinsky - Jan 5, 2012

PricewaterhouseCoopers LLP was fined a record 1.4 million pounds ($2.17 million) for failures concerning reports on client-money accounts at JPMorgan Chase & Co. (JPM)'s London securities unit.

PwC's "acts of misconduct merit a severe reprimand," the Accountancy & Actuarial Discipline Board said in a judgment released today. PwC failed to notice that J.P. Morgan Securities Ltd. hadn't properly segregated an average of $8.6 billion of client funds from the firm's accounts in reports to the U.K.'s Financial Services Authority for the seven years through 2008.

JPMorgan discovered the error in 2009 and reported it to PwC and the FSA, which fined the bank a record 33.3 million pounds in 2010. The U.K. financial regulator has focused on client-money segregation after the winding up of Lehman Brothers Holdings Inc.'s former European unit was slowed by years of litigation among creditors fighting over the issue.

"We regret that one aspect of our work on the private client money report to the FSA fell beneath our usual high standards," PwC said in an e-mailed statement. "When the issue was identified, and before any complaint had arisen, we took action to ensure that staff received additional training in the client monies area."

The AADB, the U.K.'s audit regulator, sought a record fine against PwC to top the 1.2 million-pound sanction against Coopers & Lybrand LLP in 1999. The tribunal also ordered that PwC pay costs to the AADB totaling 83,902 pounds.

Due Skill, Care

"PwC accepted that it did not carry out its professional work in relation to these reports with due skill, care and diligence," the AADB said in an e-mailed statement. The firm earned a reduction in the fine, which would have been 2 million, for cooperating.

The AADB is probing PwC in a similar investigation into whether the firm's reports on client assets at Barclays Capital Securities Ltd. broke financial rules.

The FSA fined the U.K. bank 1.12 million pounds in January 2011 for failing to put as much as 752 million pounds a day of client money into protected accounts that were separate from its own money-market deposits.

PwC compiled reports to the regulator between 2001 and 2009 outlining Barclays Capital's compliance with client-asset separation rules.

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the guardian

Guardian Financial Pages

Accountants fined pounds 14m over MG Rover: Watchdog says Deloitte in serious ethical breaches: Record-breaking penalty for Phoenix Four advisers

Jennifer Rankin

652 words
10 September 2013
The Guardian
GRDN
27
English

Deloitte, one of the UK's largest accountancy firms, has been fined a record-breaking pounds 14m for a conflict of interest that occurred when it advised **MG Rover** Group and the Phoenix Four directors who bought the British carmaker before it collapsed.

It is the largest fine issued by the Financial Reporting Council (FRC), the body that regulates accountants, which has also given **Deloitte** a severe reprimand.

Maghsoud Einollahi, a former director of the accountancy firm, was fined pounds 250,000 and given a three-year ban from the profession.

In a stinging reprimand to **Deloitte**, the FRC said the sanctions were needed because of the seriousness of the ethical breaches and the substantial benefit that had arisen through the misconduct.

The pounds 14m penalty dwarfs a pounds 1.4m fine given to PricewaterhouseCoopers in November 2011 after it wrongly said JPMorgan Chase bank was keeping customer money separately from its own.

Yesterday the FRC said its report sent "a strong and clear message" that all accountants had a responsibility to act in the public interest and comply with their code of ethics.

"The sanctions imposed are in line with the FRC's aim to ensure penalties are proportionate and have the deterrent effect to prevent misconduct and bolster public and market confidence," said Paul George, executive director of the FRC. The outcome is one of the final twists in the tale of **MG Rover**, which was bought in 2000 for pounds 10 by four local businessmen, John Towers, Nick Stephenson, John Edwards and Peter Beale. The Phoenix Four went on to pay themselves and the managing director, Kevin Howe, pounds 42m before the firm collapsed in 2005 with debts of pounds 1.4bn and the loss of more than 6,000 jobs. **Deloitte** had faced a pounds 20m fine after the FRC tribunal concluded in July that it had failed to meet ethical and public interest standards when it advised the Phoenix Four and **MG Rover**.

Among 13 charges found against the company, **Deloitte** had failed to consider a conflict of interest in which the firm benefited from schemes devised by the Phoenix Four.

Deloitte, which has 28 days to appeal against the fine, argues that the tribunal decision could restrict the choice and quality of advice that accountants can offer firms. It said: "We remain disappointed with the outcome of the tribunal and disagree with its main conclusions. As a firm, we take our public interest obligations seriously in everything we do. We are disappointed that the efforts we and others made did not successfully secure the long-term future of the **MG Rover** Group."

Richard Burden, the Labour MP for Birmingham Northfield, said that some of the proceeds of the pounds 14m fine should go to the former employees of MG Rover. The firm's former employees were awarded compensation of just pounds 3 each in 2012 after a seven-year battle for redundancy payments.

"The unprecedented scale of this fine raises the question of compensation for the workers, who did everything that was asked of them by the Phoenix Four," said Burden. "There are thousands of people affected and many issues that need addressing, so the money wouldn't be enough to change lives. But it would help the community draw a line under the MG Rover saga and move into the future.

"The pounds 14m must not only deter accountants from acting in this way again, it must mean change for the people and the community who suffered so much from the collapse of MGR and are still to be repaid."

The fine is earmarked for the Consultative Committee of Accountancy Bodies, an industry umbrella group. No one from the CCAB was immediately available to respond to Burden's proposal.

Guardian Newspapers Limited

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The Telegraph

Deloitte under investigation over Rover; Nearly seven years after the collapse of car manufacturer MG Rover, its adviser Deloitte has been placed under investigation by industry regulators.

By Anna White

399 words
2 February 2012
06:34
The Telegraph Online
TELUK
English

A complaint was logged yesterday by the Financial Reporting Council (FRC) over the conduct of the second largest accountancy firm in the UK and its former mergers and acquisitions partner Maghsoud Einollahi.

Tom Martin, FRC executive counsel referred the case to the Accountancy and Actuarial Discipline Board (AADB) to review **Deloitte**'s conduct as auditors and advisers to various companies in the **MG Rover** Group sale.

The complaint alleges that in connection with certain transactions, **Deloitte** and Mr Einollahi "failed adequately to consider the public interest; the potential for there to be different commercial interests between the Phoenix Four, **MG Rover** Group and associated companies and shareholders; and the conflicts of interest and self-interest threat in relation to advising the Phoenix Four whilst maintaining client relationships with the **MG Rover** Group."

The accountancy arbitrators said the investigation is extremely serious, as demonstrated by the amount of time it took to file the complaint against **Deloitte** (formerly **Deloitte** & Touche.)

Both the AADB and **Deloitte** confirmed the inquiry is into the "transactions" overseen by **Deloitte** not the audit work.

Since the car company collapsed in 2005 along with 6,500 UK jobs the AADB has been scrutinising **Deloitte**'s role as auditor and adviser to Rover and its parent company Phoenix Venture Holdings, run by John Towers, Peter Beale, Nick Stephenson and John Edwards - otherwise known as the Phoenix Four.

A 2011 report commissioned by Lord Mandelson and completed by the National Audit Office revealed how the four directors and former **MG Rover** chief executive Kevin Howe paid themselves a total of £42m during their five-year ownership of the company, which they bought for a token £10 and left with more than £1bn of debt.

In 2011 the Government banned the Phoenix Four from serving as company directors.

A spokesman for **Deloitte** said: "We are disappointed that the AADB has taken the view that limited aspects of our advisory work relating to two transactions in 2001-2 falls short of acceptable standards.

"We do not agree with the AADB and are confident...the tribunal will conclude that there is no justification for criticism."

Deloitte made £31m in fees from **MG Rover** in the five years before it collapsed.

MG Rover debacle can't hide accounting regulation failures

Prem Sikka, Professor of Accounting, Essex Business School at University of Essex

786 words
10 September 2013
The Conversation
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English

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The UK accountancy watchdog has barked. The Financial Reporting Council (FRC) has fined **Deloitte** & Touche £14 million [http://www.frc.org.uk/News-and-Events/FRC-Press/Press/2013/September/FRC-publishes-Final-Report-of-Disciplinary-Hearing.aspx] for failures relating to the demise of **MG Rover**. The report [http://www.frc.org.uk/Our-Work/Publications/Professional-Discipline/Tribunal-Report-Deloitte-Touche-and-Mr-Maghsoud-Ei.pdf] says **Deloitte** was engaged in huge conflicts of interest as the firm acted both as auditor and advisor to the company and its directors.

The **MG Rover** debacle began in 2000 when four businessmen (subsequently known as the Phoenix Four) bought the ailing carmaker from BMW for just £10. The purchase was accompanied by a loan of £423 million from BMW and the UK government also provided additional funds. **Deloitte** acted as auditor of **MG Rover** and an adviser to the Phoenix Four. The company continued to receive a clean bill of health from auditors. Between 2000 and 2005, the Phoenix Four collected around £42 million in remuneration. With advice from **Deloitte** some £7.7 million ended up in an offshore trust [http://www.thesundaytimes.co.uk/sto/business/Companies/article1091072.ece] in Guernsey. In 2005, the company collapsed with debts of nearly £1.4 billion. Some 6,000 workers lost their jobs.

Following a public outcry, the Department of Business Innovation and Skills appointed inspectors, one of whom was an accountant, to investigate the debacle. The two volume report (here [http://www.berr.gov.uk/files/file52782.pdf] and here [http://www.berr.gov.uk/files/file52783.pdf]) cost £16 million and was published in 2009. The report noted that between 2000 and 2005, **Deloitte** received £30.7m in fees, of which £28.8m related to consultancy, that is, only £1.9 related to audits.

Deloitte was advising the company and its directors and then audited the resulting transactions. Hence the concerns about possible conflicts of interest and the disciplinary tribunal's conclusion that **Deloitte** "failed to be sufficiently objective in its work for **MG Rover** ". **Deloitte** is found guilty of "misconduct" and the FRC report [http://www.frc.org.uk/Our-Work/Publications/Professional-Discipline/Tribunal-Report-Deloitte-Touche-and-Mr-Maghsoud-Ei.pdf] states: "the acts which amount to misconduct were quite deliberate" and the firm and its lead partner "placed their own interest ahead of that of the public and compromised their own objectivity. This was a flagrant disregard of the professional standards."

The FRC's reputation as an accounting watchdog was severely battered by the banking crash. All distressed banks received a clean bill of health [http://www.essex.ac.uk/ebs/research/working_papers/wp_09-04.pdf] from their auditors even though depositors were queuing outside banks to withdraw their cash and governments were bailing out banks. The FRC failed to investigate any of the auditing firms. The **MG Rover** debacle has given it an opportunity to reinvent itself. The £14 million fine on **Deloitte** is the highest ever against any accounting firms. But all is not what it seems.

For any regulatory system to be effective regulators need to act swiftly. That has not been the case for the FRC. It initially announced [http://www.frc.org.uk/FRC-Documents/FRC/FRC-Progress-Report-MG-Rover-Group-Companies-Act-I.aspx] its intention to investigate the conduct of **Deloitte** as auditor and adviser to the

MG Rover Group in August 2005. The wheels of the profession grind slowly and then it claimed that will proceed after the inspectors' reports if finalised, which was published in 2009. It has taken the FRC another four years to do anything. This is hardly a model of swift action.

The £14m fine may be the largest ever, but needs to be seen in perspective. It is less than half of the £30.7m fees collected by **Deloitte**. So despite failures and "misconduct", the firm has still made considerable profit. The firm's UK revenues [http://www.deloitte.com/assets/Dcom-UnitedKingdom/Local%20Assets/Documents/About%20Deloitte/uk-deloitte-annual-results-2013.pdf] are around £2.5 billion; that's £6.85m a day. The fine amounts of the loss of about two days' revenue. This is unlikely to make accountancy firm partners quake in their boots.

The fine will fill the coffers of the FRC and will not be used to compensate creditors, employees, or taxpayers who provided social security and other benefits for the redundant workers.

The **MG Rover** episode does not herald a new dawn in the regulation of auditors. Despite the toxic effects of conflicts of interest and calls from parliamentary committees, the FRC has resisted [http://www.ft.com/cms/s/0/a16fbee8-967a-11df-9caa-00144feab49a.html#axzz2eTUdpIVR] a total ban on auditors acting as consultants for companies. So companies will continue to audit the transactions they themselves have overseen. Some of the darker practices could be flushed out and given public visibility by compulsory tendering of audits [http://www.frc.org.uk/News-and-Events/FRC-Press/Press/2013/August/FRC-responds-to-Competition-Commission-s-Provision.aspx], but the FRC opposes that too.

For the time being, the **MG Rover** episode may legitimise the FRC's regulatory credentials but the fault lines are as big as ever and will not go away.

Prem Sikka does not work for, consult to, own shares in or receive funding from any company or organisation that would benefit from this article, and has no relevant affiliations.

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The New York Times

HIGH & LOW FINANCE
Business/Financial Desk; SECTB

When Accountants Play Role Of Bankers

By FLOYD NORRIS

1524 words
13 September 2013
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NYTF
Late Edition - Final
1
English

Here's a novel concept: Accountants have an obligation to always work in the public interest.

That is the law in Britain, a regulatory tribunal declared this week. The tribunal ruled that **Deloitte** L.L.P. had failed in its professional responsibilities in its work for **MG Rover**, the failed automaker, and for the "Phoenix Four," four businessmen who took over the automaker in 2000 and ran it into the ground, taking out millions of pounds for themselves in highly dubious transactions before the company failed.

The tribunal issued a "severe reprimand" to **Deloitte** and levied a fine of £14 million ($22 million) against the accounting firm, a record in Britain. It fined Maghsoud Einollahi, a retired **Deloitte** partner, £250,000 and barred him from the profession for three years.

"They placed their own interests ahead of that of the public and compromised their own objectivity," said the tribunal, convened by the Financial Reporting Council. "This was a flagrant disregard of the professional standards expected and required."

Deloitte was the auditor for **MG Rover**, but the audits have not been challenged. Instead, it was the corporate finance work, run by Mr. Einollahi, that drew the condemnation.

The ethics rules of the Institute of Chartered Accountants in England and Wales -- a group that all accountants and accounting firms must belong to -- require accountants to consider the "public interest." This ruling appears to be the first that makes clear just how far that can go.

"It has been put to us that in corporate finance work and tax work the only duty that a member owes is to his client, provided that he acts with integrity, and that the public interest is not a matter that needs to concern him," the tribunal wrote. "We do not accept this."

British auditing firms have gained some success in competing with investment banks in providing advice on mergers and corporate restructurings and have been able to charge high fees that are contingent on the success of a transaction. The ruling did not say such fees were barred, but it did say that accounting firms must carefully guard against conflicts of interest.

It conceded that the requirement to take the public interest into account could make it harder for accountants to win such business, but said that did not matter. "It is this duty to consider the public interest that provides comfort to the client that matters are being dealt with properly and with integrity."

Deloitte argued that the public interest was not involved because **MG Rover** was a private company. The board rejected that, noting that **Deloitte** itself bragged about its role in preserving jobs when the Phoenix

group took over MG Rover from BMW, the German carmaker, and that Mr. Einollahi cited the public interest in preserving jobs when he wrote to British tax authorities seeking favorable tax rulings.

In 2000, BMW concluded that it had made a mistake in acquiring MG Rover and set out to find a buyer. After one deal fell through, it settled on a company called Phoenix Venture Holdings, which bought the company for £10.

Even that nominal price drastically overstated what was paid. BMW chipped in what was called a dowry -- a £427 million interest-free loan for up to 49 years.

That loan became the source of some of the money the businessmen took out of MG Rover before it failed in 2005. Rather than have the loan go to the car company, the Phoenix Four directed it to their parent company, which then lent the money to the car company, charging interest. They then distributed the "profits" that they realized from the interest to themselves.

Another strange deal involved the men's being owed £10 million by the company even though they had invested only £60,000 each.

They wanted the figure to be £75 million, but that arrangement could not be completed. According to a later government report on the fiasco, Peter Beale, one of the Phoenix Four, blamed Sue Lewis, a partner in Eversheds, a prominent law firm that was advising the company, for keeping them from realizing the full amount.

Ms. Lewis testified that Mr. Beale had told her "it wasn't her position to be raising questions about the directors' remuneration and that she had done it on a number of occasions in a way that he had thought was inappropriate."

The law firm, Mr. Beale said, was not "anybody's moral guardians."

"Mr. Beale," said the report, compiled by inspectors appointed by the government, "considered that Mr. Einollahi of **Deloitte** was less prone to raising objections." It added that **Deloitte** "played a very prominent part" in some of the transactions the inspectors deemed inappropriate.

In the end, Mr. Beale, his three colleagues -- John Edwards, Nick Stephenson and John Towers -- and Kevin Howe, MG Rover's chief executive, took out £42 million from the company. That doesn't count the £1.6 million in consulting fees paid to a woman who the report said did little but had a "personal relationship" with Mr. Stephenson.

The British Serious Fraud Office declined to bring charges against the Phoenix Four, who have kept the money. They were, however, barred from serving as corporate directors in Britain. Mr. Beale, who downloaded and ran on his computer a program called "Evidence Eliminator" just before government inspectors arrived, denied he had tried to obstruct the investigation.

The tribunal this week said that **Deloitte** had failed to take needed steps to avoid conflicts of interest and to make clear to independent directors of **MG Rover** that it was working for the Phoenix group, not for the company, in its consulting work. To the contrary, the tribunal said, **Deloitte** made a presentation to the MG Rover board "suggesting they were acting for MG Rover and not the Phoenix Four." **Deloitte** said it did make clear to the MG Rover board that it needed to obtain independent advice.

Deloitte was aware of potential conflicts in at least one regard. The government report concluded that in helping to arrange one transaction, it avoided dealing with one interested bank because it was a **Deloitte** client and involving it might keep **Deloitte** from being able to collect a £7.5 million contingency fee.

One transaction that outraged investigators later was a deal that transferred the benefit of MG Rover tax losses to another company owned by the Phoenix partners without MG Rover receiving any compensation. Mr. Einollahi told the Financial Reporting Council that he was aware of that fact but not very interested in it. "It was of no concern to me ultimately where the benefit sat, in which company," he said. "What was of concern to me here is my client is asking me to help turn some losses into value."

The tribunal concluded that the transaction was not in the interest of MG Rover and that "in those circumstances, the respondents should have considered the public interest in relation to the transaction."

MG Rover was able to stay in business for a few years thanks to the BMW loan and the sale of its Land Rover business to Ford. But efforts to find a Chinese joint venture partner were unsuccessful and the company failed in 2005, leaving behind £1.3 billion in debt.

A **Deloitte** spokeswoman said the firm was "disappointed with the outcome of the tribunal" and disagreed "with its main conclusions." The firm added that the decision "could have negative implications for the advice that can be provided" by British accountants. "Over the coming weeks," it concluded, "we will continue our discussions with relevant stakeholders and professional bodies about the potentially wide-ranging impact on the profession and wider business community of the tribunal findings."

The tribunal denied it was doing anything new. "It seems to be being suggested that we have been attempting to set new standards and principles," the tribunal wrote in its decision. "This is not the case. We have found breaches in the regulations which have been in existence for a lengthy period of time."

Accountants in many countries have suffered from what might be called "banker envy," in which they contrast their remuneration with that of bankers also involved in putting together deals. In Britain, they have won the right to do transaction advice and to be compensated based on the size of the deal, as bankers are. That is not allowed in the United States.

The Financial Reporting Council says **Deloitte** received £1.9 million for audits and £1.8 million for tax work from MG Rover from 2000 to 2005. It collected £26.7 million in corporate finance advisory fees from the Phoenix entities that controlled MG Rover.

In helping the Phoenix Four, **Deloitte** may have jeopardized that source of profits, not only for itself but for other large accounting firms.

Floyd Norris comments on finance and the economy at nytimes.com/economix.com

Employees of MG Rover. A tribunal ruled that Deloitte had failed in its responsibilities in its work for Rover. (PHOTOGRAPH BY DAVE CAULKIN/ASSOCIATED PRESS) (B7)

The New York Times Company

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CRAIN'S CHICAGO BUSINESS

THE BIG FOUR'S NEW MATH; A decade after Sarbanes-Oxley forced them to scale back consulting work, accounting giants are beefing up the business of dishing out advice

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For accounting's Big Four, it's a generally accepted principle of deja vu all over again.

A decade after the Sarbanes-Oxley Act restricted the advisory work they can do for audit clients, the Big Four are rebuilding lucrative and conflict-prone advisory practices—to the dismay of critics who fault the firms for missing signs of the financial crisis.

Advisory revenue (excluding tax) at **Deloitte** LLP, Ernst & Young LLP, PricewaterhouseCoopers LLP and KPMG LLP last year surged to $36 billion for their global networks, a rate four times the 3.4 percent gain in audit fees, according to Monadnock Research LLC in Gloucester, Mass. KPMG's audit revenue, the smallest of the Big Four, actually fell.

With pedals to the metal, the firms are squeezing smaller advisory firms—snapping them up when they falter—as well as big law's lobbying, tax advisory and compliance-monitoring efforts (see Page 22).

Against this backdrop, the Big Four since mid-2012 have installed new city or regional chiefs in Chicago. To succeed in their new roles, they need to get a grip on the trend and its risks. **Deloitte**, the biggest of the Big Four, with the largest advisory business, last summer named an advisory-side person to head an expanded Chicago-based central region, covering 17 states.

Providing more than 10,000 local jobs, many high-paying professional positions, the Big Four are among Chicago's top private-sector employers and emblematic of the city's long-term economic shift from manufacturing to service-sector employment and its accumulation of intellectual capital. Big Four employment in Chicago grew 5.5 percent, to 10,454, in the 12 months ended June 30, with nearly twice as many in advisory services (4,760) as in audit (2,427).

The firms command about 17 percent of global consulting revenue, and their share will double to 35 percent by 2020 if competitors match Ernst & Young's ambitious goals, Monadnock CEO Mark O'Connor says.

That outcome, requiring sustained double-digit annual growth, might be a stretch. But merely positing it rekindles thoughts of auditors going easy on clients to win advisory assignments—a worry shadowing Sarbox's enactment in 2002 after Enron Corp. imploded and took auditor Andersen with it. More recently, the Big Four audited a string of financial industry failures: Bear Stearns Cos. (**Deloitte**), Lehman Bros. Holdings Inc. (Ernst & Young), Countrywide Financial Corp. (KPMG) and MF Global Inc. (PwC).

At **Deloitte**, the first of the Big Four to report fiscal 2013 revenue, consulting and financial advisory revenue now exceeds audit's, which grew less than 1 percent during the period, while the firm made some 30

acquisitions. Three years ago, the consulting and financial advisory segments combined were four-fifths of audit revenue.

"There are companies that are pushing the envelope and waiting to be caught," says Francine McKenna, a Chicago-based CPA and PwC and KPMG Consulting Inc. alumna who writes industry blog "Re: the Auditors."

Last month, **Deloitte**'s U.K. parent was fined an equivalent of $22 million by a British tribunal reviewing audit and tax work for **MG Rover** Group and **Deloitte**'s simultaneous, and much more remunerative, consulting services for the failed automaker's owners. A "disappointed" **Deloitte** said it disagreed with the tribunal's "main conclusions."

PwC, meanwhile, declines to comment on a subpoena it received in an ongoing New York investigation into chummy relationships between consultants and Wall Street clients.

After a recent decline in class-action lawsuits against accounting firms (and their insurers), Cornerstone Research in New York predicts a possible rebound as a result of whistle-blower suits and the Jobs Act exemption for emerging-growth companies to disclose auditor reports on internal controls. Accounting-related filings represented 30 percent of class actions in 2012, but they involved 91 percent of $2.9 billion paid out in settlements.

DEMAND DRIVERS

For a few years, Sarbox was a boon to the Big Four, which feasted on the compliance work it produced. Once that waned and noncompete agreements involving sold-off consulting practices expired, the Big Four ramped back up, benefiting in a slowly recovering economy by deferred spending on information technology, cyber security upgrades and "cost-optimization" initiatives. A reviving IPO market also is driving demand, as is helping clients understand implications of social media and "customer experience" concepts.

Non-audit fees paid to auditors by 95 Illinois public companies tracked by Audit Analytics of Sutton, Mass., nearly doubled, to almost $120 million, in 2012 from $67 million in 2009, while audit fees rose only modestly, to $398 million from $382 million. Though spinoffs involving Abbott Laboratories (Abbvie), Kraft Foods Inc. (Mondelez International Inc.) and Sara Lee Corp. (Hillshire Brands Co.) goosed non-audit revenue, advisory's momentum is unmistakable.

The Big Four can leverage familiar brand names, distribution channels and pricing power to grow both internally and via acquisitions. PwC bought Chicago's Diamond Management & Technology Consultants Inc. in 2010 and startup Ant's Eye View, a Seattle-based social media strategy firm, last year. **Deloitte** bought assets of Monitor Group in Cambridge, Mass., out of bankruptcy for $120 million.

Because of the emphasis on consulting, campus recruiting is changing. Besides harvesting hires from the University of Illinois at Urbana-Champaign and other undergraduate plantations for accounting majors, the Big Four are wooing master's degree recipients in IT, computer science, organizational change and, of course, accounting, finance and statistics. Ernst & Young says it's active at the University of Michigan and Indiana University, among other campuses.

DIFFERENT WORLDS

Cultural issues, however, accompany acquisitions, especially when salty, middle-market practitioners join highly bureaucratic organizations, with their sensitivity training and torturous client-conflict reviews; many new arrivals count the days until earn-out agreements run their course and they can leave.

"There's definitely a huge difference between both those worlds," says Steven Sherman, who this year departed KPMG LLP—on good terms, he says—after 30-plus years to build a consulting practice at Loop Capital Holdings LLC. "The acquisition model has historically underdelivered."

Byron Spruell, **Deloitte**'s new central region managing partner, said in July he would emphasize more internal collaboration and teamwork. He declines to be interviewed.

In 2007, a KPMG subsidiary acquired assets of New York-based Keen Consultants and Keen Realty, whose principals later defected to Deerfield-based restructuring adviser Great American Group LLC.

"I think after three years of being there, we just liked being smaller better. . . .I look back on the experience as an overall positive,"says Matthew Bordwin, a New York-based co-president of Great American unit GA Keen Realty Advisors.

Hires also can be frustrated by Sarbox's auditor independence rules, which lay out what consultants can and cannot do for their firms' audit clients.

"We're happy with the way the integration has gone," says Charles Kuoni, who joined **Deloitte** in Chicago last year when the firm subsumed New York-based restructuring firm CRG Partners. "The downside is, there are rules and regulations that small firms don't necessarily concern themselves with. The issue for us was understanding 'independence' . . . (which) is still a learning process for us."

Crain Communications, Inc.

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Detroit Division

Former Detroit Public Schools Accountant Sentenced on Fraud and Money Laundering Charges

U.S. Attorney's Office
December 18, 2013

Eastern District of Michigan
(313) 226-9100

Sandra Campbell, 60, a former Detroit Public Schools contract accountant and School Board candidate, was sentenced to nearly six years in federal prison today by United States District Judge Julian Abele Cook on charges of program fraud conspiracy, money laundering conspiracy, and tax charges, following a five-week jury trial that took place in August, United States Attorney Barbara L. McQuade announced today.

McQuade was joined in the announcement by Special Agent in Charge Paul M. Abbate, Federal Bureau of Investigation; Special Agent in Charge, Erick Martinez, Internal Revenue Service, Criminal Investigation; and Detroit Public Schools Emergency Manager Jack Martin.

Sandra Campbell was sentenced to 70 months in federal prison on charges of program fraud against the Detroit Public Schools, money laundering, and criminal tax fraud. In addition, Campbell was ordered to pay restitution to the Detroit Public Schools in the amount of $530,091. Co-defendant Domonique Campbell, daughter of Sandra Campbell, is set to be sentenced on January 7, 2014, at 11 a.m.

The evidence presented at trial established that between 2004 and 2008, Sandra Campbell and Domonique Campbell obtained in excess of $530,000 from the Detroit Public Schools through a fraudulent scheme in which orders were placed with the Campbells' sham company for books and educational materials never provided to the schools. Sandra Campbell and Domonique Campbell conspired to launder the fraud proceeds and to defraud the Internal Revenue Service and failed to report the money they fraudulently obtained from the Detroit Public Schools as income on their tax returns.

United States Attorney Barbara L. McQuade said, "Anyone who considers defrauding our schools should take note that we are scrutinizing records and conduct, and we will prosecute those who steal funds intended to educate our children."

DPS Emergency Manager Martin stated, "This sentence sends a powerful message that fraudulently converting DPS resources for personal gain and thereby depriving students of the tools they need to prepare for educational and employment opportunities will not be tolerated. If you steal DPS resources, you will get caught, and you will be prosecuted."

FBI Special Agent in Charge Paul M. Abbate stated, "In this case, the defendant's criminal actions amounted to stealing the opportunity for a quality education from our children. Such conduct cannot, and will not, be tolerated. The FBI Detroit Field Office, together with our local, state, and federal partners, will continue to battle public corruption and hold those responsible accountable for their actions."

IRS Special Agent in Charge Erick Martinez stated, "Those who profit at the expense of our children and steal from our community will be held accountable for their greedy actions."

The case was investigated by special agents of the FBI, IRS, and Department of Education-Office of Inspector General, with the assistance of Detroit Public Schools-Office of Inspector General. The case was investigated and prosecuted by Assistant United States Attorneys J. Michael Buckley and Bruce Judge of the Public Corruption Unit.

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Accountants' professional conduct in relation to taxation

CMS Cameron McKenna
Simon Garrett, Aaron Fairhurst and John Enoch

United Kingdom
March 18 2014

The Chartered Institute of Taxation has published final guidance on professional conduct standards to be applied by advisers when giving tax advice. This publication is timely in light of recent debate as to the extent to which accountants may legitimately advise clients on tax planning. HMRC has approved this guidance as an acceptable basis for its dealings with tax advisers. We have increasingly seen PI claims against advisers who have had a hand in tax mitigation schemes and this note provides some guidance based on our experience of these complaints.

General Points

The Guidance provides examples of situations likely to confront tax advisers, but advisers must observe fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour across all their professional activities.

In addition to the overriding principle of demonstrating integrity at all times, particular themes stressed throughout the report include: the need to preserve client confidentiality in all situations other than where the law compels the adviser otherwise; the obligation that the adviser both understands and explains to the client the risks associated with tax-related decisions and the potential consequences of challenge; the importance of assessing money-laundering implications before and at all stages of financial transactions; and the criticality of documenting all advice given. Advisers must also remain vigilant to the possibility of tax evasion when involved in what is ostensibly lawful planning.

Specific Points

Tax returns: Advisers must act in good faith in dealings with HMRC. An adviser must not assert a tax position which he considers has no sustainable basis. An adviser must exercise appropriate professional scepticism when making statements or asserting facts on behalf of a client. The adviser must ensure that the client understands his responsibility for the accuracy of the tax return and approves the return before submission, even if it is submitted electronically.

Compliance with HMRC: The Guidance distinguishes between informal requests from HMRC and the exercise of their statutory powers. Disclosure in response to informal requests can only be made with the client's permission. The adviser should advise the client as to the reasonableness of any informal request and the likely consequences of non-compliance so that the client can decide on his preferred course of action. With regard to statutory requests, especially those made under Schedule 36 Finance Act 2008, advisers are reminded that such

a request may override the adviser's duty of confidentiality to his client; failure to comply may expose the adviser to serious penalties.

Irregularities: The Guidance provides a flowchart on steps the adviser should take, including informing HMRC or filing MLRO/NCA reports if appropriate. In essence, an adviser must inform the client as soon as possible of any error and its consequences and seek to persuade the client to behave correctly. The adviser must also consider whether the irregularity could give rise to a circumstance requiring notification to PI insurers. The adviser must take care that he or she does nothing to assist a client plan or commit any offence or conceal any offence which has been committed. An adviser is not under a duty to make enquiries to identify irregularities which are unrelated to the work in respect of which he has been engaged, but if he does become aware of any irregularity in a client's tax affairs he should follow the Guidance. Where the client and adviser have complied with all their obligations under tax law and HMRC has failed to take any necessary action to start an enquiry or amend an assessment, the adviser is generally under no legal obligation to draw HMRC's failure to their attention.

Voluntary disclosure under special disclosure facilities: The Guidance warns advisers of risks associated with accepting engagements where a client is seeking to regularise tax affairs through voluntary disclosure of past evasion or concealment. Before accepting an assignment, advisers must seek reassurance that the client will make a full and frank disclosure to the adviser and regularise his affairs in all respects. The adviser must be mindful of the fact that tax regularisation can be a money-laundering tool. Extra customer due diligence checks are required.

Tax planning, tax avoidance and tax evasion: The Guidance refers to recent HMRC publications on tax avoidance and the General Anti-Abuse Rule (GAAR). It points out risks to advisers resulting from involvement with tax avoidance schemes, including regulatory scrutiny or investigation and possible criticism from the media, Government and other stakeholders. Factors that may indicate tax avoidance are listed. The difference between tax avoidance and tax planning is discussed.

An adviser should be aware of the client's expectations around the aggressiveness of tax planning or tax avoidance arrangements and ensure that the engagement letter reflects and limits the adviser's role and responsibilities. Ultimately, it is the client's decision, having received advice, as to what planning is appropriate. The adviser must however warn the client clearly of potential risks. An adviser should not recommend any plan if the adviser concludes that it would be ineffective based on the GAAR or tax law. Factors to consider and advise on include: the strength of any legal interpretation (counsel's opinion) relied upon; the potential application of the GAAR; implications in relation to the client's tax return; the risk of HMRC challenge; the risk of litigation; reputational risk; stress for the person or business in the event of prolonged dispute with HMRC; or the potential impact on tenders for government contracts.

Comment

We are seeing an increasing number of complaints against accountants, tax advisers and financial advisers arising out of failed tax mitigation schemes. Much of the criticism concerns a lack of clear warning about the potential for HMRC challenges and the potential scale of the exposure if HMRC's challenges are successful. While the Guidance strictly only constitutes

advice given by the Chartered Institute of Taxation to its members, courts may find it persuasive as to the expected professional behaviour of all advisers operating in the tax sphere, such as members of the law society or even those operating in an unregulated capacity. All advisers should therefore consider putting appropriate measures in place commensurate with the size of their practice and the extent to which they are involved in areas which constitute tax planning/mitigation, including training, technical briefings and protocols to ensure quality and consistency of treatment and advice. Clear engagement letters are critical, as are clear written advices explaining fully and frankly all the potential advantages and disadvantages of any particular course of action. Proper records of face to face meetings at which advice is discussed are critical evidence if a complaint is later received.

Auditors at Big Firms Cited for More Deficiencies

By EMILY CHASAN

Senior Editor

The Big Number: 37.5%

That's the proportion of audits by large accounting firms found to have deficiencies.

Auditors at the seven largest U.S. accounting firms were cited for deficiencies in 37.5% of audits inspected by U.S. regulators in 2011, according to an analysis of the most recent data from the government's audit watchdog.

That figure, which includes audits completed by PricewaterhouseCoopers LLP, Deloitte & Touche LLP, Ernst & Young LLP, KPMG LLP, BDO USA LLP, McGladrey LLP and Grant Thornton LLP, was up from 32.6% in 2010, and has more than doubled from 14.8% in 2009.

About 31% of the deficiencies involved auditors' evaluation of the market prices companies supplied for complex assets, down from about half in the prior year, according to an analysis by business-valuation firm Acuitas Inc.

In previous years, the most common valuation errors were caused by auditors' failure to understand methods and assumptions used by third-party pricing services. But one in three of those deficiencies uncovered by the 2011 inspections involved failures to test managers' assertions about the methods and data used to value assets.

Auditors also were cited for failing to get enough evidence in their audit of a company's internal controls or financial statements, according to the Public Company Accounting Oversight Board, the government agency that inspects audits.

Grant Thornton

Reporting Entity Sector Profiles: Life Insurance Appendices

Prepared for FINTRAC | March 31, 2014

Appendix A: Industry statistics and reporting entity data

Life insurance SIC codes

Code	Description
6411	Insurance Agents, Brokers, and Service
6311	Life Insurance

Life insurance NAICS codes

Code	Description
524113	Direct Life Insurance Carriers
524114	Direct Individual Life, Health and Medical Insurance Carriers
52421	Insurance Agencies and Brokerages

Using NAICs codes, searches for statistical data on the Life Insurance Industry sector were carried out on Industry Canada's Canadian Industry Statistics (CIS) site.

Direct Life, Health and Medical Insurance Carriers (NAICS 52411)

Exclusions

- Government establishments providing health insurance (91291, other Provincial and Territorial Public Administration); and
- Establishments primarily engaged in reinsuring life, health and medical insurance (52413, Reinsurance Carriers).

Number of establishments in Canada by type and region: December 2012
Direct Life, Health and Medical Insurance Carriers (NAICS 52411)

Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	61	24	85	11.7%
British Columbia	78	20	98	13.5%
Manitoba	31	4	35	4.8%
New Brunswick	16	6	22	3.0%
Newfoundland and Labrador	9	1	10	1.4%
Northwest Territories	1	0	1	0.1%
Nova Scotia	21	4	25	3.4%
Nunavut	0	0	0	0.0%
Ontario	214	52	266	36.6%
Prince Edward Island	3	0	3	0.4%
Quebec	121	27	148	20.4%
Saskatchewan	24	9	33	4.5%
Yukon Territory	0	1	1	0.1%
CANADA	579	148	727	100%
Percent Distribution	79.6%	20.4%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Direct Life, Health and Medical Insurance Carriers (NAICS52411)				
Province or Territory	**Employment Size Category (Number of employees)**			
	Micro 1-4	**Small 5-99**	**Medium 100-499**	**Large 500+**
Alberta	20	31	7	3
British Columbia	24	46	6	2
Manitoba	15	12	2	2
New Brunswick	2	8	5	1
Newfoundland and Labrador	3	4	2	0
Northwest Territories	0	1	0	0
Nova Scotia	7	11	1	2
Nunavut	0	0	0	0
Ontario	60	117	30	7
Prince Edward Island	1	1	1	0
Quebec	40	60	15	6
Saskatchewan	12	10	1	1
Yukon Territory	0	0	0	0
CANADA	184	301	70	24
Percent Distribution	31.8%	52.0%	12.1%	4.1%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Direct Individual Life, Health and Medical Insurance Carriers - (NAICS 524111)

Exclusions

- Government establishments providing health insurance (9s1291, Other Provincial and Territorial Public Administration); and
- Establishment primarily engaged in: reinsuring life insurance (524131, Life Reinsurance Carriers); and reinsuring health insurance (524132, Accident and Sickness Reinsurance Carriers).

Number of establishments in Canada by type and region: December 2012 Direct Individual Life, Health and Medical Insurance Carriers (NAICS 524111)				
Province or Territory	**Employers**	**Non-Employers/ Indeterminate**	**Total**	**% of Canada**
Alberta	41	16	57	10.2%
British Columbia	59	16	75	13.4%
Manitoba	22	2	24	4.3%
New Brunswick	10	5	15	2.7%
Newfoundland and Labrador	7	1	8	1.4%
Northwest Territories	1	0	1	0.2%
Nova Scotia	16	1	17	3.0%
Nunavut	0	0	0	0.0%
Ontario	175	39	214	38.4%
Prince Edward Island	2	0	2	0.4%
Quebec	95	23	118	21.1%
Saskatchewan	19	7	26	4.7%
Yukon Territory	0	1	1	0.2%
CANADA	447	111	558	100%
Percent Distribution	80.1%	19.9%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Direct Individual Life, Health and Medical Insurance Carriers (NAICS524111)				
Province or Territory	**Employment Size Category (Number of employees)**			
	Micro 1-4	**Small 5-99**	**Medium 100-499**	**Large 500+**
Alberta	15	24	0	2
British Columbia	23	32	2	2
Manitoba	11	9	1	1
New Brunswick	1	7	1	1
Newfoundland and Labrador	2	4	1	0
Northwest Territories	0	1	0	0
Nova Scotia	5	8	1	2
Nunavut	0	0	0	0
Ontario	46	98	24	7
Prince Edward Island	1	1	0	0
Quebec	35	46	10	4
Saskatchewan	11	7	0	1
Yukon Territory	0	0	0	0
CANADA	150	237	40	20
Percent Distribution	33.6%	53.0%	8.9%	4.5%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Insurance Agencies and Brokerages (NAICS 52421)

Number of establishments in Canada by type and region: December 2012 Insurance Agencies and Brokerages (NAICS 52421)				
Province or Territory	**Employers**	**Non-Employers/ Indeterminate**	**Total**	**% of Canada**
Alberta	1,007	523	1,530	11.8%
British Columbia	1,240	613	1,853	14.3%
Manitoba	354	159	513	3.9%
New Brunswick	208	89	297	2.3%
Newfoundland and Labrador	113	34	147	1.1%
Northwest Territories	4	0	4	0.0%
Nova Scotia	202	90	292	2.2%
Nunavut	0	0	0	0.0%
Ontario	3,323	1,895	5,218	40.2%
Prince Edward Island	34	10	44	0.3%
Quebec	1,532	1,051	2,583	19.9%
Saskatchewan	339	167	506	3.9%
Yukon Territory	6	1	7	0.1%
CANADA	8,362	4,632	12,994	100%
Percent Distribution	64.4%	35.6%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Insurance Agencies and Brokerages (NAICS52421)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	539	463	5	0
British Columbia	607	625	7	1
Manitoba	179	174	1	0
New Brunswick	121	86	1	0
Newfoundland and Labrador	63	50	0	0
Northwest Territories	2	2	0	0
Nova Scotia	94	108	0	0
Nunavut	0	0	0	0
Ontario	1,918	1,381	23	1
Prince Edward Island	21	13	0	0
Quebec	954	569	8	1
Saskatchewan	189	149	1	0
Yukon Territory	3	3	0	0
CANADA	4,690	3,623	46	3
Percent Distribution	56.1%	43.3%	0.6%	0.0%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Establishments: Direct Group Life, Health and Medical Insurance Carriers (NAICS 524112)
Exclusions

- Government establishments providing health insurance and establishments primarily engaged in: reinsuring life insurance (524131, Life Reinsurance Carriers); and
- Reinsuring health insurance (524132, Accident and Sickness Reinsurance Carriers).

Number of establishments in Canada by type and region: December 2012 Direct Group Life, Health and Medical Insurance Carriers (NAICS 524112)				
Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	20	8	28	16.6%
British Columbia	19	4	23	13.6%
Manitoba	9	2	11	6.5%
New Brunswick	6	1	7	4.1%
Newfoundland and Labrador	2	0	2	1.2%
Northwest Territories	0	0	0	0.0%
Nova Scotia	5	3	8	4.7%
Nunavut	0	0	0	0.0%
Ontario	39	13	52	30.8%
Prince Edward Island	1	0	1	0.6%
Quebec	26	4	30	17.8%
Saskatchewan	5	2	7	4.1%
Yukon Territory	0	0	0	0.0%
CANADA	132	37	169	100%
Percent Distribution	78.1%	21.9%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Establishments: Direct Group Life, Health and Medical Insurance Carriers (NAICS 524112)

Exclusions

Number of employer establishments by employment size category and region: December 2012 Direct Group Life, Health and Medical Insurance Carriers (NAICS524112)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	5	7	7	1
British Columbia	1	14	4	0
Manitoba	4	3	1	1
New Brunswick	1	1	4	0
Newfoundland and Labrador	1	0	1	0
Northwest Territories	0	0	0	0
Nova Scotia	2	3	0	0
Nunavut	0	0	0	0
Ontario	14	19	6	0
Prince Edward Island	0	0	1	0
Quebec	5	14	5	2
Saskatchewan	1	3	1	0
Yukon Territory	0	0	0	0
CANADA	34	64	30	4
Percent Distribution	25.8%	48.5%	22.7%	3.0%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Sic Code 6411 – Insurance Agents, Brokers, and Service

Province	Number of Establishments
Alberta	1,700
British Columbia	1,926
Manitoba	652
New Brunswick	441
Newfoundland and Labrador	245
Northwest Territories	10
Nova Scotia	475
Nunavut	2
Ontario	4,994
Prince Edward Island	77
Quebec	3,037
Saskatchewan	678
Yukon	15
Total	14,252

Sic Code 6311 – Life Insurance

State Or Province	Number of Establishments
Alberta	1
British Columbia	12
Manitoba	5
New Brunswick	2
Ontario	36
Quebec	35
Saskatchewan	2
Total	93

NAICs Code 524113 - Direct Life Insurance Carriers

State Or Province	Total
Alberta	1
British Columbia	12
Manitoba	5
New Brunswick	2
Ontario	36
Quebec	35
Saskatchewan	2
Grand Total	93

NAICs Code 524114 - Direct Life Insurance Carriers

State Or Province	Total
Alberta	5
British Columbia	7
Manitoba	1
New Brunswick	2
Newfoundland and Labrador	5
Ontario	57
Quebec	4
Grand Total	81

NAICs Code 524210 - Insurance Agencies and Brokerages

Province	Number of Establishments
Alberta	1,512
British Columbia	1,732
Manitoba	601
New Brunswick	407
Newfoundland and Labrador	223
Northwest Territories	9
Nova Scotia	444
Nunavut	2
Ontario	4,627
Prince Edward Island	69
Quebec	2,767
Saskatchewan	647
Yukon	12
Total	13,052

OSFI Federally Regulated Life Insurance Companies	
Canadian Life Insurance Companies	42
Foreign Life Insurance Companies	35

Canadian Life Insurance Companies

- ACE INA Life Insurance
- Allstate Life Insurance Company of Canada
- Assurant Life of Canada
- Aurigen Reinsurance Company
- Blue Cross Life Insurance Company of Canada
- BMO Life Assurance Company
- BMO Life Insurance Company
- Canada Life Assurance Company
- Canada Life Financial Corporation
- Canada Life Insurance Company of Canada
- Canadian Premier Life Insurance Company
- Capital Financial Security Insurance Company
- CIBC Life Insurance Company Limited
- CIGNA Life Insurance Company of Canada
- CompCorp Life Insurance Company
- Co-operators Life Insurance Company
- CT Financial Assurance Company
- CUMIS Life Insurance Company
- Empire Life Insurance Company
- Equitable Life Insurance Company of Canada
- Foresters Life Insurance Company
- Great-West Life Assurance Company
- London Life Insurance Company
- Manufacturers Life Insurance Company
- Manulife Financial Corporation
- MD Life Insurance Company
- National Life Assurance Company of Canada
- Primerica Life Insurance Company of Canada
- Provenance Life Insurance Company
- RBC Life Insurance Company
- Reliable Life Insurance Company
- RGA Life Reinsurance Company of Canada
- Scotia Life Insurance Company
- Standard Life Assurance Company of Canada
- Sun Life Assurance Company of Canada
- Sun Life Financial Inc.
- Sun Life Insurance (Canada) Limited
- TD Life Insurance Company
- Transamerica Life Canada

- VSP Canada Vision Care Insurance
- Wawanesa Life Insurance Company
- Western Life Assurance Company

Foreign Life Insurance Companies

- Aetna Life Insurance Company
- Allianz Life Insurance Company of North America
- American Bankers Life Assurance Coy of Florida
- American Health and Life Insurance Company
- American Income Life Insurance Company
- AXA Equitable Life Insurance Company
- CMFG Life Insurance Company
- Combined Insurance Company of America
- Connecticut General Life Insurance Company
- Employers Reassurance Corporation
- GAN Assurances Vie Compagnie française d'assurances vie mixte
- General American Life Insurance Company
- General Re Life Corporation
- Gerber Life Insurance Company
- Hartford Life Insurance Company
- Liberty Life Assurance Company of Boston
- Life Insurance Company of North America
- Metropolitan Life Insurance Company
- Munich Reinsurance Company
- New York Life Insurance Company
- Partner Reinsurance Company Ltd.
- Partner Reinsurance Europe SE
- Pavonia Life Insurance Company of Michigan
- Phoenix Life Insurance Company
- Principal Life Insurance Company
- Prudential Assurance Company Limited (UK)
- Reassure America Life Insurance Company
- ReliaStar Life Insurance Company
- SCOR Global Life
- Standard Life Assurance Company 2006
- Standard Life Assurance Limited
- State Farm International Life Insurance Co
- Swiss Reinsurance Company Ltd (Life Branch)
- United American Insurance Company

Source: OSFI

Life Insurance Industry - Market Value

Canada Life Insurance Market Value: US$ billion, 2008-2012		
Year	US$ billion	% Growth
2008	49.7	
2009	51.6	3.8%
2010	51.8	0.5%
2011	51.4	(0.7%)
2012	51.8	0.6%
Compound Annual Growth Rate (CAGR): 2008-2012		1.0%

Source: MarketLine, January 2014

Life Insurance Industry - Market Value Forecast

Canada Life Insurance Market Value Forecast: US$ billion, 2012-2017		
Year	US$ billion	% Growth
2012	51.8	0.6%
2013	55.3	6.9%
2014	56.9	2.7%
2015	58.3	2.5%
2016	60.0	3.0%
2017	61.5	2.5%
Compound Annual Growth Rate (CAGR): 2012-2017		3.5%

Source: MarketLine, January 2014

Life Insurance Industry – Category Segmentation

Canada's Life Insurance Market Category Segmentation: US$ billion, 2012		
Category	2012	%
Life Insurance	15.4	29.7%
Pension/annuity	36.4	70.3%
Total	51.8	100%

Source: MarketLine, January 2014

Life Insurance Industry – Geography Segmentation

Canada's Life Insurance Market Category Segmentation: US$ billion, 2012		
Category	2012	%
United States	567.8	82.6%
Canada	51.8	7.5%
Mexico	10.9	1.6%
Rest of the Americas	57.3	8.3%%
Total	687.8	100%

Source: MarketLine, January 2014

Life Insurance Industry – Market Share

Canada's Life Insurance Market Share: % share, by value, 2012	
Company	% Share
Munich Re. Canada (Life)	18.3%
Sun Life Financial	11.8%
The Great-West Life Assurance Company	11.7%
The Manufacturers Life Insurance Company	10.2%%
Other	48.0%
Total	100%

Source: MarketLine, January 2014

Appendix B: Case examples and typologies

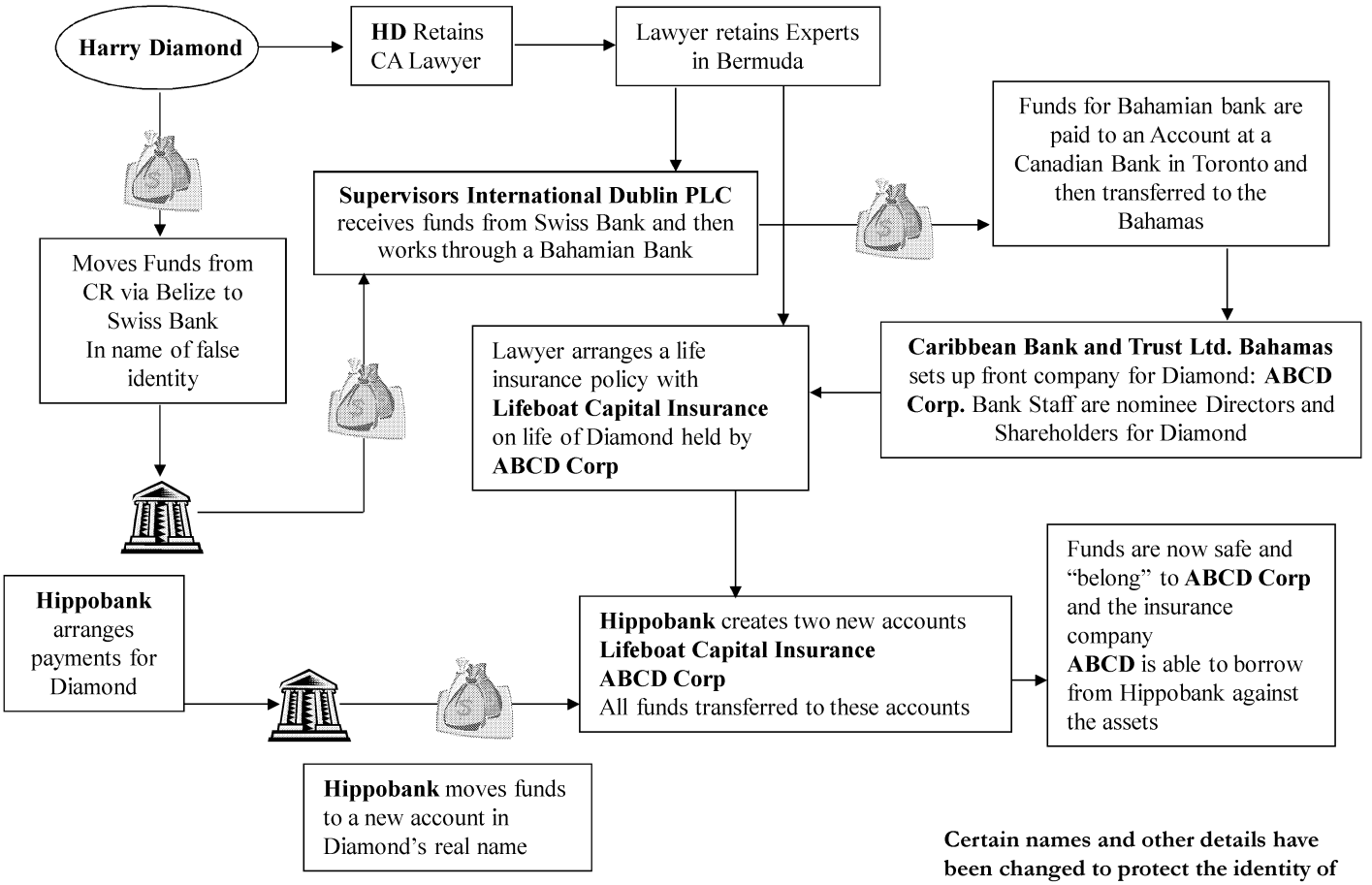
The enclosed articles have been sourced from: news media databases, books and the Internet, and provide specific examples of the risk factors identified in the report.

1. "Life Insurance" Money Laundering Vehicle Example.
2. Through Canada's insurance loophole. The Globe and Mail, Friday December 17, 2010.
3. What your insurance broker doesn't want you to know. The Globe and Mail, December 21, 2010.
4. Money laundering in Canada: An analysis of RCMP cases. Nathanson Centre for the Study of Organized Crime and Corruption. Chapter 10 – Insurance.
5. New hiding place for drug profits: Insurance policies. The New York Times, December 6, 2002.
6. Insurance agents ordered to repay $3.7 million gained by fraud. Montreal Gazette, March 20, 2014.
7. Man charged for defrauding client out of $21,000. Toronto Star, November 28, 2013.
8. Former Texas businessman sentenced to 60 years for his role in $100M insurance fraud. Canadian Press, September 28, 2011.
9. Ex-NFL lineman charged in scheme. FoxSports.com, August 2, 2013.
10. Accused controls tax haven companies. Canberra Times. October 21, 2013.
11. Los Angeles man gets 13 years in federal prison in Texas life settlement insurance fraud case. Associated Press. December 19, 2013.
12. Former employee of National Prearranged Services Inc. and Lincoln Memorial life Insurance Company Brent Cassity pleads guilty to fraud and money laundering charges. Department of Justice Documents, July 3, 2013.
13. Seven charged in life insurance fraud scheme. Department of Justice Documents, July 25, 2012.
14. Insurance Gateway for money laundering. The Times of India. May 8, 2013.
15. Frauds blow and hole in insurance firms. Mail Today, March 5, 2012
16. Irda fines Tata AIA for violating anti-money laundering norms. Press Trust of India, February 13, 2014.

17. Staff at LIC, Birla Sunlife, Reliance Life others accused of 'helping' people avoid tax. The Times of India. May 8, 2013.

18. Security Council Committee pursuant to resolutions 1267 (1999) and 1989 (2011) concerning Al-Qaida and associated individuals and entities. Narrative summaries of Reasons for Listing – Q1.A.201.05. Yasser Mohamed Ismail Abu Shaweesh. September 16, 2009.

"Life Insurance" Money Laundering Vehicle



Certain names and other details have been changed to protect the identity of involved parties.

THE GLOBE AND MAIL

Through Canada's insurance loophole

TARA PERKINS **AND** GRANT ROBERTSON
The Globe and Mail
Published Friday, Dec. 17 2010, 8:41 PM EST
Last updated Tuesday, Jul. 31 2012, 4:56 PM EDT

Lynne Rae Zlotnik had insurance in her blood.

Her father, Harold, began selling policies in 1945 and eventually she followed in his footsteps. "Insurance," Harold Zlotnik liked to say, "is the business of financing dreams."

But when insurance regulators began looking into Vancouver-based Lynne Zlotnik Wealth Management Inc. this year - a firm she created in 2006 to sell life insurance and other investment products - they were troubled by what they found.

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- Graphic Canada's new insurance landscape
- Graphic Traditional insurance sales in Canada
- Graphic By the numbers: Insurance premiums in Canada

Several of her clients had invested a total of more than $1.4-million in her company on the promise of a lucrative return. The clients included 96-year-old Katie Sturhahn, who cashed out a $200,000 segregated fund, an investment fund that comes with insurance guarantees, and instead put her faith in the insurance agent.

It was a questionable financial strategy, since the payout on the fund - which she intended to leave her five children - was assured. Soon after the elderly woman died in March, the agent declared bankruptcy, and the money was gone.

"That was our inheritance," says her son, 71-year-old Walt Sturhahn. "We've got none of it."

But an even more disturbing discovery had yet to be made: When regulators went looking for someone responsible for overseeing such a risky financial transaction, there was no one to answer for it. The regular checks and balances that are designed to oversee an insurance agent had failed.

The insurance company that administered the policy had no direct oversight over Ms. Zlotnik. In a practice that is increasingly common throughout the industry, she dealt with a middleman company called a Managing General Agent, or MGA, which is an unregulated wholesaler of insurance products to independent agents that few consumers know about. That made it difficult for regulators to scrutinize her conduct.

The case exemplifies a problem that's emerged as the insurance industry becomes increasingly complex. As the sale of life insurance has evolved over the past decade - designed to sell more policies and maximize profits for insurers and agents in an already-mature market - it has also placed consumers at risk.

A Globe and Mail investigation has uncovered a gaping hole in Canadian insurance regulation: Cases like the Sturhahns' are not isolated events. Instead, nearly half of all individual life insurance policies in Canada are now being transacted through MGAs, which often undertake little - if any - oversight of agents in the market.

Though consumers place trust in their agents and increasingly look to them for financial advice and to explain complex policies and products, insurance regulation hasn't kept pace with the industry, and doesn't take these wholesalers into account. Across the country, MGAs operate beyond the watch of regulators - leaving consumers exposed.

Though regulators can revoke an agent's licence - Ms. Zlotnik lost hers in April - by that time it's too late for the consumer. The damage can't be undone and the money may be unrecoverable. With closer oversight, the sudden cancellation of insurance policies such as Ms. Sturhahn's or decisions resulting from poor financial advice would be detected earlier, when the moves could still be reversed in the consumer's favour if questionable circumstances were found.

"[My brother]said 'Just forget it, forget it,' " said Mr. Sturhahn, who is wheelchair-bound and suffers from asbestosis after a career as a carpenter. "And I'm trying, but it's hard to forget when you're living on a shoestring and something like that happens."

When Gerald Matier, executive director of the Insurance Council of British Columbia, which licenses agents in the province, looked into the matter, he was stunned: Since Ms. Zlotnik was working through an MGA, no one was directly responsible for overseeing the agent.

When he asked the MGA whether anyone thought to question the cashing in of an insurance product by a 96-year-old woman, he learned that no one had, because there are no regulatory requirements for MGAs to police life insurance agents.

It was a problem that no one, not even regulators like Mr. Matier, saw coming.

Twenty-five years ago, most insurance agents were contracted directly by the insurance companies whose policies they sold. Agents were in-house representatives of firms such as Manulife or Sun Life and employers were responsible for keeping tabs on their sales forces.

"When there was a problem, the regulator would know, 'Well, this is a London Life agent,' so they would contact London Life's compliance department ... because it was that company's responsibility," says Peter Lamarche, president of the Canadian Association of Independent Life Brokerage Agencies, a growing MGA industry group. "In

the new environment, the regulator doesn't know who to call."

Today, most agents are independent, and can sell policies from multiple insurers.

As a result, the new breed of managing general agents has quickly sprung up. And in the span of a decade, these agencies have quietly grown into one of the most powerful forces in Canada's life insurance industry by offering to help insurers deal with a large roster of independent agents, while helping agents obtain access to various policies sold by insurers, in exchange for a cut of the action.

According to Investor Economics, a financial industry consultancy, the MGA channel is now responsible for at least 44 per cent of the new life insurance policies sold to individuals across the country.

That means nearly half of all policies are being sold with serious gaps in regulatory oversight.

The MGA explosion has severed the chain of oversight between insurance companies and agents, but the full effect of that development is hard to quantify. Regulators are, at best, only beginning to grapple with the sector's fast rate of growth.

Those watchdogs are painfully behind the curve.

Mr. Matier tried to find a solution, but could barely find agreement on what the role of an MGA should be inside the industry - a disinterested middleman, or a key link in the supply chain that should be responsible for the agents it supplies with policies. It is an issue in all provinces. But rather than spring into action, regulators have been blindsided.

Meanwhile, there are signs the MGA industry itself is trying to stave off regulation, worried that new rules will be bad for the bottom line.

As for the insurance companies themselves, which have made Canada an exportable brand name in reliable life insurance, they also have yet to reckon with the unintended consequences of a revolution they encouraged in order to save trouble and expense.

And the stakes are getting higher for insurers as products become more complex and therefore more difficult for consumers to understand.

Facing a mature market for life policies, insurers are looking to increase business by developing a dizzying array of new offerings, from critical illness coverage to living benefits products. Insurance agents are increasingly involved in wealth management, and advise people on tax and estate planning - functions that require careful oversight.

Prices on many products are going up, largely because low interest rates have been eating away at insurers' profit margins. Insurers have also been reducing benefits on some products.

The dollar amounts spent in the insurance sector are staggering. Canadians bought $311.6-billion worth of life insurance in 2009, bringing the total value of life insurance they own to $3.47-trillion.

In total, almost 21 million Canadians own life insurance, an average of $169,000 per person. They paid $15.1-billion worth of life insurance premiums in 2009, according to the Canadian Life and Health Insurance Association. Of that, at least $1-billion comprises life insurance policies sold directly to individual consumers.

The evolution of a new model

The life insurance industry is built on trust, and consumers put their faith in the agent they deal with to navigate a series of choices about complex products.

As Ms. Zlotnik said in a promotional video: "What I'm passionate about is to make sure that each person that I advise has a level of financial literacy. I explain all the terms [in]fairly easy digestible ways."

The video featured a number of her clients, including Gabe and Greta Milton, a retired Vancouver couple. "She makes a person feel totally comfortable, and really Lynne's explanations are so clear," Ms. Milton said. She and her husband are listed as creditors in the bankruptcy, having invested $23,000 with Ms. Zlotnik's business.

Though her case exposed a serious weakness in oversight of the MGA channel, Lynne Zlotnik maintains she did nothing wrong. She says she is the victim of an overzealous regulator and intends to appeal its ruling. She also says that a serious illness that had hospitalized her prevented her from dealing with the regulator.

"I was trying to develop an agency like my successful father," she said in an e-mail denying the allegations. "I've been in business 23 years, never had a complaint against me."

But the trust that consumers place in the life insurance industry reaches beyond the independent agent they deal with. Canadians assume that regulators are also keeping an eye on those agents, and that insurers have a stake in overseeing the way their products are sold.

Canada is known for its financial regulation, and when it comes to insurance, Ottawa watches over the capital structures of underwriters, while provincial watchdogs are responsible for policing how policies are sold.

Traditionally, life insurers assumed responsibility for the agents who sold their products and gave advice to clients. The market was dominated by insurers' in-house career sales agents, whom they recruited and were responsible for training and supervising. While oversight of agents was not embodied in law, it was enshrined in corporate practice because the insurers knew their brands were at stake if customers had problems with their agents.

The directness of the chain of responsibility from insurer to agent is clear from the industry jargon for these agents: "captives."

"Everyone worked for a company," says Kevin Cott, president of a Toronto-based MGA, Qualified Financial Services, who joined the insurance business in the early

1980s. "Advisers, training, financials, paying of commissions, monitoring, mentoring - the whole nine yards - were the responsibility of the insurer."

The life insurance industry began undergoing a low-profile but massive transformation two decades ago as the independent agent distribution model, sometimes called the broker channel, started taking hold.

The channel flourished because it helped consumers shop around without having to visit an agent at each insurer. But insurers were also enthusiastic as they realized that using independent agents would be easier and cheaper than employing a captive sales force.

Insurers generally tried to do some homework on agents before signing contracts with them, and still had a vested interest in ensuring that their advice to customers and sales tactics were up to snuff.

But as the independent sales channel grew, a problem emerged that would ultimately lead to the creation of MGAs.

To learn the ins and outs of complicated products, independent brokers were forced to deal with multiple insurers. And the insurance companies had to spend time dealing with legions of independent agents to keep them up to date. This proved unwieldy. Hence, the new corporate middlemen that evolved to fill this need.

Some MGAs were started by former career agents who saw an opportunity and wanted to branch out on their own. In some cases, career agents were pushed by the insurers themselves to start up a shop.

As the insurers wound down their own internal agent systems, Mr. Cott says, "they would often tell managers, 'Listen, we're closing down your office, but what we'll do is we'll give you a direct contract, an MGA contract if you will, for you and your people.'"

The shift to outsourcing is reflected in the career agent population, which is tracked by the Canadian Life and Health Insurance Association.

The numbers show a steady decline since 1985, when there were 22,600 career agents. For the past decade, the number has been below 10,000.

Meanwhile, the number of independent agents selling life insurance has soared to 76,300. A large but unknown number of those are now working through MGAs.

The role of career agents has dwindled to the point that they represent less than one-third of the industry's sales. The bulk of sales come from independent agents, and much of that is done through MGAs.

Only a handful of life insurers, including London Life Insurance Co. and Industrial Alliance Insurance and Financial Services Inc., are still recruiting and using career agents. Sun Life has the biggest stable, with more than 3,500 people across Canada. Manulife Financial, the largest Canadian-based life insurer, conducts more business through MGAs than any other underwriter.

"Over the last several years, we've had a strategy to significantly grow our presence in the MGA channel, and that has been driving most our growth in the life insurance business," Paul Rooney, the head of Manulife's Canadian operations, told analysts in late November.

Manulife and many other major insurers declined to be interviewed on the record about the MGA issue. Some insurance executives said that criticizing the distribution channel would be detrimental to their business.

Insurers benefit by relying more on MGAs. One example: A large proportion of life insurance commissions are paid up front, when the policies are sold. If the consumer later abandons that policy, the insurer will "charge back" the unearned commission. Under the old model, the insurer had to track down agents years after the policy was sold to get its money back. Now, MGAs get hit with the chargebacks.

But perhaps the most fundamental advantage of the MGA route is that it saves insurers the costs of recruiting and training agents. These expenses are harder to justify now that it's easy to effectively "rent" distribution, says a senior executive of one Canadian life insurer, who adds, "We love the MGA channel."

Why this became a problem

No one envisioned that an entire segment of the insurance industry would spring up unregulated - it just seemed to happen.

In the old system, before MGAs evolved, it was in the best interest of insurers to keep close relationships with their agents.

This made it easier to drive sales higher, since it exposed weaknesses in sales performance, but it also helped to spot problems. An agent with excessively high sales might be needlessly selling customers too much coverage in order to boost commissions. In such cases, a company risked losing that customer.

But the disconnect under the MGA system has created several loopholes which have direct implications for consumers should problems arise. When approached by the regulators, the insurance companies who underwrite the policies can argue that they have no knowledge of the agent's actions, and that responsibility rests with the managing general agent. The MGA, on the other hand, can deflect responsibility by suggesting that its role is not to police the sales of policies, since it is merely a middleman stocking products from the large insurers for the independent agents to sell on the street.

The industry is now a patchwork of sales practices without any standard procedures. The way MGAs oversee agents' activities varies from firm to firm. Some insurers write conditions into their contracts with MGAs specifying they must police agents, but many do not. Some insurers' contracts require that MGAs screen the agents that they hire; others don't.

"From one MGA to another, there is a different level [of supervision]and different standard at play," says Terri Di Florio, the chief executive officer of Hub Financial Inc., one of the country's largest MGAs, supplying 3,000 independent agents across the country.

That means the consumer can have no expectation of a safeguard when they buy a life insurance policy that is channelled through an MGA - and the consumer is unlikely to know that an MGA is even involved.

The sales practices of agents working for MGAs are not the only worry. The vast amounts of personal and medical information consumers provide to their agents also sit outside the rules.

"One of the big issues is privacy," said one insurance executive. "They have underwriting files from brokers that sit in their file drawers. There's no regulation and they've got medical information on people and it's just sitting there. ... I really don't think the consumer has any idea about what happens to their information once they give it in this channel."

To further cloud the picture, it's not even clear who the agent answers to. Some agents will work with more than one MGA, making it harder to determine who is responsible for any given agent.

One more wrinkle is the appearance of a new category of players, generically known as associate general agents, or AGAs. Those are agencies that don't have enough sales volume to get an MGA contract. "They have this middle ground between a brokerage contract and an MGA, and so you might be an AGA of an MGA," says an executive at a major insurer who spoke only on condition of anonymity. "So that's yet another layer. And that gets even further from the regulatory environment."

The rules are so lax that even when a regulator confronts a problem agent, it's all too easy for the agent to simply find another MGA. Earlier this year, Mr. Matier of the Insurance Council of British Columbia revoked the licence of an agent he was investigating. That didn't put the broker out of action. The agent simply found an MGA in another province - Saskatchewan - that would provide a contract, so that the agent could keep on selling policies in Canada.

"It's these kinds of issues that you're starting to see," Mr. Matier says.

No one is taking responsibility

Despite the major role the agencies are playing in selling billions of dollars of insurance products to consumers, regulators have yet to grasp how unclear the picture is, and what little oversight exists.

The Canadian Council of Insurance Regulators, an umbrella group of provincial watchdogs, became aware of the MGA issue at least two years ago and assigned a group of officials to look into it. However, the group has yet to report or take any action.

The Financial Services Commission of Ontario, the largest provincial regulator, would not comment, other than to say it is now reviewing the matter of MGAs.

Highlighting the degree to which MGAs have eluded scrutiny, even just determining how many have sprung up in Canada is difficult. "Nobody in the country is really sure how many managing general agencies there are," says Mr. Lamarche, the president of the MGA industry group.

Goshka Folda, senior managing director at the consultancy Investor Economics, estimates that there are nearly 400 MGAs operating in Canada, of which about 100 would be sizable agencies, while the remainder have one or two contracts. The largest operations supply more than 1,000 brokers; the smallest have just one contract from an insurer.

In an effort to play catch-up, the life insurance industry's umbrella group, the Canadian Life and Health Insurance Association, has developed a lengthy questionnaire asking MGAs to detail the extent of their activities.

But the association's vice-president of distribution and pensions, Leslie Byrnes, declined to be interviewed on the subject, citing a need to wait for the Canadian Council of Insurance Regulators to publish its long-overdue consultation paper on the issue.

The move by the life insurance association to start gathering information on the agencies points to how little is being done to monitor the sector's activities. Of the nearly 100 life insurance companies active in Canada, only a handful, including Sun Life and Manulife, are actively conducting any sort of auditing work on the MGAs with which they have relationships.

Some MGA players acknowledge the need for better regulation. "There probably should be some oversight. That's probably true in any professional services industry where you're advising the general public," says Ms. Di Florio of Hub Financial.

But many agencies say that they don't want to pay for any more oversight - including ensuring that consumers are not being sold inappropriate products - unless they're compensated for it. The agencies make the case that their profit margins are too thin to support the oversight and paperwork involved.

The Independent Financial Brokers of Canada, which represents about 4,000 independent financial advisers, told regulators in a recent report that significant new rules for MGAs are not necessary - and moreover would prove expensive to implement.

They would much rather just let their own insurance cover any problems.

"In the event of an administrative oversight, most agencies have corporate E&O [errors and omissions insurance] which is the appropriate recourse for consumers," the brokers association argues in documents to the regulator.

That approach means consumers may be subjected to a lengthy claims process.

In the meantime, the problem has become tangible for Mr. Matier and his team in B.C.

"The level of supervision, accountability and training that was inherent in the career insurance company model has diminished and accountability for the actions of new life agents is less clear," the B.C. regulator said in a report on the MGA issue.

"Once licensed, a life agent is not subject to any mandatory industry oversight, which differs significantly from all other sectors of the financial services sector [such as]property and casualty insurance, securities, mutual funds and real estate."

An industry left to police itself

While the state of regulatory limbo persists, MGAs are left to decide for themselves how to appropriately conduct business. Some have taken steps to police themselves and their agents, but they are the exception.

At Qualified Financial Services, Mr. Cott took matters into his own hands. The Toronto-based MGA culled its ranks, cutting its contracts with more than 130 advisers, in part because the company realized it had too many agents to keep proper tabs on.

The move raised eyebrows in the MGA industry because it was so unusual. In an otherwise free-wheeling industry, there have been few clampdowns. Mr. Cott is alone in that regard. "We, like the insurers, don't want to have 10,000 people running around that we don't know who they are, where they are or what they are doing," Mr. Cott says.

THE GLOBE AND MAIL

What your insurance broker doesn't want you to know

GRANT ROBERTSON **AND** TARA PERKINS
The Globe and Mail
Published Tuesday, Dec. 21 2010, 7:32 PM EST
Last updated Thursday, Aug. 23 2012, 4:03 PM EDT

In a closed-door meeting this summer, executives at one of Canada's best-known life insurance companies gathered at its headquarters to plot the latest moves in their industry's secret war.

It's a war fought with weapons that look harmless on the surface: deluxe trips to sunny destinations, offered to the independent brokers on whom the insurers rely to sell their life policies.

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- Through Canada's insurance loophole
- Retirement a distant dream for many entrepreneurs

The executives knew they would have to spend at least $8,000 to $12,000 per broker to be competitive. And the trip had to be enticing - something on the order of a Brazilian beach getaway or a luxury trek through Asia.

At a time when low interest rates have squeezed the insurance industry's profit margins, the company knew that if the brokers weren't kept happy, they could easily shift their business to a competitor offering better compensation and perks.

Two key parameters had to be kept in mind. First, a few hours during the week-long trip had to be set aside for a seminar, so that the company could deem the excursion an educational conference. And second, the budget had to include a guest for each broker - even though this doubled the cost.

Buttering up each broker's better half was all part of the strategy. "We say, 'If you want to come here again as a guest, you better tell your guy to sell our stuff,'" said a senior executive present at the meeting.

Although the battle to win brokers' affections has become a defining characteristic of Canada's life insurance industry, it's kept well out of the sight of the consumers, businesses and corporations who are buying policies - and who, the insurers admit, are paying for the trips, too.

Regulators and the industry examined the issue six years ago, and publicly acknowledged that some practices - including how brokers are compensated - weren't in alignment with the customers' best interests. But the brokers pushed back, and little changed.

An investigation by The Globe and Mail has found that attempts to improve transparency in Canada have been thwarted by the industry's successful efforts to water down proposed reforms. Yet at the same time the industry has kept compensation details under wraps, many of its products have evolved into complex financial instruments that are hard for average consumers to comprehend.

When Canadians purchase life insurance now, their broker typically hands them an industry form letter promising that "any insurance product I recommend will be the one I deem to be best suited to meet your needs, without regard to the compensation practices of any one company."

But the promise does not reflect the reality of the business for the big underwriters, such as Manulife Financial Corp., Sun Life Financial Inc., Great-West Lifeco Inc., Standard Life Assurance Co. of Canada, and Industrial Alliance Insurance and Financial Services Inc., and the thousands of brokers across the country.

Rather than scouring the market to find the best coverage, and the best price, for the clients sitting across from them, many independent agents and brokers steer all their business to just one or two insurers, according to a number of high-ranking insurance executives interviewed by The Globe. They favour the ones that reimburse them most generously in commissions, bonuses and perks, such as those all-expenses-paid trips to break up the monotony of a long Canadian winter.

The incentives have distorted the sales process for a sophisticated product and broken the bonds of trust that the insurance industry was built on. The problem, these executives say, is becoming more acute: The industry is locked in a kind of compensation race as brokers push for ever-richer incentives and insurers know they must match or better their rivals' offerings.

Insurance broker representatives don't agree there is a problem. "I don't see consumers worried about compensation in the industry," said Greg Pollock, the head of Advocis, a Canadian association that represents advisers and agents in the financial services industry. "I don't see that there's an issue that needs to be addressed."

Authorities on compensation rules in Ontario told The Globe and Mail they have decided that consumers are better off without the details of trips, commissions and bonuses clouding their decision. And the industry has worked hard to keep it that way.

Spokespeople for major insurers including Manulife , Sun Life , Great-West Lifeco , and Standard Life declined to comment on the issue and referred the questions to the Canadian Life and Health Insurance Association. Frank Swedlove, the association's president, said in an e-mailed statement that "the issue of conflicts of interest - real or perceived - arising from compensation is one that the life and health insurance industry, and its regulators, take very seriously."

But several high-ranking executives at Canada's largest insurance companies talked to The Globe and

Mail about the lack of disclosure and the problems it has created. They only did so on condition of anonymity, because they feared that by speaking publicly they could face a backlash from the brokers who sell their products.

"We've gone out and said we want to discontinue the incentives, but essentially the brokers won't give you policies if you did that," one senior executive said.

"The incentives breed a type of behaviour that's not good for the industry."

While the industry's workings are opaque to consumers, the picture is much clearer to professionals like Jeff Schaafsma, chief risk officer for the city of Surrey, B.C. He is an expert in buying insurance, and must manage file cabinets full of complex policies to cover everything from city employees to construction sites.

"If you come in from the outside and look at the insurance industry, you think, 'How could this be so unregulated?' " Mr. Schaafsma says.

"And you think, why would people accept this - handshake deals, and millions of dollars moving around and not really understanding how it's moving? The premium goes up, the premium goes down, and nobody knows why."

Canadians pay about $15-billion in life insurance premiums each year, and another $40-billion in premiums on property and casualty (P&C) policies, primarily for home and car insurance. Last year about 757,200 individual life insurance policies were sold, averaging $271,600 each. New individual policies sold today are almost twice the size they were 10 years ago.

Billions of dollars in commissions flow every year from these sales. Canadian-based life insurers paid $7.2-billion to agents worldwide in 2009, up 26 per cent from $5.7-billion at the end of 2005. A significant proportion of that money was paid to agents in Canada. Foreign-based life companies paid nearly $600-million in commissions in this country, up slightly from $590-million in 2005. Canadian property and casualty insurers shelled out another $3.74-billion in commissions in 2009, which rose 17 per cent since 2005, according to data the companies file with the Office of the Superintendent of Financial Institutions.

Many of the incentives have little, if anything, to do with serving the customer; rather, they're paid by insurance companies to keep the brokers coming back to them.

"For claiming to be independent and working in the best interests of their clients, brokers keep their cards quite close to their chest in terms of what they're being paid and by whom," Mr. Schaafsma said. "It's the wild west."

Commissions, bonuses, perks

Until the early 1990s, major life insurers like Manulife and Sun Life sold the majority of their policies

through in-house sales agents, dubbed "captives." But in the past two decades, the industry has evolved dramatically as insurers increasingly looked to outsource sales in order to reduce overhead.

As much as 70 per cent of all life insurance policies now sold in Canada are handled by independent brokers who are compensated primarily through commissions and perks. The agents often work through intermediaries known as managing general agents, which can contract several hundred brokers at one time, giving them more clout with the insurers. The vast majority of P&C sales also occur through brokers.

A good insurance broker in Canada can earn $100,000 annually, but it is not uncommon for take-home incomes to be significantly higher.

Insurance companies use three kinds of incentives to entice agents and brokers to direct business to them. There are upfront commissions when the sale is made; back-end commissions, usually called bonuses or "contingent" commissions, which are often based on the volume of business a broker does with that insurer; and perks.

The latter two are structured with one purpose in mind: to promote loyalty and encourage brokers to bring as many customers to that insurer as possible. The more the broker consolidates his clients' business with a particular insurer, the more lucrative the deal gets.

In life insurance, the upfront commissions have traditionally been high compared with other industries, because the product has always been a tough sell compared with other consumer purchases.

If a customer buys a universal life insurance policy that requires him to pay $1,000 in premiums the first year, the agent is likely to earn a commission of about $600 up front and a further $1,200 in a bonus at the end of the year, provided certain sales levels are met. That doesn't include incentives such as trips, nor commissions for keeping the policy in force in future years.

Brokers also can get paid extra for bringing in an insurer's favourite kind of customers - the kind who stay, or who don't make claims. For example, a broker who sells five group life insurance accounts for Standard Life paying total annual premiums of $3-million could earn a bonus of $30,000 if none of the clients take their business elsewhere. P&C insurers sometimes offer bonus payments for signing policies with "good customers" who file fewer claims.

The principle that a broker's first responsibility is to the client is contained in industry codes of conduct.

Don Bailey, who stepped down last month as the head of Canadian operations for Willis Group, one of North America's largest insurance brokers for corporate and business clients, says the industry and regulators need to tackle the transparency problem.

"What you see is agencies and brokers knowing what their targets are, and knowing that if I can shift this much premium volume to another carrier before the end of the month, or before the end of the

quarter, then I can trigger a cheque," Mr. Bailey said. "These [sums]are not incidental. They are significant amounts of money.

"If I'm the buyer, that should put in doubt why somebody is recommending one carrier over another. Is it because they truly believe that carrier is better? Or is it because they have a big cheque coming?"

'White sandy beaches'

Free trips are used by the insurance companies to tell brokers about their products, but they are also tools for instilling loyalty, ensuring that brokers are not tempted to direct business to rival firms, especially in the life insurance industry. The insurance companies detailed this strategy to The Globe and Mail.

Like consumers who sign up for loyalty programs or use premium credit cards, life agents accumulate points as they sell policies for a particular firm.

"I know some agents who say, 'Okay, I'm going to do business with [another] company this year because they've got this convention somewhere, or it's too difficult to meet your criteria to go to your convention,'" said Bruno Michaud, senior vice-president of administration and sales at Industrial Alliance. "At the end of the day, we see a convention for advisers as an award for the advisers for doing business with us. And it's a good occasion to develop a stronger sense of belonging to the company."

In the standard disclosure letter given to consumers at the time of purchasing a life insurance policy, there is a line stating: "From time to time, some companies may offer other types of compensation such as travel incentives or education opportunities."

But well out of the consumer's sight, internal industry documents obtained by The Globe and Mail detailing these perks are fashioned conspicuously like vacation brochures for luxury golf outings, cruises and sightseeing trips. Industrial Alliance's pamphlet shows photographs of crashing waves and exotic flowers, and invites brokers to "enjoy sunny skies while relaxing on sweeping white sandy beaches... Soak up the rays in a world-class resort." RBC Insurance's 'California Dreamin' conference was held at a resort near San Diego.

Two of Canada's biggest life insurers found out the hard way that perks distort the market. Senior executives at both firms told The Globe and Mail they raised the price of a universal life policy, only to watch sales of their other products - including the ones whose prices hadn't changed - take a hit. The price increase made the product harder to sell. Brokers told one of the companies that the price change meant it just wasn't worth their time to stay up to date on the insurer's other products.

The competitive pressure to provide incentives comes at a time when more Canadians need impartial advice on their insurance options. For example, Ontario has just decreased the amount of medical benefit coverage that insurers must offer drivers, but consumers can now choose to buy additional coverage. That leaves drivers in the province having to make important decisions on their policies this year. When it comes to life insurance, competition for the coveted baby boomer market has

prompted life companies to release a wider array of products, adding more complexity to an industry that is already difficult for many consumers to navigate without the help of an expert.

Yet the brokers have convinced regulators that the inability of Canadian consumers to grasp complicated financial matters is exactly why they shouldn't have to provide detailed disclosure of compensation, according to discussions with insurers, regulators and brokers.

Brokers push back

Critiques of the current compensation system are seldom heard. Consumers Association of Canada says that, owing to limited resources, it is not looking into the matter. The issue is invisible in the political arena.

Proponents of the industry's compensation structure nevertheless say criticism of perks and commissions is overblown. In their view, contrary to what the public might believe, a broker's main job is to prod people to buy life insurance and to plan for their financial futures - not to shop around. "If they spend all their time trying to find the absolute lowest price, chances are they're not spending their time on what they're truly being paid to do," says the top executive at one insurer. "Which is help bring the person to action on something they wouldn't have done on their own."

Mr. Schaafsma of the City of Surrey and his fellow risk managers are a rare voice of dissent. He says that upfront commissions are acceptable, if they are disclosed. However, the hidden perks and back-end commissions are a problem.

"You get a trip to Hawaii - that's a benefit that isn't going to the consumer, it has to flow into the price," he says.

Earlier this year, his professional association, the Risk and Insurance Management Society, issued a paper calling for better disclosure.

The paper, however, has had no tangible impact on igniting a debate that insurance brokers would prefer to avoid - and one that they skillfully extinguished earlier this decade.

The Canadian Council of Insurance Regulators, the umbrella group for provincial regulators, began to probe how insurance is sold in late 2004. The move came after a crackdown was announced in the United States to deal with allegations that a small number of U.S. brokers had rigged the sale of P&C policies to boost their commissions.

The committee found that while some brokers may argue that bonuses and perks do not influence their advice to clients, they may "appear ... to result in a potential conflict of interest."

The committee made three proposals. It recommended new legislation or regulation to clarify that the client's interest was to be placed first. It proposed to limit "performance-linked benefits" to insurance brokers, including contingent commissions that are hidden from the consumer. Finally, the

committee said there should be greater disclosure of ownership and other financial ties between a broker and an insurer, including the common practice of insurers lending money to brokers to expand their businesses.

The ensuing backlash revealed a broker community unequivocally opposed to these ideas. One of many groups to argue against the changes was the Insurance Brokers Association of B.C. Citing a lack of consumer complaints on the matter, the group implied there was no difference between selling insurance policies and furniture or cars. "Name any industry and you'll find mechanisms in place for motivating the sales force," the association wrote in its response to the committee.

Advocis, the Financial Advisors Association of Canada, warned that new restrictions would bind the industry in red tape.

If brokers had to explain complex commissions, such as contingent payments, it would be unduly confusing for the consumer, the group warned. And altering the overall incentive structure could disrupt the workings of a multibillion-dollar industry.

The pushback from the broker community worked. By the time of its final report in 2008, the committee's three key recommendations had been watered down. It no longer backed the idea that "clients first" should be enshrined in regulations, or that limits should be placed on commissions or perks. But the industry would have to start disclosing to the consumer any possible conflicts of interest.

Advocis endorsed the proposals, saying the industry was in fact already adhering to them. And on Dec. 8, 2008, the council of insurance regulators declared the debate over, and thanked the committee for "a job well done."

Brokers are expected to make customers aware of actual or perceived conflicts of interest, but this disclosure takes many forms.

"As you likely already know, agents and brokers in the life insurance business in Canada are compensated by commissions, bonuses and other inducements from the companies we do business with," says a letter that one broker group makes available to clients. Customers are asked to sign the letter, which describes "incentive-based compensation" as an "industry-wide practice," but makes no mention of specific figures.

This is enough disclosure, says Greg Pollock, the head of Advocis. "For the most part, we believe that the current structure of compensation in this country works well."

When it comes to auto and home insurance, the Insurance Brokers Association of Canada, which speaks for 33,000 property and casualty brokers, said its code of conduct requires brokers to disclose compensation - if a consumer asks. "The broker is required to divulge the method by which he is being compensated," said Steve Masnyk, a spokesman for the Insurance Brokers Association of Canada.

For instance, the broker might disclose that he or she will be paid a commission of between 10 and 15 per cent of premiums. Insurers also make general disclosure statements about compensation, usually on their websites, but details are limited.

The Registered Insurance Brokers of Ontario, the self-regulatory body for property and casualty brokers in Canada's largest province, also requires members to hand out a disclosure form that discusses compensation without divulging numbers.

But RIBO still uncovers cases in which agents do not have copies of the disclosure statement they are supposed to provide, through audits it conducts every three to five years. Tim Goff, manager of complaints and investigations at RIBO, says there is "95 to 99 per cent" compliance among brokers on this form.

The Insurance Council of British Columbia, meanwhile, has encountered cases where a broker has told a consumer incorrect information after the consumer asked for details of their compensation.

Mr. Bailey, the former head of an insurance broker, suggests the current system is not enough.

"[Brokers]should declare to the buyer: 'Just so you know, I represent the insurance company and not you. And I'm making significantly more money than you think I am,' " Mr. Bailey said. "Just disclosing the conflicts, in our mind, does nothing."

The 2008 detente with regulators signalled the campaign to head off reform succeeded. The industry diluted the suggested fixes down to a small number of voluntary measures.

"If you look at the system, the compensation, the way it all works, you'd be protecting it too," said a senior executive at a major insurer. "You don't want people asking questions, you don't want to disclose it, you don't want them to know you're going on a trip - because it's pretty good."

NATHANSONCENTRE

for the STUDY *of*

ORGANIZED CRIME AND CORRUPTION

Money Laundering in Canada: An Analysis of RCMP Cases

STEPHEN SCHNEIDER

10 INSURANCE

Of the 149 proceeds of crime cases examined for this study, the insurance industry was implicated in 96 (64.4%). However, an important caveat should be applied to this statistic and, by extension, the use of the insurance industry to launder the proceeds of crime. Unlike those sectors of the economy that predominate as money laundering vehicles – such as deposit institutions or real estate – in most of the police cases, the insurance sector was not expressly sought out by criminals to launder their illicit revenues. Instead, insurance policies were purchased because big ticket items that require coverage – such as cars, homes, marine vessels, and businesses – were acquired (with the proceeds of crime). As such, in most cases, the insurance sector was somewhat tangential to the actual money laundering objectives and processes.

However, the police cases also show that traditional services offered by the insurance industry – such life insurance policies – have also been used expressly to launder the proceeds of crime. According to a 1998 report entitled *Money Laundering Typologies,* the Financial Action Task Force (FATF) describes how single premium insurance bonds are purchased from insurance companies and then redeemed prior to their full term at a discount. The balance of the bond is paid to the launderer in the form of a "sanitized" cheque from the insurance company, thereby creating a seemingly legitimate source for the funds.

A Manitoba drug trafficker purchased a life insurance policy with a value of $78,000. The policy was purchased through an agent of a large Canadian life insurance company using a cashier's cheque. The client made it known that the funds used to finance the policy were the proceeds of drug trafficking. Knowing this, the agent charged a higher commission. Three months following this transaction, the drug dealer cashed in his policy for its full value.

In 1997, John Huffam was arrested for cocaine trafficking (for which he was later convicted) and a proceeds of crime investigation was undertaken. During a search of his home, police seized monthly statements issued by a life insurance company pertaining to a life insurance policy registered in the name of Huffam. Police also uncovered monthly statements from another major insurance company pertaining to another life insurance policy, also registered in his name. Police found that he had been contributing to this life insurance policy since 1980, and by 1995, it had a cash value of $80,042.04.

In a smaller number of cases, the insurance sector was used much like a bank: cash is deposited into accounts or term deposits; investments – such as RRSPs and mutual funds – are purchased; and mortgage financing is received. As the barriers that separate the different financial sectors continue to tumble in Canada, insurance companies are increasingly providing the type of banking services favoured by money launderers.

A $70,000 mortgage was obtained from a major Canadian life insurance company to finance a home for a multi-kilo drug trafficker. In the course of their investigation, police also found that the drug trafficker had almost $115,000 invested in short term investments through the same company. The investments were facilitated by a co-conspirator working within the insurance company who siphoned the funds through another unwitting account to avoid suspicion.

In 1995, an insurance broker in Alberta accepted large amounts of cash from known criminals, which were then invested under his own name. He would issue his clients a life insurance policy document, which could be redeemed whenever they wanted, for a fee. In one instance, the broker took $30,000 in ($100 bills) that were purportedly generated from local cocaine sales. The insurance broker then filled out a "Whole Life Policy" with a specified cash surrender value of $25,000 plus interest. The broker stated that he could put the policy in any name and would even hide its existence if need be. He then offered to funnel the cash through the bank account of another company he operated so as not to attract suspicion.

The New York Times

December 6, 2002

New Hiding Place For Drug Profits: Insurance Policies

By ERIC LICHTBLAU

WASHINGTON, Dec. 5— Law enforcement officials said today that Colombian cocaine traffickers seeking to launder tens of millions in drug profits from the United States and Mexico had begun exploiting an unlikely haven -- life insurance policies.

Officials at the Treasury Department said they were so worried about the trend that they were pushing for tougher regulation of the insurance industry as a way of identifying suspicious insurance policies.

A central concern for the authorities is that terrorist financiers, too, may seek to exploit vulnerabilities in the insurance industry to launder money for their operations.

A federal grand jury indictment brought today in Miami highlighted the phenomenon. In it, the authorities charged that five Colombians took part in an elaborate scheme to launder millions in cocaine profits originating from street sales in New York City, Florida and elsewhere.

American law enforcement officials say Colombia has indicated that it will extradite the five suspects to the United States to stand trial.

Drug traffickers often use bank deposits, wire transfers and other financial mechanisms to disguise the source of their revenues. But officials at the Customs Service said the current case was the first in which a major trafficking ring has been known to use insurance policies to cover its financial tracks.

In interviews and court documents, law enforcement officials at the Customs Service said that in recent years, brokers connected to the Cali drug cartel in Colombia had bought insurance policies in the Isle of Man and other British islands, as well as perhaps Florida and other locations, to launder more than $80 million.

Using drug proceeds from the United States and Mexico, the suspects opened some 250 different investment-grade life insurance accounts in the Isle of Man alone, investigators said. The insurance policies, worth as much as $1.9 million each, were sometimes taken out in the names of nieces, nephews and other relatives of the traffickers, investigators said.

The traffickers would typically cash out all or part of the Isle of Man policies prematurely after a year or so, paying penalties of 25 percent or more to get access to the laundered cash more quickly, investigators said.

Customs Service officials have seized $9.5 million in Florida in connection with the case, most of it in the last three weeks, officials said. They expect to seize more assets and bring more charges against others they accuse of involvement in the operation, and they are closely scrutinizing a South Florida insurance company to determine its role.

"This has opened our eyes," said John Clark, special agent in charge of the Customs Service's Miami office, which led the investigation. "We think this is just the tip the iceberg. This is a system that seems to have been used and abused by narcotics traffickers for years."

Officials in Colombia have also seized $20 million there and in Panama in connection with the money-laundering operation. They arrested at least nine people in the case last month -- including three of the five defendants charged today in Miami. Another Colombian wanted in the case is thought to be at large in California.

Those indicted today in Miami on conspiracy and money-laundering charges were Rodrigo José Murillo and his son, Alexander Murillo, who investigators say were active on the drug-trafficking side of the operation; Jaime Eduardo Rey Albornoz and Arturo Delgado, who investigators say brokered the transactions; and their assistant, Esperanza Romero.

The indictment seeks the forfeiture of $2.1 million that the authorities say the defendants laundered through banks and insurance companies.

The case was brought in Florida because some of the money passed through companies in the state and because the laundering investigation grew out of a major drug-trafficking case there in the early 1990's.

The case led to the seizure of 47,000 kilograms of cocaine distributed by the Cali cartel and others. In the last several years it has also led investigators to develop high-level informers in the trafficking industry. These sources indicated that much of the cartel's money was winding its way to the Isle of Man, investigators said.

The Customs Service started the financial spinoff of its 1990's case in early 2001, working closely with counterparts in Colombia, Panama, Britain and the Isle of Man.

Officials in the Isle of Man, a hub for global insurance companies, were eager to cooperate, American officials said. After concerns were raised in recent years about whether the island's oversight of the industry was too lax, the officials "wanted to put that to rest by cooperating and to show that they weren't a money-laundering haven," said Anthony Arico, assistant special agent in charge in Miami for the Customs Service.

Isle of Man officials said today that they had instituted new safeguards against criminal use of their corporations to launder money. But they acknowledged that the high volume of global business in the territory made it an attractive target for launderers.

In the current case, investigators pulled together information from financial transactions as far away as Russia, using informants, wiretaps and undercover operations to trace the money trail, officials said.

In New York City, undercover Customs investigators acted as go-betweens, funneling cash from local street sales and forwarding it to the Isle of Man through checks or wire transfers to buy life insurance policies, officials said.

Undercover agents also got the word out to drug dealers that, for a fee, they would accept and launder large amounts of cash, according to a seizure warrant filed in federal court in New York in connection with the case.

Dealers would then drop off large sums of cash -- sometimes hundreds of thousands of dollars -- and direct the undercover agents to wire the money to banks and insurance companies around the world, the warrant said.

American officials said that Mr. Albornoz and Mr. Delgado, who each own financial transaction businesses in Colombia, were the "master brokers" who oversaw the insurance scheme. Colombian officials said Mr. Albornoz even organized conferences on money laundering for insurance companies and financial institutions around the world.

"The case just underscores the clever and crafty schemes that drug traffickers and terrorists, too, are capable of conceiving to move their money," said Rob Nichols, a spokesman for the Treasury Department.

The department proposed in September that insurance companies be required to adopt programs to better detect accounts opened expressly to hide illegal revenues.

Officials said the investigation in Colombia was a driving force in the still pending proposals, which have met with general support from many insurance groups.

Mr. Clark of the Customs Service said that if insurance companies were subject to the same types of rigorous reporting and monitoring requirements as banks, the authorities would have been able to detect some of the suspicious tactics used by the Colombian launderers.

Insurance companies might have reported, for instance, that policyholders were authorizing unrelated third parties to withdraw money from their accounts or were frequently cashing out their policies early, he said.

The proposed restrictions, he said, would help the authorities "spot the type of irregular flow of money that we were seeing here."

Chart: "INVESTIGATION -- Laundering Drug Profits" In recent years, Colombian cocaine traffickers have laundered as much as $80 million in drug money through life insurance policies in the British Isles and other places, American law enforcement officials said. Here are some ways the traffickers sent money through the Isle of Man, according to the Customs Service: NEW YORK Undercover Customs Service agents wire cash to the insurance policy on the Isle of Man. MEXICO Third parties wire payments to the Isle of Man through a Mexican money exchange house. LONDON British authorities working undercover transfer money to the Isle of Man policy. FLORIDA Money is transferred to the policy from an insurance broker's commission account. COLOMBIA The Isle of Man insurance policy is cashed in early and deposited into the drug traffickers' shell company. (pg. A12)

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The Gazette

Insurance agents ordered to repay $3.7 million gained by fraud

montrealgazette.com
Thu Mar 20 2014
Section: OnLine
Byline: Paul Delean

MONTREAL - Two Sherbrooke insurance agents will have to repay more than $3 million they received from Canada Life Assurance after a Superior Court judge ruled they defrauded the company with an elaborate scheme to collect commissions.

The judgment against Stéphane Corbeil, Ian Roy and GCS Firme Conseil Inc., a company owned by Corbeil, was rendered by Judge Martin Bureau.

Court was told that between 2006 and 2011, the two men sold 160 universal **life-insurance** policies to individuals and businesses, generating commission and bonuses totalling about $3.7 million.

Canada Life alleged they'd put in place a fraudulent scheme by selling to "simulated" clients, to whom they promised free **life insurance** for 24 to 30 months. Many of the clients were acquaintances of the defendants and members of their family, the company said.

The defendants would advance them money for an initial payment, pocketing the difference between the payment and commission generated. Then the payments would stop, letting the policy lapse.

In an example cited as evidence, the initial payment for the policy was $13,900 and the commission it generated for them $23,325.

Court was told that in some cases, the same client would reapply after the original policy died, generating another commission.

Canada Life said the intention of the men was not to offer the **life-insurance** product to their clients, but only to serve their own interests.

The defendants maintained the company brought this on itself with a faulty commission schedule, but Judge Bureau disagreed.

He said they had no credibility, clearly violated the ethics of the profession by reimbursing client premiums, and the scheme was exactly as the company described it.

"Clients, for whom the strategy cost nothing, got the benefit of significant insurance coverage for a period, without ever having any real intention to maintain or conserve this protection beyond the time allowed by the payment made for them by the defendants," Judge Bureau said, noting that in one case, the insurance policy actually produced a $900,000 payout for the family of an applicant who died while covered.

To be legitimately entitled to commissions and bonuses, the agents had to act in good faith and respect their obligations toward the company and clients, he said.

"It would be illogical," Judge Bureau wrote, "to consider that the defendants, in light of their fraudulent actions, had the right to any remuneration whatsoever from the plaintiff."

He ordered them to repay the full $3.7 million in commissions and bonuses received from the company, plus interest.

Property in Sherbrooke seized pending judgment will serve to acquit the sum.

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thestar.com

Man charged for defrauding client out of $21,000

thestar.com
Thu Nov 28 2013
Section: News | Toronto Star
Byline: Paul Clarke(https://author.thestar.com/content/thestar/authors.clarke_paul.html)

A Richmond Hill man who posed as an insurance agent and defrauded a client out of thousands of dollars was arrested by Toronto Police on Thursday.

The man allegedly convinced his victim to cash out his **life-insurance** policy worth $21,000 in return for a new policy that would better suit his client's financial needs. The man took off with the money and never purchased the new policy for his client.

Laurence Honickman, 41, has been charged with **fraud** over $5,000, laundering proceeds of crime and failure to comply with probation.

Police believe there may be more victims.

Anyone with information is asked to contact police at 416-808-1300 or Crime Stoppers at 416-222-TIPS (8477).

Illustration:
• Laurence Honickman was arrested by police who say he posed as an insurance agent and defrauded a client out of $21,000.

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THE CANADIAN PRESS

Former Texas businessman sentenced to 60 years for his role in $100M insurance fraud

Canadian Press
Wed Sep 28 2011
Section: Foreign general news
Byline: BY LARRY O'DELL

RICHMOND, Va. _ After hearing tearful testimony from several people whose life savings were stolen, a federal judge sentenced a former Texas businessman to 60 years in prison Wednesday for his role in a $100 million **life insurance** scam that claimed more than 800 victims in three dozen U.S. states and Canada.

A Richmond jury in June convicted Adley Abdulwahab on 15 counts of conspiracy, wire fraud, securities fraud and **money laundering**.

Abdulwahab, 36, was one of the principals of companies called A&O that used investor funds to buy **life insurance** policies from individuals at less than face value. Investors were supposed to be paid when the insured died, but A&O's partners spent the money on lavish lifestyles instead of safeguarding the investments and paying premiums. Policies lapsed, and investors lost their money.

``They were people who built their dreams by hard work _ real hard work _ and those dreams have been stripped from every one of these investors," U.S. District Judge Robert E. Payne said.

Given a chance to address the court before sentencing, Abdulwahab suggested the value of insurance policies was incorrectly calculated, said prosecutors had declined to meet with him during the investigation, and blamed a co-defendant for encouraging him to join A&O.

Among the victims was Paula Higdon Whitaker of Magnolia, Texas, whose life savings of $1 million helped finance mansions, fancy cars, expensive jewelry, resort vacations and other luxuries for A&O's leaders. Whitaker, a teacher and counsellor, said she worked as many as three full-time jobs at a time over 40 years of frugal living to build a nest egg to help her only son, who had medical problems.

``I earned money the old-fashioned way _ I worked for it," a weeping Whitaker testified. ``That's why this is such a horrendous and difficult thing for me."

After her son Ryan died, she planned to use the A&O investment to fund a charitable foundation in his memory. Then she learned that A&O was a scam, and all her money was gone.

``It's been four years, seven months and 28 days since I lost my son and I cry every day because I can't leave the legacy for him that I wanted," she said. ``It was like taking Ryan away from me again."

Other victims talked about the embarrassment of losing their life savings to a fraud and the anguish of seeing a lifelong goal of a comfortable retirement vanish.

U.S. Attorney Neil MacBride, who attended the sentencing, also said 60 years was a fair sentence.

``A case like this really puts a human face on financial crimes," he said. ``These defendants stole life savings and retirement funds from hundreds of people who worked hard and played by the rules."

He noted that some of the investors worked their entire lives to save $50,000, while A&O's officers often rang up that much in credit card purchases in a month.

Abdulwahab was sentenced a day after Payne sentenced A&O co-founder Christian Allmendinger of Houston to 45

years for his role in the scheme. Five other conspirators, including A&O co-founder Brent Oncale of Houston, previously pleaded guilty and received lighter sentences.

A federal financial crimes task force in Virginia co-ordinated the investigaton. Several victims are from Virginia, and an A&O sales agent who pleaded guilty is from Richmond.

Length: 555 w ords
Idnumber: 201109280407

Tone: Negative

Ex-NFL lineman charged in scheme

Updated Aug 2, 2013 11:19 AM ET

FoxSports.com

SAN DIEGO (AP)

A former NFL defensive lineman is among four people charged in San Diego with participating in a $50 million insurance fraud scheme.

The 2013 offseason was a rough one for NFL players and the law. Take a look back at the players arrested before camp ever opened.

U-T San Diego reports 36-year-old Byron Frisch was charged along with three others with conspiracy to commit mail and wire fraud.

Frisch and others are accused of submitting false information to obtain more than $50 million worth of life insurance policies for unqualified applicants who didn't plan to pay the policy premiums. Authorities say they received more than $1.6 million and the ability to sell the policies to investors.

The four allegedly recruited elderly individuals to apply for purported free life insurance policies with million-dollar death benefits, then submitted applications with false details.

Frisch, a self-employed financial adviser, played for the Dallas Cowboys and the New York Giants.

The Canberra Times
INDEPENDENT. ALWAYS.

Accused controls tax haven companies

Ben Butler

680 words
21 October 2013
Canberra Times
CANBTZ
B009
English

Accused controls tax haven companies

Ben Butler

Formerly secret Cayman Islands documents reveal that Sydney businessman Vanda Gould, who was charged last week with serious tax and **money laundering** offences, controls two companies in the Caribbean tax haven. The documents are evidence in a civil case in which overseas companies allegedly associated with Mr Gould and his co-accused, John Leaver and Peter Borgas, are attempting to claw back tax bills totalling about $40million. Mr Gould is the chairman of listed investment company CVC and Mr Leaver, a former director of Gold Coast developer Sunland, is also on the board. In the Federal Court case, the Tax Office alleges the offshore network brought $19.45million back into Australia, much of which went to Mr Gould and Mr Leaver. It alleges $3.4million of tax haven money went towards the purchase of four apartments by a company associated with Mr Gould and Mr Leaver, while an additional $1.9million helped fund the purchase of a property in Woollahra by Mr Leaver's daughter.

Messrs Gould, Leaver and Borgas were arrested last week and charged with conspiracy to dishonestly cause a loss to the Commonwealth and conspiracy to use $30million as an instrument of crime - offences that carry jail terms of 10 years and 25 years respectively. They have been released from custody after lodging bail money totalling $12million. Mr Gould is not registered as a director or shareholder of either Cayman Islands company, MH Investments and JA Investments. However, the court documents show he signed nominee agreements on August 31, 2005, describing him as the "appointer" of both companies. The word "appointer" has been handwritten into the documents, replacing the printed word "beneficiary". In both agreements, nominees appointed by Mr Gould declare they hold the shares on his behalf and promise to vote as directed by him "to enable the appointer to exercise all of the rights and privileges as a shareholder of the company". The nominees also promise to act as company directors and "vote as directed by the appointer

at all times when acting as a director of the company". Mr Borgas, a Belgian citizen who lives in Switzerland, is the sole director and sole shareholder of each company, and his wife Winny serves as assistant secretary. In the Federal Court case, which continues despite the arrests, several offshore companies are challenging the Tax Office's contention they are Australian residents and should pay local tax on profits from share trading. The offshore arrangements, described as "Byzantine in their complexity" by Justice Nye Perram, take in a dizzying array of companies and professionals in tax havens including Vanuatu, Singapore and the British Virgin Islands. Chemical Trustees, Derrin Brothers Properties and Bywater Investments, of the Bahamas, have told the court they are controlled by Mr Borgas from his base in Switzerland. Southgate Investment Funds claims to be controlled from London, while Hua Wang Bank Berhad, of Western Samoa, claims to be managed from the Samoan capital, Apia. The Tax Office alleges JA Investments and MH Investments own the network of

companies and Mr Gould controls all of them except Southgate, which it alleges is controlled by retired Sydney anaesthetist Joseph David Ross. It alleges Messrs Gould, Leaver and Ross funded the offshore network by buying **life insurance** policies from Fidelity Pacific **Life Insurance** Company, which operates from tax haven Vanuatu and claims on its website that although "death is inevitable taxation does not have to be". The Tax Office alleges that among the companies paying premiums was Planette Thoroughbred Trading - a company owned by Mr Gould and Mr Leaver that ran racehorses with radio shock jock Alan Jones and Racing NSW chairman John Messara. It also alleges that on the instructions of Mr Gould, Fidelity deposited funds with the Bank of Commerce (Micronesia) in Vanuatu, which then loaned it on to companies in the offshore network. Profits from share trading were then allegedly repatriated as loans, which were used to buy property and fund companies controlled by Mr Gould and Mr Leaver.

Associated Press

Los Angeles man gets 13 years in federal prison in Texas life settlement insurance fraud case

152 words
19 December 2013
07:13
Associated Press Newswires
APRS
English

HOUSTON (AP) - A Los Angeles man has been sentenced to 13 years in prison in a nearly $10 million Texas-based life settlement insurance scam.

A federal judge in Houston on Wednesday sentenced Charles Craig Jordan, who pleaded guilty to conspiracy to commit mail and wire fraud. Jordan was also ordered to pay almost $9.7 million in restitution to more than 500 victims.

Prosecutors say the scheme involved a Houston company called Secure Investment Services and American Settlement Associates. A co-defendant, Kelly Taylor Gipson of Rockwall, awaits sentencing after pleading guilty to conspiracy to **launder** proceeds from the fraud.

A life settlement is when people who are typically elderly or terminally ill sell their **life insurance** policies for a cash payment. Investigators say Jordan and Gipson misused investor money and the policies lapsed.

Former Employee of National Prearranged Services Inc. and Lincoln Memorial Life Insurance Company Brent Cassity Pleads Guilty to Fraud and Money Laundering Charges

565 words
3 July 2013
Department of Justice Documents
DOJDOC
English

Justice Department FBI Press Releases

Former Employee of National Prearranged Services Inc. and Lincoln Memorial **Life Insurance** Company Brent Cassity Pleads Guilty to Fraud and **Money Laundering** Charges

U.S. Attorney's Office July 3, 2013

Eastern District of Missouri

ST. LOUIS, MO–Brent Douglas Cassity pled guilty today before United States District Judge Jean C. Hamilton to participating in a fraudulent scheme involving the sale of prearranged funeral contracts and monetary transactions involving the proceeds of that scheme. Cassity, 46, faces up to five years in prison for his role.

In court, Cassity admitted that beginning as early as 1992 and continuing until 2008, National Prearranged Services, Inc. (NPS) sold prearranged funeral contracts in several states, including Tennessee and Ohio. During that time, insurance companies affiliated with NPS issued **life insurance** policies related to those prearranged funeral contacts. As part of the contracts, the total price for funeral services and merchandise for an individual was agreed upon, and that price would remain constant regardless of when the funeral services and merchandise would be needed. Customers entering into prearranged funeral contracts would usually pay a single sum of money up-front to NPS either directly or through a funeral home that was also a party to the contract. NPS represented to individual customers, funeral homes, and state regulators that funds paid by customers under the prearranged funeral contracts would be kept in a secure trust or insurance policy as required under state law. Cassity admitted, however, that NPS made use of funds paid by customers in ways that were inconsistent both with its prior and continuing representations and with the applicable state laws and regulations.

Cassity was employed at various times by NPS and also served as a director of Lincoln Memorial **Life Insurance** Company, for which NPS served as general agent. Cassity also held numerous titles with affiliated companies, including chief executive officer, chairman, president, and director of Forever Enterprises Inc.; and president and director of National Heritage Enterprises.

Cassity pled guilty to one count of mail fraud (count 31), one count of wire fraud (count 21), and one count of **money laundering** (count 38). Cassity also pled guilty to willfully permitting James Douglas Cassity, whom he knew to have been convicted of a felony involving fraud or dishonesty, to exercise significant control over NPS's affiliated insurance companies (count 50)

Cassity will be sentenced on November 7, 2013, at 9 a.m. Earlier this month, Cassity's co-defendant and fellow NPS executive Sharon Nekol Province pled guilty to six counts of mail fraud, wire fraud, and misappropriation of insurance premiums arising out of the same scheme. Cassity's co-defendants, James Douglas Cassity, Randall K. Sutton, Howard A. Wittner, and David R. Wulf have entered pleas of not guilty and are scheduled to

appear for trial starting on August 5, 2013. As is always the case, charges do not constitute proof of guilt, and every defendant is presumed to be innocent unless and until proven guilty.

Cassity's case was investigated by Internal Revenue Service-Criminal Investigation, the Federal Bureau of Investigation, and the Postal Inspection Service. Assistant United States Attorneys Steven Muchnick, Charles Birmingham, and Richard Finneran are handling the case for the U.S. Attorney's Office.

Seven Charged in Life Insurance Fraud Scheme

766 words
25 July 2012
Department of Justice Documents
DOJDOC
English

Justice Department FBI Press Releases

Seven Charged in **Life Insurance** Fraud Scheme

U.S. Attorney's Office July 25, 2012

Middle District of Louisiana (225) 389-0443

BATON ROUGE, LA--United States Attorney Donald J. Cazayoux, Jr. announced today that seven area residents have been charged for their role in a **life insurance** fraud scheme. The U.S. Attorney has charged Timothy R. Schlatre, 34, of Denham Springs, with mail fraud, **money laundering**, and asset forfeiture. Schlatre faces a maximum sentence of 30 years in prison and fines of up to $500,000 or twice the gross gain or loss from the offense, whichever is larger.

The U.S. Attorney has also charged Jason Paul Austin, 32, of Walker; Jodi Marie Austin, 34, of Walker; Ricky J. Austin, 49, of Denham Springs; Jimmy O. Cassels, 33, of Denham Springs; Todd D. Cummings, 34, of Walker; and Dena A. Gaudet, 33, of Denham Springs, each with conspiracy to commit mail fraud. These individuals each face a maximum sentence of five years in prison and a fine of up to $250,000.

The bills of information allege that Schlatre, using his position as a **life insurance** agent for New York Life and Lincoln Financial, devised a scheme to defraud New York Life and Lincoln Financial in order to fraudulently receive commission payments by selling **life insurance** policies based on false statements and representations. Specifically, Schlatre submitted false information to the companies regarding the applicant's net worth and annual income, thereby defrauding New York Life and Lincoln Financial into approving the policies and issuing the commission payments to Schlatre to which he was not entitled. Because the policy values were so large, the applicants could not afford to make the premium payments. In order to effectuate his scheme, Schlatre further agreed to provide the premium payments on behalf of the applicants. This process, known as "rebating," was prohibited by both company's policies as well as state law. In order to conceal that he was the source of the premiums, Schlatre deposited money directly into the individual applicant's bank account. Schlatre further misrepresented the source of the premium payments by falsely declaring that he was not paying or allowing the rebating of any premiums.

The bills of information further allege that Jason Austin, Jodi Austin, Ricky Austin, Jimmy Cassels, Todd Cummings, and Dena Gaudet each conspired with Schlatre to obtain **life insurance** policies by making false statements regarding their net worth and annual income. All are alleged to have provided false information in their written applications as well as in subsequent phone interviews as part of the underwriting process.

The bills of information allege that Schlatre defrauded New York Life and Lincoln Financial into issuing **life insurance** policies in excess of $100 million dollars. This resulted in the receipt of commissions to which he was not entitled in excess of hundreds of thousands of dollars.

United States Attorney Donald J. Cazayoux, Jr. stated, "This ongoing investigation is another example of how

close cooperation between our federal and state partners results in the effective investigation and prosecution of significant fraudulent schemes. We will continue to pursue all who seek personal benefit through deception."

"This investigation should be a clear reminder that federal law enforcement's reach into white-collar crime extends beyond traditional health care, investment, and corporate fraud to bring those responsible to justice," stated FBI Special Agent in Charge Michael J. Anderson.

"People who conspire to create elaborate insurance fraud schemes run a very high risk of prosecution," stated James C. Lee, Special Agent in Charge, IRS-Criminal Investigation. "IRS is committed to working diligently with the Department of Justice to dismantle these organizations."

Louisiana State Inspector General Stephen Street stated, "Mr. Schlatre and his cohorts engaged in a fraud scheme over a period of several years and will now be held accountable. This case is the latest example of success in OIG's ongoing partnership with the U.S. Attorney, FBI, and IRS in investigating corruption cases."

The investigation of this matter was conducted by the Federal Bureau of Investigation, the Internal Revenue Service-Criminal Investigation, and the Louisiana Office of Inspector General. The Louisiana Department of Insurance assisted in the investigation. The cases are being prosecuted by Assistant United States Attorney Rich Bourgeois who serves as Deputy Criminal Chief.

A bill of information is a determination by the U.S. Attorney that probable cause exists to believe that offenses have been committed by a defendant. The defendants are presumed innocent until and unless proven guilty at trial.

U.S. Department of Justice

THE TIMES OF INDIA

India Business

Insurance gateway for money laundering

Sidhartha

437 words
8 May 2013
The Times of India
TOI
English

NEW DELHI: Tinoo and Arvind Joshi, the suspended IAS couple from Madhya Pradesh, faced CBI raids soon after it was discovered that they had purchased **life insurance** policies from a private insurer. The high-value transaction could not have gone unnoticed.

But there are several thousand cases that go undetected. For long, **life insurance** policies have been seen as a passport to convert "black money" into "white". There are multiple ways that agents use for anyone willing to bring unaccounted cash into the financial system.

Insurance industry executives and agents said the easiest way to do it is to pass on the commission to the client. For instance, if you buy a policy for Rs 1 crore, the commission amount of, say, Rs 20 lakh is given to the agent who then passes it on to the policyholder, although sharing of commission is illegal and can lead to cancellation of the agent's permit.

In fact, that is one reason why relatives of businessmen, politicians and filmstars often become agents as the commission doesn't need to be transferred to the insured and yet remains within the family.

But can someone with Rs 1 crore cash buy a policy? "It's possible and agents are willing partners," said a prominent development officer of **Life Insurance** Corporation. The development officer, who manages a group of agents for the company, claimed that there were several instances where Rs 50,000 – the permissible level of cash deposits – was deposited in cash on a daily basis and often went undetected. After a few days, the company issues a policy and the entire amount then gets "white".

Insurance company executives said this operation was best suited for single-premium policies, or those where the entire premium was paid upfront. Therefore, the commission also comes in one go.

There is yet another common practice in the industry, which relates to lapsed policies and even managements are involved.

Typically, these operations are undertaken by dummy agents or financier-turned agent in what is commonly known as recycling in industry parlance. The agent, usually someone with loads of unaccounted cash, becomes an agent and gets a list of policies that are no longer operational as the premium has not been paid. The agent then approaches the policyholders and revives the policy by paying the pending installment. This entitles the agent to the commission and helps in converting the amount into white.

There are also allegations that micro insurance policies are the latest tool as several covers have been issued to "fake policyholders".

Frauds blow a hole in insurance firms

Mail Today Bureau | Mail Today | New Delhi, March 5, 2012 | UPDATED 10:48 IST

Indian insurance companies have collectively lost a whopping Rs.30,401 crore due to various frauds which have taken place in the life and general insurance segments during the year, according to a study. The losses work out to about nine per cent of the total estimated size of the insurance industry in 2011, the study carried out by Pune-based company Indiaforensic states said.

The total premium income of the insurance industry, comprising life, non-life and health, is around Rs.3.5 lakh crore, according to the figures by Insurance Regulatory and Development Authority (IRDA).

The company has identified collusion between employees of insurance companies and beneficiaries furnishing false documents, and manipulation in citing the cause of death as part of the modus operandi adopted by fraudsters to claim undue insurance benefits. Indiaforensic carries out regular studies in examining frauds, security, risk management and forensic accounting and claims to have assisted the Central Bureau of Investigation (CBI) in the multi-crore Satyam scam.

The life insurance segment accounted for as much as 86 per cent of the frauds while remaining 14 per cent took place in the general insurance sector, which includes false claims for cars, houses and accidents, the report showed. The study also highlighted that the frauds in the life insurance segment had more than doubled in the last five years while those related to general insurance sector increased by 70 per cent.

In 2007, insurance firms had lost as much as Rs.15,288 crore, of which life insurance accounted for `13,148 crore while the general insurance segment lost Rs.2,140 crore. The insurance sector is susceptible to various frauds in the country. There is an urgent need to have strict measures, including setting up of a dedicated unit to detect and check frauds in the companies, said anti-fraud and money laundering expert Mayur Joshi, who is a founder member of Indiaforensic. However, insurance experts

assert that while it is true that insurance companies are cheated, the quantum of losses is not as high as the study claims.

IRDA chairman J. Harinarayan brushed aside the study. He said the insurance firms are capable enough to protect their interests. However, he admitted that insurance companies were not reporting scams or other malpractices in the insurance industry. "It is just a sensational claim. I do not think so. Insurance companies have not reported to me about such frauds. Let me see the report first and what it says and how it claims that a `30,000-crore fraud was committed in 2012 in the insurance sector. Insurance companies are capable enough to protect their interest," Harinarayan told Mail Today on Sunday. LIFE Insurance Council secretary general S.B. Mathur said, "I think the figures of fraud as claimed are unrealistic. The fraud committed could be higher in non-life insurance compared to life insurance companies. However, the total figure for fraud cannot be as high as Rs.30,000 crore.

"I went through reports submitted by the respective insurance companies to their audit committees which are not open documents. But I have not come across such mind-boggling figures. It is next to impossible.

The internal laws are not so lax." The study said that clients were defrauding the insurance companies by not disclosing existing diseases. This was being done by manipulating the impanelled doctors while applying for the policy. False age certificates are also being submitted to become eligible for insurance. The forging of medical bills are the most common fraud that affect the health insurance sector. In as many as 31 per cent of the total falsified documentation, medical bills were the common target of the frauds by external parties.

Travel abroad for surgery without disclosing it, or getting a damaged vehicle insured without disclosing the accident are some of the common methods of cheating insurance companies, the report states as examples of frauds in the general insurance sector

BUSINESS

Irda fines Tata AIA for violating anti-money laundering norms

282 words
13 February 2014
Press Trust of India
PRTRIN
English

New Delhi, Feb 13 (PTI) Insurance sector regulator Irda has imposed a fine of Rs 1 lakh on Tata AIA **Life Insurance** Company for violating anti-**money laundering** (AML) norms and not putting in place effective system for cash transactions.

The Insurance Regulatory and Development Authority (Irda) in its order said that effective systems were not in place to report cash transactions and in various instances no review was carried out for reporting cash transactions.

It also observed that in certain instances, Tata AIA accepted multiple cash transactions exceeding Rs 50,000 on a single policy from same payer without PAN number.

"The violations referred ... are considered serious in nature. Therefore, in addition to the directions issued in the respective decisions, the Authority imposes a penalty of Rs 1,00,000," the order said.

Among others, Irda has dicected the insurer to strictly comply with AML guidelines as it was revealed that the company did not make KYC norms as a binding clause and asked to put in place fool proof systems to ensure compliance with the AML norms.

Irda also said that the life insurer in various instances accepted multiple DDs (demand draft) towards a single policy or multiple polices for same payer and no review was carried out.

"However, the Life Insurer is warned for the deviations noticed in the charge and advised to ensure compliance to the guidelines/circulars issued by the Authority in this regard."

Irda also said the company did not have effective systems to ensure authenticity of KYC (know your customer) documents and directed to be vigilant in complying with KYC norms. PTI KPM MR

THE TIMES OF INDIA

India Business

Staff at LIC, Birla Sunlife, Reliance Life others accused of 'helping' people avoid tax

479 words
8 May 2013
The Times of India
TOI
English

MUMBAI: That there is no limit on cash transaction while purchasing an insurance policy could be the biggest draw for those in possession of illicit money to seek insurance companies to convert their black money into accounted money. Also, the fact that long-term insurance policies are not taxed in most cases is the biggest attraction for generators of black money to buy insurance policies as the income-tax department does not open cases that are more than seven years old.

Staff at some insurance companies like state-run **Life Insurance** Corporation of India, Birla **Sunlife** Insurance, Reliance Life and Tata AIA **Life Insurance** are accused of 'helping' people avoid tax. They help them choose products that keep them below the income-tax radar. But even for insurance purchases above 50,000, PAN has to be produced. "First we will ask for observation from each of these companies on the matter and send our special team to investigate all transactions above a certain limit," said an official at the Insurance Regulatory and Development Authority who did not want to be identified.

In a second sting operation telecast in less than three months, cobrapost.com on Monday uploaded films where officials at these insurers and banks are seen suggesting ways to a prospective customer on how to overcome tax liabilities and circumvent tax obstacles. Most of the companies dismissed these saying no transaction actually took place.

"We categorically deny the baseless allegations in relation to any involvement of the company in **money-laundering** by customers of our **life insurance** business," said Reliance Capital spokesperson.

"As part of its ongoing compliance efforts, Reliance Life will continue to examine any specific instances that come to light for appropriate remedial action, if any."

KYC norms followed by insurance companies are similar to that of the banks. Individuals need to submit identity proof, residence proof and income proof and documents such as passport, PAN card, voter's card, driving licence, electricity bill, salary slips are required to process the policy.

The reason why bankers and insurance companies use **life insurance** policies to dupe the system is investment in longterm insurance products are exempted from tax. The maturity amount under investment in **life insurance** products like regular unit-linked plans and traditional money back plans are exempted from tax under the I-T Act. Also, investment in **life insurance** products, including Ulips, traditional and term, up to Rs 1 lakh under section 80C are exempted from tax.

Generally, insurance companies report suspicious transactions to Financial Intelligence Unit. For instance, if the premium paid is 50% of the annual income. Every company has a different policy for reporting suspicious transactions to FIU. The regulator mandates cash transaction above Rs 50,000 to be reported FIU.

Security Council Committee pursuant to resolutions 1267 (1999) and 1989 (2011) concerning Al-Qaida and associated individuals and entities

NARRATIVE SUMMARIES OF REASONS FOR LISTING

QI.A.201.05. YASSER MOHAMED ISMAIL ABU SHAWEESH

Date on which the narrative summary became available on the Committee's website: 16.09.2009

Yasser Mohamed Ismail Abu Shaweesh was listed on **6 December 2005** pursuant to paragraphs 1 and 2 of resolution 1617 (2005) as being associated with Al-Qaida, Usama bin Laden or the Taliban for "participating in the financing, planning, facilitating, preparing or perpetrating of acts or activities by, in conjunction with, under the name of, on behalf, or in support of" Al-Qaida (QE.A.4.01).

Additional information:

Yasser Mohamed Ismail Abu Shaweesh attempted to commit life insurance fraud by faking a fatal traffic accident in order to acquire funds to be sent to Al-Qaida (QE.A.4.01).

Yasser Abu Shaweesh's activities were conducted with the approval of Ibrahim Mohamad Khalil (QI.M.206.05). The life insurance benefits were to be paid out to the brother of Yasser Abu Shaweesh, Ismail Mohamed Ismail Abu Shaweesh (QI.A.224.06), as the designated beneficiary.

From at least the summer of 2004, Yasser Abu Shaweesh agreed to attempt to acquire fraudulently large sums of money from life insurance companies, intending to direct a great part of this money to Al-Qaida (QE.A.4.01) to fund its terrorist activities. In pursuit of this plan, Yasser Abu Shaweesh took out 9 life insurance policies totaling 1,264,092 Euros in benefits with a number of insurance companies. In cooperation with Khalil, Yasser Abu Shaweesh tried to take out 19 further insurance policies, which would have raised the total insured to 4,325,958 Euros. Yasser Abu Shaweesh was to fake a fatal traffic accident during his stay in Egypt. By obtaining a death certificate, if necessary through bribery, the life insurance benefits were to be paid out to Ismail Abu Shaweesh. Finally, the money was to be transferred abroad, and the individuals involved were to abscond. The major part of the money was to go to Al-Qaida. Khalil was primarily responsible for paying the insurance premiums.

Yasser Abu Shaweesh had contacts, particularly via Khalil, to the international network of Al-Qaida. Before the terrorist attacks in the United States on 11 September 2001 as well as from 11 October 2001 until 12 September 2002, Khalil spent time in Al-Qaida training camps in Afghanistan. There, he was in contact with the leading cadres of Al-Qaida - also after the attacks in the United States on 11 September 2001 - who gave him instructions, and he himself took command of a group which belonged to Al-Qaida during the war in Afghanistan. Yasser Abu Shaweesh knew that Khalil supported Al-Qaida and assisted him in doing so.

Yasser Abu Shaweesh was convicted in Germany in 2007 of supporting a foreign terrorist organization and on multiple counts of fraud and attempted fraud, and was sentenced to five years and six months of imprisonment. The judgement has taken final and binding effect.

Related listed individuals and entities:

Al-Qaida (QE.A.4.01), listed on 6 October 2001

Ibrahim Mohamad Khalil (QI.M.206.05), listed on 6 December 2005
Ismail Mohamed Ismail Abu Shaweesh (QI.A.224.06), listed on 2 August 2006

Grant Thornton

Reporting Entity Sector Profiles: BC Notaries Appendices

Prepared for FINTRAC | March 31, 2014

Appendix A: Industry statistics and reporting entity data

BC Notaries Industry NAICS Codes

Code	Description
54112	Offices of Notaries

Offices of Notaries - (NAICS 54112)
Exclusions
- offices of legal and paralegal practitioners, except offices of lawyers and notaries (54119, Other Legal Services); and
- offices of notaries public engaged in activities, such as administering oaths and taking affidavits and depositions, and witnessing and certifying signatures on documents, but not empowered to draw up and approve legal documents and contracts (54119, Other Legal Services).

Number of establishments in Canada by type and region: December 2012
Offices of Notaries (NAICS 54112)

Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	3	9	12	0.6%
British Columbia	127	59	186	9.3%
Manitoba	1	1	2	0.1%
New Brunswick	1	0	1	0.0%
Newfoundland and Labrador	1	0	1	0.0%
Northwest Territories	0	0	0	0.0%
Nova Scotia	0	0	0	0.0%
Nunavut	0	0	0	0.0%
Ontario	3	8	11	0.5%
Prince Edward Island	0	0	0	0.0%
Quebec	1,071	723	1,794	89.3%
Saskatchewan	0	0	0	0.0%
Yukon Territory	0	1	1	0.0%
CANADA	1,207	801	2,008	100%
Percent Distribution	60.1%	39.9%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Offices of Notaries (NAICS54112)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	3	0	0	0
British Columbia	90	37	0	0
Manitoba	1	0	0	0
New Brunswick	1	0	0	0
Newfoundland and Labrador	1	0	0	0
Northwest Territories	0	0	0	0
Nova Scotia	0	0	0	0
Nunavut	0	0	0	0
Ontario	2	1	0	0
Prince Edward Island	0	0	0	0
Quebec	837	234	0	0
Saskatchewan	0	0	0	0
Yukon Territory	0	0	0	0
CANADA	935	272	0	0
Percent Distribution	77.5%	22.5%	0.0%	0.0%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Appendix B Case Examples and Typologies

The enclosed articles have been sourced from news media databases, books and the Internet, and provide specific examples of the risk factors identified in the report.

1. Former B.C. notary accused of $83-million Ponzi scheme. The Globe and Mail, April 4, 2012.

2. Former notary public accused of fraud. British Columbia Institute of Technology Broadcast News, January 14, 2014.

3. Law Society of BC recommendations may have significant implications. SLAW, January 24, 2014.

4. BC says yes to paralegal regulation. Paralegal Scope Magazine, December 10, 2013.

5. Law society pushes for allowing notaries, paralegals to expand legal services. Vancouver Sun, December 9, 2013.

Former B.C. notary accused of $83-million Ponzi scheme

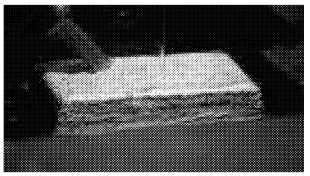
JANET MCFARLAND
The Globe and Mail
Published Wednesday, Apr. 04 2012, 3:16 PM EDT
Last updated Thursday, Sep. 06 2012, 12:59 PM EDT

A former notary public in Vancouver masterminded a Ponzi scheme that raised $83-million from 218 investors who were told their money was being invested in a financing deal with a high-end winery, the British Columbia Securities Commission alleged Wednesday.

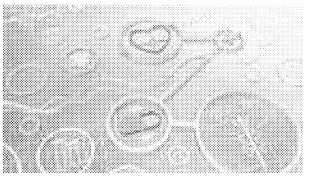
But in an unusual twist, the B.C. regulator said Mark Anthony Group Inc., which owns the Mission Hill Family Estate winery in Kelowna, did not know its name was being used in the investment scheme and had no involvement in a financing deal with Vancouver notary Rashida Samji.

MORE RELATED TO THIS STORY

- Calgary men behind $46-million fraud scheme: ASC
- 'Pre-retirees' are prey for fraudsters, study finds
- B.C. couple charged with securities fraud



MARKET VIEW
Video: How gold relates to U.S. employment



LET'S TALK INVESTING
Video: Should you rely on your employer for life insurance?

The securities regulator said Ms. Samji promised investors a "secure investment" that would provide loan collateral to wineries and would earn between 12 per cent and 30 per cent annually. She pledged their money would be held in a trust account and not paid to any party.

In reality, the BCSC alleges, Ms. Samji had no notary trust account and deposited the money into two personal bank accounts in the name of two companies she created. Much of the money has been lost, although $63-million was paid in interest to investors over the 10 years the investment scheme was operating.

The BCSC alleges that Ms. Samji told investors their money was financing a complex loan arrangement with wine-and-beer importer Mark Anthony Group, although the company says it had no business arrangement with the notary.

Mark Anthony Group spokesman Ian Galbraith said Wednesday that the

company has no idea why Ms. Samji used its name in her scheme and never had any business dealings with her.

"We were unaware of this transaction, and we were contacted by the police and are co-operating fully with them," he said.

Ms. Samji allegedly arranged with an investor to lend $300,000 to finance a house mortgage for an executive of Mark Anthony Group. The executive had no knowledge of the transaction and no mortgage actually existed, the regulator said, even though Ms. Samji purportedly "renewed" the mortgage five times between 2002 and 2011.

The BCSC said Ms. Samji took the money and created fake mortgage documents by cutting and pasting information from a real land title office document and faking the alleged borrower's signature.

Many of the investors in the Ponzi were allegedly referred to Ms. Samji by a financial planner who previously worked at Coast Capital Savings in Vancouver, the BCSC said.

The regulator said Wednesday it has reached a settlement agreement with Arvindbhai (Arvin) Patel, a former mutual fund salesman and financial planner at Coast Capital, who admitted that he encouraged 90 people – including family members, colleagues and clients – to invest $29-million with Ms. Samji.

Mr. Patel has been permanently banned from trading securities in the province, and from working in the securities or investor relations field.

The BCSC said Mr. Patel, who is unemployed, voluntarily transferred his legal interest in five properties to a court-appointed receiver, but was not assessed an additional fine because he has substantial debts and "no reasonable prospect" of being able to pay an additional amount.

The commission said Mr. Patel personally invested $600,000 with Ms. Samji, of which $350,000 was lost. His family invested $1.6-million and lost $1.4-million.

A lawyer for Mr. Patel said he could not comment while a lawyer for Ms. Samji could not be reached for comment.

Ms. Samji and Mr. Patel are also facing lawsuits, including a class-action suit, launched by investors. The class-action suit also names Coast Capital Savings.

Investor Lawrence Jer, a postal worker from Delta, B.C., and his wife Jun Jer, a piano teacher, are the lead plaintiffs on the class-action suit, claiming Mr. Patel was their financial adviser for 17 years and recommended the investment with Ms. Samji. The couple invested

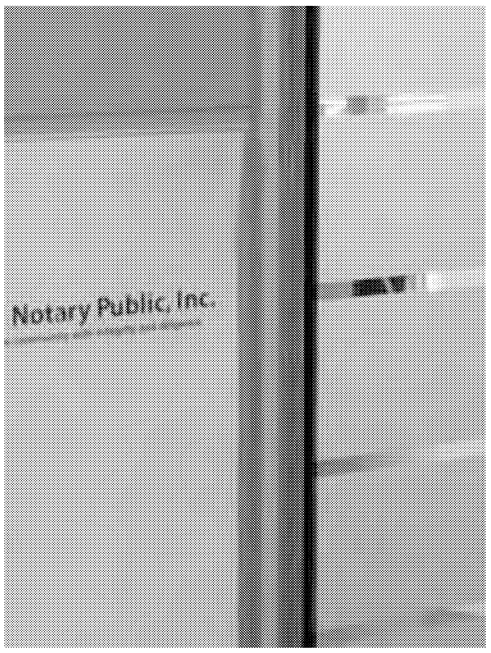
$350,000 and received interest payments totalling $156,000 from 2007 to 2011.

The couple alleges they were told their money was being invested in a "Mark Anthony Investment" product and would be held in trust. They allege their interest payments were made via a bank draft "to conceal the identity" of the accounts the money came from.

The BCSC said the Society of Notaries Public of B.C. suspended Ms. Samji on Feb. 7 and obtained a court order appointing a custodian over her practice. She resigned from the society on March 6, the regulator said.

Former notary public accused of fraud

Posted on January 14, 2014 by Alisha Randhawa



A Vancouver woman, Agatha So Chun Chung, who ran a notarial practice is accused of stealing funds from various accounts (Ty Clark)

A former notary public who ran her own practice is suspected of fraud and embezzlement.

Agatha So Chun Chung has been accused of accessing and manipulating trust accounts at various institutions while operating a notarial practice on East 49th street in Vancouver.

The Society of Notaries Public of British Columbia alleges that Agatha unlawfully removed money from many trust funds for her own means, namely to help pay overdue mortgage payments for three houses owned by her and her husband.

On three separate occasions – July 31st, 2008, January 22, 2009, and December 15, 2011 – the notary society claims Agatha deliberately transferred her legal half of each property to her husband in order to hinder, defeat, or delay her current and future creditors.

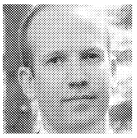
While the extent of her fraudulent scheme is not yet fully known, the notary society believes significant funds are missing.

Chung's husband, Bennie Yim Ming Chung and her daughter, Bonnie Kar Ying Chung are also accused of being co-conspirators.

No follow-up trial has been scheduled yet.

By Ty Clark

Law Society of BC Recommendations May Have Significant Implications



by Michael Litchfield

More posts by Michael »

On December 6, 2013, the Benchers of the Law Society of British Columbia unanimously approved in principle, three recommendations that, if implemented, have the potential to significantly alter the future legal services landscape in the province.

The recommendations were contained in the final report of the Legal Service Providers Task Force, a group formed by the Law Society in the fall of 2012. The mandate of the task force was to examine issues relating to the question of whether the Law Society of BC should regulate only lawyers, or whether they should regulate all legal service providers in the province. While the specific issue of regulating non lawyer legal service providers was given significant attention during the most recent Law Society Strategic Planning process, forms of this question have been considered as far back as 1989, when the Paralegalism Subcommittee recommended against the creation of a separately regulated, new paralegal profession.

The final report of the Task Force contains detailed analysis and conclusions on a number of key issues and makes the following recommendations:

1. That the Law Society and Society of Notaries Public of British Columbia seek to merge regulatory operations;
2. That a program be created by which the legal regulator provide paralegals who have met specific, prescribed education and/or training standards with a certificate that would allow them to be held out as "certified paralegals";
3. That the Law Society develop a regulatory framework by which other providers of legal services could provide credentialed and regulated legal services in the public interest;

The first recommendation will come as no surprise to anyone who has been monitoring the legal services landscape in British Columbia over the last ten years. Notaries Public in British Columbia enjoy a more expanded scope of legal service than some of their counterparts across Canada that has allowed them to handle certain real estate, commercial and wills matters. In

addition, the Society of Notaries Public of BC has long been advocating for an even greater expansion of service. Most recently in 2010, the Society of Notaries Public of British Columbia approached the Ministry of Attorney General to discuss an expansion in the scope of services permitted to include estate administration, incorporation of companies and certain family law related services. In addition to the requested expansion of services, the Notarial Profession in BC also underwent a significant change in 2009 when longstanding limitations on total number and geographically restrained notarial districts was removed in the province. In many ways then, the first recommendation is not surprising in the least and is a reaction to what I personally believe is an inevitable fundamental change in the role of notaries in the delivery of legal services in the province. A change that would likely have happened with or without the involvement of the Law Society of BC.

The second recommendation likewise is not surprising given the changing roles of paralegals in Canada. Consideration of the appropriate role of paralegals has been debated in British Columbia for many years and various working groups have been struck to consider the issue. Most recently, in January of 2013, changes to the Professional Conduct Handbook (now the Code of Professional Conduct), defined a "designated paralegal" and set out an expanded scope of service that these individuals could perform under the supervision of a lawyer. In other jurisdictions such as Ontario, paralegals are permitted an even greater scope of practice and come under the regulatory jurisdiction of the Law Society. In Ontario specifically, this regulatory change was precipitated by the existence of unregulated paralegals offering their services into the marketplace. Seen through this lens then, the second recommendation, like the first, is similarly addressing a state of affairs that is evolving with or without the Law Society of BC's involvement.

The final recommendation is the most interesting of the three and also holds the most potential for altering the landscape of legal services in British Columbia. It is not explicitly clear who "other providers of legal services" refers to. The report makes reference to various groups such as mediators and commissioners but ultimately concludes that "...consideration of the regulation of other legal service providers should be deferred for now."

The report notes that "...the Task Force consider that each of its recommendations is a first step toward an end result, and each will require further work, analysis, collaboration and consultation with other interested parties." How these recommendations may be implemented and their impact remains to be seen. As discussed above however, while the recommendations have the potential to significantly alter the legal landscape in British Columbia, they are not surprising and I would propose are a reaction to changing market forces that are already in play. This fact

will hopeful y provide the necessary pressure to ensure that action is taken by the Law Society of BC to address the shifting legal marketplace and that the work of the Legal Service Providers Task Force is not relegated to the bookshelf.

BC SAYS YES TO PARALEGAL REGULATION

December 10, 2013 · *by* Elizabeth · *in Announcements, Law & Order, Law Society/Regulatory Affairs, Regulatory Affairs* · *Leave a comment*

Photo: Vancouver Sun

Paralegals in British Columbia will come under the same regulatory umbrella as lawyers, with the approval in principle of an access-to-justice based regulatory framework for paralegals and notaries public.

At its Dec. 9 meeting, Law Society of British Columbia benchers unanimously approved in principle three recommendations:

- The Law Society and the Society of Notaries Public of British Columbia seek to merge regulatory operations
- That a program be created by which the legal regulator provide paralegals who have met specific, prescribed education and/or training standards with a certificate that would allow them to be held out as "certified paralegals"
- That the Law Society develop a regulatory framework by which other providers of legal services could provide credentialed and regulated legal services in the public interest.

The change will transform the regulation and delivery of legal services in B.C.

Bruce LeRose had chaired the Legal Service Providers Task Force for the society. Its final report was presented Dec. 6. LeRose said approving the recommendations in principle is an important move toward increasing legal services access in the province.

"Access to justice is slipping out of reach for many British Columbians," LeRose said. "It is critical that the Law Society look for ways to reverse that trend, and these ideas could be a big part of that."

Paralegal Association Involvement Continues

Carmen Marolla, Director of the B.C. Paralegal Association, said the association will work with the law society to implement the changes. "We look forward to continuing to work with the Law Society to develop the criteria for certification for paralegals, and to consider how best to create the regulatory framework to be developed for stand-alone legal service providers."

B.C. Law Society President Art Vertlieb called the benchers' unanimous support for the motion a "watershed moment in the Law Society's history."

Vertlieb attended the Law Society of Upper Canada's Welcome Reception for new licensees in November, and

spoke to Convocation the next day. He came to learn more about how paralegal licensing affected access to justice in Ontario.

"Ultimately, we will move to regulation, like Ontario," Vertlieb said in November. "We need to get on board and bring in a program of licensing that addresses access to justice issues."

Changing Face of Legal Services in Canada

Law societies in British Columbia and Quebec are looking to the Ontario licensing model, with a view to licensing the profession in their jurisdictions. The moves are seen as meeting access-to-justice principles, and protecting the public from untrained renegades.

The Law Society of British Columbia regulates the more than 11,000 lawyers in the province. It sets and enforces standards of professional conduct, to ensure the public is served by a "competent, honourable legal profession."

Ian Mulgrew: Law society pushes for allowing notaries, paralegals to expand legal services

Move would make courts more accessible to those who can't afford lawyers

BY IAN MULGREW, VANCOUVER SUN COLUMNIST DECEMBER 9, 2013

The Law Society of B.C. is proposing a sweeping change that could dramatically change the way legal services are delivered in the province.

Photograph by: Mark van Manen , Vancouver Sun files

The Law Society of B.C. is proposing a sweeping change that could dramatically change the way legal services are delivered in the province.

The society's governing directors have unanimously approved a task force report that says the legal regulator should merge with the Society for Notaries Public of B.C. and expand the use of credentialed paralegals to lower costs for the public.

"The changes are going to help access to justice tremendously," said Art Vertlieb, president of the law society.

"It's the old analogy: If you go to the hospital, you don't see the neurosurgeon right away. You see the triage nurse. Our challenge is to

get our members to buy in."

There are about 300 notaries in the province and nearly 11,000 lawyers, so the regulatory change is not a big deal.

But allowing paralegals to appear in B.C. courts under a system like Ontario's would be a major step, and many lawyers may balk at the prospect of lower-priced competition.

While lawyers can charge hundreds of dollars an hour, paralegals work for a fraction of that because they have far less legal education and handle less serious work.

Paralegals have been involved in legal aid service delivery in B.C. since the mid-'70s for minor legal tasks and by legal aid to meet criminal and civil legal information needs.

They are used for poverty law services such as welfare rights, EI appeals or landlord-tenant disputes — areas where lawyers traditionally don't practice or are too expensive to consult.

"To do a lot of legal work you don't need eight years (post secondary education)," Vertlieb explained.

"Ontario's model is basically a two-year community college course and they write a test. We may take that model or maybe there's one between two years and eight years."

In Ontario, paralegals are regulated, carry practice insurance and handle proceedings in small claims courts and Ontario courts of justice in matters under the Provincial Offences Act, Highway Traffic Act, in a summary conviction court under the Criminal Code, and before various tribunals handling landlord/tenant and workers' benefits cases.

B.C. allows paralegals to do some tasks under the supervision of a lawyer and they can appear in Family Court on some issues as part of a pilot project.

But judges have been reluctant to embrace a system that would allow more non-lawyers appearing before them when they are already dealing with a huge increase in unrepresented litigants who can't afford lawyers.

"Ontario had a long-standing tradition with paralegals going into court in that province … but B.C. has none of that tradition," Vertlieb said.

In Ontario when they brought in their licensing regime, he added, they

expected about 800 people to sign up to become paralegals — 3,000 arrived and there are some 5,600 now working seven years later.

"Think what that does to representation and access (to justice)," Vertlieb said.

In B.C., the near monopoly lawyers enjoy on providing legal services and the inefficiency and expense of the courts have meant the poor and the middle class can't afford to defend or assert their rights, creating a serious justice deficit.

The crisis is not unique to the province, though, as most common-law jurisdictions are wrestling with similar concerns.

By way of counterpoint, in Denmark anyone is permitted to practise law, even for a fee, subject to certain exceptions with respect to appearances in the superior courts. Clients therefore have a choice — obtain legal services from a qualified, regulated and insured professional, or take their chances in a buyer-beware market.

In common-law jurisdictions, the U.K. has been leading the way in addressing these issues, with mixed results. Ontario has been on the forefront of change in Canada.

The Law Society of Upper Canada followed England's lead in co-ordinating legal services provided by other professionals, not just lawyers, and introduced paralegals more than half a decade ago.

In a five-year review of the move, the society deemed the change "by any objective measure … a remarkable success."

Washington state also recently created "limited licence legal practitioners" under the authority of the Washington state Supreme Court.

The Law Society of B.C. created a task force in the fall of 2012 to examine whether it should regulate all legal service providers, in particular paralegals.

Chaired by Bruce LeRose, a law society life bencher, it included Ken Walker, a law society vice-president, Godfrey Archbold, president of the Land Title Survey Authority, Satwinder Bains, an appointed bencher, John Eastwood, president of the Society of Notaries Public, Carmen Marolla, vice-president, B.C. Paralegal Association, Kerry Simmons, president of the Canadian Bar Association — B.C. Branch, and Wayne

Robertson, executive director of the Law Foundation.

Their 41-page report was adopted by the benchers Friday.

"Access to justice is slipping out of reach for many British Columbians," said LeRose. "It is critical that the law society look for ways to reverse that trend, and these ideas could be a big part of that."

The task force said a method needed to be created to expand the scope and provide paralegals who have met prescribed standards with a certificate defining their function.

"The B.C. Paralegal Association is extremely pleased," said Marolla, of the 700-member group.

"We look forward to continuing to work with the law society to develop the criteria for certification for paralegals and to consider how best to create the regulatory framework to be developed for stand-alone legal service providers."

The task force recommendations could reduce some of the costs, eliminate the maze of multiple regulators that exists and end the hegemony of lawyers over legal services.

Still, it's not clear a single regulator of legal service providers will improve access to justice.

The task force, however, believes economies of scale can be achieved, and that's important.

"It is, simply put, more economically efficient to regulate legal service providers through one organization than it is to have to create multiple governance structures and regulatory bureaucracies, particularly when the same or similar services are being regulated," the report said.

"Not only does this duplication risk the creation of differing standards, it costs more to the system as a whole and is therefore difficult to justify."

Legal stakeholders will begin discussing the details of the societies' merger and a regulatory framework by which other existing providers of legal services, or new stand-alone groups, can provide credentialed and regulated legal services in the public interest.

Together with post-secondary institutions, they also will develop a program of specific, prescribed education or training standards for certified paralegals.

Grant Thornton

Reporting Entity Sector Profiles: Credit Unions Appendices

Prepared for FINTRAC | March 31, 2014

Appendix A: Industry statistics and reporting entry data

FOURTH QUARTER 2013
CREDIT UNION/CAISSE POPULAIRE SYSTEM RESULTS

AFFILIATED CREDIT UNIONS & CAISSES POPULAIRES

($millions) Province	Total Savings/Deposits	Total Loans	Total Assets	Total Credit Unions	Total Locations	Total Membership
British Columbia	$52,033	$50,894	$58,958	43	371	1,877,940
Alberta	19,610	18,529	21,694	33	207	646,698
Saskatchewan	15,968	14,615	18,214	53	285	490,712
Manitoba	21,050	19,368	22,730	37	190	599,284
Ontario	27,994	28,424	33,047	90	502	1,327,438
Ontario CPs	1,172	1,107	1,349	13	26	62,005
New Brunswick	829	732	909	10	30	69,301
Nova Scotia	1,870	1,605	2,077	29	76	153,979
Prince Edward Island	783	618	858	8	15	55,224
Newfoundland	949	862	1,026	10	39	52,651
TOTAL	**$142,258**	**$136,754**	**$160,862**	**326**	**1,741**	**5,335,232**

NON-AFFILIATED CREDIT UNIONS & CAISSES POPULAIRES

Caisses Populaires						
CPs outside of Quebec (MB, ON, NB)	**$7,226**	**$7,048**	**$8,440**	**34**	**141**	**329,627**
Quebec	105,007	116,851	141,106	358	1,130	4,454,480
TOTAL (All)	**$112,233**	**$123,899**	**$149,546**	**392**	**1,271**	**4,784,107**
Credit Unions						
Ontario	$338	$248	$383	6	18	37,484
TOTAL	**$112,571**	**$124,147**	**$149,929**	**398**	**1,289**	**4,821,591**

COMBINED CANADIAN CREDIT UNION & CAISSE POPULAIRE SYSTEM RESULTS

TOTAL	**$254,829**	**$260,901**	**$310,791**	**724**	**3,030**	**10,156,823**

Above Figures do not include affiliated companies of the credit union system, such as Concentra Financial Inc., The CUMIS Group Ltd., The Co-operators Group Ltd., Credential Financial Inc., and NEI Investments.

Source: Credit Union Central of Canada - Q4 2013 - Credit Union/Caisse populaire System Results

Note: the industry data provided in the table above is understood to be more accurate, and is more recent, than the Statistics Canada data which follows.

Industry statistics and reporting data

Credit Union Industry SIC Codes

Code	Description
6061	Credit Unions

Credit Union Industry NAICS Codes

Code	Description
52213	Local Credit Unions
522321	Central Credit Unions

Using NAICs codes, searches for statistical data on the Credit Union sector were carried out on Industry Canada's Canadian Industry Statistics (CIS) site.

Central Credit Unions (NAICS 522321)

Number of establishments in Canada by type and region: December 2012
Central Credit Unions (NAICS 522321)

Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	1	0	1	2.8%
British Columbia	2	2	4	11.1%
Manitoba	21	0	21	58.3%
New Brunswick	2	0	2	5.6%
Newfoundland and Labrador	0	0	0	0.0%
Northwest Territories	0	0	0	0.0%
Nova Scotia	1	0	1	2.8%
Nunavut	0	0	0	0.0%
Ontario	3	1	4	11.1%
Prince Edward Island	0	0	0	0.0%
Quebec	1	0	1	2.8%
Saskatchewan	1	1	2	5.6%
Yukon Territory	0	0	0	0.0%
CANADA	32	4	36	100%
Percent Distribution	88.9%	11.1%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Central Credit Unions (NAICS522321)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	0	0	1	0
British Columbia	0	1	1	0
Manitoba	0	20	1	0
New Brunswick	0	2	0	0
Newfoundland and Labrador	0	0	0	0
Northwest Territories	0	0	0	0
Nova Scotia	0	1	0	0
Nunavut	0	0	0	0
Ontario	0	3	0	0
Prince Edward Island	0	0	0	0
Quebec	0	1	0	0
Saskatchewan	0	0	0	1
Yukon Territory	0	0	0	0
CANADA	0	28	3	1
Percent Distribution	0.0%	87.5%	9.4%	3.1%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Local Credit Unions (NAICS 52213)

Number of establishments in Canada by type and region: December 2012 local Credit Unions (NAICS 52213)				
Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	55	6	61	3.8%
British Columbia	234	2	236	14.9%
Manitoba	64	1	65	4.1%
New Brunswick	50	2	52	3.3%
Newfoundland and Labrador	10	0	10	0.6%
Northwest Territories	0	0	0	0.0%
Nova Scotia	38	2	40	2.5%
Nunavut	0	0	0	0.0%
Ontario	270	31	301	19.0%
Prince Edward Island	9	0	9	0.6%
Quebec	610	3	613	38.7%
Saskatchewan	195	4	199	12.5%
Yukon Territory	0	0	0	0.0%
CANADA	1,535	51	1,586	100%
Percent Distribution	96.8%	3.2%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 local Credit Unions (NAICS52213)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	13	40	1	1
British Columbia	8	215	10	1
Manitoba	3	54	6	1
New Brunswick	2	47	1	0
Newfoundland and Labrador	0	9	1	0
Northwest Territories	0	0	0	0
Nova Scotia	4	34	0	0
Nunavut	0	0	0	0
Ontario	43	217	8	2
Prince Edward Island	0	9	0	0
Quebec	33	543	33	1
Saskatchewan	50	139	6	0
Yukon Territory	0	0	0	0
CANADA	156	1,307	66	6
Percent Distribution	10.2%	85.1%	4.3%	0.4%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Credit Unions

Province	Number of Establishments
Alberta	168
British Columbia	377
Manitoba	219
New Brunswick	41
Newfoundland and Labrador	37
Nova Scotia	52
Ontario	527
Prince Edward Island	8
Quebec	1,220
Saskatchewan	254
Total	2,903

Source: OneSource

NAICS Code 522130 – Credit Unions

Province	Number of Establishments
Alberta	168
British Columbia	378
Manitoba	219
New Brunswick	41
Newfoundland and Labrador	37
Nova Scotia	52
Ontario	527
Prince Edward Island	8
Quebec	1,220
Saskatchewan	254
Yukon	1
Grand Total	2,905

Source: OneSource

Appendix B: Examples and typologies

The enclosed articles have been sourced from news media databases, books and the Internet, and provide specific examples of the risk factors identified in the report.

1. Credit unions lead the pack in servicing entrepreneurs: CIB survey. Financial Post, May 24, 2013.
2. Quebec man pursues bank in money laundering case. CBC News. January 29, 2011.
3. Alleged sales tax fraud may have helped finance Sikh terrorists; report. Agence France Presse, February 10, 2003.
4. Elderly trio accused of stealing $2 million from Manitoba credit union. Brandon Sun, December 15, 2007.
5. Money laundering feared at credit union; Troubled Caisse Populaire de Shippagan saw huge sums coming and going, says official. Times & Transcript, April 6, 2007.
6. Official wonders whether credit union was used for money-laundering scheme. The Daily Gleaner, April 6, 2007.
7. Potential Risks Associated with Providing Banking Services to Money Service Businesses. Operational Risk Advisory #2. Deposit Insurance Corporation of Ontario, January 2012.
8. Credit union helps new Canadians support their families. Luminus Financial, February 8, 2011.
9. In reversal, some banks value MSB account fees over AML risks. S.H.C. Consulting Group LLC, December 2, 2011.
10. Philly credit union manager charged with money laundering. Reed Elsevier Properties SA, April 1, 2013.
11. Regulators hit Miami Gardens credit union with cease and desist order. South Florida Business Journal, September 18, 2013.
12. Former credit union president sentenced to prison for fraud. Bonny Lake Courier-Herald, March 21, 2014.
13. Pimp laundered cash through credit union. Independent, December 4, 2012.

14. Former credit union executive sentenced to 24 years: Longest white-collar sentence in Massachusetts. Business Wire, September 12, 1995.

15. Former credit union president gets 5 years for money laundering. KYTX-CBS, December 1, 2010.

16. De-risking trends at big banks affect credit unions. Corporate One Federal Credit Union, November 2013.

Credit unions lead the pack in servicing entrepreneurs: CFIB survey

MASHOKA MAIMONA | May 24, 2013 | Last Updated: May 29 9:33 AM ET
More from Mashoka Maimona

©Bent Lewin/Bloomberg

CFIB's Battle of the Banks: Credit unions win service wars

In light of a recent Canadian Federation of Independent Business (CFIB) report, Dan Kelly, the group's chief executive, slammed big banks for being "short-sighted" when it comes to servicing smaller businesses.

The CFIB report *Battle of the Banks*, released last Wednesday, ranked banks according to how well they serve clients who own small and medium-sized businesses, with performance scores on service, financing, fees, and account manager.

Bank of Montreal and Scotiabank tied for second place with 5 (out of 10), while Alberta-based ATB Financial tumbled to the bottom of the lot with a meagre score of 2.7. Credit unions punched their way to first place, proving their commitment to the small business market.

Mr. Kelly emphasized the importance of a strong relationship between small businesses and their banks. While the latter play a critical role in business growth and development, SMBs are "intensely profitable" to banks because they bring their professional and personal business to the financial institution.

"If [banks] are not doing their job as effectively as they could, it means small businesses may be stunted. That's not helpful for taxpayers or the economy, and we're all counting on small businesses to pull us out of this erratic economy," he said.

The two surprises in the report, he said, were the plummeting fortunes of HSBC (ranked 3.6) and Alberta-based ATB Financial, from second and third place, respectively, in the last survey conducted in 2009 to nine and 10 in 2012.

While HSBC's tumble can be attributed to its shrinking share of the Canadian market, Mr. Kelly said ATB Financial's starkly low rankings, with a significant market penetration among rural-based SMBs in Alberta, are befuddling.

"I have not heard in any change in corporate strategy on ATB's part, but there seems to be a very different view of that institution by small firms compared to three short years ago," he said.

Related

How a micro-loan can turn your great idea into a business

How to talk to a bank about financing your business

ATB Financial's Wellington Holbrook said it was "gut-wrenching" to read their staggering standing report. But the executive vice-president of business and agriculture said he wasn't surprised.

"The timing of the survey made us particularly vulnerable," Mr. Holbrook said, citing the recent replacement of an end-to-end banking system, which inconvenienced customers, especially when it came to accessing online statements.

> "Our internal surveys suggest there have been improving customer satisfaction with the new system. When [our staff] was putting out fires [in the new system], it was hard for them to be doing other things for their customers."
>
> Mr. Kelly also blasted Canadian Imperial Bank of Commerce (CIBC) for a satisfaction rating that has "continued to scrape the bottom," citing their strategy to pull away from serving small-business clients. "The fact they fared badly among small and micro-sized businesses didn't surprise us so much, but even for medium-sized firms, CIBC was poorly rated," he said.
>
> Small business owner Kerry Muise joined in the chorus with 13,000 of her cross-country counterparts surveyed for the report, agreeing that credit unions outperform big banks.

With an overall score of 7.4, credit unions led in all categories, save for service, where it ranked second.

Ms. Muise and her husband, who own a gas station in Yarmouth, N.S., found an "absolutely wonderful" business match with their local credit union, Coastal Financial Credit Union. She said when they shopped around for investment openings three years ago, they approached two chartered banks.

"Right from the start, the credit union outperformed [the banks] in terms of service, interest, and enthusiasm for helping us to buy this business and enhance the community.

"At the bigger bank, we were one of many in the line-up, whereas at the credit union, I was made to feel like my business was very important to them," Ms. Muise said.

Credit unions are not-for-profit co-operatives owned by its members, rather than traded on the stock market. As a result, business profits are seen as investments toward the well-being of the community, she added. "People who work [in credit unions] are not an employee of a company — they're an employee of yours."

Steven Fitzpatrick, chief financial officer of Credit Union Central of Canada, echoed the sentiment. "Credit unions are very close to the ground in their communities. Because they are in the communities, they understand the key role small businesses play there."

Mr. Fitzpatrick, a former vice-president in CIBC commercial banking, said credit unions emphasize local decision-making, which the Big Six Banks overlook. "We have a saying that credit unions have a heart. This survey would say we also have the smarts," he said.

He dispelled the notion that credit unions are limited to small towns, pointing to their presence in Vancouver, Calgary, and Edmonton.

"We're not going to have the largest market share, but we have a disproportionately high market share for our size and our presence in the market. We clearly have an offering small businesses find attractive," Mr. Fitzpatrick said.

One out of four small business owners in the report had their accounts with a credit union.

Mr. Kelly said there is no shortage of high-budget marketing campaigns targeting small business clients. The packages the banks publicize are more marketing efforts, rather than steps toward product improvement or changing their lending practices, he said.

"We want the reality to catch up with the marketing language."

Quebec man pursues bank in money laundering case

Accountant ran money scheme at credit union, Quebec businessman says

CBC News Posted: Jan 28, 2011 7:02 PM ET Last Updated: Jan 29, 2011 4:16 PM ET

A Quebec construction firm owner has alleged his accountant cheated him out of $1 million, and says his local credit union was aware of the money-laundering scam.

The alleged money-laundering scheme, according to a Radio-Canada report, involves construction entrepreneur Robert Thomas, a caisse populaire branch in Joliette and chartered accountant Jean Siminaro, who has been linked to the Hells Angels.

What is money laundering?

Money laundering is the process by which a person or organization converts cash and assets gained through criminal activity into a form that can be used legitimately and openly without drawing the attention of the authorities.

The broad aims of money laundering are threefold: To convert proceeds of crime to a less suspicious form; to conceal the illegal ownership or origin of criminal earnings; and to create a legitimate explanation for the source of the assets.

The RCMP say it is difficult to determine the exact size and scope of money laundering in Canada but that it is a multibillion-dollar industry.

Read more about money laundering.

Thomas says his signature was forged on hundreds of cheques drawn on his business account, which was managed by Siminaro for several years.

The entrepreneur has launched legal action against the caisse populaire branch and Quebec police are investigating the allegations, according to the CBC's French-language service.

In 2001, Thomas hired Siminaro, his neighbour, to do the accounting for his company Construction Robert Thomas, based in Repentigny.

A nearby branch of the caisse populaire — Quebec's credit union network — lent the company nearly $2 million to launch its building projects.

In 2007, Thomas received notice that he owed back taxes, and the caisse notified him that it planned to seize his

condominiums for failing to repay the loan.

Thomas later discovered that 622 cheques amounting to about $1 million were written against the company's account without his knowledge.

Thomas alleges his former accountant forged his signature and used the chequing account to launder money. As well, the construction entrepreneur alleges, the caisse branch tolerated the situation by allowing the cheques without notifying him.

"There were many cheques, but we can say we tolerated it, as we do sometimes for clients who sometimes have cash flow issues. We're there to provide solutions," credit union manager Jean Dénommé said in an interview with Radio-Canada.

The branch maintains Thomas should have kept tabs on his account and reported any irregularities.

Siminaro was arrested in 2009 and charged with conspiracy and money laundering in connection with Hells Angels boss Normand Marvin (Casper) Ouimet.

Siminaro has been suspended from the Quebec order of accountants pending the legal proceedings against him.

Ouimet was arrested in November 2010 on an outstanding warrant in connection with multiple murders linked to Quebec's biker wars. He is being held in detention at an undisclosed location.

With files from Marie-Maude Denis, Radio-Canada

infomart

Alleged sales tax fraud may have helped finance Sikh terrorists: report

Agence France Presse (English)
Mon Feb 10 2003, 6:42pm ET
Section: International News

ATTENTION - CORRECTS US equivalent figure in second para to read 16.25 million US dollars ///

OTTAWA, Feb 10 (AFP) - Opposition lawmakers claimed Monday that a major sales tax fraud may have helped finance Sikh terrorists who blew up an Air India flight from **Canada** in 1985.

Some 25 million dollars (16.25 million US dollars) were bilked from the federal government with fraudulent claims for a goods and services tax (GST), **Canada**'s equivalent to Europe's value added tax, according to a CBC Television report Monday.

The scheme, according to the report, involved fictitious companies billing each other and charging the obligatory GST which was then claimed back by the company allegedly providing the goods and services for export.

In British Columbia, where there is a large Sikh community, police have charged two men -- Sikhander Singh Bath and Manjit Singh Kanghura -- with fraud. Police said the fraud involved the illegal receipt of federal government cheques every month for about three years.

A member of the prosecuting team, Barbara Veltkamp, said there were 18 volumes of documents being entered as evidence which, she claimed, involved fraudulent GST refund claims on alleged transactions between different companies.

She said some 20 fictitious lumber companies were involved.

Veltkamp, who said this was one of the biggest GST fraud cases in Canadian history, involved "very serious charges: **money laundering** and fraud charges."

CBC reported that most of the alleged phoney transactions were handled through the Khalsa **Credit Union**, a financial institution run by and for members of British Columbia's Sikh community.

One of the alleged participants in the fraud scheme was, said CBC, Rupudiman Singh Malik who is in prison facing trial in the 1985 Air India bombing that killed 329 people off the coast of Ireland.

In the House of Commons, John Reynolds, a senior frontbencher with the Canadian Alliance, said: "Terrorism could be involved."

Referring to both this and another multi-million dollar GST fraud in Ontario, Reynolds said: "The government has already admitted organized crime is defrauding Canadians through the GST fraud. Now we learn that international terrorists might have discovered that there is free money in **Canada** when the (governing) Liberals are in power."

Both CBC and Reynolds claimed that government inspectors failed to carry out the most simple of audits on the 25 million dollars alleged to have been illegally claimed.

Coincidentally, one of three militant Sikhs about to go on trial for the Air India bombing -- Inderjit Singh Reyat, 51 -- agreed on Monday to plead guilty to manslaughter in the Air India bombing.

Prosecutors said they had agreed to accept the admission of manslaughter in return from dropping murder and conspiracy charges against Reyat.

Rupudiman Singh Malik and Ajaib Singh Bagri are both due to appear on murder charges resulting from the Air India downing in court in March.

hfw/jlp

Canada-fraud

infomart

BRANDON SUN

Elderly trio accused of stealing $2 million from Manitoba credit union

Brandon Sun
Sat Dec 15 2007
Section: Provincial
Byline: Mike McIntyre

WINNIPEG - An elaborate bank fraud netted two Winnipeg families more than $2 million in a case that has led to criminal charges and a nasty ongoing civil court battle.Police arrested a 64-year-old man, his 63-year-old wife and their 76-year-old business partner this week following a year-long investigation.

Court documents obtained by FPNS show the trio allegedly scammed the Cambrian **Credit Union**'s Main Street branch between September of 2005 and September of 2006.

The money was then allegedly distributed to themselves and their adult children in Winnipeg, Saskatchewan and Alberta.

None of the allegations has been proven and the accused are presumed innocent.

Margaret Sirkis and her husband, Kenneth, declined to comment when contacted on Friday afternoon.

The other accused, John Maxey, couldn't be reached.

Maxey's wife and son, along with two of the Sirkis' children, are named in the civil case, but are not facing criminal charges.

According to the civil court filings, nearly $1 million has already been repaid to the Cambrian **Credit Union**. They are now asking a judge to order the accused to repay the remaining $1.2 million.

Maxey has filed his own claim against Sirkis and his wife, denying any involvement in the illicit operation.

Police said the scam involved manipulating bank computers systems into thinking there was a positive balance by making fictitious deposits between several companies along with dormant bank accounts.

The Sirkis' allegedly owned two different consulting companies and worked closely with Maxey and his four companies to make the frauds happen.

The companies named in the civil court case are: Seabrook Management Services Bradburn Freight Management, Designer Financial Services, Saxon Investments, Main Chance and Albian Investment Ltd.

The scam was uncovered when bank officials became suspicious about a number of "questionable" transactions involving closed accounts from their branch towards the Sirkis' account at Cambrian.

Police have now laid several charges against the accused, including fraud over $5,000, possession of goods obtained by crime over $5,000 and **money laundering**.

The three were each released on a promise to appear in court at a later date.

Length: 337 words

Times & Transcript

Money laundering feared at credit union; Troubled Caisse Populaire de Shippagan saw huge sums coming and going, says official

Times & Transcript (Moncton)
Fri Apr 6 2007
Page: A4
Section: News
Byline: By Kate Wright Times & Transcript Staff

The province's superintendent of credit unions is concerned that a **credit union** in Shippagan may have been used for **money laundering**.

Robert Penney said there are only about 5,000 people living in Shippagan, yet the local Caisse Populaire had 35,000 members at its peak.

He contacted the RCMP because there were a number of significant deposits entering and leaving the caisse populaire from outside the community.

"The main concern is when you have money entering a financial institution that doesn't seem to correspond with the business of that institution or with the community that institution operates in," he said.

Penney said large deposits were coming from outside of the province and were being made by people who didn't normally bank with the **credit union**.

He said the multi-million-dollar transactions were "significant" enough to set off red flags.

Penney says he started looking at the Shippagan caisse last year when he became superintendent of credit unions, and informed the previous Conservative government.

"As far as I'm concerned, deputy ministers and ministers are well aware of the file," he said. "We were actively working on the file."

The Liberal government has been taking heat for bailing out the troubled Shippagan **credit union** with a $60-million rescue package.

Attorney General T.J. Burke said if the caisse had gone bankrupt, taxpayers would have been on the hook for $86 million in protected deposits.

The government has announced a plan including a $31.5-million grant and $10 million in repayable "stabilization shares" to help the Shippagan caisse after years of risky lending practices.

The institution recently announced a deficit of more than $30 million and has been under supervision by **Credit Union** Central of New Brunswick since June 2004.

Burke said information has recently come to light to spur the government to call for further investigation.

The government assistance package would also include a $20 million infusion into the New Brunswick **Credit Union** Deposit Insurance Corporation, which insures credit unions and caisse populaires in the province's two federations. Meanwhile, Shippagan would be required to repay the $10 million in stabilization shares into the deposit insurance corporation by 2022.

The federations maintain their own stabilization funds, totalling about $70 million.

But that money would be left untouched as Shippagan moves from the **Credit Union** Central to the Fédération des caisses populaires acadiennes under the terms of the deal.

Burke has contacted the RCMP and the province's auditor general about possible criminal investigations into what happened at the **credit union**.

"As far as I'm concerned, deputy ministers and ministers were aware of the file," he said.

"I want to be careful somewhat what I say here, but we were before cabinet at least on a couple of occasions and board of management at least on a couple of occasions. "

Volpe, who as the former finance minister was the chairman of the board of management cabinet committee, denied any knowledge of red flags surrounding potential **money laundering**.

With files from Canadaeast New Service reporter Daniel McHardie.

Length: 476 words
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The Daily Gleaner

Official wonders whether credit union was used for money-laundering scheme

The Daily Gleaner (Fredericton)
Fri Apr 6 2007
Page: A4
Section: News
Byline: By CHRIS MORRIS The Canadian Press

New Brunswick's superintendent of credit unions says he is looking at whether a financially troubled **credit union** in northern New Brunswick may have been used for **money laundering**.

Robert Penney said about 5,000 people live in the fishing community of Shippagan, yet the local Caisse Populaire in the community had 35,000 members at its peak.

He said a significant number of deposits were made and withdrawn from outside the community and the province, raising questions in his mind about what was happening.

"That's a red flag," he told reporters at the legislature.

"I'm not saying it's evidence of a crime. I'm simply saying it would be responsible for me as superintendent to look further into an issue like that and get guidance from a police agency."

Penney said a number of things about the **credit union**'s operation need to be examined, including "whether or not **money laundering** took place."

New Brunswick Attorney General T.J. Burke said he has contacted the RCMP and the province's auditor general about problems at the Caisse Populaire in Shippagan, an Acadian community in northeastern New Brunswick.

The financial institution has been the focus of political debate after Premier Shawn Graham's Liberal government announced a $60-million bailout package for the debt-ridden **credit union**.

The province is also considering a public inquiry.

A spokesman for the **credit union** couldn't be reached for comment on Thursday.

Burke has raised the spectre of political tampering at the Shippagan **credit union** by the previous Conservative government, which was defeated by the Liberals in September, suggesting there were connections between board members and the Conservatives.

"As we peel the layers of this onion, the smell is getting stronger and stronger. I'll leave it at that," he said Wednesday.

Conservative Leader Jeannot Volpe said Burke appears to have prejudged any inquiry into the caisse and should step aside.

"He has prejudged and accused people of being involved," Volpe said. "He should step aside until the air is cleared."

Penney told reporters Thursday that these concerns were also raised within the highest levels of the former Conservative government, but the RCMP and Office of the Auditor General were only called into investigate this week.

The superintendent of credit unions said he has been working on the file since his appointment in April 2006.

Penney said he brought these concerns to the Conservative cabinet and top bureaucrats.

Ontario
Deposit Insurance Corporation of Ontario
Société ontarienne d'assurance-dépôts

Operational Risk Advisory #2 **January 2012**

Potential Risks Associated with Providing Banking Services to Money Service Businesses

Background

This Advisory outlines the potential risks associated with providing banking services to member-owned Money Service Businesses (MSBs). It also sets out DICO's expectations for those credit unions and caisses populaires that are providing banking and wire transfer services to member-owned MSBs or are considering entering into this line of business.

The current low interest rate environment has motivated some credit unions to improve profitability by seeking non-traditional sources of revenues. In particular, a number of credit unions have entered into arrangements to provide banking and wire transfer services to member-owned Money Service Businesses (MSBs) which are generating fee income for related cash handling, wire transfer and foreign exchange services.

MSBs are defined by the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) as "non-bank" entities which provide transfer and exchange mechanisms. Individuals and entities generally use MSBs to exchange or transfer value, or to purchase or redeem negotiable instruments. In Canada, an MSB is defined as an individual or an entity that is 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;
- issuing or redeeming money orders, traveler's cheques or other similar negotiable instruments

FINTRAC describes MSBs as generally higher risk customers from a money laundering and /or terrorist financing perspective as criminal elements seek to exploit MSB businesses to transfer and launder funds. For further information please consult FINTRAC's report "Money Laundering and Terrorist Financing Typologies and Trends for Canadian Money Service Businesses, which is available on FINTRACs website at www.fintrac.gc.ca.

While every MSB in Canada must be registered with FINTRAC in a similar fashion to financial institutions, there are a number of MSBs operating outside of the FINTRAC framework. The number and relative size of MSBs make it challenging for regulatory authorities to monitor them effectively.

Major banks have typically refused to provide banking services for MSBs owing to the risks associated with providing them services. For this reason any credit union that has chosen to provide services to MSBs must have a comprehensive and robust compliance regime in place.

Risks to the Credit Union

Credit unions or caisses populaires entering into the servicing of MSBs are receiving significant fees for the services being provided. This level of revenues may unduly influence the credit union's rationale for entering into the MSB business by placing an inappropriately high weighting on potential returns versus the associated risks. In addition, once a financial institution begins taking on MSB clients, it is very likely that other MSBs will seek to open accounts with the credit union thus resulting in ever increasing risk.

The risks to the credit union are both financial and reputational. Financial losses (and in extreme cases, criminal penalties which may include up to 5 years imprisonment) can arise and have arisen from penalties levied by FINTRAC or law enforcement for non-compliance with the Proceeds of Crime (Money Laundering) and Terrorist Financing Act ("PCMLTFA") or from lost recourse on deposited cheques that may potentially be so severe as to result in the failure of the institution. It should also be noted that amendments to the PCMLTFA have been proposed by the Department of Finance to include business relationships in addition to account openings and prescribed financial transactions. Reputational risk may arise from association with fraudulent activities of an MSB, its Principals, employees or its business activities.

Some credit unions have attempted to mitigate the potential risk of non-compliance with PCMLTFA legislation by contracting with third parties to screen MSB applicants and provide anti-money laundering (AML) monitoring. However, third parties do not assume the risk of non-compliance with PCMLTFA and the credit union retains both the financial and reputational risks. Where those third parties are receiving fees from MSB providers to confirm their AML Compliance Programs meet PCMLTFA requirements and monitoring ongoing AML compliance on behalf of the credit union on a fee basis, once the MSB becomes a member, a serious potential conflict of interest may arise.

DICO's Expectations

DICO has the following expectations of credit unions or caisses populaires that engage in this type of business:

- The Board of Directors should authorize entry into this line of business based on a thorough analysis by management of the potential benefits and risks.
- All MSB member accounts should be subject to Board approval.
- A comprehensive risk assessment process should be in place to identify and monitor high risk clients.
- Increased scrutiny is required over MSB accounts as they are considered extremely high risk.

- Annually, the credit union shall verify that the MSBs are in good standing with FINTRAC, provide confirmation to the credit union's Board of Directors and retain record of the verification and report to the Board for DICO examiners.

Credit unions should not accept MSBs as members unless the accounts meet the highest business standards, are professionally managed, operate in full compliance with FINTRAC requirements and are subject to robust internal and external audit procedures.

At a minimum, for each potential MSB account, credit unions are expected to:

- Conduct background checks of account principals (financial and criminal/terrorist);
- Obtain business and financial references;
- Determine the scope and size of operations, including client base and nature of material transactions;
- Review the experience and suitability of the external auditors;
- Review the qualifications of the internal auditors and the internal audit plan;
- Review the business plan and Audited Financial Statements (2 years);
- Confirm that MSB membership meets membership criteria;
- Develop and submit a business case for Board approval where MSB membership is recommended.

Any MSB membership account should have a robust membership agreement including specific operating and reporting criteria to ensure that the MSB continues to operate in full compliance with FINTRAC requirements.

Where a credit union is already involved in offering services to, or is planning to offer services to MSBs, DICO will require the credit union to provide evidence of sufficient due diligence in considering the risks in accordance with By-law #5 requirements.

DICO's examination process will include a review of all new lines of business to confirm that sufficient due diligence has been conducted and that appropriate risk management policies and controls are in place.

Examiners will also review:

- Business case and Board approvals for all MSB accounts
- MSB client information and any outsourcing arrangements or contracts
- the level and quality of internal controls
- the nature and extent of on-going monitoring and compliance practices
- the nature and extent of internal audit procedures
- the form and content of board reports

In cases where increased risk is evident, DICO may place the credit union on its Watchlist and / or require the credit union to maintain additional capital.
If you have any questions, please contact your Regional Manager. For your convenience extracts from part 5 of the PCMLTFA regarding penalties have been included as Appendix A to this document.

APPENDIX A

Extract from the Proceeds of Crime (Money Laundering) and Terrorist Financing Act

PART 5 - OFFENCES AND PUNISHMENT

General offences

74. Every person or entity that knowingly contravenes any of sections 6, 6.1 or 9.1 to 9.3, subsection 9.4(2), sections 9.5 to 9.7 or 11.1, subsection 12(1) or (4) or 36(1), section 37, subsection 55(1) or (2), section 57 or subsection 62(2), 63.1(2) or 64(3) or the regulations is guilty of an offence and liable

- (*a*) on summary conviction, to a fine of not more than $50,000 or to imprisonment for a term of not more than six months, or to both; or
- (*b*) on conviction on indictment, to a fine of not more than $500,000 or to imprisonment for a term of not more than five years, or to both.

Reporting — sections 7 and 7.1

75. (1) Every person or entity that knowingly contravenes section 7 or 7.1 is guilty of an offence and liable

- (*a*) on summary conviction,
  - (i) for a first offence, to a fine of not more than $500,000 or to imprisonment for a term of not more than six months, or to both, and
  - (ii) for a subsequent offence, to a fine of not more than $1,000,000 or to imprisonment for a term of not more than one year, or to both; or
- (*b*) on conviction on indictment, to a fine of not more than $2,000,000 or to imprisonment for a term of not more than five years, or to both.

Defence for employees

(2) No employee of a person or an entity shall be convicted of an offence under subsection (1) in respect of a transaction or proposed transaction that they reported to their superior or in respect of property whose existence they reported to their superior.

Disclosure

76. Every person or entity that contravenes section 8

- (*a*) is guilty of an offence punishable on summary conviction; or
- (*b*) is guilty of an indictable offence and liable to imprisonment for a term of not more than two years.

Reporting — section 9

77. (1) Every person or entity that contravenes subsection 9(1) or (3) is guilty of an offence and liable on summary conviction to a fine of not more than $500,000 for a first offence and of not more than $1,000,000 for each subsequent offence.

Due diligence defence

(2) No person or entity shall be convicted of an offence under subsection (1) if they exercised due diligence to prevent its commission.

Registry

77.1 Every person or entity that provides information to the Centre under section 11.12, 11.13, 11.14 or 11.3 and that knowingly makes any false or misleading statement or knowingly provides false or misleading information to a person responsible for carrying out functions under this Act is guilty of an offence and liable

- (*a*) on summary conviction, to a fine of not more than $50,000 or to imprisonment for a term of not more than six months, or to both; or
- (*b*) on conviction on indictment, to a fine of not more than $500,000 or to imprisonment for a term of not more than five years, or to both.

Liability of officers and directors

78. If a person or an entity commits an offence under this Act, any officer, director or agent of the person or entity who directed, authorized, assented to, acquiesced in or participated in its commission is a party to and guilty of the offence and liable on conviction to the punishment provided for the offence, whether or not the person or entity has been prosecuted or convicted.

Offence by employee, agent or mandatory

79. In a prosecution for an offence under section 75, 77 or 77.1,

- (*a*) it is sufficient proof of the offence to establish that it was committed by an employee, agent or mandatory of the accused, whether or not the employee, agent or mandatory is identified or has been prosecuted for the offence; and
- (*b*) no person shall be found guilty of the offence if they establish that they exercised due diligence to prevent its commission.

February 08, 2011: Credit Union Helps New Canadians Support Their Families

Credit Union Helps New Canadians Support Their Families

Starnews Credit Union has developed new payment and treasury services for Money Services Businesses (MSBs), supported by financial services compliance experts Williams McGuire AML Inc.

Over 25% of new Canadians send money to support their families in developing countries. Typically, they send their funds through MSBs - culturally based institutions with connections to the destination country for little to no charges. However, tightened regulations and practices around compliance among big banks have made the banking relationships and services that MSBs need to operate scarce.

Starnews has teamed up with Williams McGuire to measure MSB applicants against strict standards, and to rigorously monitor their day-to-day activities for compliance with regulatory and risk standards, such as those related to trade sanctions and anti-money laundering. "Starnews is a leader among credit unions, meeting a very important need in the MSB market with a considered risk-sensitive approach, and we are delighted to be helping them with this initiative" says Matthew McGuire, director of Williams McGuire.

MSBs will hold their bank accounts at Starnews and can apply for payment services such as wire transfers, pre-authorized debits and credits, as well as treasury services, such as foreign exchange and other deposit accounts. Starnews has received applications from MSBs looking to expand the services they provide to their communities.

Starnews' CEO, George De La Rosa, has expanded the credit union's membership base from its original focus on employees of the Torstar Corporation, during his 7 years there. According to De La Rosa, "Our growth has been driven by our commitment to credit union values: a focus on relationships, innovation, ethical conduct, and caring about our members and the communities we serve. Helping MSBs serve their communities is a natural way for us to build Starnews' presence in the GTA". Starnews serves anyone living or working in Ontario, and giving their members/customers access to their accounts across Canada through its ATM network alliance with THE EXCHANGE® Network.

About Starnews Credit Union

Starnews is a credit union owned and operated by its members, with a board elected from membership during annual elections. The credit union was originally formed in 1951 to serve Toronto Star employees. Today they service anyone living or working in the province of Ontario.

Find out more at www.starnewscu.com.

About Williams McGuire AML Inc.

Williams McGuire AML's mission is to passionately protect our clients and country from the harms of money laundering, terrorist financing and other financial crime through tailored and informed risk and compliance solutions. We do this by analyzing risk, creating effective controls and assessing existing compliance regimes and controls. Our team is comprised of dedicated full-time professional subject matter experts who understand our clients regulatory and risk mitigation needs.

Find out more at www.amlcompliance.ca.

In Reversal, Some Banks Value MSB Account Fees Over AML Risks

December 2, 2011 By Brian Monroe

Dozens of small banks and credit unions have begun courting money services businesses over the past year, offering financial services to the high-risk clients in exchange for compliance-related fees.

The marketing effort is a reversal in the often fractious relationship between the companies, known as MSBs, and banks that have either turned away the businesses or charged high fees for taking on the associated anti-money laundering (AML) compliance risks. Faced with a tougher market, some small financial institutions are opening their doors to the businesses and offering lower fees to draw new clients, say MSB owners.

"An increasing number of smaller banks and credit unions are realizing MSBs can boost the bottom line as fee generators," said Jeff Sklar, managing director of SHC Consulting Group in Bellmore, NY. Over the last eight months, he has encountered more than 30 financial institutions that have either started banking MSBs or inquired about how to tweak their AML programs to do so, he said.

The opposite has been the case for the last decade, as many small MSBs have had to win over bank officials after the U.S. Treasury Department's Office of the Comptroller of the Currency (OCC) warned that the businesses were high-risk in a 2000 advisory letter. The agency repeated the warning at least twice over the next six years, further prompting banks to drop their MSB customers.

The banking troubles pushed hundreds of MSBs and thousands of agents out of the market, and contributed to industry consolidation, said Michael McDonald, an independent AML consultant based in Miami, who believes the trend is now reversing.

"I don't mind jumping through AML hoops and paying a bit more in fees if it means I get piece of mind and I don't have to be constantly juggling banking relationships," said Alan Friedman, president of La Nacional, a New York-based MSB that has more than 80 locations nationwide.

Several smaller banks across the country have "woken up to the fact that you can get a big increase in fee income banking MSBs because they are huge consumers of cash," he said, adding that in some instances banks are still restricting deposits to only $2,500 a day, which "doesn't do us any good."

How regulators will view the decision by some small financial institutions, withrelatively fewer compliance resources than large banks, to take on new AML risks remains uncertain.

While banking MSBs "can help strengthen the banks' financials, they have to realize that we may disagree with the adequacy of the controls they have in place if we believe their MSB customers are higher risk and require additional monitoring,"said a federal bank examiner in Texas, who spoke on condition of anonymity."That will be reflected in the exam."

The increase in MSB accounts at New York-based Actors Federal Credit Union (AFCU) have meant "an education for us in terms of understanding what AML risks are involved and how to mitigate them," said Chuck Brown, director of check cashing services at institution. The company has opened more than two dozen accounts for money remitters and check cashers, and plans to open its first currency exchange firm account, he said.

"We have a thriving MSB department," said Brown, adding that the credit union's examiners "are well aware of what we are doing and seem supportive."

To mitigate its risk, AFCU has employed third parties to vet related accounts and a secondary transaction monitoring system that allowed the credit union to review all of the transactions of its MSB clients, he said. AFCU has since determined that the transaction monitoring system is no longer needed, he said.

Officials at the credit union request AML program documents from MSBs and conduct annual, onsite visits to see how their clients are meeting their Bank Secrecy Act requirements, he said.

"We wanted make sure they have strong customer identification and know-your-customer programs," Brown said.

For some MSBs, bank accounts remain elusive, however, according to Friedman. Even when the companies agree to stringent AML certifications and deposit limits, banks may choose to drop the accounts with little warning, he said, adding that La Nacional lost banking services recently due to an acquisition.

The new chairman "told us we were a great account, but, sorry, they didn't want it," he said.

CustomerService@MoneyLaundering.com

Philly Credit Union Manager Charged with Money Laundering

KURT MATTSON
Published: April 1, 2013 at 04:29:50 EDT

The United States Attorney Zane David Memeger recently announced the arrest of Miqueas Santana, 43. His embezzlement and money laundering were contributing factors in the closure of the Borinquen Federal Credit Union (BFCU) in Philadelphia. According to court information, between July 2009 and June 2011, Santana, with the permission and approval of the former manager of BFCU, Ignacio Morales, withdrew money from his BFCU bank accounts without depositing sufficient money into the accounts to cover the withdrawals. The result was a deficiency of account balances in his five personal and business savings and checking accounts of more than $500,000. Santana used this money to purchase multiple pieces of real estate in the Philadelphia area.

Morales was previously convicted of multiple counts relating to embezzlement from BFCU and conspiracy to defraud the government regarding the cashing of fraudulent tax refund checks. He is serving a seven-and-a-half-year sentence for his crimes.

If convicted of all charges, Santana faces a maximum sentence of 40 years' imprisonment, 5 years' supervised release, a $1,250,000 fine (or a $1,000,000 fine plus twice the value of the criminally derived property), and a $200 special assessment. The case was investigated by the United States Postal Inspection Service, the Internal Revenue Service-Criminal Investigations, and the Federal Bureau of Investigation. The *Santana* case is being prosecuted by Assistant United States Attorney Arlene D. Fisk.

In June 2011, the National Credit Union Association took over the operation of the BFCU, but within two weeks, closed the credit union and liquidated its assets.

BSA/AML Update

Sep 18, 2013, 1:35pm EDT

Regulators hit Miami Gardens credit union with cease and desist order

Brian Bandell
Senior Reporter-
South Florida Business Journal
Email | LinkedIn | Twitter

Federal regulators issued a cease and desist order against North Dade Community Development Credit Union for violations of anti-money laundering laws.

Such enforcement actions against credit unions are rare. This is the only cease and desist order issued by the National Credit Union Administration (NCUA) so far this year.

The credit union has only $5.8 million in assets. It was "well capitalized" on June 30, an improved from its "undercapitalized" status a year ago.

The NCUA order on Aug. 29 gave it 30 days to suspend all transactions for money services businesses that aren't within its geographic area of membership. Credit unions are only allowed to deal with customers in pre-defined geographic areas. In the case of North Dade Community Development, the area is thenorth-central part of the county.

The regulatory order also told the credit union to stop all business with money service businesses until it implements adequate Bank Secrecy Act, anti-money laundering and Office of Foreign Asset Control (OFAC) compliance. This includes establishing criteria for identifying high-risk members, detecting when transactions involved prohibited countries or individuals, and timely filing suspicious activity reports and currency transaction reports.

It was given 30 days to find an employee responsible for this job, conditional upon approval by regulators.

Courier-Herald

NEWS

Former credit union president sentenced to prison for fraud and embezzlement

Mar 21, 2014 at 7:00AM

The following is a press release.

The former president of a small Pierce County, Washington credit union was sentenced today in U.S. District Court in Tacoma to 18 months in prison, three years of supervised release and more than $129,000 in restitution for two counts of wire fraud and two counts of misapplication of credit union funds, announced U.S. Attorney Jenny A. Durkan. RENEE J. THOMAS, 45, of Graham, Washington, resigned as president of Community Credit Union on September 1, 2009, just as state authorities were preparing to examine the credit union because of concern about its financial performance. Following her resignation, the investigation revealed THOMAS had used a variety of means to defraud not only the credit union but an insurance company and credit card companies associated with it. At sentencing U.S. District Judge Ronald B. Leighton said, "this crime is very serious because it is the type of crime that corrodes faith in our financial system."

According to records in the case, THOMAS committed fraud and embezzled funds in four different schemes. In 2007 THOMAS pressured an employee to falsify records related to nearly $90,000 in car loans so that she and her husband could collect disability insurance. In December 2007, THOMAS used a credit union customer's information to take money from his line of credit. THOMAS applied the $16,500 to her bills. In August of 2009, shortly before her departure from the credit union, THOMAS forged other employees' names to increase the limit on her company credit card. THOMAS used the increased borrowing authority for $22,000 in cash advances and other purchases. Finally, on one of her last days at the credit union, THOMAS used other employees' computer privileges to increase a customer's line of credit and take cash from their account. She then used some of the cash to make a payment on her credit card. The loss to the credit union for the conduct charged in the case is $126,469.

In asking for a prison sentence prosecutors wrote to the court, "As Community Credit Union's President, Thomas owed the credit union one thing – responsible stewardship. Instead, she gave it a two-year fraud "spree," targeting as her victims, the Credit Union, its customers, and its insurance carrier. Rather than watching out for the interest of her employees, moreover, Thomas abused her authority over them and involved them in her criminal schemes."

The case was investigated by the U.S. Secret Service. The case was prosecuted by Assistant United States Attorney Arlen Storm.

Pimp laundered cash through credit union

Single deposit of €854,000 was sent to account by his daughter

JEROME REILLY – Updated 04 December 2012 05:29 AM

Convicted brothel keeper and money launderer Thomas Carroll cleaned up his cash by receiving €854,000 in a single deposit to his credit union account, it can now be revealed.

The single deposit was only part of millions of euro the Carlow-born criminal amassed from his prostitution empire which stretched all over the republic, Northern Ireland and the UK.

Carroll ran his empire from a vicarage in a Welsh village. He fled Ireland after being arrested and subsequently released on bail but still kept up his Irish operation, which included young and vulnerable women from Nigeria who had been trafficked into the sex trade.

Now a written judgement by Judge Neil Bidder has shown how Carroll evaded the authorities by moving cash between accounts, some held by his daughter Toma Carroll, as well as keeping large amounts of cash on hand

Last month Judge Bidder sentenced Carroll, 48, his wife Shamiela Clark and his 26-year-old daughter Toma Carroll after they admitted money laundering.

Thomas Carroll and Clark also pleaded guilty to conspiring to control prostitutes, including women trafficked into Ireland from Portugal, Venezuela, Brazil and Nigeria. Thomas Carroll was jailed for seven years, Clark for three-and-a-half years. Toma Carroll was jailed for two years but was freed immediately because of time spent in custody awaiting trial.

Thomas Carroll ran 35 brothels in the north and the Republic. For every €27,000 in total takings from his brothels, Carroll was making more than €13,000 in clear profit.

In 2005, records showed a final balance for the year of €300,000 from Carroll's Irish brothels. In 2006 a search discovered €100,000 in cash kept in a safe and between €10,000 and €15,000 kept in notes in his house.

"The money laundering scheme was complicated, it included property investments in Wales and other countries, financed with the proceeds of the prostitution business," the judge said.

Some of the prostitutes made payments to accounts controlled by Thomas Carroll by International Money Transfers and some of this money was used to buy luxury properties in Bulgaria, South Africa and Wales.

Other monies ended up in Bank of Ireland accounts in the name of Toma Carroll. These included a sum of €111,000, which passed through the account in 2006.

But by 2007 the money going into the account had increased to €1.13m and there was another €500,000 moved through the account up to the end of September 2008.

Another lodgement showed that €854,000 deposited into Thomas Carroll's credit union account had been transferred from Toma Carroll's account.

Judge Bidder described Toma Carroll as an "intelligent and capable young woman who should have been content to follow your chosen career in the law".

"It is to a great extent your father's fault that you are in the position that you are, but you are old enough, and were old enough during the course of this conspiracy, to be able to take decisions yourself and you cannot shuttle off all responsibility so easily on to your father's shoulders," the judge said.

"I simply do not believe, and indeed it has not been pressed on your behalf, what you told the probation service, namely that at no time did you share in the proceeds of the prostitution business."

South Africa's Assets Forfeiture Unit is examining the possibility of seizing three houses in Cape Town owned by Thomas Carroll or his wife -- two in the Strand area of the city and one in Gauteng. The Strand townhouses are estimated to be worth R1.2 million, or around €150,000 each.

Sunday Independent

Former credit union executive sentenced to 24 years: Longest white-collar sentence in Massachusetts.

Date: *Sep 12, 1995*
Words: *744*
Publication: *Business Wire*

BOSTON--(BUSINESS WIRE)--Sept. 12, 1995--Richard D. Mangone, the former president of the Digital Employees Federal Credit Unioin and co-founder of the now-defunct Barnstable Community Federal Credit Union ("BCCU") has been sentenced to prison for 24 years, without parole.

This is the longest federal sentence ever given in a white collar case in Massachusetts. Mangone was also ordered to pay over $41 million in restitution, to repay the amounts lost by the two credit unions he defrauded. Mangone was a fugitive for 18 months until Aug. 29, 1995, when he surrendered to authorities.

U.S. Attorney Donald K. Stern announced that Richard D. Mangone, 51, formerly living at 273 River St., Norwell, Mass., was sentenced today on 22 counts of conspiracy, bank fraud, unlawful receipt by credit union officer and money laundering. Mangone was convicted on July 8, 1993, after a seven week trial on an indictment charging that he used his positions at the credit unions to commit massive real estate frauds, along with three other men.

In sentencing Mangone today, Judge Young referred to what he termed the "egregiousness" and "evilness" of Mangone's conduct. Judge young further commented, "Mr. Mangone, you've ruined people's lives, lots of lives, people you don't even know. Being sorry to these various financial institutions isn't the half of it."

U.S. Attorney Stern stated that Mangone's sentence is the longest federal sentence handed down for a white-collar crime in Massachusetts. Stern commented, "Richard Mangone justly deserves the long sentence meted out by the court today. Mangone's contempt for the Digital Credit Union depositors and the banking industry was reflected in his bragging that he was able to use the Barnstable Credit Union as his own personal "piggy bank." Now all four of the principals, and others who assisted their schemes, are paying the price for flagrantly disregarding the law."

Stern added, "BCCU represents one of the largest credit union frauds in history, with losses in excess of $40 million. In the course of feeding his own greed and lifestyle, Mangone placed at risk the life savings of thousands of innocent depositors and caused the collapse of BCCU."

Mangone was originally scheduled to appear for sentencing before U.S. District Judge William G. Young on Feb. 15, 1994, but fled four days before the hearing. His failure to

appear earned Mangone a place on the U.S. Marshals' Most Wanted List. The Marshals Service and the FBI aggressively pursued Mangone and were closing in when he surrendered to federal authorities in Bowling Green, Ky., on Aug. 29 and was returned to Massachusetts.

Mangone's three co-defendants were also convicted at trial. Former attorney Robert Cohen was sentenced to 10 years in prison; former Cape Cod developer James K. Smith was sentenced to 15 years; and former North Shore real estate investor Ambrose L. Devaney was sentenced to three years. All three are currently serving their sentences in federal prison.

The convictions stem from fraudulent schemes to obtain real estate loans from BCCU, previously operating at Hyannis, Mass., and the Digital Credit Union, located in Maynard, Mass. From 1985 until BCCU was declared insolvent and placed under conservatorship by the National Credit Union Administration ("NCUA") in March of 1991, Mangone and his co-conspirators created various real estate trusts with names of straw borrowers in order to obtain multi-million dollar loans for purported real estate developments on Cape Cod and in Rhode Island and Maine. They used fraudulent certificates of trust beneficial interests, phony purchase and sale agreements, and bogus financial statements to defraud the credit unions and mislead federal examiners.

Stern said that Mangone is the seventh person sentenced in connection with the collapse of BCCU. In addition to Mangone, Cohen, Smith and Devaney, three others having lesser roles in the fraudulent schemes have been convicted and sentenced. Stern also noted that his office filed charges of conspiracy and fraud against two additional former officials of BCCU on Aug. 31, and those charges are pending. The investigation is continuing.

The criminal fraud investigation was conducted by agents of the Federal Bureau of Investigation and the Internal Revenue Service. Assistance was also provided by the National Credit Union Administration. The apprehension of Mangone resulted from the coordinated efforts of the U.S. Marshal Service and the FBI. The case was prosecuted by Assistant U.S. Attorneys Paul G. Levenson and Victor A. Wild of Stern's Economic Crimes Unit.

CONTACT: U.S. Department of Justice

Former credit union president get 5 years for money laundering

BEAUMONT, Texas - The former President of the Orange County Employees Federal Credit Union was sentenced to federal prison for money laundering in the Eastern District of Texas, announced U.S. Attorney John M. Bales today.

Sandra H. Cooper, 56, of Orange, Texas, pleaded guilty on Feb. 28, 2011, to money laundering and was sentenced to 63 months in federal prison today by U.S. District Judge Marcia Crone. Cooper was also ordered to pay restitution in the amount of $1,178,340.00.

According to information presented in court, Cooper, the President and Treasurer of the Orange County Employees Federal Credit Union, embezzled approximately $1,164,340 of credit union funds over a four and half year period. Cooper was indicted by a federal grand jury on Dec. 1, 2010.

The credit union, which had just two employees, was housed in the administration building adjacent to the Orange County courthouse. The deposits of the credit union customers were insured by the National Credit Union Administration Board, a federal agency similar to the Federal Deposit Insurance Corporation, which determined in June, 2010, that the credit union was insolvent and arranged a transfer of customer accounts to the Sabine Federal Credit Union.

Cooper must surrender to the U.S. Marshals Service on July 8, 2011.

This case is being investigated by the Criminal Investigations Division, Internal Revenue Service and prosecuted by Assistant U.S. Attorney Robert L. Rawls.

De-risking trends at big banks affect credit unions

By: Jennifer Morrison, VP, Senior Risk Manager

"De-risking" was a theme at the recently held Association of Certified Anti-Money Laundering Specialists (ACAMS) 12th Annual AML & Financial Crime Conference. According to a panel of compliance and law enforcement officials at the convention, large banks are shedding their "good" customers in an effort to reduce the bank's overall risk profile (de-risking), even if the business line or customer is or was otherwise profitable. Once released from big banks, these riskier customers end up at the doors of small banks and credit unions. These riskier customers assume small banks and credit unions are unsophisticated to the regulatory burdens they bring with them.

De-risking by many major banks followed the financial crisis, as federal agencies and regulators held financial institutions accountable through the issuance of regulatory actions, penalties, and fines. Big banks took notice and over time determined it was more cost efficient to shed riskier customers than to hire the compliance staff needed to track their transactions.

There are three main BSA/AML areas where larger banks are de-risking. As such, it's important for Credit unions to be aware of the scenarios where de-risking is prevalent. The first area is Money Services Businesses or MSBs. In July 2011, FinCEN released updated definitions of MSBs (76 FR 43585-43597). As a result, larger banks are dropping MSBs from their customer base largely due to the expense associated with the level of regulatory scrutiny required when serving these customers.

Credit unions may encounter an MSB either as a "check casher" or as a "money transmitter." Be aware that an administrator or exchanger of virtual currency is also an MSB. If you have a member that is an MSB, the minimum due diligence steps per FinCEN and federal agency guidance is as follows:

- The MSB must be registered with FinCEN and in compliance with any state-based licensing.
- Opening and maintaining any account with an MSB must include new member due diligence.
- Conduct a risk assessment of the MSB. The assessment should include the products and services offered by the MSB, markets served, anticipated account activity, and purpose of the account.

If the MSB is a "higher risk" MSB (see the ***Bank Secrecy Act/Anti-Money Laundering Examination Manual***), the credit union must additionally review the MSB's AML program, review the MSB's BSA/AML independent review, conduct on-site visits, review the MSB's written procedures, review management and termination practices for the MSB, and review the written employee screening practices for the MSB. This is a lot of work and expense. It all must be documented and available for your examiner and independent review. With the additional monitoring required of the member's accounts, servicing an MSB is not a part-time job for staff performing BSA duties among other responsibilities. It is also not for credit unions with a low tolerance for risk.

Secondly, larger banks are also moving away from correspondent banking. Serving business clients who provide financial services to their customers makes it difficult for any financial institution to "know" their customers' customers or in the case of credit unions, their members' members. Money laundering is increasingly "borderless." Do not assume that money laundering is confined to the states bordering Mexico and the coastal states. While "funnel banking" or the use of third-party couriers to transport U.S. dollars from Mexico to U.S. banks and ATMs is prevalent, federal officials at the conference confirmed for the audience that couriers are now heading as far north as Chicago. Money laundering is increasingly observed by law enforcement, for example, involving such things as the purchase of distressed real estate, with anecdotal

evidence that entire city blocks in distressed areas of major metropolitan areas are being purchased for cash with drug money and funds derived from crime. Money laundering is also prevalent in the sale of fungible items, such as appliances, used cars, furniture, and other items you might see on Craigslist, for example. Given the rise in "borderless" money laundering, are you prepared and staffed to know your members' members?

Finally, larger banks are moving away from providing services to Third-Party Payment Processors (TPPPs). A TPPP is an entity that processes payments on behalf of its clients or as part of their business enterprise. TPPPs typically use remote deposit capture and/or originate ACH on behalf of their clients. Examples of TPPPs include a local CPA or payroll preparation firm that files taxes on behalf of their clients. TPPPs also include law firms who conduct title work, transmitting payments to realtors, mortgage brokers, and for mortgage payoffs. But TPPPs may include telemarketers, front companies for illegal gambling operations, and of course, front companies for drug traffickers. Again assuming smaller banks and credit unions lack the headcount or sophistication to do the expanded due diligence required, TPPPs may seek out relationships with smaller institutions. Re-visiting the "know your member" requirements fundamental to BSA, conducting due diligence just on the TPPP is not sufficient. You must conduct expanded due diligence in order to form an opinion regarding the risk embedded in your TPPP member's clients. You must determine the nature of the TPPP's clients, the purpose of the payments, set sufficient limits for the TPPP's activities, and monitor the accounts, including returns, filing a SAR whenever appropriate.

In closing, as one of the presenters at the at the ACAMS convention stressed, we need to learn from mistakes made by other financial institutions and avoid "page one risk" (i.e. keeping your credit union out of the local newspaper, as well as social media, industry journals, etc.). Learn as much as you can from Enforcement Actions as well as from actions taken by the Federal agencies and regulatory bodies. Have a compliance point of view that adds value to your credit union. Understand and reflect the risk tolerance of your credit union in your decision-making, and do not be afraid to turn away prospective members when their activities are not in alignment with risk tolerance levels, even if their business would be profitable to your credit union.

Grant Thornton

Reporting Entity Sector Profiles: Casinos Appendices

Prepared for FINTRAC | March 31, 2014

Appendix A: Industry statistics and reporting entity data

Casino industry SIC codes

Code	Description
7011	Hotels and Motels (which include Casino hotels)

Casino industry NAICS codes

Code	Description
71321	Casinos (except Casino Hotels)
72112	Casino Hotels

Using NAICs codes, searches for statistical data on the Casino sector were carried out on Industry Canada's Canadian Industry Statistics (CIS) site.

Number of establishments in Canada by type and region: December 2012
Casinos (except Casino Hotels) (NAICS 71321)

Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	22	24	46	50.0%
British Columbia	16	0	16	17.4%
Manitoba	2	0	2	2.2%
New Brunswick	2	0	2	2.2%
Newfoundland and Labrador	0	0	0	0.0%
Northwest Territories	0	0	0	0.0%
Nova Scotia	2	0	2	2.2%
Nunavut	0	0	0	0.0%
Ontario	6	2	8	8.7%
Prince Edward Island	0	0	0	0.0%
Quebec	5	3	8	8.7%
Saskatchewan	7	0	7	7.6%
Yukon Territory	1	0	1	1.1%
CANADA	63	29	92	100%
Percent Distribution	68.5%	31.5%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Casinos (except Casino Hotels) (NAICS71321)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	1	6	14	1
British Columbia	0	3	5	8
Manitoba	0	1	1	0
New Brunswick	0	1	1	0
Newfoundland and Labrador	0	0	0	0
Northwest Territories	0	0	0	0
Nova Scotia	0	0	1	1
Nunavut	0	0	0	0
Ontario	2	0	0	4
Prince Edward Island	0	0	0	0
Quebec	0	2	1	2
Saskatchewan	0	0	6	1
Yukon Territory	0	1	0	0
CANADA	3	14	29	17
Percent Distribution	4.8%	22.2%	46.0%	27.0%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Casino Hotels (NAICS 72112)

Exclusions

- stand-alone casinos (71321, Casinos (except Casino Hotels)); and
- hotels and motels that provide limited gambling activities, such as slot machines, without a casino on the premises (72111, Hotels (except Casino Hotels) and Motels).

Number of employer establishments by employment size category and region: December 2012 Casino Hotels (NAICS72112)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	0	0	2	1
British Columbia	0	1	2	1
Manitoba	0	0	1	0
New Brunswick	0	0	0	0
Newfoundland and Labrador	0	0	0	0
Northwest Territories	0	0	0	0
Nova Scotia	0	0	0	0
Nunavut	0	0	0	0
Ontario	0	1	0	0
Prince Edward Island	0	0	0	0
Quebec	0	0	0	0
Saskatchewan	0	0	0	0
Yukon Territory	0	0	0	0
CANADA	0	2	5	2
Percent Distribution	0.0%	22.2%	55.6%	22.2%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Canada Casinos and Gaming Sector Values: $ billion, 2008-2012

Year	US$ Billion	% Growth
2008	16.2	
2009	16.3	0.6%
2010	16.7	2.4%
2011	17.4	4.3%
2012	17.8	2.1%
CAGR: 2008-2012		2.3%

MarketLine Industry Profile – Casinos & Gaming in Canada – June 2013

Canada Casinos & Gaming Sector Category Segmentation: $ billion, 2012

Category	2012	%
Casinos	9.3	52.1%
Lotteries	4.3	24.4%
Sports betting and related	0.5	2.9%
Other	3.7	20.6%
Total	**17.8**	**100%**

MarketLine Industry Profile – Casinos & Gaming in Canada – June 2013

Canada Casinos & Gaming Sector Value Forecast: $ billion, 2012-2017

Category	2012	%
2012	17.8	2.1%
2013	18.2	2.6%
2014	18.8	3.3%
2015	19.5	3.5%
2016	20.1	3.4%
2017	20.8	3.4%
CAGR 2012-2017		3.2%

MarketLine Industry Profile – Casinos & Gaming in Canada – June 2013

Table 1. Venues

	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Population 18+	3,728,596	2,947,425	813,919	964,162	10,654,715	6,452,582	615,007	775,897	116,555	419,523
Bingo Facilities										
Total Bingo Facilities	27	28	15	2	71	50[1]	0	0	0	0
Casinos										
First Nation (On Reserve)	1	5	6	2	2	0	0	0	0	0
Non-First Nation	16	19	2	2	8	4	1	2	2	0
Total Casinos	17	24	8	4	10	4	1	2	2	0
Electronic Gaming Machine (EGM) Venues										
Bars, Lounges, etc. with VLTs	0	968	613	591[2]	0	1,892	260[3]	372[2]	38	397
Bingo Facilities with Slots or VLTs	17	0	0	0	0	23	0	0[3]	0	0
Casinos with Slots	17	24	8	4	10	4	1	2	2	0
Racetracks with Slots or VLTs	0[4]	3	0	1	17	0	0[5]	0	0[6]	0
Total EGM Venues	34	995	621	596	27	1,919	261	374	40	397
Electronic Keno Venues										
Total Electronic Keno Venues	3,792	88	0	904	20	2	0	0	0	0
Horse Racing Venues										
Major Racetracks	3	5	2	1	20	1	1	3	2	1
Minor Racetracks	2	2	2	6	4	5	0	0	0	1
Teletheatres	22	49	5	10	86	5	4	6	0	0
Total Horse Racing Venues	27	56	9	17	110	11	5	9	2	2
Lottery Ticket Outlets										
Total Lottery Ticket Outlets	3,853	2,611	845	901	10,073	8,559	894	1,074	179	977
Player-banked Poker Rooms or Areas										
Days Used per Month	30	30	Unavailable	30	30	30	30	26	19	0
Total Poker Rooms or Areas	12	22	Unavailable	4	9	4	1	2	2	0
Sports Betting Rooms or Areas										
Days Used per Month	0	0	0	0	30	0	0	0	0	0
Total Sports Betting Rooms or Areas	0	0	0	0	2	0	0	0	0	0
Total Venues 2011-12	**3,924**	**3,687**	**1,490**	**1,513**	**10,264**	**10,516**	**1,160**	**1,457**	**221**	**1,376**
Total Venues 2010-11	4,066	3,666	1,475	1,442	10,159	10,651	1,170	1,508	217	1,429
% Change	-3.5	0.6	1.0	4.9	1.0	-1.3	-0.9	-3.4	1.8	-3.7

Total venues 2011-12: 35,608. Total venues 2010-11: 35,783. Overall change: -0.5%. **Note:** *Total Venues 2011-12* may not equal its subtotals because some venues (e.g., keno) are contained within other venues and are therefore not counted twice. Bingo facilities are venues designated for bingo full-time (e.g., bingo association halls). Casinos are permanent, and include those termed 'Aboriginal,' 'charity,' 'commercial,' 'community,' 'destination,' 'exhibition,' 'First Nation', and 'government-run. Horse racing venues are facilities issued at least one permit by the *Canadian Pari-Mutuel Agency* (CPMA) to conduct pari-mutuel betting in fiscal 2011-12. Figures do not include facilities issued permits that did not ultimately conduct any pari-mutuel activity during the period that the permits were valid for. *Major racetracks* are those that held 15 or more live days of racing in 2011-12; *minor racetracks* are those that held fewer than 15. Player-banked poker (sports betting) rooms or areas are those in a gaming venue where player-banked poker (sports betting) took place at least once per month. The rooms or areas could have been used for player-banked poker (sports betting) only, or for player-banked poker (sports betting) and other purposes at different times (e.g., meetings, other gaming activities). *Days used per month* may be estimates only.

Table 7. Total Government-operated Gaming Revenue

(Revenue after prizes paid, before expenses deducted)

	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Population 18+	3,728,596	2,947,425	813,919	964,162	10,654,715	6,452,582	615,007	775,897	116,555	419,523
Bingo										
Total Bingo Revenue	228,135,000	12,400,000[1]	0[2]	3,509,000	24,233,000	15,862,000	0	0	0	0
Casinos										
Total Casino Revenue	1,350,749,000	1,175,293,000[1]	372,875,000	267,055,000[3]	1,590,375,000[4]	785,931,000	Unavailable	75,304,000	12,776,000	0
Electronic Gaming Machines (EGMs)										
Slots or VLTs at Bingo Facilities	193,017,000	0	0	0	0	0[5]	0	0	0	0
Slots at Casinos	947,687,000	1,175,293,000	352,698,000	241,595,000[3]	1,139,680,000	601,311,000	Unavailable	64,025,000	11,961,000	0
Slots at Racetracks	0	45,853,000	0	0	1,734,229,000	0	0	0	0	0
VLTs at Bars, Lounges, etc.	0	593,795,000	226,425,000	321,089,000[3]	0	997,955,000	133,833,000[6]	137,200,000[6]	17,392,000	122,677,000
VLTs at Racetracks	0	0	0	6,716,000	0	0	0	0	0	0
Total EGM Revenue	1,140,704,000	1,814,941,000	579,123,000	569,400,000	2,873,909,000	1,599,230,000	133,833,000	201,225,000	29,353,000	122,677,000
Internet Gaming										
Lottery Tickets	11,386,000	0	0	0	0	0	1,047,000	1,553,000	207,000	925,000
Other	37,351,000	0	0	0	0	Unavailable	731,000	1,125,000	120,000	868,000
Total Internet Gaming Revenue	48,737,000	0	0	0	0	0	1,778,000	2,678,000	327,000	1,793,000
Lottery Tickets										
Internet	11,386,000	0	0	0	0	0	1,047,000	1,553,000	207,000	925,000
Other	431,890,000	363,360,000	91,553,000	103,239,000	1,461,547,000	858,735,000	72,280,000	87,196,000	14,274,000	86,620,000
Total Lottery Ticket Revenue	443,276,000	363,360,000	91,553,000	103,239,000	1,461,547,000	858,735,000	73,327,000	88,749,000	14,481,000	87,545,000
Total Revenue 2011-12	**2,059,511,000**	**2,190,701,000**	**690,853,000**	**701,608,000**	**4,810,384,000**[7]	**2,658,483,000**	**207,891,000**[8]	**302,378,000**	**44,769,000**	**211,090,000**
Total Revenue 2010-11	2,026,391,000	2,136,315,000	687,630,000	702,611,000	4,907,296,000	2,686,297,000	246,166,000	310,298,000	43,689,000	209,714,000
% Change	1.6	2.5	0.5	-0.1	-2.0	-1.0	N/A	-2.6	2.5	0.7

Total revenue 2011-12: $13,877,668,000. Total revenue 2010-11: $13,924,607,000 (restated to exclude casino revenue in New Brunswick so that *Total Revenue 2010-11* can be compared to *Total Revenue 2011-12*). Overall change: -0.3%. **Note:** Revenue measured as wagers less prize payouts, before operating expenses deducted. Figures rounded off to the nearest thousand. *Total Revenue 2011-12* may not equal its subtotals due to overlap between categories. For example, *Total Casino Revenue* includes revenue from casino slot machines, which also appears in *Slots at Casinos* under *Electronic Gaming Machines (EGMs)*.

Appendix B: Case examples and typologies

The enclosed articles have been sourced from news media databases, books and the Internet, and provide specific examples of the risk factors identified in the report.

1. Canada: Money laundering thrives at casinos. The Vancouver Sun, August 16, 2010.
2. British Columbia casinos violate money laundering laws. Maple Gambling, March 1, 2012.
3. When it comes to casinos, natives feel they're got game. The Globe and Mail, March 6, 2013.
4. Casino loophole lets criminals launder cash, RCMP fear. CBC News, May 20, 2008.
5. Panelists discuss the implications of Aboriginal casino gaming in Southern Alberta. Research reveals – an update on gambling research in Alberta, February/March 2006.
6. Congress needs to think twice before banning internet gaming. CQ News, February 12, 2014.
7. Why bitcoin has a firm foothold in the online gambling world. August 18, 2013.
8. Lurid testimony undermines triad chief's battle to stay in Canada. South China Morning Post, March 2, 2013.
9. Carson Yeung jailed for six years after tip-off triggered money-laundering probe. South China Morning Post, March 7, 2014.
10. How China's filthy rich use Macau to lander their money. Business Insider, November 11, 2013.
11. Junkets 'encourage money laundering': Wiki cables. Macau Daily Times, August 28, 2011.
12. Casino money laundering suspicious cases soar. http://willcocks.blogspot.ca, January 11, 2011.
13. The gambling machines helping drug dealers 'turn dirty money clean'. The Guardian, November 8, 2013.
14. Are Chinese laundries thriving in casinos? Financial Crime Asia, March 21, 2013.

August 16th, 2010

CANADA: MONEY LAUNDERING THRIVES AT CASINOS

by The Vancouver Sun

Money laundering by organized crime groups is rampant at Canadian casinos but police are essentially doing nothing to combat it, according to an internal RCMP report.

"Since 2003, FINTRAC (the Financial Transactions and Reports Analysis Centre of Canada) has sent several disclosure reports to the RCMP on suspicious transactions involving casinos throughout Canada, with amounts totalling over $40 million," the 2009 report states.

"Anecdotally, police managers have suggested that, because of other priorities and a lack of resources, at this time, nothing is being done to investigate these situations."

Sgt. Dave Gray, of the B.C. RCMP's integrated proceeds of crime unit, acknowledged Wednesday that not a single person has been charged with money laundering at B.C.'s casinos in recent memory.

"If we had more resources, then we could perhaps set broader priorities or conduct more investigations," he said in an interview.

"That goes without saying. We could definitely use more resources."

However, Gray said the lack of casino-related charges is also due to police focusing on more "target-rich" areas -- such as currency seizures at the border -- where it is easier to prove criminal intent.

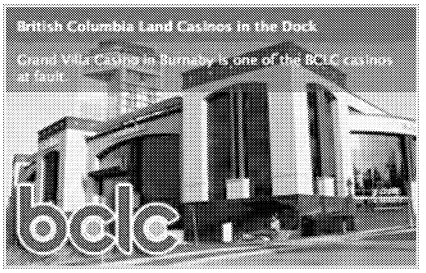
The internal RCMP report, obtained by the Vancouver Sun through the Access to Information Act, states "organized crime is prevalent in casinos at several levels," including money laundering and loansharking, and that casinos provide several opportunities for criminals to make illegally earned cash appear legitimate.

For example, criminals have been known to approach people after a big win and offer to buy their casino cheque for 105% of its face value.

The internal RCMP report notes many casinos now have self-serve kiosks where patrons can exchange winning tickets for cash, allowing launderers to operate without having to deal with a human cashier.

Article published on 1 March 2012

British Columbia Casinos Violate Money Laundering Laws



In Canada, a handful of **British Columbia land casinos** have been found to be in violation of rules and procedures aimed at vetting players who bring large amounts of cash to gamble, with the aim of preventing money laundering.

The violations are of the laws aimed at detecting money laundering, particularly money that could potentially be used to fund terrorist operations. The specific allegations are that the BC land casinos - which are operated by the British Columbia Lottery Corporation (BCLC) - failed to collect and record the information on the backgrounds of such patrons.

These violations were exposed by CBC News, which claims to have obtained uncensored and until now unseen documents from 2009 and 2010, after a year-long investigation. These were procured by CBC News through a Freedom of Information request and pertain to audits performed on three named casinos. One of the casinos is Grand Villa Casino in Burnaby.

An audit carried out by the British Columbia Gaming Policy and Enforcement Branch recorded that nine large cash transactions in a single month did not mention sufficient details of the patrons as required under the federal Proceeds of Crime Money Laundering and Terrorism Financing Act.

The backgrounds of the patrons were simply entered as "self-employed" or "business owner". The audit points out that under the Act, land casinos in British Columbia have to obtain complete details of the patron's principle business or occupation.

CBC News also reported that BCLC has been fined $700,000 by the Financial Transactions Reports Analysis Centre of Canada, for non-compliance of anti-money laundering measures. However, BCLC has appealed against the fine.

British Columbia Land Casinos Respond to Allegations

Bryon Hodgkin, the director of operation compliance at BCLC, has responded to the allegations. He claims that the casinos are required only to collect the information and file a report if they observe that the player is behaving in a suspicious manner.

> Hodgkin said that the information recording process has been tightened to take care of the audit remarks. Specific examples given by him included training of over 5,200 personnel and appointing investigators to check on the records

will be flagged if a generic entry is made.

However, the BCLC response has not satisfied former Crown prosecutor and now gambling critic, Sandy Garossino.

She says that it is a case of putting revenue ahead of national safety without understanding the serious implications of the laxness. Garossino claims that casinos in Las Vegas do not function in this irresponsible manner. "Let's get an audit of B.C. Lottery Corporation and the Gaming Policy and Enforcement Branch because this is just not good enough," she demanded.

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THE GLOBE AND MAIL

When it comes to casinos, natives feel they've got game

WENDY STUECK
VANCOUVER — The Globe and Mail
Published Wednesday, Mar. 06 2013, 10:55 PM EST
Last updated Wednesday, Mar. 06 2013, 11:34 PM EST

Part of The Big Gamble [http://tgam.ca/biggamble], a series examining British Columbia's complicated relationship with casinos.

Given the track record of recent casino proposals in British Columbia, it might seem the appetite for such projects has run its course.

Vancouver nixed an expanded casino in 2011. Surrey voted down a $100-million casino complex in January. Despite those rebuffs, Joe Hall looks around the province and sees open arms.

More Related to this Story

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- ADDICTION Seeking out the ghosts at the slot machine

That's because he's looking at the terrain from his viewpoint as chairman of the British Columbia First Nations Gaming Initiative, a group set up to push for a bigger native role in the provincial gambling sector. Having spent the past couple of years trying – and failing – to persuade the province to change its policies, the first-nations gambling committee said it's ready to act on its own, by setting up gambling operations on reserve land and risking potential consequences, including possible legal action by B.C. or Ottawa.

Unlike other provinces, including Manitoba and Alberta, B.C. has not developed policies to share gambling revenue with natives.

"The province and, to some degree, the federal government just don't seem to be interested in doing it the easy way," Mr. Hall said.

B.C. first-nation groups have been lobbying for a share of gambling revenue since at least 1993. Plans for a provincial First Nations Gaming Commission got under way in 2010. Mr. Hall expects the group to be formalized and commissioners named this year.

To date, the B.C. government has declined to change course, saying the gambling sector is already close to saturation. The only native-owned casino in B.C. is part of the St. Eugene Resort near Cranbrook.

"This is not a business where, if you build it they will come," said Rich Coleman, minister responsible for gambling. "Some people think that's the case but it really isn't; you have to have it sized to the marketplace."

First nations understand the concept of market saturation, Mr. Hall retorts. That's why they were angered by the proposed casino in Surrey – which, had it been approved, would have gone up near where the Semiahmoo First Nation was mulling a casino development of its own.

"It was on their [Semiahmoo Nation] traditional territory, they hadn't been consulted and it would have had a direct impact on them. And they had spoken about a casino years ago and really made no progress with the provincial government," Mr. Hall said.

The committee is looking at sites in areas including Vancouver Island and the Okanagan. As for capital, Mr. Hall said the group has that lined up as well, in the form of partners willing to invest.

In Canada, 15 native-owned casinos operate under various provincial regimes, ranging from Ontario's centralized model – natives share revenue from the Casino Rama operation near Orillia – to ones that feature several casinos, as in Saskatchewan.

There are pros and cons to every model but all – except B.C. – feature revenue-sharing, said Yale Belanger, an associate professor of native American studies at the University of Lethbridge who has written extensively on native gambling.

As to whether casinos have delivered the economic benefits first nations hoped for, results are mixed.

Management fees and debt-servicing costs take a big chunk of profits. So do provincial governments. Alberta, for example, takes a 30-per-cent cut of revenues generated by native casinos – a percentage that Dr. Belanger maintains should be reduced.

"Even though there are dollars now circulating in these [aboriginal] communities, there's a substantial portion that should be making it to those communities that isn't," Dr. Belanger said.

The location of B.C. first nations near or in sizable urban centres in the Lower Mainland, the Okanagan and elsewhere in the province would suggest there is potential for profitable native-owned casinos, he said. But the political terrain is less inviting.

"B.C. in terms of its lack of response is indicating that first nations don't fit into their gambling plans," Dr. Belanger said.

Mr. Hall, meanwhile, said his committee has been talking to counterparts in other provinces to learn from their experiences in finding operators, building facilities and setting up sound financial and management systems.

"We have the luxury of someone else walking through all those spiderwebs and maybe clearing a bit of a path for us."

With a report from Justine Hunter in Victoria

Casino loophole lets criminals launder cash, RCMP fear

CBC News Posted: May 20, 2008 6:05 AM ET Last Updated: May 20, 2008 6:14 AM ET

An RCMP probe into a southern Ontario drug trafficking ring has exposed a loophole in the province's casino system that police fear criminals are exploiting in a bid to launder the proceeds of crime.

Called Project Ozzi, the 2004 RCMP investigation broke up a drug trafficking ring involving cocaine and ecstasy in the Toronto and Kitchener areas.

RELATED STORY: CBC News goes inside two Ontario casinos to test how easy it is to launder money and to see who is watching.

RCMP investigator Cpl. Joe Peel says suspects linked to the ring were frequent players at Casino Rama, outside of Orillia, Ont., and Mohawk Racetrack, west of Toronto. They would play as much as twice a day, often depositing $9,000 into the slot machines each time, said Peel.

"They would go in, under the threshold of $10,000, play various machines and then, at some point, cash out, get the little stubs from the machines … and then ask for a cheque," said Peel, who is with the force's proceeds of crime section.

Peel said the players were careful to make sure most transactions fell below $10,000 — the amount that's supposed to set off alarm bells among casino staff. Under provincial and federal laws, casinos are required to report cash transactions of $10,000 or higher to the federal agency that monitors suspicious movement of money — the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC).

Peel said members of the organization would then deposit the official casino cheques into bank accounts.

"They were trying to legitimize … trying to clean or cleanse the money … is the best way to put it," said Peel. "[Take] the dirty money from the drugs, [gamble it] through the casino … get a cheque and then put it in a bank account. That was the process."

"The process of laundering the money doesn't always rely on winning. It can be just playing it and then checking out. Actually getting a cheque from that institution," he said.

Plea deal with ringleader

Peel said he suspected an apparent casino connection after a 2005 bail hearing for Lenard Ro, the man later convicted of leading the Toronto-Kitchener drug ring. At the hearing, Ro's mother told the court much of her

family's cash came from casino winnings — more than $100,000 for one month alone. She brought along casino receipts as proof, telling the court she was a very successful gambler.

Peel said after learning of that testimony, he was struck by how simple it would be to launder money through slot machines.

"It seemed too easy, to launder money through the casino. Really, it bothered me at that point, how easy it was," said Peel. He said he suspected people linked to Ro's organization had funnelled anywhere from $3 million to $5 million through casinos to get the official cheques.

In an e-mail to CBC News, Ontario Lottery and Gaming Corporation (OLG) said their transaction records show the amount of money issued by casino cheque to people linked to Ro's organization is "far lower" than the RCMP estimation of $3 million to $5 million. The e-mail arrived late Friday, even though the organization has been aware of the story for several weeks.

RCMP later charged Ro's mother, brother and father with money laundering, but the charges were dropped against the three family members when Ro struck a plea bargain and pleaded guilty to masterminding a drug and money laundering operation.

The CBC tried to reach Ro but his lawyer did not return phone calls. Messages left for his mother were not returned.

OLG told the CBC that Ro's mother appeared to be a good customer and didn't fit the profile of money launderer.

RCMP warned to back off

Peel said when he approached OLG about possible money laundering at casinos, the organization's vice-president of security, Mike Sharland, told him to back off. Peel said he was shocked by Sharland's response.

In 2007, Sharland was the subject of a separate Toronto police investigation into allegations of obstruction into a criminal investigation at OLG concerning an Ontario man who was duped out of his winning lottery ticket. Police found no evidence to indicate Sharland interfered with the criminal probe, but did conclude the secondment of a senior OPP officer to OLG "did create a conflict of interest." Shortly after the report was issued, the OPP decided to stop seconding its officers to head security at OLG. Sharland retired from the OPP last March, and from OLG four months later.

"I didn't record our conversation, but basically, [I] was told to look somewhere else and get off his turf, that sort of thing," said Peel. "I didn't get very good vibes from him. Let's put it that way."

Sharland, who was also pulling double duty as a serving OPP chief superintendent during the time he worked as the head of OLG's security, told CBC News he couldn't recall the conversation.

"All the time that I was either at the AGCO [Alcohol and Gaming Commission of Ontario] or OLG, we always co-operated fully with any outside police agencies," he said.

Peel says he doesn't know the extent of money laundering in the province's casinos, but says the loophole shows the potential for greater problems.

"I would hope it was an isolated incident. I doubt it. I'm sure many other criminals out there know as much as Lenard Ro and are doing the same thing," said Peel.

With files from Dave Seglins

VOLUME 5 • ISSUE 3
FEBRUARY / MARCH 2006

research reveals...

an update on gambling research in ALBERTA

About The Alberta Gaming Research Institute

The Alberta Gaming Research Institute is a consortium of the Universities of Alberta, Calgary, and Lethbridge. Its primary purpose is to support and promote research into gaming and gambling in the province. The Institute's identified research domains include bio-psychological and health care, socio-cultural, economic, and government and industry policy and practice. The Institute aims to achieve international recognition in gaming-related research. It is coordinated by a Board of Directors working in collaboration with the Alberta Gaming Research Council. The Institute is funded by the Alberta government through the Alberta Lottery Fund.

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ALBERTA GAMING RESEARCH INSTITUTE

Panelists discuss the implications of Aboriginal casino gaming in Southern Alberta

by Rhys Stevens

ON NOVEMBER 4TH, 2005, a group of academics and community representatives from Southern Alberta presented their insights regarding the development of casinos on First Nation reserves at a forum entitled *Aboriginal Casinos: Who's Cashing In? Panel Presentation and Public Discussion*. The meeting was sponsored by the Royal Society of Canada in conjunction with The University of Lethbridge and was well-attended by members of the university community, City of Lethbridge delegates, First Nations leaders, and local citizens.

Aboriginal gaming is sometimes called the "new buffalo" by casino supporters.

In his opening remarks, session moderator and Lethbridge Herald Managing Editor Doyle MacKinnon noted that there are a myriad of "complex social and economic issues" embedded in the topic. He also contextualized the issue by informing the audience that the Province of Alberta is considering casino applications from seven First Nation applicants and that there could potentially be three casinos operating by the end of 2006. After summarizing the status of Aboriginal casinos in other Canadian provinces, MacKinnon introduced panel participants Dr. Yale Belanger (Department of Native American Studies, U. of Lethbridge), Dr. Rob Williams (School of Health Sciences, U. of Lethbridge), Ms. Phyllis Daychief (Lethbridge Community College) and Mr. Chris Shade (Former Chief, Blood Tribe).

Photo credit: Bernie Wirzba, CRDC, University of Lethbridge

Examining the origins of Aboriginal gaming in Canada [Belanger]

The use of Aboriginal gaming as an economic development strategy has had a somewhat turbulent history.

In his remarks, Dr. Yale Belanger set the stage for the three following presentations as he described the origins of Aboriginal gaming in Canada. Belanger's scholarly interest in casino gambling relates to how First Nations communities have attempted to employ them as an economic driver for their "nation-building" efforts. The use of gaming as an economic development strategy has had a somewhat turbulent history. The full story is related in a book that he is preparing about the history of Aboriginal gaming in Canada.

According to Belanger, the country's introduction to Aboriginal gaming can be traced back to 1984 when a Manitoba reserve held a small lottery. This watershed event was soon followed by attempts to introduce additional forms of unregulated gambling such as high-stakes bingos on reserve lands. Perhaps inevitably, such events had a short lifespan as disapproving provincial authorities conducted raids that were designed to snuff out these unlawful activities. Despite this inauspicious debut, strong lobbying efforts by the provinces themselves in the early 1990s were ultimately successful in allowing legalized First Nations gambling to emerge. By the mid-1990s, five casinos with varying levels of Aboriginal involvement were operating and producing significant economic benefits.

River Cree Resort and Casino, Enoch Reserve west of Edmonton (Nov. 2005).

Photo provided by Alana Yinn, Woodbridge Communications

Belanger noted that plans are afoot for several more Aboriginal casinos to be introduced in both Alberta and Saskatchewan. He suggested that it may be difficult to anticipate how economically successful these casinos will be as there is presently very little research on the topic.

Research themes relating to the socio-economic cost and benefits of First Nations casinos [Williams]

Dr. Rob Williams, Professor in the School of Health Sciences and the Lethbridge research coordinator for the Alberta Gaming Research Institute, outlined in his presentation an interpretation of the socio-economic costs and benefits of First Nations casinos. He began by noting that there has been a long cultural history of First Nations gambling in North America for ceremonial, religious, and recreational purposes. There has also been "a different chronology in the evolution of casinos in Canada versus the U.S." and Williams suggested that this may mean that there will possibly be different outcomes.

Based on his review of the scholarly literature on the topic, Williams commented that most U.S.-based tribes have benefited significantly from casino gaming in terms of improved education, employment,

ALBERTA GAMING RESEARCH INSTITUTE

and decreased poverty. Social costs, however, often increased with respect to number of bankruptcies and incidence of crime. Intra-generational tribal divisions were also common regarding whether casinos were desirable to use as an economic development strategy. In Canada, though the amount of published literature has been sparser, Williams suggested that the economic benefits were still evident—most particularly to the First Nations that hosted Internet gambling web sites (e.g., Kahnawake First Nation in Quebec).

The three general themes Williams identified as having emerged from research studies are: 1) that economic benefits are often offset by social costs (e.g., high rates of problem gambling); 2) that there are clear features which differentiate successful and unsuccessful casinos (e.g., local gaming monopoly, proximity to urban centres, "destination-style casinos"), and; 3) that the commercial and micro-level benefits of casinos are evident but there are few macro-level benefits (i.e., casinos do not increase revenue on their own unless revenue is generated by gaming tourists instead of by local residents).

Community gambling survey on the Blood Reserve [Daychief]

A powerful example used by Ms. Phyllis Daychief in her presentation on problem gambling on the Blood Reserve was how residents commonly referred to the bridge leading off reserve as "Bingo Bridge." Daychief is an educator with Lethbridge Community College and an active participant in the community life of the Blood Tribe. She also recently authored a summary report that describes a research project on gambling that was conducted by a women's group from the Reserve.

The gambling project included the development of a survey that was administered to a non-representative sample of several hundred people on the Blood reserve. Based on the results obtained, individuals reported spending $2,000 / year on gambling (four times the Canadian average) and 47% of survey respondents were considered to be "high-risk gamblers" (in comparison to 5% of the general Alberta population). Daychief made a recommendation in her report that members of the reserve acknowledge the community's problem with gambling and that they "take a stand" to deal with it. She ended with the hopeful observation that a "grassroots" women's movement has developed that seeks to minimize the negative social aspects associated with problem gambling.

Determining the viability of a Blood Tribe casino [Shade]

The Blood Tribe was one of the earliest First Nations to lobby the Alberta government to establish a policy on First Nation gaming. As former Chief of the Blood Tribe, panelist Mr. Chris Shade provided his unique perspective regarding the tribal administration's experiences assessing the viability of on-reserve casino gambling. Shade noted that Premier Ralph Klein was an influential supporter of "destination-style" casino development and it was under his government in 2000 that a policy was formally developed. He also pointed to a 1997 study by

Diskin receives New Investigator Award

Kate Diskin was awarded the New Investigator Award "for outstanding research on the treatment of addictive behaviors" at the 11th International Conference on Treatment of Addictive Behaviors (ICTAB-11) in Sante Fe, New Mexico. This award is particularly prestigious as it has been bestowed upon Diskin by one of the most important conferences in the field of addictions. Her Institute-funded dissertation related to the "Effects of a single session of Motivational Intervention on Problem Gambling Behavior" and was co-authored by Dr. David Hodgins. This is the second award received by Diskin for her gambling-related research. She is currently pursuing her Ph.D. in Psychology at the University of Calgary.

2006 conference program finalized

The Institute's 5th Annual Alberta Conference on Gambling Research, "Social and economic costs and benefits of gambling" will be held on Friday, April 21st and Saturday, April 22nd, 2006 at the Banff Park Lodge, Banff, Alberta. Full details, including registration information, featured speakers, and conference program are available on the Institute's website. The conference program has been approved for 12.75 credit hours by the Canadian Problem Gambling Certification Board. <http://www.abgaminginstitute.ualberta.ca/2006_conference.cfm>

the Canadian Tourism Council that the top two Albertan attractions for European travelers were to visit the Rocky Mountains and to experience Aboriginal culture.

After a pre-feasibility study showed little promise for casino gaming on the relatively remote Blood Reserve in the southwestern corner of the province, the tribe explored options to establish a casino closer to an urban centre. A Lethbridge location was ruled out because the market potential was considered only marginal. A Calgary-area location on lands purchased specifically for casino development was also nixed due to the fact that the parcel would be non-contiguous with reserve lands. Over time, the Blood Tribe slowly lost interest in casino gaming development. Shade recalled that his role ultimately became that of advocate for a policy of profit-sharing between *gaming* and *non-gaming* First Nations communities.

Shade suggested that he felt there was currently little community interest in utilizing casino gaming as an economic development strategy. In conclusion, he contended that it would be now be difficult to secure the necessary support of the local community in any such future initiative.

The panel presentation and discussion of Aboriginal casinos was part of the The Royal Society of Canada's series of university forums on "taboo topics." According to the Society, these forums were created "to provide citizens and policy-makers with a locus where thorny issues and taboo topics of national concern can be critically examined, discussed, clarified and summarized, and become a public resource." Additional information about the panel discussion is available from the Society's web site <http://www.rsc.ca/>

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Congress Needs to Think Twice Before Banning Internet Gaming | Commentary

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** CQ News **

* Congress Needs to Think Twice Before Banning Internet **Gaming** | Commentary * Congress should tread extremely carefully before it even thinks about banning lawful activity on the Internet.

Congress is being pressed for a sweeping ban on Internet **gaming**. Whether you gamble or not -- and whether you participate in Internet games or not -- it is clear that the prohibition of Internet **gaming** is a bad idea for Americans.

There are many reasons why Congress should not ban Internet **gaming**, but three in particular stand out:

It would block common-sense consumer and online protections for the most vulnerable, including minors.

It would trample on state and individual rights.

It would put Congress in the position of banning technological innovations the public has already widely embraced.

First, a ban would allow an unsafe black market for Internet **gaming** to continue to thrive. By missing the opportunity to regulate a lawful market, Congress would be denying common-sense consumer protections for the estimated 1 million Americans that spend nearly $3 billion every year on illegal and unregulated **gaming** sites that lack important protections such as age verification and geolocation.

Modern technologies exist to block minors from playing, protect those with addictions and ensure games are fair. These technologies have already worked to protect consumers in Europe, **Canada** and the United States; where New Jersey, Delaware and Nevada are already implementing programs for responsible Internet **gaming**. Unlike the billion-dollar black market, these programs provide real consumer protections. A congressional ban on online **gaming** would ensure that millions of Americans are denied these very protections.

Not only do these black-market websites lack consumer protections, but the FBI and other law enforcement professionals say they present a serious risk for **money laundering**, identity theft and other criminal enterprises, including potential terrorism. Under a congressional ban, that billion-dollar black market for Internet **gaming** would continue to thrive, with no protections, no oversight and no regulation.

Furthermore, a congressional ban would prevent regulated Internet **gaming** programs from generating millions in revenue for local priorities such as schools, transportation or public health. It's no surprise that states including California, Pennsylvania and New York are considering their own programs for responsible and regulated Internet **gaming**.

In addition to the states that currently permit Internet **gaming**, there are state lotteries across the nation offering

online options in an effort to meet consumer demand. A congressional ban would stop them in their tracks, cutting off critical sources of state revenue.

Third, a ban would put Congress in the unenviable position of trying to legislate away specific activity on the Internet and popular technological advancements that the public has widely embraced.

Businesses cannot pretend the Internet and online demand do not exist. One need not look further than film, television and music to see that industries must evolve and keep pace with technological advances, or consumers will simply leave them behind. Even major retailers like Blockbuster, Tower Records and Borders learned hard lessons by not embracing online technologies, sending each into bankruptcy.

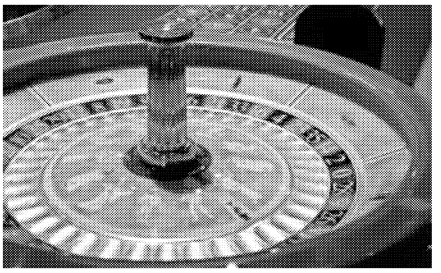
The lesson here is that it is impossible to stand in the way of the Internet; rather, we should embrace and shape these new technologies in ways that are safe for consumers. There is no question whether Americans are **gaming** online. More than a million are. Instead of trying to put the Internet back in a bottle, and ignoring technological and consumer demand, Congress should be focused on making it safe for all Americans.

The effort to ban Internet **gaming** is misguided but it also may draw attention to the real issue: How do we break up the billion-dollar black market to ensure consumer and online protections are in place for the millions of Americans who choose to play games online?

Mary Bono, a U.S. congresswoman from 1998 to 2013, was a member of the House Energy and Commerce Subcommittee on Communications and Technology.

Why bitcoin has a firm foothold in the online gambling world

Daniel Cawrey (@danielcawrey) | Published on August 18, 2013 at 13:58 GMT |Analysis, Bitcoin Gambling, Companies



When it comes to online gambling versus traditional bricks-and-mortar casinos, the internet has the upper hand. Online casinos don't have to hire a bunch of employees, build fancy edifices or wow gamblers with marketing tactics to bring them in.

On the other hand, internet gambling in the United States operates in a grey legal area. Online casino operators get away with it by hosting their sites outside of US borders in places like Costa Rica. It's a profitable business to be in: according to the American Gaming Association, online gaming is a $4-6 billion market. That's precisely why we're seeing an entire industry crop up around bitcoin gambling.

SatoshiDice

No article on gambling and bitcoins would be complete without mention of SatoshiDice. Recently sold for $11.5 million in BTC at the market price for bitcoins at the time, the site was able to avoid the ire of US regulators by blocking American IP addresses from gambling on its site. Yet anyone who was familiar with sending BTC directly to SatoshiDice's bitcoin address or using a VPN to access the site was able to circumvent this.

Unlike some online gambling sites, SatoshiDice shows a listing of gaming transactions. Source:SatoshiDice

It's still unclear who actually bought SatoshiDice. It's another mystery in a long line of bitcoin enigmas back to, well, Satoshi himself. But SatoshiDice has been a catalyst for bitcoin-based gambling it seems, with many SatoshiDice competitors having sprung up since its launch. The reality is that all it takes is some web programming skills and an understanding of bitcoin to be able to set up a BTC-denominated gambling site.

Bitcoins as chips?

When the conventional gambler walks onto a casino floor to play table games, that person has to convert their money into chips in order to play. This element of traditional casinos is a mental component that is likely constructed to make a gambler spend more since chips bear less resemblance to cash. One would think, considering the rise of bitcoin-based gambling, that the same element is in play as well.

It's possible that bitcoin is much more versatile as a method of gambling than that of a traditional casino's usage of chips.

Source: Flickr

Kevin Meehan, one of the proprietors of bitcoin gambling site BitSaloon, sees the similarities with chips. Yet he believes that bitcoins are much more versatile as a unit of wager. "Bitcoins already act like the chips/credits you see on other sites, but inherently have more value since they can immediately be taken off of a wallet on a gambling site and used at places like WordPress, Reddit or other vendors accepting BTC."

Transparency

What's interesting in bitcoin-based gambling sites is how many of them are possibly more transparent than traditional casinos or other online sites. That's because with the block chain being a public ledger, all that an inquisitive gambler would need to do is follow the transactions from a site's bitcoin address. It's no wonder, then, that sites like SatoshiDice show the latest plays being transacted on the site (see above) and claim to be "provably trustworthy". But what

does that actually mean?

BitSaloon's random number generator uses a key combined with a hash to ensure there is no manipulation of odds.

Source: BitSaloon

In addition, some sites even publish how they implement their random number generator. BitSaloon, for example, defines itself as a "provably fair casino" meaning that the site operators cannot modify the outcome of any particular game. This is done by using a secret key for each day, which you can then hash with SHA265. This method means that the site's generator is used uniquely each time, although it's still unknown exactly how that generator calculates its numbers.

Money laundering

But money laundering has in the past found ways to use casinos to create clean money. In April of this year, 34 people and 24 companies wereindicted in connection with a company called Legends Sports. The online sports betting company was allegedly involved in "racketeering, money laundering and illegal gambling." Bitcoin is getting a good deal of scrutiny because authorities view it as a potentially good way to clean illicit money.

GAME TYPE	STARTED	FINISHED	PAY TX	BLOCK	WINNER	COMPLETE	POT
Pick 4	2013-05-09 01:20:37	2013-08-01 01:01:24	7e6d5775	249532	8469	0.0%	0.22770000
Pick 3	2013-05-23 06:33:05	2013-07-22 02:14:01	b81a2890	247851	906	0.7%	0.29700000
Pick 2	2013-04-28 10:32:37	2013-07-21 16:07:00	fc005eb9	247763	ed	2.3%	0.29700000
nelisky	2013-04-04 14:19:27	2013-06-30 06:59:31	d7b939fd	244043	dee8	0.1%	0.54450000
Pick 5	2013-02-14 16:22:06	2013-05-29 23:23:57	480c68c3	361594	77472	0.0%	415.80000000
Pick 3	2013-04-14 10:37:14	2013-05-23 06:33:05	586acad2	237472	783	0.7%	0.29700000
Pick 4	2013-03-12 21:00:22	2013-05-09 01:20:37	ad34dfc6	235234	7101	0.2%	1.09890000
Pick 2	2013-04-14 11:24:33	2013-04-28 10:32:36	8f667d1e	233556	8a	6.6%	0.84150000
Pick 2	2013-03-21 04:37:33	2013-04-14 11:24:33	ed53f2e3	231294	49	5.9%	0.74250000
Pick 3	2013-03-21 06:28:32	2013-04-14 10:37:13	3a641781	231286	a06	2.7%	1.08900000

The Amazing Anonymous Bitcoin Lottery publishes the results of previous games, but the operators of the site wish to remain unknown. Source: TAABL

Similar to the Liberty Reserve case, criminals can put fiat into the system. Then they can trade it around and split it up between bitcoin addresses in a method known as "mixing" to hide the original source. It's possible to trace, but this method makes it harder to follow. Bitcoin gambling could be another layer on top of this, which means regulators will look at bitcoin gambling

operators with a good deal of scrutiny. This is especially true for any bitcoin gambling sites that are operating anonymously, such as the Amazing Anonymous Bitcoin Lottery.

The future of bitcoin gambling

BitBet offers wagers related to all sorts of events, including the future of bitcoin. Source: Bitbet

The concept of bitcoins is still new. The idea of bitcoins and gambling is even newer. "My personal take on it is that people don't view it as real money yet", says Justin Pincar, from BitSaloon. But people seem to enjoy gambling it away. "We have seen people raise their bets based on the amount of time they've spent on the site, which makes sense, as they're building trust that we're legit."

As people find bitcoin more appealing as a currency, they will inevitably find ways to utilize it just like fiat. Gambling is just another aspect of bitcoin legitimizing itself as a real unit of value. Yet this aspect of it will bring more scrutiny to bitcoin from regulators. Online gambling, at least in the US, is something that a lot of people do. It appears that some BTC gambling sites are trying to be fair and focus on their legitimacy. If these sites are located outside of the reach of US regulators, what can really be done? The internet itself is decentralized. So is bitcoin.

What do you think about gambling with bitcoins? Does it need transparency, or is it alright for bitcoin gambling sites to operate anonymously? Let us know in the comments.

South China Morning Post 南華早報

Lurid testimony undermines triad chief's battle to stay in Canada

Saturday, 02 March, 2013, 12:00am
News › World CANADA

Ian Young in Vancouver

Immigration hearing hears Lai Tong Sang ordered murder of Macau's 'Broken Tooth'

Triad leader Lai Tong Sang faces an uphill battle to retain Canadian residency after three days of incriminating testimony at an immigration hearing this week.

It included claims that he ordered the murder of arch-rival "Broken Tooth" Wan Kuok-koi and a top lieutenant.

Immigration officer Jean-Paul Delisle told the hearing in Vancouver that Macau police had told him in 1997 that Lai ordered the killings. The order to kill Wan was not carried out but the hit against senior 14K gangster Shek Wing-cheong was, on May 4, 1997.

Shek and two underlings died when their moving car was surrounded by men on mopeds who riddled it with bullets in broad daylight.

The killing of Shek, a corrupt former Hong Kong policeman and Wan's bodyguard, triggered a dramatic escalation in the 1996-1998 war between Wan's 14K triad and the Wo On Lok gang, said to have been headed by Lai, as they battled for control of the casino junket market.

Wan was released from prison in December after nearly 14 years behind bars.

Delisle's testimony at the deportation hearing is believed to be the first sworn account of Lai's alleged involvement in Shek's killing.

Delisle, the Canadian visa officer in Hong Kong who handled Lai's initial application for permanent Canadian residency in 1994, referred to Shek by his nom de guerre, "Man Cheong".

Delisle was challenged by Lai's lawyer, Peter Chapman, that he was "overstating" the account Macau police had provided of his client's involvement in ordering the killings.

"I do stand by the comment I made about Lai Tong Sang personally ordering the contract," Delisle said, according to the Canadian Press. Delisle said Lai also ordered the murder of another 14K gangster whose identity was not clear.

The immigration review also heard testimony from gang expert Detective James Fisher that the triads were a "blight on society". On Tuesday, the hearing heard from Superintendent Patrick Fogarty, who headed a Canadian wiretapping operation that revealed how Wan's 14K plotted to kill Lai in Vancouver.

> I do stand by the comment I made about Lai Tong Sang personally ordering the contract

The Canadian government is seeking to have Lai's permanent residency revoked on the grounds that he had concealed his membership of a criminal organisation. It is seeking to have his wife, and adult son and two daughters, expelled on the grounds that they had achieved permanent residency on the basis of misrepresentation.

A ruling by immigration board member Geoff Rempel is not expected until July.

Delisle said he handled Lai's initial application for Canadian residency via the Hong Kong consulate under a foreign investment scheme.

Lai withdrew the application amid Delisle's suspicion that he was a triad.

But two years later Lai successfully reapplied through the Los Angeles consulate.

Delisle, who had special responsibility in Hong Kong for dealing with the visa applications of suspected triads, was not informed, and Lai and his family assumed Canadian residency in October 1996.

The blunder was soon revealed in dramatic fashion, when gunmen sprayed Lai's luxury Vancouver home with bullets in July 1997.

Delisle testified that he quickly faxed his bosses an affidavit describing a Macau police unit's account of Lai's involvement in ordering contract killings.

According to the news agency Canadian Press, Delisle said had he been asked by the Los Angeles consulate, he would have told them they were dealing with "a major triad head". It was not clear why it took 16 years for the case to reach a hearing.

Lai, who has not been photographed in public for 15 years, was granted permission join in the hearing via teleconference from Macau, where he is understood to divide his time.

South China Morning Post 南華早報

Carson Yeung jailed for six years after tip-off triggered money-laundering probe

Friday, 07 March, 2014, 12:09pm
News › Hong Kong COURTS

Austin Chiu austin.chiu@scmp.com

A tip-off to police started chain of inquiry that ends in six-year jail term for former hairdresser

An anonymous letter of complaint written in English triggered the investigation that ended with one-time high-flyer Carson Yeung Ka-sing behind bars yesterday.

Police disclosed this as the hairdresser-turned-businessman and owner of English soccer club Birmingham City started a six-year jail term for money-laundering.

Speaking outside District Court, Superintendent Gloria Yu said the letter was received in 2008 - some time after Yeung acquired a 29.9 per cent stake in the club but before he took full control of it in 2009.

JUDGE DOUGLAS YAU

"The law will come down on them with full force"

"We did not start the investigation because Mr Yeung bought the football club," Yu said. "Whether or not the complainant made the report because Mr Yeung bought the shares, you have to ask the complainant."

A source close to the defence team said there would "almost certainly" be an appeal.

Yeung was convicted on Monday of five charges of laundering HK$721 million using five bank accounts at Wing Lung Bank and HSBC between 2001 and 2007. He has 28 days to file an appeal.

The court heard earlier that from 2001, various parties made deposits into the accounts, many for no apparent reason. Some were made by securities firms and a Macau casino, while others were made by unknown parties. Some 437 deposits, totalling more than HK$97 million, were made in cash.

"I find that without his considerable skill in share dealings and connections to the Macau casinos, the laundering could not have gone on for such a long time and on such a large scale," Judge Douglas Yau Tak-hong said in sentencing Yeung. "Maintaining the integrity of the banking system is

of paramount importance if Hong Kong is to remain an international finance centre."

The judge said the six-year prison term was meant to serve as a deterrent and signal to those who exploited the system that "the law will come down on them with full force".

The judge also remarked that deposits made by apparently innocent individuals into Yeung's accounts were "all somewhat connected" to Lin Cheuk-fung and Cheung Chi-tai, who were said by Yeung to be two bosses of casino junket company Neptune Group. The court heard that Cheung was reported by the media to be a local triad gang leader.

Yu said police would examine the judge's remarks carefully to decide whether there was a need to investigate the "possibilities" he had raised.

The prosecution will apply on April 3 to confiscate some of Yeung's assets, about HK$400 million of which have been frozen by a court injunction.

Yeung took over Birmingham City for HK$731 million in 2009 and was arrested in June 2011. He quit all his posts in the club's holding company last month.

How China's Filthy Rich Use Macau To Launder Their Money

Mamta Badkar
Nov. 11, 2013, 2:51 PM

REUTERS/Bobby Yip

A stunning $202 billion in "ill-gotten funds are channeled through Macau each year," according to The Congressional-Executive Commission on China Annual Report 2013.

Diplomatic cables released by Wikileaks claimed that the casino and hospitality sector accounted for over 50% of Macau's GDP but that, "its phenomenal success is based on a formula that facilitates if not encourages money laundering."

And a lot of that money comes from China.

Macau casinos pulled in a record 36.5 billion patacas ($4.57 billion) in revenue in October, largely driven by Chinese visitors.

In 1999, Macau saw 800,000 mainland Chinese tourists. That figure exploded to about 12 million in 2008 and then 17 million in 2012*. In 2012, another 11 million visitors came from Hong Kong and Taiwan.

How exactly does it work?

China only allows 20,000 yuan ($3,200) to be moved out of the Mainland at a time and $50,000 a year. To circumvent that, Chinese high rollers can do one of two things. They can deposit money with junkets in the mainland and use that money in Macau, or they can borrow from junket agents.

If they choose to deposit the money, the junkets, who are basically gaming promoters, ferry money across borders. The gamblers can then use that money in Macau. Once they're done gambling they can take their winnings in U.S. funds or Hong Kong dollars and invest it in property or offshore tax havens.

These junket agents vary from sole proprietorships to publicly listed companies. They help arrange for visas and accommodations, including VIP rooms. They also collect gambling debts.

Frequently, the money that ends up here has come through illegal means, through bribes or embezzlement.

A paper from Jorge A. F. Godinho, at the University of Macau — Faculty of Law explains how junkets play a role in money laundering in Macau.

> "According to the FATF and Asia/Pacific Group on Money Laundering (APG), there are several vulnerabilities regarding promoters, including the fact that their intervention enables the creation of an additional layer which may not contribute to knowing the identity of the players and the source of funds, in addition to the fact that not all jurisdictions regulate gaming promoters and/or their representative offices.
>
> "...Gaming promoters may assist in the transfer of funds to the casinos of Macau. In the case of VIP Baccarat, the amounts involved can be very significant. Moreover, in many cases, there will be no actual transfer of funds, but rather a simple balancing of accounts between credits in mainland China and debits in Macau. This is one of the reasons why the gaming promoter sector is rather developed.
>
> "There is no doubt that this channel can also serve for the movement of funds of an illicit origin, whether coming from corruption, embezzlement of public or private entities, or any other sources. Hence the particular need for rules and procedures for the detection of illegal transfers."

REUTERS/Bobby Yip

A Grease themed slot machine in Macau

Triads

Triads, or Chinese organized crime units, "dominate the junket industry," according to Benjamin Carlson at Foreign Policy.

Since Chinese courts don't recognize or enforce payments on casino debts and since gambling is illegal in China, junkets often rely on triads to collect their debt.

Triads that operate in Macau and around the world, partake in everything from money laundering to drug and human trafficking.

Diplomatic cables released by Wikileaks that date back to 2009 explain how unregulated junkets are:

> "Although they must register and are subject to nominal regulation in Macau, these facilitator organizations allegedly work closely with organized crime groups in mainland China to identify customers and collect debts. Junket operators work directly with Macau casinos to buy gaming chips at discounted rates, allowing players to avoid identification.
>
> "Know-your-customer (KYC) and record-keeping requirements are significantly looser than in other international gaming venues. Government efforts to regulate junket operators in Macau have been aimed at limiting competition, rather than combating illicit activities.
>
> "Oversight of both casinos and junket operators is limited and remains a serious weakness in Macau's AML regime. Periodic tightening of Chinese Individual Visitor Scheme

permit requirements may reflect Chinese government concern about corrupt officials laundering money in Macau."

Another way illicit money finds its way to Macau's casinos is through pawn shops. Visitors buy goods from a pawn shops with a debit card and then sell it back for cash.

Cracking Down

Since the Chinese handover late last year, Beijing has been cracking down on corruption which has included efforts to regulate the gambling industry. In December, some junket operators were arrested.

Last year, Senator John McCain raised concerns about illicit money from Macau making its way into the American political sphere by pointing out that CEO of Las Vegas Sands Corporation, Sheldon Adelson, got his profits from Macau.

Macau is considering implementing a cross-border cash declaration system to restrict money laundering, though no specifics were unveiled.

A real crackdown on money laundering seems to still be a ways away.

**The article was corrected to show that mainland Chinese tourists increased to 17 million in 2012, not 17 billion.*

Junkets 'encourage money laundering': Wiki cables

29/08/2011 21:11:00 Vítor Quintã

'Oversight of both casinos and junket operators is limited and remains a serious weakness,' according to leaked US diplomatic cables

The local gaming sector's dependence on VIP gaming operators, known as junkets, is "a formula that facilitates if not encourages money laundering," according to leaked US diplomatic cables.

A cable titled 'The Macau SAR economy at 10: Even jackpots have consequences' says "oversights of both casinos and junket operators is limited and remains a serious weakness in Macau's AML [Anti-Money Laundering] regime".

Junkets work with local casinos and independently run VIP rooms that accounts for more than half of Macau's gaming revenue, "allowing players to avoid identification," says the document released last week by whistle-blower website WikiLeaks.

"Know-your-customer and record-keeping requirements are significantly looser than in other international gaming venues," the document signed December 2009 states.

The cable was sent from the Consulate General of the US in Hong Kong to the US Department of State. It acknowledges that junkets "must register and are subject to nominal regulation in Macau".

But "Government efforts to regulate junket operators in Macau have been aimed at limiting competition, rather than combating illicit activities," the document stresses.

Junkets "allegedly work closely with organised crime groups in mainland China to identify customers and collect debts," the consulate added.

In 2009 Beijing's tighter policy on visas for Macau slowed visitor arrivals, in what was seen as an attempt to cool down gaming growth.

But the cable claims "periodic tightening of Chinese Individual Visitor Scheme permit requirements may reflect Chinese government concern about corrupt officials laundering money in Macau".

The MSAR Government spokesperson office declined to make any comments.

Corruption woes

"The dream to get rich quick, the huge flows of cash, and the attraction of high-paying jobs in the growing casino sector continues to challenge the

'Periodic tightening of Chinese Individual Visitor Scheme permit requirements may reflect Chinese government concern about

MSAR's ability to combat corruption and illicit financial activity," the document warns.

corrupt officials laundering money in Macau'

Under the subtitle 'Macau Laundry Service' the cable says "massive flows of money and relatively weak controls over financial transactions make Macau a target for those seeking to launder illicit funds".

"Despite rapid progress, particularly with regard to regulation and oversight of Macau's financial sector, weaknesses remain," the US Consulate wrote.

The cable mentions the case of Banco Delta Asia, which was "a useful tool for the North Korean regime to transfer funds related to illicit trade".

The bank is forbidden from doing business with US financial institutions, which effectively prevented it from conducting any foreign currency transaction.

The 2009 cable also recalls the conviction of former secretary for Transport and Public Works, Ao Man Long, to a 28-year prison sentence for corruption and money laundering.

"While applauding the investigation and conviction of Ao, critic's charge that he could not have engaged in corrupt practices for so long without the knowledge of other senior Macau officials," the US Consulate stressed.

The document adds that, following Ao's arrest, "approvals for new construction projects stalled as Macau officials took extra care to avoid the appearance of impropriety" – a view shared by local businessmen, executives and lawmakers.

"Macau's explosive economic growth, a public outreach campaign to encourage reporting, and increased CCAC [Commission against Corruption] resources have led to significant increases of corruption cases in recent years," another cable signed January 2010 says.

Labour tensions

The gaming boom has "fundamentally altered the nature of Macau's economy, bringing increased prosperity but also (...) increasing social tensions," the cable says.

'Many industry observers believe one or more foreign producers of copyrighted content must file lawsuits in Macau to force the antenna companies out of business'

On the one hand the strict quota system that forces companies to hire local workers has increased wages.

"Rising demand for casino workers, however, has led to criticism that Macau's youth are forgoing higher education and training to make easy money as card dealers and croupiers," the US Consulate wrote.

On the other hand "the influx of foreign labour since 2004 has increased social tensions and protests against illegal and foreign workers," the document adds.

"Concerns that foreign labour will supplant local Macanese workers makes labour and immigration policy a sensitive political issue," another cable signed January 2010 says.

The Law for the Employment of Non-Resident Workers, which came into effect on April 2010, requires imported labour to leave the territory for six months before applying for a new work permit with a different employer.

This law would "severely restrict workers' ability to change employers," an October 2009 cable warned.

But four lawmakers said the bill would not sufficiently protect Macau resident worker rights and called for specific caps on imported labour.

"They also stated that real estate developers should receive stiffer punishment for the illegal workers employed by local contractors," the document adds.
"If enacted, such a provision would impact US gaming companies that might occasionally employ local contractors and thousands of migrant workers to complete the various construction projects around Macau," the US Consulate warned.
A December 2009 cable also pans the government's strategy for economic diversification.
"Macau interlocutors note that with limited land, a small labour force, and huge returns on property and gaming investments, there is little incentive for investors to look at more difficult and less lucrative investments in other industries," the document says.
The development of Hengqin Island should "lessen pressure on Macau to diversify its economy within its own borders," the US Consulate wrote.

Antenna piracy

The leaked US diplomatic cables also mention the long-lasting conflict between public antenna companies and Macau Cable TV.
"Piracy of television signals (and much US-origin program content) is rampant," a January 2010 cable says. "The Consulate General continues to raise these issues with Macau officials."
A March 2009 cable had already criticised authorities' "inability to resolve this issue," despite acknowledging that "Macau's outdated copyright law makes it difficult for law enforcement to act against software piracy and control digital/internet IPR infringement".

A new copyright law has remained frozen at the Legislative Assembly since February with lawmakers still waiting for a new version of the draft law.
Last month the Court of Second Instance rejected an injunction filed by Macau Cable TV, even though it acknowledged that "the illegal activity" of public antenna companies was causing financial losses to the concessionaire.
"Many industry observers believe one or more foreign producers of copyrighted content must file lawsuits in Macau to force the antenna companies out of business - or at least disable their ability to sell pirated signals to Macau's households," the cable says.

'Rising demand for casino workers, however, has led to criticism that Macau's youth are forgoing higher education and training to make easy money as card dealers and croupiers'

Water acting

Water conservation initiatives were launched mainly to counter criticism from Zhuhai officials and "perceptions of waste," according to a January 2010 cable, quoting MSAR officials.
While the Guangdong province was experiencing a major drought and Zhuhai was rationing water usage in 2009, the territory launched conservation initiatives such as a water fee rebate programme.
"Macau officials shared that their conservation efforts were in large part politically driven, given that Zhuhai would perceive downstream Macau as 'wasting water' if it did not implement measures," the US Consulate wrote.
Local water conservation initiatives, "although environmentally sound, were mainly announced in reaction to

complaints from Zhuhai officials," the cable emphasises.

"Officials told us these measures were primarily 'for show, to counter perceptions of waste' and that there was no urgent concern over the water supply," the document adds. The conservation efforts could "counter the perception of a wasteful and extravagant Macau".

Despite assurances from mainland China that the territory would not suffer from water supply shortages the US Consulate said the city must reduce its dependence.

"Macau still needs to invest in sea water desalination facilities to secure its long-term water supply. However, because Macau's sea water quality is 'muddy' and therefore harder to treat, the water intake port will have to be further offshore, making the project more expensive," the cable explains.

"Nonetheless, Macau officials say they are investigating it [sea water desalination] as part of a long-term option," the documents reveals.

Paying attention

Paul Willcocks on ending life in Victoria and heading to Copan Ruinas, Honduras, for a year or two, and who knows where after that. Observations on the country, the town, the people and anything else that strikes me. Click here to send me an email. willcocks@gmail.com

TUESDAY, JANUARY 11, 2011

Casino money laundering suspicious cases soar

Criminals love casinos. They're great places for loan sharking and passing counterfeit money.

And even more important for the serious crooks, casinos are the easiest place to launder money.

The CBC used freedom of information requests to learn that millions of dollars in suspicious transactions flowed through two B.C. casinos in three months last year. The casino companies told B.C. Lotteries, but no one passed the information on to police immediately.

These aren't slightly suspicious transactions. In one case, a man entered a New Westminster casino with $1.2 million worth of chips. He didn't place a bet. He just turned them in and took the money in cash.

He told staff he was boarding a flight and was concerned the money might look suspicious. So the casino gave him a letter confirming the money was a casino payout.

It's a classic money-laundering scenario. Crime - drug dealing, robbery, whatever - can produce lots of cash. Banks have to report deposits of more than $10,000 to FINTRAC, a federal agency that fights money laundering and organized crime. Even if money is broken into smaller deposits to come under the limit, a criminal might end up having to explain where all the money came from.

Instead, criminals can buy chips in casinos, cash them in and get a cheque or, in this case, cash with a letter suggesting they were winnings. The money is clean.

In another case uncovered by the CBC, a man entered a Richmond casino with a bag stuffed with $460,000 in $20 bills and bought chips. The casino reported that there was nothing suspicious in the transaction.

All told, there were 90 large transactions worth $8 million in three months.

The RCMP only learned about this after the fact. Insp. Barry Baxter, with the unit that tracks the proceeds of crime, said the police suspect money laundering. "The common person would say this stinks," he said.

Casinos also have to report large transactions to FINTRAC, the federal Financial Transactions and Reports Analysis Centre, and also report to police and the province's Gaming Policy Enforcement Branch. But the reports aren't required for 30 days; a quick first step would be to require immediate reporting to police.

Rich Coleman, the minister responsible for gambling, initially downplayed the reports. He later promised an investigation.

But none of this is surprising.

The government's Gaming Policy and Enforcement Branch 2006 annual report, for example, warned of a crime explosion at casinos, with investigations into offences like loan sharking and money laundering more than doubling in a year.

Last year, it was revealed B.C. Lotteries had been fined $670,000 under federal laws aimed at combating money laundering and terrorism financing. There were more than 1,000 infractions; in eight cases, the most basic information wasn't collected when people walked out of casinos with more than $10,000.

FINTRAC said fines are only imposed for a "persistent, chronic failure to comply with the law."

Despite the warnings, enforcement has been minimal. In 2009, the government shut down the five-year-old specialized police unit created to target gambling-related crime.

And the enforcement branch's just-released annual report for the 2009-10 fiscal year reveals that it opened 635 investigations into money laundering, loan sharking and counterfeit offences in casinos, without laying a single charge.

Again, none of this is surprising. Casinos want to make money. Coleman and B.C. Lotteries are responsible for increasing the number of gamblers in the province, the average amount each one loses and the province's take.

Cracking down on transactions that could be linked to money laundering is a threat to those goals. Casinos fear that asking for information from big gamblers could drive away some of their best customers.

The obvious, and long overdue, first step is end the inherent conflict in having one minister responsible both for promoting gambling losses and fighting crime in casinos.

Footnote: The CBC reported that reports to FINTRAC showed that while the dollar value of suspicious transactions at casinos in other provinces stayed the same or went down in the past year, they tripled in B.C.

theguardian

The gambling machines helping drug dealers 'turn dirty money clean'

Dealers talk to the Guardian about laundering drug money through fixed odds betting terminals in bookies across Britain

Randeep Ramesh, social affairs editor
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The Gambling Commission admitted in September what has long been privately acknowledged: FOBTs present a 'high inherent money laundering risk'. Photograph: Alamy

Dressed in a grey hoodie and jeans, James, 24, looks like just another lost soul in the high street, shuttling between the six betting shops in an east coast seaside town. It's a weekday morning and if you catch up with him inside a bookmaker, you'll find him peering intently into the green glowing screen of an electronic gambling machine – feeding in £200, "a score at a time".

But this is not a young gambler blowing his meagre wages. James is a drug dealer and his interest in the bookmakers – and the fixed-odds betting terminals (FOBTs) in each shop – is all about laundering money. "That's what turns dirty money clean," he says. Dealers feed their drug money through the machines, losing a little and then cashing out with the

vast majority of their stake, James says. They can then collect a printed ticket showing they have gambled that day – meaning that if stopped by police, they can answer questions about why an apparently unemployed young man carries hundreds of pounds in rolled-up cash.

The FOBTs are probably the single most profitable pieces of property in the town centre's shabby pedestrian precinct. Each machine, according to industry figures, grosses about £900 a week. The 24 FOBTs within a few minutes' walk are worth an estimated £1m a year in profits to the betting industry.

The terminals arrived in Britain in 2001 and were lightly regulated from the outset. Punters in bookmakers found that they could bet £100 every 20 seconds on roulette. The temptation of high-speed, high-stake casino games in the high street proved irresistible: there are now 33,345 FOBTs in the UK.

However, several high-profile cases have exposed a seamier side to the rise of the machines. Earlier this month the Gambling Commission, the industry regulator, fined Coral bookmakers £90,000 in profits it made from one drug dealer who had laundered almost £1m in its shops. Last month the industry regulator also publicly admitted what has long been privately acknowledged: FOBTs present a "high inherent money-laundering risk". In a letter to the industry trade association, the commission warned about "a retail betting model that includes high volumes of cash transactions, particularly where this includes low individual spend and a high level of anonymity... especially where that model also offers (FOBTs)."

What the machines provide is the chance for criminals to convert quickly large sums of money from the real world into virtual cash that can later be converted back into the real thing. There is little official research into the scale and extent of such operations. The 2005 Gambling Act, which regulates the terminals, says one of its primary objectives is "preventing gambling from being a source of crime or disorder, being associated with crime or disorder or being used to support crime".

However, it has long been obvious to the public that criminals can convert their loot into a clean win on an electronic roulette table. Surveys for the commission show that 40% of the public regularly identify gambling with criminal activity. The industry regulator found one in 14 respondents associated money laundering with gambling.

The Guardian persuaded a number of drug dealers to talk about their criminal pursuits. What was remarkable was that they saw FOBTs as both a nuisance and necessary, trapping "weaker" people into addiction while allowing the "strong" to prosper. All

exchanged tips with fellow dealers on the best ways to launder money; all were surprisingly frank about their methods.

James's strategy is simple: £20 on black, £20 on red and £2 on zero. A press of a button and the wheel spins before the ball lands on red. That's a loss of £2. The money placed on the zero is the only risk James is taking with his cash. If the ball does land on zero, he wins £72.

With no horses to run or dealer to shuffle and just the 20-second spin of an electronic roulette wheel to wait for, it takes a little over a minute for this drug dealer to cash out. James says he knows that unless he gambles at least 40% of the float money he has put in the machine, an alert will pop up on the staff computer warning them of suspicious activity. So he methodically places the same bet to make sure that he has wagered enough.

To ensure that his winnings are not an unlikely round number, he loses some more money on the one-armed bandit. Leaving the tea brought over by the shop manager to go cold, James wanders over to the counter to collect his winnings in the form of a receipt – transforming the money he made from cocaine into apparent gambling winnings. He has lost a little more than £10. "You have to make it realistic," he says. "Bookies get nervous if you come in and just lose the same amount every day. So I vary it a little."

Drug dealers say the reason fixed-odds betting terminals are used is precisely because they are so lightly policed. James is careful not to visit the same shops in a pattern. Handily there are 15 betting shops in the town within walking distance of the main bus routes that snake through the suburbs and along the Thames estuary. "Smart dealers don't drive around here. You are more likely to be stopped by police driving around late at night doing deliveries than if you are taking a bus somewhere into town."

Then there are favoured bookies. Ladbrokes, says James, is useful because you can transfer winnings in the shop to an online gaming account. In William Hill's you can ask for your winnings to be credited directly to your debit card, with the cash landing up in your bank the same day. "Look at my account and I am a very successful punter," he says.

The economics of drug dealing make it cost-effective to pay 5% to 10% to betting shops to launder the illicit profits. James claims to have "about 100K" in his bank account. He sells about 56g (2oz) of ordinary cocaine a week and another 28g of a purer, more expensive version. "Normal customers like teachers, doctors they get the ordinary stuff.

The cleaner gear is for the City boys."

Selling cocaine in 0.8g wraps, James, a dealer, says he turns over about £5,500 of drugs – of which half is profit. Photograph: Andy Rain/EPA

James left school at 16 and worked in shops and restaurants before ending up in the City of London. "That's where I saw people using coke and I was asked if I could get some. I knew some people and I did. Never looked back. How long would it have taken to save £100,000 if I just continued doing admin in a bank?"

Selling cocaine in 0.8g wraps, in a week James turns over about £5,500 of drugs, of which half is profit. "I buy it on tick so you end up carrying a lot of money around. The trade is run by Albanians around here, so it's best to have cash ready if you need to pay it back in a hurry."

Almost all his money is laundered via FOBTs. James calculates he is worth £15,000 a year to the betting industry. "Valued customer," he grins. "I'd say there were about half a dozen of us [dealers] around here using machines. We swap tips – where to go, least crowded, staff not bothered, that sort of thing. You don't want to be recognised too many times."

In opening up to the Guardian, James says there is a risk that bookmakers in the coastal town will tighten up on who enters and who leaves. "Sure, they could stop us, but in the end they want the money.We can hang back for a bit and go somewhere else. Pretty soon they will relax and welcome us all back."

Bookmakers essentially regulate themselves: deciding whether to bar problem gamblers, cal he police over violent behaviour or report crime. As the machines contributed £1.4bn to its bottom line last year, there have been suspicions that the

industry has played down the shadier side of the terminals.

Adrian Parkinson, a former regional machines manager at the Tote, now with the Campaign for Fairer Gambling, said: "Money laundering on FOBTs has been a problem since their introduction. Whether it's cleaning notes from the proceeds of crime or drug dealers legitimising profits, it is well known in the industry that it goes on.

"I raised the issue some years ago at the Tote after being swamped with incidents of money laundering following a series of armed robberies but it's still going on."

Even worse, Parkinson says, the technology is outpacing the law. He says by the end of the year, customers in Coral will be able to transfer any FOBT winnings to their online account. "The staff won't be able to intervene, whatever their suspicions. The industry is riding rough shod over the licensing objectives. Keeping crime out of gambling has to take precedent over profit."

The Association of British Bookmakers said the industry complied fully with the law. William Hill said it had "robust systems" to meet its regulatory obligations. In a statement, Ladbrokes said: "Any criminals attempting to launder large sums are placing themselves at high risk of detection as they will be on CCTV and staff are trained to spot suspicious behaviour. Given most stakes in shops are small, any large transactions are easily recognisable. Any attempt to transfer money to online accounts will require identity verification at account opening or first transactions which in conjunction with CCTV would be an excel ent source of evidence for the police."

The media have helped to cement the place of gambling in the national psyche. Advertising during televised football matches exhorts audiences to have a flutter. Electronic gambling has found a younger audience through online role-playing games such as World of Warcraft, in which players have been able to set up virtual casinos. This year the United Nations Office on Drugs and Crime warned that such games were being used by organised crime to launder cash.

Also helping to rehabilitate gambling is a new range of interactive TV programming. Late-night shows such as ITV's Jackpot247 – in which television viewers place bets online or over the phone, playing along to a live presenter-hosted roulette show – repolish gambling's image by treating electronic betting as a form of mainstream entertainment.

This shift in the marketing of electronic gambling has taken place as suspicions emerge that the industry has been targeting poor people. Last December, in a paper for the Journal of Gambling Studies, Heather Wardle, a former project director of the British

Gambling Prevalence Survey, warned that gambling machines were more likely to be found in areas of high socioeconomic deprivation. Earlier this year, the Guardian revealed that in the 50 parliamentary constituencies with the highest numbers of unemployed people, punters visited 1,251 betting shops and wagered an astonishing £5.6bn through 4,454 fixed-odds betting terminals.

Salford has 72 people chasing each vacancy. It was the only part of Greater Manchester which last year recorded a rise in numbers on jobseeker's allowance. Photograph: Christopher Thomond for the Guardian

The presence of these machines appears to have a distorting effect on these moribund local economies. In a pub near Salford's Duchy estate, close to where rioting took place in 2011, two young men nursed pints of soft drink and explained how a vortex of soft drug sales, payday lenders and betting shops kept the local economy afloat. Salford has 72 people chasing each vacancy. It was the only part of Greater Manchester which last year recorded a rise in numbers on jobseeker's allowance (JSA).

Unemployed Jake, 28, sells marijuana on the local streets and smokes some of the profit. He recoups any losses by gambling and taking out loans at payday lenders. He points out the brown shopping arcade in Salford lined with bookmakers and loan companies. "It's the only thriving industry around here," he says.

"There are six bookmakers, one more is on its way, and five loan shops. Even if you are on JSA you can borrow money from Speedy Cash. It's the main business around here.Take dole, turn it into weed, sell them, take your profits and put them into the machines. If you win, you are quids in. If you lose, you get cash from the money shops to cover your losses. Back to dole and buying drugs. There's nothing else around here to do."

The drug dealer admits that he is "a bit" addicted to gambling, comparing the thrill of betting on the electronic spin of a roulette wheel to the rapid highs and lows of drugs. "You get a buzz. Which is why you might lose £16 or £1,600 and not notice until it's too late. I've done both."

The spread of betting shops in this part of the north-west is astonishing. Manchester city centre has 26. A few miles away in deprived Cheetham Hill, dubbed the "Bronx of Britain" for gang violence, there are four bookies in the high street, with another scheduled.Such bunching could be linked to the fact that bookmakers are limited to four machines a shop. As the machines are hugely lucrative the betting industry has bypassed the restriction by opening branches in high streets – "clustering" in poorer areas.

A betting shop manager in Greater Manchester, who agreed to be interviewed anonymously, said the FOBTs in Cheetham Hill easily earned £10,000 a week, four times the over-the-counter trade, and that local mobsters gambled heavily. "We get punters who lose big time on the FOBTs, punch them, chuck them to the ground. Smash them. We tell staff to play it cool. Don't cal police. We don't want to arouse suspicions. It's madness. We employ young mothers in those shops.

"You have people laundering money every day with cash from robberies and drugs. Do you know that dyed notes from bank robberies can be submitted to the Bank of England and the company gets reimbursed? Staff know what pays their wages. They stay quiet."

Some names have been changed.

Financial Crime Asia

compliance, regulation, blatant abuses, dirty dealings and innovations

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Are Chinese laundries thriving in casinos?

According to a story (http://compliancex.com/how-chinese-company-laundered-millions-using-las-vegas-slot-machines/) in the Compliance Exchange, Chinese launderers are making use of Las Vegas casinos (http://en.wikipedia.org/wiki/Casino), in particular slot machines, to clean the proceeds of crime. The filthy lucre in question is US (http://maps.google.com/maps?ll=38.8833333333,-77.0166666667&spn=10.0,10.0&q=38.8833333333,-77.0166666667(United%20States)&t=h)$670m in funds missing from the IPO (http://en.wikipedia.org/wiki/Initial_public_offering) of a former NASDAQ (http://www.nasdaq.com/) listed Chinese (http://en.wikipedia.org/wiki/Chinese_language) company.

Details on this alleged laundry are scant, so far, but laundering through casinos is a familiar cycle to the anyone with a pile of cash to clean.

Casino clearance

As cash rich enterprises, casinos are highly attractive to organised criminals or tax evaders who want to tie their funds to a legitimate source. The Mob built Las Vegas in the 1940s expressly to clean and hide the proceeds of crime. Although global anti-money laundering standards have concentrated efforts in the past five years on stemming the flow of dirty money through casinos, the gambling business remains high risk. Raising staff and company awareness, generating a culture of compliance business and implementing a minimum level of training for casino staff can help to eradicate – or at least reduce – the impact of some of the tried and tested money laundering methods.

In 2009 the Asia-Pacific Group on Money Laundering published a report on money laundering via casinos. The common methods used below can be identified easily if the casino staff are encouraged and trained to identify suspicious transactions.

The cheque method - A casino client exchanges cash for chips gambles away a small amount and returns the chips to the cashier. The cashier provides him with a cheque from the casino for the value of the chips. The client then presents the cheque to a bank.

Enhanced due diligence processes in place at both casinos and banks should mean both large sums of money and cheques (http://en.wikipedia.org/wiki/Cheque) for large amounts from casinos should be the subject of enhanced scrutiny. However, the gambling business is geared towards attracting 'high-rollers' who play with vast sums in casinos. Spending levels that may constitute unusual or suspicious in most businesses is 'normal' behaviour in casinos.

Value tampering – the purchase of chips from 'clean' players at a higher price – Money launderers (http://en.wikipedia.org/wiki/Money_laundering) may purchase chips from other money launderers or un-associated casino patrons with 'clean' backgrounds. This is done at a price greater than the chips' face value.

Combining winnings and cash into casino cheques – although few jurisdictions allow this, money launderers seek to add cash to casino winnings and then exchange the combined cash and winnings for a single cheque.

As any anti-money laundering veteran will attest, the criminally minded are always one step ahead of the law enforcers and standard setters. *Financial Crime Asia* would like to hear from AML (http://en.wikipedia.org/wiki/Acute_myeloid_leukemia) officers in casinos who have identified suspected money laundering. All stories and reports will be treated confidentially.

Grant Thornton

Reporting Entity Sector Profiles: Finanical Entities Appendices

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Appendix A: Industry statistics and reporting entity data

Industry statistics and reporting data

Financial institutions industry SIC codes

Code	Description
6021	National commercial banks
6022	State commercial banks
6029	Commercial banks, not elsewhere classified
6081	Branches and agencies of foreign banks
6082	Foreign trade and international banking institutions
6091	Non-depository trust facilities
6099	Functions related to depository banking, not elsewhere classified
6712	Offices of bank holding companies

Financial institutions industry NAICS codes

Code	Description
52111	Monetary authorities - central bank
5221	Depository credit intermediation
52211	Banking
522111	Personal and commercial banking industry
522112	Corporate and institutional banking industry
52213	Local credit unions
52219	Other depository credit intermediation
5222	Non-depository credit intermediation
52221	Credit card issuing
52222	Sales financing
52229	Other non-depository credit intermediation
522291	Consumer lending
522299	All other non-depository credit intermediation
5223	Activities related to credit intermediation
52231	Mortgage and non-mortgage loan brokers
52232	Financial transactions processing, reserve and clearing house activities

Code	Description
522321	Central credit unions
522329	Other financial transactions processing and clearing house activities
52239	Other activities related to credit intermediation

Using NAICs codes, searches for statistical data on the Financial Entities sector were carried out on Industry Canada's Canadian Industry Statistics (CIS) site.

Monetary authorities - Central Bank (NAICS 52111)

Number of establishments in Canada by type and region: December 2012
Monetary Authorities - Central Bank (NAICS 52111)

Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	1	0	1	11.1%
British Columbia	1	0	1	11.1%
Manitoba	1	0	1	11.1%
New Brunswick	1	0	1	11.1%
Newfoundland and Labrador	0	0	0	0.0%
Northwest Territories	0	0	0	0.0%
Nova Scotia	1	0	1	11.1%
Nunavut	0	0	0	0.0%
Ontario	1	1	2	22.2%
Prince Edward Island	0	0	0	0.0%
Quebec	1	0	1	11.1%
Saskatchewan	1	0	1	11.1%
Yukon Territory	0	0	0	0.0%
CANADA	8	1	9	100%
Percent Distribution	88.9%	11.1%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Monetary Authorities - Central Bank (NAICS52111)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	0	1	0	0
British Columbia	0	1	0	0
Manitoba	0	1	0	0
New Brunswick	0	1	0	0
Newfoundland and Labrador	0	0	0	0
Northwest Territories	0	0	0	0
Nova Scotia	0	1	0	0
Nunavut	0	0	0	0
Ontario	0	0	0	1
Prince Edward Island	0	0	0	0
Quebec	0	0	1	0
Saskatchewan	0	1	0	0
Yukon Territory	0	0	0	0
CANADA	0	6	1	1
Percent Distribution	0.0%	75.0%	12.5%	12.5%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Banking (NAICS 52211)

Number of establishments in Canada by type and region: December 2012 Banking (NAICS 52211)				
Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	315	10	325	9.0%
British Columbia	354	5	359	10.0%
Manitoba	119	0	119	3.3%
New Brunswick	104	1	105	2.9%
Newfoundland and Labrador	80	0	80	2.2%
Northwest Territories	5	0	5	0.1%
Nova Scotia	112	0	112	3.1%
Nunavut	0	0	0	0.0%
Ontario	1,351	37	1,388	38.6%
Prince Edward Island	14	1	15	0.4%
Quebec	946	14	960	26.7%
Saskatchewan	128	0	128	3.6%
Yukon Territory	4	0	4	0.1%
CANADA	3,532	68	3,600	100%
Percent Distribution	98.1%	1.9%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Banking (NAICS52211)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	22	289	1	3
British Columbia	21	324	5	4
Manitoba	3	113	0	3
New Brunswick	1	100	0	3
Newfoundland and Labrador	0	78	1	1
Northwest Territories	0	4	1	0
Nova Scotia	2	108	0	2
Nunavut	0	0	0	0
Ontario	56	1,259	21	15
Prince Edward Island	0	13	1	0
Quebec	39	892	5	10
Saskatchewan	8	115	2	3
Yukon Territory	0	4	0	0
CANADA	152	3,299	37	44
Percent Distribution	4.3%	93.4%	1.0%	1.2%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Personal and commercial banking industry (NAICS 522111)

Number of establishments in Canada by type and region: December 2012 Personal and Commercial Banking Industry (NAICS 522111)				
Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	312	9	321	9.1%
British Columbia	346	5	351	9.9%
Manitoba	119	0	119	3.4%
New Brunswick	104	1	105	3.0%
Newfoundland and Labrador	80	0	80	2.3%
Northwest Territories	5	0	5	0.1%
Nova Scotia	112	0	112	3.2%
Nunavut	0	0	0	0.0%
Ontario	1,330	27	1,357	38.3%
Prince Edward Island	14	1	15	0.4%
Quebec	936	10	946	26.7%
Saskatchewan	127	0	127	3.6%
Yukon Territory	4	0	4	0.1%
CANADA	3,489	53	3,542	100%
Percent Distribution	98.5%	1.5%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Personal and Commercial Banking Industry (NAICS522111)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	22	286	1	3
British Columbia	18	320	4	4
Manitoba	3	113	0	3
New Brunswick	1	100	0	3
Newfoundland and Labrador	0	78	1	1
Northwest Territories	0	4	1	0
Nova Scotia	2	108	0	2
Nunavut	0	0	0	0
Ontario	50	1,248	17	15
Prince Edward Island	0	13	1	0
Quebec	36	886	5	9
Saskatchewan	8	114	2	3
Yukon Territory	0	4	0	0
CANADA	140	3,274	32	43
Percent Distribution	4.0%	93.8%	0.9%	1.2%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Corporate and institutional banking industry (NAICS 522112)

Number of establishments in Canada by type and region: December 2012 Corporate and Institutional Banking Industry (NAICS 522112)				
Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	3	1	4	6.9%
British Columbia	8	0	8	13.8%
Manitoba	0	0	0	0.0%
New Brunswick	0	0	0	0.0%
Newfoundland and Labrador	0	0	0	0.0%
Northwest Territories	0	0	0	0.0%
Nova Scotia	0	0	0	0.0%
Nunavut	0	0	0	0.0%
Ontario	21	10	31	53.4%
Prince Edward Island	0	0	0	0.0%
Quebec	10	4	14	24.1%
Saskatchewan	1	0	1	1.7%
Yukon Territory	0	0	0	0.0%
CANADA	43	15	58	100%
Percent Distribution	74.1%	25.9%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Corporate and Institutional Banking Industry (NAICS522112)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	0	3	0	0
British Columbia	3	4	1	0
Manitoba	0	0	0	0
New Brunswick	0	0	0	0
Newfoundland and Labrador	0	0	0	0
Northwest Territories	0	0	0	0
Nova Scotia	0	0	0	0
Nunavut	0	0	0	0
Ontario	6	11	4	0
Prince Edward Island	0	0	0	0
Quebec	3	6	0	1
Saskatchewan	0	1	0	0
Yukon Territory	0	0	0	0
CANADA	12	25	5	1
Percent Distribution	27.9%	58.1%	11.6%	2.3%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Non-depository credit intermediation (NAICS 5222)

Number of establishments in Canada by type and region: December 2012 Non-Depository Credit Intermediation (NAICS 5222)				
Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	270	639	909	13.0%
British Columbia	320	707	1,027	14.7%
Manitoba	74	140	214	3.1%
New Brunswick	50	45	95	1.4%
Newfoundland and Labrador	31	19	50	0.7%
Northwest Territories	6	5	11	0.2%
Nova Scotia	49	83	132	1.9%
Nunavut	2	2	4	0.1%
Ontario	816	2,393	3,209	45.9%
Prince Edward Island	9	10	19	0.3%
Quebec	315	844	1,159	16.6%
Saskatchewan	62	97	159	2.3%
Yukon Territory	4	4	8	0.1%
CANADA	2,008	4,988	6,996	100%
Percent Distribution	28.7%	71.3%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Non-Depository Credit Intermediation (NAICS5222)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	149	117	3	1
British Columbia	180	134	6	0
Manitoba	48	24	2	0
New Brunswick	21	29	0	0
Newfoundland and Labrador	14	17	0	0
Northwest Territories	3	3	0	0
Nova Scotia	17	31	1	0
Nunavut	1	1	0	0
Ontario	442	345	17	12
Prince Edward Island	4	5	0	0
Quebec	152	156	6	1
Saskatchewan	35	25	2	0
Yukon Territory	2	1	1	0
CANADA	1,068	888	38	14
Percent Distribution	53.2%	44.2%	1.9%	0.7%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Credit card issuing (NAICS 52221)

Number of establishments in Canada by type and region: December 2012 Credit Card Issuing (NAICS 52221)				
Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	0	2	2	5.9%
British Columbia	2	1	3	8.8%
Manitoba	0	0	0	0.0%
New Brunswick	0	1	1	2.9%
Newfoundland and Labrador	0	1	1	2.9%
Northwest Territories	0	0	0	0.0%
Nova Scotia	0	1	1	2.9%
Nunavut	0	0	0	0.0%
Ontario	10	10	20	58.8%
Prince Edward Island	0	0	0	0.0%
Quebec	4	2	6	17.6%
Saskatchewan	0	0	0	0.0%
Yukon Territory	0	0	0	0.0%
CANADA	16	18	34	100%
Percent Distribution	47.1%	52.9%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Credit Card Issuing (NAICS52221)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	0	0	0	0
British Columbia	0	1	1	0
Manitoba	0	0	0	0
New Brunswick	0	0	0	0
Newfoundland and Labrador	0	0	0	0
Northwest Territories	0	0	0	0
Nova Scotia	0	0	0	0
Nunavut	0	0	0	0
Ontario	2	5	0	3
Prince Edward Island	0	0	0	0
Quebec	2	1	1	0
Saskatchewan	0	0	0	0
Yukon Territory	0	0	0	0
CANADA	4	7	2	3
Percent Distribution	25.0%	43.8%	12.5%	18.8%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Canada bank sector values: $ billion, 2008-2012

Year	US$ Billion	% Growth
2008	3,181.4	
2009	2,853.7	(10.3%)
2010	3,082.4	8.0%
2011	3,660.2	18.7%
2012	3,847.5	5.1%
CAGR: 2008-2012		4.9%

MarketLine Industry Profile – Banks in Canada – June 2013

Canada bank sector category segmentation: $ billion, 2012

Category	2012	%
Bank credit	1,669.4	43.4%
Other assets	1,657.1	43.1%
Trading assets	331.7	8.6%
Cash assets	153.4	4.0%
Interbank Loans	35.8	0.9%
Total	3,847.4	100%

MarketLine Industry Profile – Banks in Canada – June 2013

Canada bank sector value forecast: $ billion, 2012

Category	2012	%
2012	3,847.5	5.1%
2013	4,152.1	7.9%
2014	4,522.3	8.9%
2015	4,933.7	9.1%
2016	5,350.3	8.4%
2017	5,772.1	7.9%

MarketLine Industry Profile – Banks in Canada – June 2013

Breakdown of financial entities

Financial entities	Number of entities
Banks	
- Domestic Banks	29
- Foreign Banks	24
- Foreign Bank Branches - Full Service	25
- Foreign Bank Branches - Lending	4
Credit Unions	319
Credit Union Centrals	10
Caisse Populaires	426
Financial Service cooperatives	11
Trust companies	45
Loan companies	19
Agents of the crown that accept deposit liabilities	

Sources

- OSFI (Banks, Trust companies, Loan companies)
- Credit Union Central of Canada - Q3 2013 - Credit Union/Caisse populaire System Results (Credit Unions and Caisse Populaires)
- Coops Canada - http://www.coopscanada.coop/en/about_co-operative/provincialprofiles
- Canadian Cooperative Association,Annual Report 2012-13 List of Members - March 2013, Central1 - List of Provincial Centrals & related affiliations
- Financial Services Coops - CCA -

Appendix B: Case examples and typologies

The enclosed articles have been sourced from news media databases, books and the Internet, and provide specific examples of the risk factors identified in the report.

1. Twenty-five people face charges in alleged fraud, money-laundering scheme. The Globe and Mail, July 15, 2013
2. Citigroup affiliate's troubles multiply as money-laundering subpoenas follow fraud. The New York Times, March 3, 2014
3. Awash in cash, drug cartels rely on big banks to launder profits. NPR, March 20, 2014.
4. Guatemala's ex-President pleads guilty to Miami money-laundering, March 18, 2014.
5. In hours, thieves took $45 million in A.T.M. scheme. The New York Times, May 9, 2013.
6. U.S. documents allege lapses in HSBC money laundering controls, The Vancouver Sun, May 4, 2014.
7. Bank scandals hint at problems. Kamloops Daily News, December 29, 2012.
8. Banks hide dirty laundry. Winnipeg Free Press, December 27, 2012
9. U.S. seizes $150M from Hezbollah-linked Canadian bank. The Kirkland Lake Northern News. August 24, 2012.
10. Latest example of banksterism shows why faith in capitalism is fading. Financial Post, July 13, 2012.
11. Punishment not enough to prevent banks from committing fraud. The Sudbury Star, November 2, 2013.
12. Whistleblower: HSBC still laundering money for terrorists, drug cartels. TruthstreamMedia.com. September 20, 2013.
13. Money Laundering: SSS detains staff of 13 banks over Lamido's son. This Day Live, November 16, 2013
14. NY appeals court rules to apply Israeli law in Bank of China terror financing case. The Jerusalem Post, September 20, 2013.

15. How a Canadian was charged with money laundering in sale of bitcoins. The Globe and Mail, February 12, 2014.

16. U.S. Fed warns Bank of Montreal on anti-money laundering controls. National Post. May 17, 2013.

17. 'HSBC arranged for opening of accounts abroad and withdrawal from Delhi itself. The Hindu. November 2012.

18. Tax crackdown broadens: HSBC pushed on secret bank accounts in India unit. The Wall Street Journal, April 8, 2011.

19. U.S. Banks steer clear of sensitive customers. The Wall Street Journal, January 29, 2014.

Twenty-five people face charges in alleged fraud, money-laundering scheme

Vidya Kauri
The Globe and Mail
Published Monday, Jul. 15 2013, 5:47 PM EDT
Last updated Monday, Jul. 15 2013, 5:53 PM EDT

Twenty-five people face charges in an alleged multimillion-dollar fraud and money-laundering scheme that targeted major financial institutions across the GTA.

Toronto police announced the arrest of these individuals Monday and said they are still looking for about six more suspects. The accused face a variety of charges including fraud, laundering, forging documents and obtaining credit under false pretenses.

More Related to this Story

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- SNC-Lavalin files suit against former executive, consultant
- Case against former Laval mayor put off until October

"Between March, 2011, and October, 2012, several people participated in an organized scheme to defraud banks, money lenders and other financial institutions in the Greater Toronto Area and launder the proceeds,"Detective Constable Sarath Thayalan said. "The scheme involved the creation of several shell companies which were then used to apply for credit from a targeted lender."

The accused are residents of Toronto, Brampton, Mississauga, Cambridge, Markham, Vaughan, Bradford, Woodbridge and Ajax. They all have different last names and range in age from 26 to 75. Det. Constable Thayalan said that some of them are friends, some are family members and some have had business dealings with each other in the past. Not all the accused know each other, he said.

"This is not the type of plan that can be done overnight. Some of the set-up times were in the order of months for some of these frauds to be tried and then tried repeatedly," he said. "There is the motivation purely for monetary gain in which someone could perceivably see a scheme like this being worthwhile."

Three of the 25 arrested – Daniel Kebbe, 33, from Bradford, Elias Rassi, 33, from Vaughan, and Michael Shawn Majeed, 33, of Markham – are alleged to have orchestrated the fraud scheme, Det. Constable Thayalan said.

The operation involved individuals impersonating accountants claiming to have connections to a shell company looking to borrow money, the constable explained. The fraudster would produce forged financial documents to a bank. A bank representative would visit the location of the business, which often had equipment and staff working. If the representative was satisfied that the deal appeared legitimate, a line of credit was granted.

"The information I have supports the belief that certain businesses participated in the scheme by allowing their business, their equipment to be misrepresented as belonging to the shell company," he said. "However, during the course of a fraud, some or all of the items that would normally be in that business would be either taken away or moved aside or replaced with items to facilitate the fraud."

The largest loan amount requested was $1.7-million. The total amount of credit requested is $8-million. Not all the money was granted, and while police have recovered some of the money, millions remain lost. The money was transferred to various places in Ontario, the United States, Hong Kong and Switzerland.

Toronto police will not reveal the names of the banks that were targeted, saying only that they are "companies we all deal with on a regular basis." The businesses that are alleged to be involved in the scam include Omnium Financial Group, Yorkshire Capital, Global Granite and Shankar Woodcrafts. Some other businesses that went by a few different names include a crown moulding company, a printing company, and a cabinetry business.

Canadian taxpayers often end up footing the bill for these crimes, Det. Contable Thayalan said. Banks often pass on the costs associated with these frauds to their customers, he said. As well, government programs subsidize some of these loans.

"Some of the money that is given out under loans of this type is often subsidized in part by government programs designed to help businesses and promote the economy. When funds are misappropriated in this way, the cost of that is transferred directly to the Canadian government who created these programs and that in turn is funded by the Canadian taxpayer."

The New York Times

March 3, 2014, 9:35 am

Citigroup Affiliate's Troubles Multiply as Money-Laundering Subpoenas Follow Fraud

By MICHAEL CORKERY and JESSICA SILVER-GREENBERG

Updated, 9:16 p.m. | A headache is growing for Citigroup as a banking affiliate involved in money transfers across the Mexican border has become ensnared in a criminal investigation.

Friday that it had been defrauded of $400 million in a scheme involving a financially shaky oil services company in Mexico.

A Citigroup affiliate based in Los Angeles received a grand jury subpoena from federal prosecutors in Massachusetts related to anti-money-laundering compliance, the bank said in a securities filing on Monday. The focus of the subpoenas is unclear. The affiliate has also received a subpoena from the Federal Deposit Insurance Corporation related to its anti-money-laundering program and the Bank Secrecy Act.

The affiliate, Banamex USA, provides banking services to individuals and small businesses in the United States and Mexico. Until recently, it was a large player in transferring money across the border between family members, industry experts say.

Mexico, Citigroup's chief executive, Michael L. Corbat, did not mention the inquiries involving the Banamex affiliate in the United States.

marketplace

Awash In Cash, Drug Cartels Rely On Big Banks To Launder Profits

by **JOHN BURNETT**

March 20, 2014 3:39 PM

Listen to the Story

All Things Considered **5 min 32 sec**

Enric Marti/AP

The Sinaloa Cartel, headquartered on Mexico's northern Pacific Coast, is constantly exploring new ways to launder its gargantuan profits. The State Department reports that Mexican trafficking organizations earn between $19 and $29 billion every year from selling marijuana, cocaine, heroin and methamphetamines on the streets of American cities.

And Sinaloa is reportedly the richest, most powerful of them all, according to the Drug Enforcement Administration. The capture last month of the Mexican druglord Joaquin "Chapo" Guzman has cast a spotlight on the smuggling empire he built.

One key to the Sinaloa Cartel's success has been to use the global banking system to launder all this cash.

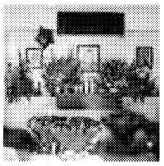
"It's very important for them to get that money into the banking system and do so with as little scrutiny as possible," says Jim Hayes, special agent in charge of Homeland Security Investigations for the New York office of Immigration and Customs Enforcement, or ICE. He was lead agent in the 2012 case that revealed how Sinaloa money men used HSBC, one of the world's largest banks, as their private vault.

ICE says in 2007 and 2008, the Sinaloa Cartel and a Colombian cartel wire-transferred $881 million in illegal drug proceeds into U.S. accounts.

Huge Daily Deposits

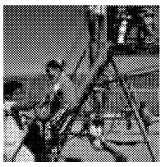
According to a subsequent investigation by the U.S. Senate Permanent Subcommittee on Investigations, cartel operatives would sometimes deposit hundreds of thousands of dollars in cash in a single day using boxes designed to fit the exact dimensions of the teller's window at HSBC branches in Mexico.

More In The Borderland Series

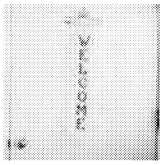


Parallels

At The Border, The Drugs Go North And The Cash Goes South



Borderland: Dispatches From The U.S.-Mexico Boundary



Parallels

A U.S. Border Shelter That Attracts Asylum Seekers Far And Wide

The bank ignored basic anti-money laundering controls, as the investigation found. In 2007 and 2008, the bank's personnel in Mexico wired $7 billion dollars to corresponding U.S. dollar accounts in New York. These were more dollars than even larger Mexican banks wired to U.S. accounts. ICE says some of it was drug proceeds.

Yet no red flags were raised because of what a bank official later described as, a "lack of a compliance culture" in the Mexico affiliate, according to the Senate report.

Moreover, the dollar transfers earned HSBC hefty fees. The Senate investigation quoted an HSBC email lamenting how the bank would lose $2.6 billion in revenue from U.S. dollar accounts that it was forced to close because of the Mexico fiasco.

"When I was told that there could be in the billions of dollars being moved through these accounts, it was very difficult to believe," says senior ICE agent Jim Hayes. "A lot of people have asked, 'Was this

complicit?' We don't believe that they (HSBC personnel) knew for certain that the money being moved was drug money, but they should have known."

A Simple Plan

In Culiacán, the prosperous capital of Sinaloa, where people live cheek by jowl with the cartel, even they were shocked that narco-dollars could be laundered so brazenly.

"You see the building, the office, the cars, the papers, the men in suits. Everything looks legal. That's what frightens us," says Javier Valdez, an author and journalist in Culiacan who writes about narcotrafficking.

"The DEA loves to sell the idea that these guys are super sophisticated criminal masterminds," says Alejandro Hope, a security analyst in Mexico City and a former federal intelligence agent. "It's so simple. It's so unsophisticated. That is what to me is the most disturbing part of this. These guys are not even trying that hard."

The consequences for ignoring the torrent of dirty money flowing into its Mexico bank vaults were severe for HSBC.

The Department of Justice levied penalties and forfeitures of $1.9 billion on the bank. Of course, with $2.6 trillion in assets, for HSBC this represented a man with a hundred dollars in his pocket paying a fine of seven cents. HSBC was also faulted for hiding prohibited transactions with nations like Iran and Cuba.

The bank emailed a statement to NPR:

> "HSBC has made progress in remediating anti-money laundering sanctions compliance deficiencies. But we recognize that protecting against financial crime is an ongoing journey and we have much more to do. Since 2011, we have implemented reforms and new controls, enhanced our monitoring systems, and strengthened and expanded our global financial crime and compliance organization. For example, the number of fulltime employees in financial crime and regulatory compliance is up 54 percent between 2012 and 2013."

ICE agent Jim Hayes says fallout from the HSBC case continues.

"We think this forfeiture is significant enough to make other banks to look and make sure they're in compliance," he says.

Banks Still Vulnerable

In the wake of HSBC, other banks boosted their anti-money laundering budgets, increased know-your-customer rules, and in some cases dumped high-risk clients.

Which might make you think, well, now they've got money laundering under control.

"Despite all of the efforts, banks are still vulnerable to money laundering and it's kind of an age-old thing," says Kieran Beer, editor of the news website of the Association of Certified Anti-Money Laundering Specialists.

"The drug trade is overwhelming in terms of how that money finds paths—like water — to come into the global financial system," Beer continues.

HSBC wasn't the first or last bank money-laundering scandal.

In 2010, prosecutors detailed how Wachovia Bank had been used by Mexican currency exchange houses to launder at least $110 million in drug profits.

In 2012, The Wall Street Journal reported on an FBI affidavit that laid out how the Zetas Cartel used Bank of America to launder cash through a racehorse operation in Texas.

And last month, Western Union agreed to do more to beef up vulnerabilities in its money transfer business along the southwest border.

Back in Culiacán, and throughout Mexico, currency exchange houses operate under strict new rules that are supposed to limit the size of dollar transactions, investigators are watching to see what the narcos next money-laundering ploy will be.

u.s.-mexico

Guatemala's Ex-President Pleads Guilty to Miami Money Laundering

By Kyle Munzenrieder Tue., Mar. 18 2014 at 3:45 PM
Categories: Around the World

1 Comment

What started in Guatemala and took a financial detour to Miami has now ended in New York. Former Guatemalan president Alfonso Portillo pleaded guilty in a New York courtroom today to a charge of money laundering designed to hide bribes he had taken from Taiwan.

Portillo was voted into office in 2000 as a member of the country's right-wing Republican Front party and promised to reduce corruption in the country. Instead, he got caught up in a heap of corruption of his own, and at the end of his term in 2004, he fled to Mexico. He was ultimately extradited to Guatemala in 2008, but charges were dropped. However, in an unprecedented move, a court ruled he would be extradited to America in 2011 to face charges here.

Today, he pleaded guilty to accepting $2.5 million from the Taiwanese government in exchange for continuing to recognize the Asian country diplomatically. That's a particularly tricky proposition in Latin America, where many countries have strong ties to mainland China.

Portillo accepted five checks totaling $2.5 million. The first three ended up being deposited in a Miami bank and were personally endorsed by Portillo. Two other checks were made out to Oxxy Financial Corp. and deposited into the International Bank of Miami. Much of the money was then transferred to a Paris bank account under the name of Portillo's then-wife and continued along a string of transfers across the world.

Today in a Manhattan federal court, Portillo pleaded guilty to the single charge of money laundering. It is the first time he has been convicted anywhere related to his corruption in office.

"Former president Alfonso Portillo may have thought his position of power prevented him from having to answer for accepting multimillion-dollar bribes to shape his country's foreign policy, for embezzling money intended to benefit the Guatemalan people, and for using U.S. banks to launder the ill-gotten funds. But he was wrong" U.S. Attorney Preet Bharara said in a statement. "With his guilty plea today, Portillo now stands convicted in an American court for his criminal conduct. This office will aggressively pursue and prosecute individuals, irrespective of their position or title, if they engage in violations of U.S. laws."

Portillo will be sentenced in June and faces up to 20 years in prison.

The New York Times

May 9, 2013

In Hours, Thieves Took $45 Million in A.T.M. Scheme

By MARC SANTORA

It was a brazen bank heist, but a 21st-century version in which the criminals never wore ski masks, threatened a teller or set foot in a vault.

In two precision operations that involved people in more than two dozen countries acting in close coordination and with surgical precision, thieves stole $45 million from thousands of A.T.M.'s in a matter of hours.

In New York City alone, the thieves responsible for A.T.M. withdrawals struck 2,904 machines over 10 hours starting on Feb. 19, withdrawing $2.4 million.

The operation included sophisticated computer experts operating in the shadowy world of Internet hacking, manipulating financial information with the stroke of a few keys, as well as common street criminals, who used that information to loot the automated teller machines.

The first to be caught was a street crew operating in New York, their pictures captured as, prosecutors said, they traveled the city withdrawing money and stuffing backpacks with cash.

On Thursday, federal prosecutors in Brooklyn unsealed an indictment charging eight men — including their suspected ringleader, who was found dead in the Dominican Republic last month. The indictment and criminal complaints in the case offer a glimpse into what the authorities said was one of the most sophisticated and effective cybercrime attacks ever uncovered.

It was, prosecutors said, one of the largest heists in New York City history, rivaling the 1978 Lufthansa robbery, which inspired a scene in the movie "Goodfellas."

Beyond the sheer amount of money involved, law enforcement officials said, the thefts underscored the vulnerability of financial institutions around the world to clever criminals working to stay a step ahead of the latest technologies designed to thwart them.

"In the place of guns and masks, this cybercrime organization used laptops and
said Loretta E. Lynch, the United States attorney in Brooklyn. "Moving as swif
the Internet, the organization worked its way from the computer systems of in
corporations to the streets of New York City, with the defendants fanning out a

to steal millions of dollars from hundreds of A.T.M.'s in a matter of hours."

The indictment outlined how the criminals were able to steal data from banks, relay that information to a far-flung network of so-called cashing crews, and then have the stolen money laundered in purchases of luxury items like Rolex watches and expensive cars.

In the first operation, hackers infiltrated the system of an unnamed Indian credit-card processing company that handles Visa and MasterCard prepaid debit cards. Such companies are attractive to cybercriminals because they are considered less secure than financial institutions, computer security experts say.

The hackers, who are not named in the indictment, then raised the withdrawal limits on prepaid MasterCard debit accounts issued by the National Bank of Ras Al-Khaimah, also known as RakBank, which is in United Arab Emirates.

Once the withdrawal limits have been eliminated, "even a few compromised bank account numbers can result in tremendous financial loss to the victim financial institution," the indictment states. And by using prepaid cards, the thieves were able to take money without draining the bank accounts of individuals, which might have set off alarms more quickly.

With five account numbers in hand, the hackers distributed the information to individuals in 20 countries who then encoded the information on magnetic-stripe cards. On Dec. 21, the cashing crews made 4,500 A.T.M. transactions worldwide, stealing $5 million, according to the indictment.

While the street crews were taking money out of bank machines, the computer experts were watching the financial transactions from afar, ensuring that they would not be shortchanged on their cut, according to court documents.

MasterCard alerted the Secret Service to the activity soon after the transactions were completed, said a law enforcement official, who declined to be identified discussing a continuing investigation.

Robert D. Rodriguez, a special agent with the Secret Service for 22 years and now the chairman of Security Innovation Network, said that in some ways the crime was as old as money itself: bad guys trying to find weaknesses in a system and exploiting that weakness.

"The difference today is that the dynamics of the Internet and cyberspace are so fast that we have a hard time staying ahead of the adversary," he said. And because these crimes are global, he said, even when the authorities figure out who is behind them they might not be able to arrest them or persuade another law enforcement agency to take action.

After pulling off the December theft, the organization grew more bold, and two months later it struck again — this time nabbing $40 million.

On Feb. 19, cashing crews were in place at A.T.M.'s across Manhattan and in two dozen other countries waiting for word to spring into action.

This time, the hackers had infiltrated a credit-card processing company based in the United States that also handles Visa and MasterCard prepaid debit cards. Prosecutors did not disclose the company's name.

After securing 12 account numbers for cards issued by the Bank of Muscat in Oman and raising the withdrawal limits, the cashing crews were set in motion. Starting at 3 p.m., the crews made 36,000 transactions and withdrew about $40 million from machines in the various countries in about 10 hours. In New York City, a team of eight people made 2,904 withdrawals, stealing $2.4 million.

Surveillance photos of one suspect at various A.T.M.'s showed the man's backpack getting heavier and heavier, Ms. Lynch said, comparing the series of thefts to the caper at the center of the movie "Ocean's Eleven."

While the New York crew had a productive spree, the crews in Japan seem to have been the most successful, stealing around $10 million, probably because some banks in Japan allow withdrawals of as much as $10,000 from a single bank machine.

"The significance here is they are manipulating the financial system to be able to change these balance limits and withdrawal limits," said Kim Peretti, a former prosecutor in the computer crime division of the Justice Department who is now a partner in the law firm Alston & Bird. "When you have a scheme like this, where the system can be manipulated to quickly get access to millions of dollars that in some sense did not exist before, it could be a systemic risk to our financial system."

It was unclear to whom the hacked accounts belonged, and who might ultimately be responsible for the losses.

The indictment suggests a far-reaching operation, but there were few details about the people responsible for conducting the hacking or who might be leading the global operation. Law enforcement agencies in more than a dozen countries are still investigating, according to federal prosecutors. The authorities said the leader of the New York cashing crew was Alberto Lajud-Peña, 23, whose body was found in the Dominican Republic late last month. Seven other people were charged with conspiracy to commit "access device fraud" and money laundering.

The prosecutors said they were all American citizens and were based in Yonkers. The age of one defendant was given as 35; the others were all said to be 22 to 24. Mr. Lajud-Peña fled the United States just as the authorities were starting to make arrests of members of his crew, the law enforcement official said.

On April 27, according to news reports from the Dominican Republic, two hooded gunmen stormed a house where he was playing dominoes and began shooting. A manila envelope containing about $100,000 in cash remained untouched.

Nicole Perlroth, Frances Robles and Mosi Secret contributed reporting.

This article has been revised to reflect the following correction:

Correction: May 11, 2013

An article on Friday about a sophisticated hacking crime in which $45 million was stolen from bank A.T.M.'s within hours misspelled, in some editions, the surname of a former prosecutor in the computer crime division of the Justice Department who commented on the case. She is Kim Peretti, not Paretti. The article also overstated the connection between the movie "Goodfellas" and the Lufthansa robbery in 1978, to which the A.T.M. case was compared. The Lufthansa robbery was only a plotline in the film; the movie itself was based on the book "Wise Guy," written by Nicholas Pileggi, about the mobster Henry Hill.

infomart

THE VANCOUVER SUN

Special report: U.S. documents allege lapses in HSBC money laundering controls

vancouversun.com
Fri May 4 2012
Section: OnLine
Byline: Carrick Mollenkamp, Brett Wolf and Brian Grow

In April 2003, the Federal Reserve **Bank** of New York and New York state **bank** regulators cracked the whip on HSBC **Bank** USA, ordering it to do a better job of policing itself for suspicious money flows. Staff in the **bank**'s anti-**money laundering** division, according to a person who worked there at the time, flew into a "panic."

The U.S. unit of London-based HSBC Holdings Plc quickly rallied. It hired a tough federal prosecutor to oversee anti-**money laundering** efforts. It installed monitoring systems for operations that had grown unwieldy during the **bank**'s U.S. expansion. The aim, as HSBC said in an agreement with regulators at the time, was to "ensure that the **bank** fully addresses all deficiencies in the **bank**'s anti-**money laundering** policies and procedures."

Nearly a decade later, the effort has failed to satisfy law-enforcement officials.

The extent of that failure is laid out in confidential documents reviewed by Reuters that originate from investigations of HSBC's U.S. operations by two U.S. Attorneys' offices.

These documents allege that from 2005, the **bank** violated the **Bank** Secrecy Act and other anti-**money laundering** laws on a massive scale. HSBC did so, they say, by not adequately reviewing hundreds of billions of dollars in transactions for any that might have links to drug trafficking, terrorist financing and other criminal activity.

In some of the documents, prosecutors allege that HSBC intentionally flouted the law. The **bank** created an operation that was a "systemically flawed sham paper-product designed solely to make it appear that the **Bank** has complied" with the **Bank** Secrecy Act and is able to detect **money laundering**, wrote William J. Ihlenfeld **II**, U.S. Attorney for the Northern District of West Virginia, in a draft of a 2010 letter addressed to Justice Department officials.

In that letter, Ihlenfeld compared HSBC unfavorably to Riggs **Bank**. In 2004 and 2005, that scandal-plagued Washington **bank** was fined a total of $41 million after it was found to have violated anti-**money laundering** laws, and it was acquired by PNC Financial Services.

"HSBC is to Riggs, as a nuclear waste dump is to a municipal land fill," Ihlenfeld wrote.

The allegations laid out in the Ihlenfeld letter and other documents couldn't be confirmed. It is possible that subsequent inquiries have led investigators to alter their views of what went on inside HSBC's compliance operation.

As they are, the documents reviewed by Reuters, combined with regulatory filings, court documents and interviews with current and former HSBC employees, paint a damning portrait of a **bank** allegedly unable, and unwilling, to police itself or its clients.

HSBC's U.S. anti-**money laundering** division - the people charged with ensuring that the **bank** toes the line of regulators and law enforcement - has experienced high turnover among executives. Since 2005, at least half a dozen overseers have come and gone. Compliance staff also encountered pushback from bankers eager to maintain relationships with lucrative clients whose dealings raised red flags.

In the Miami office - an important center for HSBC's private-banking and retail operations - a longtime private banker was fired for alleged sexual harassment after he warned compliance officers that clients were engaged in shady

dealings.

In one email exchange submitted as evidence in that case, employees debated whether the **bank** should help a Miami client get around U.S. sanctions by moving the client's business to HSBC's Hong Kong office. "I believe that the best outcome would be for the customer to open a relationship with Hong Kong just for leters (sic) of credit purposes. He travels there all the time," private banker Antonio Suarez wrote in a 2008 email. Suarez has since left the **bank** and couldn't be reached for comment.

UNDER THE RADAR

The revelations come as HSBC confronts multiple investigations into its internal policing abilities. The Justice Department, the Federal Reserve, the Office of the Comptroller of the Currency, the Manhattan district attorney, the Office of Foreign Assets Control and the Senate Permanent Subcommittee on Investigations are scrutinizing client activities such as cross-border movements of bulk cash, and transactions linked to Iran and other parties under U.S. economic sanctions, the **bank** said in a February regulatory filing.

"We continue to cooperate with officials in a number of ongoing investigations," HSBC spokesman Robert Sherman said. "The details of those investigations are confidential, and therefore we will not comment on specific allegations." HSBC said in its February filing that it was likely to face criminal or civil charges related to the probes.

A successful case against HSBC could result in an onerous fine and represent one of the most significant **money laundering** cases ever brought against an international **bank**. It also would draw unaccustomed attention to the challenges governments -- and financial institutions -- face in monitoring the trillions of dollars flowing through banks' back-office operations, flows essential to the daily functioning of the global financial system.

"Disguised in the trillions of dollars that is transferred between banks each day, banks in the U.S. are used to funnel massive amounts of illicit funds," Jennifer Shasky Calvery, head of the Justice Department's Asset Forfeiture and **Money Laundering** Section, said in congressional testimony on organized crime in February.

In response to Reuters inquiries about the investigations, Gary Peterson, chief compliance officer of HSBC's U.S. **bank** operations, said: "Since joining HSBC in 2010, I've been proud to lead an AML (anti-**money laundering**) team that has vastly increased investments in people, systems and expertise. We are continuously seeking to strengthen our core AML mission: to detect and deter **money laundering** and terrorist financing - and our efforts are showing results."

To date, the only enforcement action detailing any anti-**money laundering** shortcomings at HSBC was a 2010 consent order from the Office of the Comptroller of the Currency, the Treasury agency that is HSBC's chief regulator. The OCC, calling HSBC's compliance program "ineffective," told the **bank** to conduct a review to identify suspicious activity. This "look-back" was expected to yield a report to HSBC and regulators. The status of the report isn't known. A spokesman for the OCC declined to comment.

The West Virginia U.S. Attorney's probe of HSBC, which ran from 2008 until at least 2010, originated in a case against a local pain doctor who allegedly used HSBC accounts to launder ill-gotten gains from Medicare fraud. Over time, the U.S. Attorney's office began to discern that, as Ihlenfeld wrote in his letter, the doctor's case was just "the tip of the iceberg" in terms of the volume of suspicious money sluicing through HSBC.

The U.S. attorney for the Eastern District of New York in Brooklyn - one of the most powerful prosecutors outside of Justice Department headquarters in Washington - has conducted a parallel investigation, in collaboration with the Justice Department's **money laundering** section.

Specifics on the investigations have until now been cloaked in secrecy. The documents reviewed by Reuters for the first time fill in some of the details. Taken together, they depict apparent anti-**money laundering** lapses of extraordinary breadth. Among them, according to the documents:

* The **bank** understaffed its anti-**money laundering** compliance division and hired "gullible, poorly trained, and otherwise incompetent personnel." In 2009, the OCC deemed a senior compliance official at HSBC to be incompetent - the same executive in charge of implementing a new anti-**money laundering** system.

* HSBC failed to review thousands of internal anti-**money laundering** alerts and generate legally required suspicious

activity reports, or SARs, on transactions picked up by the **bank**'s internal monitoring system. SARs are important because they are sent to U.S. law enforcement and scrutinized for leads to criminal activity. In May 2010, the **bank**'s backlog of alerts was nearly 50,000 and "growing exponentially each month," according to one of the documents.

* Hundreds of billions of dollars moved unchecked each year through various **bank** operations because of lax due diligence and monitoring of accounts with foreign correspondent banks, which are financial institutions that rely on U.S. banks for processing services. The **bank** maintained accounts with "high risk" affiliates such as "casas de cambios" - Mexican foreign-exchange dealers - widely suspected of laundering drug-trafficking proceeds, and some Mexican and South American banks.

* In some instances, "management intentionally decided" not to review alerts of suspicious activity. An investigation summary also says, "There appear to be instances where **Bank** employees are misrepresenting" data sent to senior managers, and where management altered risk ratings on certain clients so that suspect transactions didn't set off alarms.

Sherman, the HSBC spokesman, said the **bank** cleared the backlog of alerts and has remained current. Sherman also said the **bank** "regularly reviews risk ratings. We have revised and strengthened our country risk rating review policies."

Spokesmen for the U.S. Attorney in Wheeling, West Virginia, and for the U.S. Attorney in Brooklyn declined to comment. The Justice Department in Washington also declined to comment, citing "an ongoing investigation into this matter."

THE MIAMI CONNECTION

HSBC was born in 1865 as the Hongkong and Shanghai Banking Corp in the then-British colony of Hong Kong. It had little presence in the U.S. market until its purchase in the 1980s of Marine Midland Banks Inc based in Buffalo, New York.

Now the fifth-largest **bank** in the world in terms of market value, HSBC had $2.6 trillion in assets at the end of 2011 and operations in 85 countries and territories. Its North American business, which includes HSBC **Bank** USA and a consumer finance unit, accounts for about 5 percent of HSBC's profit.

In 1999, HSBC's U.S. unit paid $10 billion to buy Republic New York Corp and a European affiliate, banks controlled by Lebanese financier Edmond Safra. The deal doubled HSBC's private **bank** to 55,000 clients with $120 billion in assets and broadened business in New York, Florida, Latin America and Europe.

The purchase also yielded one of the world's biggest banknote businesses, an operation that handles bulk cash exchanges between central banks and large commercial banks. In 2003, HSBC plunged into the U.S. market for subprime lending, paying $14 billion for Household International Inc.

By then, all banks faced U.S. regulatory pressure aimed at stopping shady money flows. In the wake of the September 11, 2001, attacks, the Patriot Act took effect, attempting, among other things, to choke off terrorist financing by strengthening requirements that banks look for and report suspicious activity. In recent years, U.S. law enforcement added an emphasis on money tied to the illegal drug trade.

When the 2003 order came down from regulators for HSBC to improve its anti-**money laundering** efforts, the **bank** had no centrally organized means of monitoring the movement of money across borders. That's when it hired Teresa Pesce. Pesce came from the high-profile U.S. Attorney's office in Manhattan, where she made a name for herself as a tough prosecutor overseeing **money laundering** prosecutions.

Pesce "knew the ropes," according to a person who worked in compliance at the time, and the sense among many staffers was that a "savior was here." One of her first initiatives was to order the installation of the Customer Account Monitoring Program, or CAMP, a technology system designed to filter suspicious retail transactions across HSBC's U.S. operations.

In 2006, regulators lifted their 2003 order, according to people familiar with the situation.

Pesce left the **bank** in 2007 to run KPMG LLP's anti-**money laundering** consulting business. A lawyer for Pesce declined to comment.

Despite Pesce's efforts, problems with HSBC's program persisted. In 2009, the OCC determined that Lesley Midzain, a compliance executive with little direct experience running anti-**money laundering** programs, was incompetent. She was in charge of the installation of a monitoring program to replace Pesce's CAMP system, which the OCC had determined was "inadequate to support the volume, scope and nature of international money transfer transactions," according to the documents reviewed by Reuters. Efforts to locate and obtain comment from Midzain were unsuccessful.

The former compliance-division staffer said that in the Miami office in particular, with millions of dollars from Mexico, Brazil, Argentina and other countries flowing through the Premier private-banking business for wealthy clients, "it was a nightmare to figure out what was going on down there."

Those observations mesh with allegations in a 2010 lawsuit against HSBC brought by Tomas Benitez, a longtime private banker in South Florida who had worked at Republic **Bank**. Benitez alleged that HSBC fired him in January 2009 after he warned colleagues that clients had violated U.S. restrictions on trade with Iran and Cuba.

HSBC said in a court filing that it fired Benitez for alleged sexual harassment - allegations Benitez denied.

In court documents, Benitez alleged that during an audit meeting in 2008, an unidentified federal **bank** examiner told HSBC employees that a client referred to only as "CM" "had multiple affiliations whose ties to Iran and Cuba were part of their ordinary course of business."

At a follow-up meeting, the account was discussed because of indications its owner "was funneling large amounts of funds in and out, with no apparent business purpose," Benitez alleged. He told Clara Hurtado, director of anti-**money laundering** compliance at HSBC's private **bank** in Miami, that the account had ties to Iran and Cuba and "as a result, it should not be maintained," according to the lawsuit.

After the meeting, Benitez alleged, another banker said "he would not allow Benitez's word and suspicions to defeat a million-dollar-plus account relationship." The account wasn't terminated, Benitez alleged.

Hurtado declined to comment. She left HSBC in 2009, according to her LinkedIn account.

In an email exchange submitted as an exhibit in the lawsuit, Hurtado and other HSBC employees discussed whether the **bank** could help a Miami client avoid violating U.S. sanctions by issuing letters of credit for the client from the **bank**'s Hong Kong offices, according to Benitez's lawsuit. "Clara, we are persuing (sic) another solutions..... (anything but losing the account!!!)," Suarez, the private banker, wrote in an email. The banker suggested issuing the letters of credit through Hong Kong.

In January 2009, HSBC fired Benitez. In late 2010, a federal judge dismissed his case and demand for pay, saying there was no evidence of a connection between Benitez's concerns about the accounts and the firing. The judge didn't address Benitez's allegations about illicit transactions.

Benitez's Miami lawyer, Mark Raymond, declined to comment on his client's behalf.

HSBC spokesman Sherman declined to comment on Benitez's case. "It's inappropriate to comment on unsubstantiated allegations in termination of employment cases," he said.

OBVIOUS TO STOOGES

Around the time Benitez was sounding warnings in Miami, authorities were accelerating an investigation in West Virginia of Barton Adams, a pain clinic operator in the Ohio River town of Vienna. In 2008, the U.S. Attorney in Wheeling indicted Adams on 157 counts of alleged healthcare fraud and other crimes. They allege that Adams moved hundreds of thousands of dollars in Medicare fraud proceeds between a U.S. HSBC account and HSBC accounts in **Canada**, Hong Kong and the Philippines.

Adams has pleaded not guilty.

In building their case against him, the West Virginia prosecutors determined that HSBC's compliance problems were systemic. As Ihlenfeld wrote in his letter to the Justice Department: "The Adams **money laundering** practices - which Moe, Larry, and Curly would dismiss as too transparent - would not be detected by HSBC regardless of who the customer was, or where any transaction occurred." HSBC, he said, "systematically and egregiously" violated the

Bank Secrecy Act.

One document reviewed by Reuters says HSBC developed a "large appetite for risk" after snapping up business with Mexican foreign-exchange houses formerly handled by Wachovia Corp. In 2010, Wachovia agreed to pay $160 million as part of a Justice Department probe that examined how drug traffickers had moved money through the **bank**.

West Virginia prosecutors focused much of their attention, according to the documents, on HSBC's failure to report suspicious activity on hundreds of billions of dollars in business from "high-risk" sources.

For instance, 73 percent of accounts with foreign correspondent banks were rated "standard" or "medium" risk and thus weren't monitored at all, the documents say, noting that oversight of such accounts was "extremely limited despite indications of possible terror financing." In one example, the **bank** "summarily cleared as many as 5,000" internal alerts of suspicious activity from correspondent customers in Argentina after lowering the country's risk rating.

Investigators cited a litany of failings in the **bank**'s back-office operations -- the vast but mundane business of clearing transactions by moving big sums of money around the globe. In the **bank**'s "remote deposit capture" business - an operation that electronically zaps checks around the world -- HSBC "failed to detect, review and report large volumes of sequentially numbered traveler's checks" from non-U.S. sources. Such checks are a red flag signaling possible **money laundering**, regulators have said.

HSBC also repatriated more than $106.5 billion in banknote deposits through foreign correspondent accounts, many of them in Mexico and South America, in a three-year period. And yet, "since 2005, the **bank** has filed only 19 suspicious activity reports relative to the receipt of bulk cash and banknote activities."

People familiar with HSBC and the reports said 19 is a low number given the risk of the clients. Between 2005 and 2010, banks and other depository institutions filed more than 3.8 million SARs, according to the Financial Crimes Enforcement Network, a bureau of the Treasury Department.

Similarly, investigators found that HSBC didn't report any suspicious activity after Drug Enforcement Administration agents posing as drug dealers deposited millions of dollars in Paraguayan banks and then transferred the money to accounts in the U.S. through HSBC. They have also been examining connections between one of the Paraguayan banks and Hezbollah, the Lebanon-based Islamist group classified by the U.S. as a terrorist organization. HSBC has since ended its relationship with the Paraguayan **bank**, according to government documents.

Ultimately, the U.S. Attorney's office in West Virginia entered into plea negotiations with HSBC, the documents show. A person familiar with the investigation said a deal could have resulted in one of the largest settlements ever in a **bank money laundering** case.

For reasons that aren't clear, prosecutors in West Virginia were told to stand down while the Eastern District of New York and other Justice Department divisions continued to investigate, according to a Justice Department document and an HSBC regulatory filing. The West Virginia probe could ultimately prove to be a narrow slice of a broader case if criminal or civil charges emerge.

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KAMLOOPS
Daily News

Bank scandals hint at problems

The Daily News (Kamloops)
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American and British banks, one after another, have been engulfed by scandal this year, leaving Canadians to admire the probity of this country's banks, where nothing is ever found amiss.

HSBC, the venerable Hongkong and Shanghai Banking Corp., admitted this month it helped Mexican drug lords launder $881 million in drug-trade profits. The **bank** agreed to pay $1.92 billion in fines and improve its internal controls in relation to drug-**money laundering**, sanctions busting and other shady dealings.

Meanwhile in London, three people, including a former trader at Union des Banques Suisses (UBS) and Citigroup, were arrested Dec. 13 in connection with an official investigation of interest-rate manipulation.

Leading banks have for years been abusing the daily settings of the London Interbank Offered Rate (Libor) by submitting fake estimates of the rates they would have to pay to borrow funds from other banks. By nudging the posted rate up or down, they can raise or lower their interest costs or the value of contracts they have issued. Barclays paid a hefty fine in June and its chief executive resigned over Libor manipulation. Investigators then turned their attention to the roles of Royal **Bank** of Scotland and UBS, which pleaded guilty to fraud last week and agreed to pay $1.5 billion in fines to Swiss, British and U.S. authorities.

In **Canada**, the slate is surprisingly clean – so clean that it is hard to know what to make of it. **Canada**'s banks have never liked washing their dirty linen in public for fear of undermining confidence. But the public is keenly aware that banks' linen occasionally is soiled. It would be heartening to see some washing done – not laundering of drug profits but enforcement of integrity within the banking world.

THE CANADIAN PRESS

Editorial Exchange: Banks hide dirty laundry; Editorial Exchange: Banks hide dirty laundry

Canadian Press
Thu Dec 27 2012
Section: National
Byline: Winnipeg Free Press

An editorial from the Winnipeg Free Press, published Dec. 26:

American and British banks, one after another, have been engulfed by scandal this year, leaving Canadians to admire the probity of this country's banks -- where nothing is ever found amiss.

HSBC, the venerable Hongkong and Shanghai Banking Corp., admitted this month to U.S. authorities that it helped Mexican drug lords launder $881 million in drug-trade profits. The **bank** agreed to pay $1.92 billion in fines and improve its internal controls in relation to drug-**money laundering**, sanctions busting and other shady dealings.

"We accept responsibility for our past mistakes. We have said we are profoundly sorry for them, and we do so again. The HSBC of today is a fundamentally different organization from the one that made those mistakes," HSBC chief executive Stuart Gulliver said.

Meanwhile in London, three people, including a former trader at Union des Banques Suisses (UBS) and Citigroup, were arrested Dec. 13 in connection with an official investigation of interest-rate manipulation.

Leading banks have for years been abusing the daily settings of the London Interbank Offered Rate (Libor) by submitting fake estimates of the rates they would have to pay to borrow funds from other banks. By nudging the posted rate up or down, they can raise or lower their interest costs or the value of contracts they have issued. Barclays paid a hefty fine in June and its chief executive resigned over Libor manipulation. Investigators then turned their attention to the roles of Royal **Bank** of Scotland and UBS, which pleaded guilty to fraud last week and agreed to pay $1.5 billion in fines to Swiss, British and U.S. authorities on account of its Libor manipulation shenanigans.

The investigations, the fines, and the resignations help to reassure the public that regulatory agencies are hard at work, keeping the bankers honest. But regulators and investigators can only deal with what they know about. The vast laundering operations of HSBC came to light only because a federal prosecutor in Wheeling, West Virginia, received a tip that HSBC was helping a local doctor launder the proceeds of Medicare fraud. The prosecutor started digging and eventually a great many abuses came to light.

HSBC management admits it did terrible things back in the old days -- 2008 and before -- but contends it has reformed itself. The public has to decide how far to believe that. Why would executives of the leading banks be more trustworthy today than they were a few years ago?

In November, HSBC reported "underlying profit before taxes" (disregarding change in the value of its own debt) of $5 billion for the third quarter of 2012, up 125 per cent compared to the third quarter of 2011. This was after a U.S. Senate report had drawn attention to HSBC's large role in **money laundering**. Dishonesty and the reputation for dishonesty, it appears, are not necessarily bad for business and might even be helpful.

Confidence in banks might be encouraged if the public saw that banks are enforcing standards of integrity on their employees. Personal saintliness is probably no more common among Canadian **bank** officers than it is in the rest of mankind or at the top levels of Barclays, HSBC and UBS. But the Canadian banking tradition of quietly covering up scandals prevents the public from knowing what happens to dishonest bankers in **Canada**. We know something of

the scope of the problem in the U.S. and the U.K. because the authorities there took a close look and announced what they found. We also know what corrective steps have been taken.

In **Canada**, the slate is surprisingly clean – so clean that it is hard to know what to make of it. **Canada**'s banks have never liked washing their dirty linen in public for fear of undermining public confidence. But the public is keenly aware, from U.S. and U.K. experience, that banks' linen occasionally is soiled. It would be heartening to see some washing being done – not laundering of drug profits but enforcement of integrity within the banking world.

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NORTHERN DAILY NEWS

U.S. seizes $150M from Hezbollah-linked Lebanese Canadian Bank

The Kirkland Lake Northern News
Fri Aug 24 2012
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Byline: JESSICA HUME, QMI AGENCY

OTTAWA --The $150 million seized by American authorities in an international Hezbollah-linked **money-laundering** scheme that involved the now-defunct Lebanese Canadian **Bank** has "no Canadian connection," the U.S. Drug Enforcement Administration says.

The U.S. treasury department and DEA said the Lebanese Canadian **Bank** (LCB) acted as a conduit funnelling funds through numerous countries into the hands of Hezbollah, a Shia militant group and political party in Lebanon.

The DEA said at least $329 million was wire transferred from the **bank** and others to the U.S. for used cars that were shipped to West Africa. Cash from the car sales was sent to Lebanon through Hezbollah-controlled channels. "As we alleged last year, the Lebanese Canadian **Bank** played a key role in facilitating **money laundering** for Hezbollah-controlled organizations across the globe," Michele M. Leonhart, administrator of the DEA, said in a statement Monday.

The LCB has a Montreal office, but the institution is based in Beirut. However, the **bank** had a "representative office" in **Canada**, meaning they were barred from receiving deposits and making transfers. LCB was only allowed to promote the services it provided in Lebanon. Its license was revoked last year by Finance **Canada** after a complaint was filed in the U.S. about the LCB's activities. Rusty Payne of the DEA's public affairs office said none of the money transferred through the LCB was sourced in **Canada**.

"There is no Canadian connection," Payne told QMI Agency. But that doesn't mean Hezbollah isn't active in **Canada**. Matthew Levitt of the Washington Institute for Near East Policy, says the group has an extensive network in **Canada** and it conducts primarily procurement work - purchasing dual-use technologies, for example, and redistributing them back to Hezbollah. In December 2011, Hezbollah's secretary general Hassan Nasrallah was asked about the group's presence in **Canada**.

"Yes," Nasrallah responded and Levitt reported in a paper. "Hezbollah has members in Montreal, Ottawa, Toronto; in all of **Canada**."

In one of Levitt's reports, he says in addition to fundraising and espionage, Hezbollah has activated sleeper cells in **Canada**.

"But they're primarily using North America as a cash cow," Levitt said. In a statement, U.S. Attorney for the southern district of New York Preet Bharara said the investigation and seizure of money on Tuesday is a big step in fighting terrorism.

"Money is the lifeblood of terrorist and narcotics organizations, and while banks which launder money for terrorists and narco-traffickers may be located abroad, today's announcement demonstrates that those banks and their assets are not beyond our reach," Bharara said.

Both the Canadian and U.S. government designate the radical Islamist group Hezbollah a terrorist organization.

Edition: Final

NATIONAL POST

Latest example of banksterism shows why faith in capitalism is fading

Financial Post | Opinion
Fri Jul 13 2012
Section: Diane Francis
Byline: Diane Francis

Another sordid example of banksterism - **money laundering** - surfaced this week accompanied, not surprisingly, by a blistering global poll that shows faith in capitalism is shrinking.

HSBC (Hong Kong and Shanghai **Bank** Corp.), the largest financial institution in Europe, revealed "major internal-control problems" and plans to apologize for its lapses next week to a U.S. Senate subcommittee into **money-laundering** and terrorist-financing activities. The **bank** could pay up to US$1-billion in fines, according to news stories.

Related

Barclays Diamond denies lying to Libor inquiry

U.S. Fed knew of Libor problems in 2007

Fallout from Libor scandal likely to hit **Canada**'s financial industry

HSBC is also embroiled with more than a dozen others in the gigantic Libor interest rate rigging scandal, along with Barclays, that has been in the headlines. Banks could pay fines of up to US$22-billion worldwide, say some analysts.

The **bank** issued a candid statement in advance of the Senate hearing: "Our anti-**money laundering** controls should have been stronger and more effective, and we failed to spot and deal with unacceptable behavior," Stuart T. Gulliver, the chief executive of HSBC, wrote in a memo to employees on Wednesday.

The period when the **money laundering** occurred was between 2004 and 2010, before its current management took over.

This scandal plus the LIBOR price fixing has sparked another large-scale Parliamentary probe into British banking in general, similar to one that probed Rupert Murdoch's media empire recently. Just as then, there are calls for an overhaul across the entire "banking culture."

What's also parallel, in political terms, is that HSBC's former chairman, Stephen Green, (in office from 2006 to 2010 when the **money-laundering** detection problems occurred) is currently trade minister in British Prime Minister David Cameron's government. Likewise, Cameron's former director of communications, Andrew Coulson, had left problems behind at the Murdoch empire then was forced to leave 10 Downing Street this spring because of the inquiry. He was recently arrested for perjury.

HSBC shares have tumbled as the market was notified on the Senate's website as to its agenda for Tuesday: "a hearing on the **money laundering** and terrorist financing vulnerabilities created when a global **bank** uses its U.S. affiliate to provide U.S. dollars, U.S. dollar services, and access to the U.S. financial system to high risk affiliates, high risk correspondent banks, and high risk clients, using HSBC as a case study."

But bad banking is only one issue. Another has been the continuing proliferation - and lack of action by governments or banks - against secrecy havens. The Organization for Economic Co-operation and Development has crusaded against this for years, the G-7 and G20 have issued countless manifestos against the practice, but absolutely nothing changes. Without prohibiting dirty money havens, the world's capitalist system can never been reformed because they hold billions of dollars worth of deposits on behalf of corrupt dictators or cunning political and business leaders.

This could easily be solved if the world's nations banned travel and trade with these places. The list was published this month by the OECD and contains some surprising countries: The "blacklist" includes Costa Rica, Philippines and Malaysia. Under the heading of "non cooperative countries" are Austria, Belgium, Brunei, Chile, Guatemala, Luxembourg, Singapore and Switzerland.

Then there is the so-called "grey list" of countries that have committed to change, whatever that means, but as yet haven't. These include the usual suspects: Andorra, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Belize, Bermuda, British Virgin Islands, Cayman Islands, Cook Islands, Cyprus, Dominica, Gibraltar, Grenada, Guernsey, Isle of Man, Jersey, Liberia, Liechtenstein, Malta, Marshall Islands, Mauritius, Monaco, Monserrat, Nauru, Netherlands Antilles, Niue, Panama, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and Grenadines, Samoa, San Marino, Seychelles, Turks and Caicos Islands, US Virgin Islands, Vanuatu and Uruguay was recently added to this list.

Such malpractice, and accompanying immorality, are demoralizing enough to ardent free enterprisers like myself, but it has created a global backlash against

capitalism itself.

This week, the Pew Research Center released the results of its 21-country survey of 26,210 people. They have become increasingly pessimistic and disenchanted with capitalism since 2008.

To no one's surprise, respondents in fast-growing emerging economies untouched by the financial crimes of 2008 onward, have rosier outlooks and positive opinions toward capitalism. These include countries such as Brazil, China and Turkey.

But formerly rich basket cases such as most of the EU (Germany excepted), Japan and even the recovering U.S. or **Canada**, have increasing numbers of people who have been, or will be, left behind. They are dissatisfied with the status quo.

Of the 21 countries surveyed, only in China, Germany and Egypt do more than half of respondents say they are content with their nation's direction. Those who are angry about their national situation and direction mostly blame banks and financial institutions. As for belief in capitalism, only half of the respondents in 11 countries agreed that free markets were the best system.

Canadian opinions were not measured separately, but an April poll showed that the majority of Canadians living in booming Manitoba, Saskatchewan and Alberta were happy and confident, but Canadians living elsewhere were not. They worried about the future and a large proportion, with 30% claiming they had become incapable of making ends meet.

Frankly, banks, as poorly as they have performed, are not the only culprits that have caused the demoralization of rich nations. This is what the Great Markdown looks like after decades of spendthrift governments and a declining work ethic contrasted with thrift and hard work in emerging economies. It will only worsen.

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The Sudbury Star

Punishment not enough to prevent banks from commit ing fraud

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Byline: ALAN SHANOFF

Why are banks so susceptible to fraud? I don't mean fraud committed against banks, but rather fraud perpetrated by banks or fraud facilitated by **bank** conduct.

In September, the Toronto- Dominion **Bank**'s U.S. branch was fined $52.5 million by U.S. regulators for its role in a $1.2 billion Ponzi scheme operated by a lawyer, Scott Rothstein.

According to the U.S. Department of the Treasury, the **bank** ignored customer account activity which "repeatedly triggered alerts in the **Bank**'s anti-**money laundering** monitoring system." According to the SEC, the **bank** "defrauded investors by producing a series of misleading documents and making false statements about accounts that Rothstein held at the **bank** and used to perpetuate his scheme."

Last year the Royal **Bank** of **Canada** agreed to pay $17 million to settle a class-action lawsuit with victims of a Quebec Ponzi scheme operated by Earl Jones. Of course, it didn't admit liability. RBC Dominion Securities and two brokers were also fined $700,000 for "failing in their duty to protect the financial markets" from the Ponzi scheme.

According to the book, Thieves of Bay Street : How Banks, Brokerages and the Wealthy Steal Billions From Canadians, by investigative journalist Bruce Livesey, RBC "overlooked glaring clues that Jones was running a scam."

Bernie Madoff has implicated banks in his massive Ponzi scheme, stating various banks and hedge funds engaged in "willful blindness", adding "they had to know".

Of course, we can't forget the CIBC's role in the Enron fraud, which resulted in creditors' losses of $38 billion. The **bank** settled civil claims of $2.4 billion (US) and paid an additional $80 million (US) in fines to the Securities and Exchange Commission.

Plus, we can't overlook the role of the banks, including Canadian banks, in the financial crisis of 2008 related to the sale of subprime mortgages and other forms of bad debt converted into investment products and sold to an unsuspecting public. Nor can we overlook the manipulation of interest rates in the Libor scandal. According to Bloomberg Businessweek banks deliberately reported false borrowing costs which affected the "value of trillions of dollars of derivatives contracts, mortgages and consumer loans."

These are but a few recent examples of **bank** misconduct. It's almost as if there is a virus that has affected banks worldwide. Our supposedly staid, conservative Canadian banks haven't proven immune. We can't blame this on rogue employees.

They are too many incidents taking place over long periods of time to believe that.

Which leads me to ask what is it about banks and their culture that makes them susceptible to bad behaviour?

The answer is multi-faceted, but surely we must focus on the fact many banks have become above the law.

Sure, banks are sued and fined. Sometimes their employees are even prosecuted. But we never adequately punish banks.

If we impose fines that would actually hurt, we risk a **bank** failure, or harming shareholders.

In **Canada**, where we have a **bank** oligopoly with a limited number of chartered banks, each one is almost too big to fail.

If we were to levy appropriate penalties, we'd risk another financial crisis and further government intervention into the financial system.

Thus banks appear to have little incentive to perform their roles as "gatekeepers to the capital markets", to comply with laws set up to weed out money launderers, Ponzi schemers or fraudsters, or not to sell us ill-conceived products they know are doomed to fail.

Since banks and bankers seem to love money, perhaps the only way to modify their behaviour is collective punishment. Perhaps we could prohibit **bank** executives from collecting bonuses in any year in which their banks engaged in or allowed others to engage in fraud.

Perhaps we could prohibit **bank** directors from receiving fat directors' fees in such years.

That and criminal prosecutions, putting people in jail, might just work.

Whistleblower: HSBC Still Laundering Money for Terrorists, Drug Cartels

(Truthstream Media.com)

Big banks are apparently too big to jail, even when they bankroll terrorists and drug cartels, while regular people fill the prisons in the world's largest drug population for mostly non-violent drug offenses.

As a former Anti-Money Laundering Officer at HSBC, Everett Stern was arguably never actually supposed to catch money laundering activity. Instead, with little training but an inclination to make a difference, Stern caught massive levels of fraud, and contacted CIA and FBI officials in the summer of 2010 to alert them of systematic financing for terrorist organization, drug cartels and other shady entities.

HSBC was eventually fined $1.9 billion dollars by the U.S. Treasury, but Stern recently joined Occupy Wall Streets' Alt Banking protest (See video) – despite being a self-described conservative Republican – to call for criminal charges and accountability over what he says is continued money laundering on the part of HSBC officials.

Luke Rudkowski, of We Are Change, spoke with Everett Stern about his whistleblowing activities, and how he says the bank deliberately set itself up to fail at catching laundering transactions:

Certain companies and individuals flagged for illicit and criminal behavior are officially flagged in the system, and prohibited from authorized trade. But according to Stern, executives inside the system learned how to simply reclassify the coding to allow payments to go through to these entities.

Hundreds of millions of dollars were funneled to terrorist organizations including Hamas and Hezbollah – via the firm Tajco, operated by the Tajideen brothers – as well as drug cartels like Sinaloa and Los Zetas and Russian mobsters.

At the center of Everett Stern's (@Twitter) whistleblowing allegations is an account of how HSBC gave the appearance of putting into place a serious anti-money laundering unit, while in actuality it hired low level debt collectors with little to no experience, after it sold off its card card division to Capitol One.

Rolling Stone's February 2013 article 'Gangster Bankers: Too Big to Jail' helped but Everett Stern's case in the spotlight. In it, Matt Taibbi explained the circumstances that led to Stern catching the illegal activity:

> From the outset, Stern knew there was something weird about his job. "I had to go to the library to take out books on money-laundering," Stern says now, laughing. "That's how bad it was." There were no training courses or seminars on money-laundering – what it was, how to detect it. His work mainly consisted of looking up the names of unsavory characters on the Internet and then running them through the bank's internal systems to see if they popped up on any account names anywhere.
>
> Even weirder, nobody seemed to care if anybody was doing any actual work.

Later, Stern took it upon himself to look up suspicious names, research their connections on the Internet, and try to find them in the financial transactions database:

> Soon enough, though, out of boredom and also maybe a little bit of patriotism, Stern started to sift through some of the backlogged alerts and tried to make sense of them. Almost immediately, he found a series of deeply concerning transactions. There was an exchange company wiring large sums of money to untraceable destinations in the Middle East. **A Saudi fruit company was sending millions, Stern found with a simple Internet search, to a high-ranking figure in the Yemeni wing of the Muslim Brotherhood. Stern even learned that HSBC was allowing millions of dollars to**

> **be moved from the Karaiba chain of supermarkets in Africa to a firm called Tajco, run by the Tajideen brothers, who had been singled out by the Treasury Department as major financiers of Hezbollah.** [emphasis added]

Stern, who wanted to become a clandestine CIA agent to fight terrorism, says he's now under threat of legal action from HSBC, but shrugged it off, telling Luke Rudkowski that he considers blowing the whistle about these activities to be a "national security issue." Stern previously testified as a federal witness in the U.S. Government's probe into HSBC money laundering, but unsatisfied, he continues his efforts through the grassroots to demand justice for officials involved and an end to their activities.

As Taibbi wrote, "the U.S. Justice Department granted a total walk to executives of the British-based bank HSBC for the largest drug-and-terrorism money-laundering case ever. Yes, they issued a fine – $1.9 billion, or about five weeks' profit – but they didn't extract so much as one dollar or one day in jail from any individual, despite a decade of stupefying abuses."

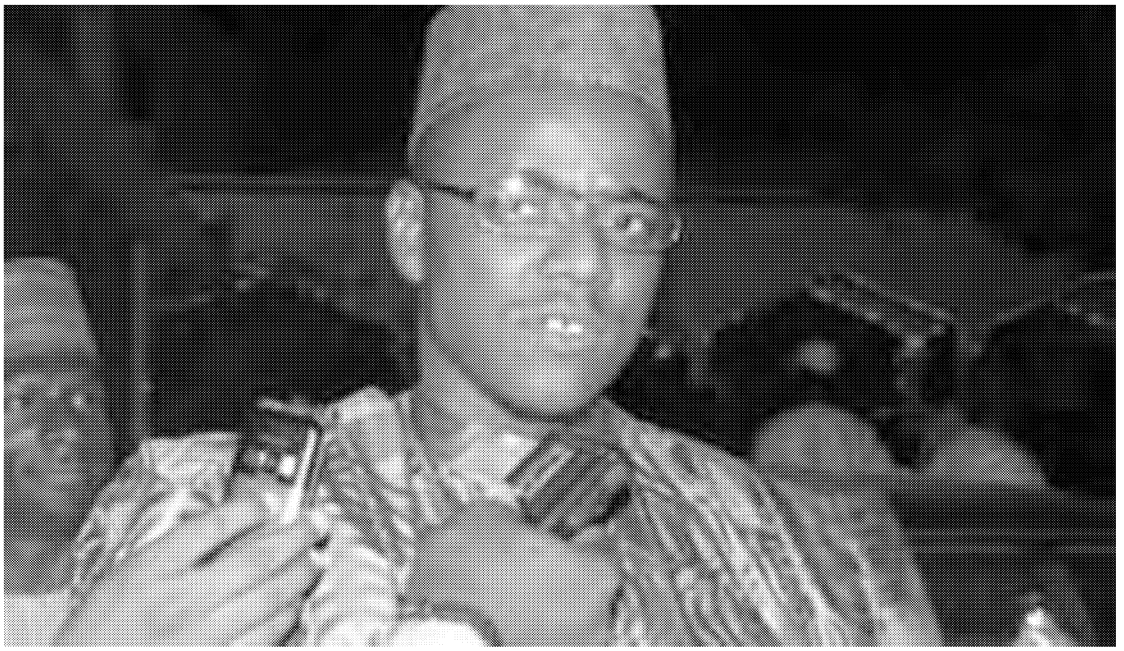
HSBC, based in London, with U.S. offices in Delaware and around the world, is by no means the only major bank involved in money laundering for terrorists and drug dealers.

In 2011, the *London Guardian* reported on how Wachovia – now part of Wells Fargo – also found itself in hot water for "failing to maintain an effective anti-money laundering programme" back in 2006 after Mexican troops intercepted a plane carrying 5.7 tonnes of cocaine and $100 million, which were later traced back to laundering activities through the bank. Charges were brought against the bank, but resulted in only a relatively small fine. The Guardian reported:

> Criminal proceedings were brought against Wachovia, though not against any individual, but the case never came to court. In March 2010, Wachovia settled the biggest action brought under the US bank secrecy act, through the US district court in Miami. Now that the year's "deferred prosecution" has expired, the bank is in effect in the clear. It paid federal authorities $110m in forfeiture, for allowing transactions later proved to be connected to drug smuggling, and incurred a $50m fine for failing to monitor cash used to ship 22 tons of cocaine.

Money Laundering: SSS Detains Staff of 13 Banks over Lamido's Son

16 Nov 2013 Font Size: a / A



Aminu Suleiman Lamido

Jigawa governor's sons in EFCC's custody
Presidency denies claim that Jonathan was informed of a $250m bribery allegation
By Ike Aboyin, Jaiyeola Andrews, Adebiyi Adedapo and Obinna Chima
Senior personnel of 13 Nigerian banks have been languishing in detention in the holding facility of the State Security Service (SSS) for almost two weeks over allegations of terrorist financing and money laundering believed to have been perpetrated by Aminu Suleiman Lamido, son of Jigawa State Governor, Alhaji Sule Lamido.

Also on Thursday, Aminu and his brother, Mustapha Lamido, were arrested by EFCC over an alleged N10 billion fraud. They were arrested in Kano and flown to Abuja Friday and have since been under interrogation at the commission's headquarters.

The banks whose staff have been picked up are Fidelity Bank Plc, First City Monument Bank Plc (FCMB), Wema Bank Plc, Access Bank Plc, Skye Bank Plc, First Bank Nigeria Limited (FBN), Sterling Bank Plc, Diamond Bank Plc, Zenith Bank Plc, Unity Bank Plc, Ecobank Plc, Guaranty Trust Bank Plc (GTBank) and Citibank. The SSS, which has been on the trail of Aminu Lamido, THISDAY learnt, had sought an ex parte motion from the Federal High Court, Abuja, to freeze the accounts, in 13 banks, of Adold Engineering Company Limited, believed to be owned by the governor's son.

A copy of the ex parte motion, which was obtained from the court by THISDAY, showed that order to freeze the accounts was granted by Justice A.F.A Ademola on November 6, 2013.

It stated: "An order is hereby made freezing the accounts of the underlisted corporate body and financial institutions in the banks (1st – 14th respondents) indicated against their names for their suspected involvement with acts of terrorists' financing and money laundering.

"An order is hereby made compelling the 2nd to 14th respondents (the banks) in this case to deliver up and furnish the State Security Service/applicant in this case with the respective bank statements and mandate cards of the 1st (Adold

Engineering) and 2nd respondents (Fidelity Bank) in this case.

"An order of the Honourable Court is hereby made keeping the above listed accounts frozen until the conclusion of investigations.

"That the ex parte order of the court made is to last for one month from date of service on the respondents with liberty to party(ies) to comply to this court as they deem fit within the said period."

The ex parte granted by the court further showed Adold Engineering operated the following accounts; in FCMB – 11 accounts; Wema Bank – one account; Access Bank – three accounts; Skye Bank – four accounts; FBN – five accounts; Sterling Bank – three accounts; Diamond, Zenith and Unity Banks – one account each; Ecobank – two accounts; while GTBank and Citibank have one account each.

THISDAY further gathered that most of the staff of the banks were either picked up from their homes in Gestapo style, at bank branches, or were invited by SSS operatives in Lagos, Abuja, Jigawa and Kano, and whisked away to the SSS headquarters in Abuja, where they have been in detention for up to two weeks.

In the case of one of the affected banks, THISDAY was made to understand that their Chief Compliance Officer, GM Northern Operations, Kano and Jigawa Branch Managers, Chief Inspector, Head of Treasury and Head of IT have been the guests of the SSS for two weeks.

A source revealed that in one instance, the SSS operatives went to the homes of one bank official wielding menacing Uzi machineguns and ransacked the home, slit mattresses and children's clothes during their search for documents.

What is most worrisome for the banks is that none of the affected staff have been given access to their families and lawyers during the entire period of their detention.
A Central Bank of Nigeria (CBN) official who is aware of the clampdown on banks by the SSS said: "The situation is most worrisome because these personnel have been in detention for more than ten days.

"Our laws provide that no one can be detained for more than 48 hours and if the SSS has a case against them, they should be charged to court instead of holding them for days unend.

"We are also concerned that the SSS lacks the capacity to carry out a thorough investigation on financial crimes of this nature, as the Economic and Financial Crimes Commission (EFCC), which works in conjunction with the Nigerian Financial Intelligence Unit is better suited to these kinds of investigations.

"Besides, all the banks render anti-money laundering returns daily to the CBN and EFCC under an automated system, so if the SSS had made the relevant enquiries they could have been furnished with all the details they needed."

Another source in the banking industry alleged that the clampdown on banks goes beyond the allegations of terrorist financing and money laundering against Aminu Lamido, as the dragnet is being expanded to include Kano State and other states governed by the G7 governors.

"We believe this goes beyond the allegations against the governor's son. We are aware that Kano State Government is the next target and could also involve other G7 states. It may be more political than anything else," a bank official informed THISDAY.

When contacted, spokesperson for the SSS, Ms. Marilyn Ogar, confirmed that the SSS was investigating massive money laundering and corruption alleged to have been perpetrated by Aminu Lamido through his company, Adold Engineering.
She dismissed allegations that the SSS was targeting the G7 governors and the finances of their states, stressing, "The SSS is investigating massive money laundering and corrupt practices. That is all I can say on the matter. If the banks feel aggrieved, they should go to court."

Another SSS source also informed THISDAY that the security organisation has a holding charge for the bank officials until it concludes its investigation. Aminu Lamido has had a run in with the law in the past. About a year ago, he was arrested at the

Aminu Kano International Airport, Kano, for failing to declare $50,000 he had in his possession. He was later charged to court for money laundering.

Over N10 billion was allegedly transferred from Jigawa State Government accounts into the accounts in which the governor and his two sons have interest from 2007 till date.
EFCC is reported to have traced these transfers to 10 companies where Lamido and sons are directors and signatories to the accounts.

Some of the companies linked to the accounts include Bamaina Alluminium Limited, Bamaina Holdings Limited, Bamaina Company Nigeria Limited, Rawda Integrated Services Limited, Speeds International Limited and Saby Integrated Nigeria Limited.

Confirming the arrest yesterday in Abuja, the commission's Head of Media and Publications, Wilson Uwujaren said Aminu Lamido and Mustapha Lamido were arrested Thursday night in Kano over financial crimes running into billions of naira.
"I cannot tell you specifically the amount involved, but it runs into billions of naira," he said.

He also confirmed that the suspects were brought to the commissions headquarters in Abuja for interrogation.

Uwujaren explained that the arrest was an extension of Aminu's arrest in December 2012 for being in procession of $50, 000 at the Kano International Airport, and linked the Governor to illegal deals.

According to him, further investigation into Aminu's sources of income revealed other transactions which implicated his brother and their father.

"I am confirming to you that both Mustapha Lamido and Aminu Lamido were arrested last night in Kano and they were brought to Abuja this morning. They were arrested for money laundering investigation," he said. He added that "The 2012 case has been concluded and conviction secured, but further investigations about Aminu's sources of income revealed details of financial transactions involving him, his brother and the Governor himself."

Asked whether Governor Lamido would be invited to answer questions on the allegation, Uwujaren said investigations were still ongoing, but added that the governor maybe invited if need be.

He maintained that the issue of bail had not arisen as they were still undergoing interrogation.
"Nobody is discussing bail with them now, like I said, they are still undergoing interrogation," he said.
In another development, the Presidency yesterday denied the claim by Governor Lamido that he informed President Goodluck Jonathan that a serving minister collected $250m bribe and the President failed to act on the information.

A statement issued by the Special Adviser to the President on Media and Publicity, Dr. Reuben Abati, said: "We have noted with much regret, the grossly irresponsible, false and mischievous claim by the Governor of Jigawa State, Alhaji Sule Lamido that President Goodluck Jonathan has refused to act on information that a serving minister recently collected a bribe of $250 million from an oil company.

"The Presidency views the patently bogus allegation reportedly made by the Governor in a radio interview yesterday as an unacceptable and callous attempt to unjustly impugn the integrity of President Jonathan and cast aspersions on the seriousness of his Administration's efforts to curb corruption".

Noting that the allegation was absolutely without any foundation in fact or reality, because no such communication occured between them, the statement said, "We abhor Governor Lamido's descent to the unscrupulous, reckless and thoughtless peddling of arrant falsehood in a puerile effort to score cheap political points against President Jonathan for personal and sectional political gains.

"If, as he claims, Alhaji Lamido has credible information about a minister receiving the said amount as bribe, he should publicly name the minister involved without delay and provide evidence to support his allegation.

"In the event that he is unable to do so, he should be prepared to offer an unreserved apology to the President and Nigerians

for his unwarranted and unjust effort to denigrate, disparage and malign the President and the Federal Government" the Presidency said.

Tags: News, Nigeria, Featuered, money laundering

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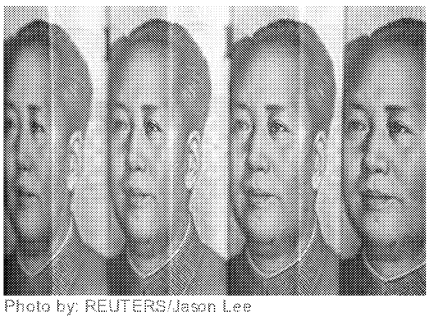
Photo by: REUTERS/Jason Lee

NY appeals court rules to apply Israeli law in Bank of China terror financing case

By YONAH JEREMY BOB
20/09/2013

Ruling seen as victory for families of terror victims suing Bank of China; Israeli law uniquely strict on indirect aid of terror finance.

Shurat Hadin – Israel Law Center won a significant battle in its terror financing case against the Bank of China, the center announced.

Shurat Hadin convinced the New York Appellate Division to apply Israeli law and keep the case, filed on behalf on 22 families, in New York, the center told The Jerusalem Post late on Thursday night.

The most dramatic aspect of the state appeals court decision was that it both reversed the lower New York court decision to apply New York law in the case, in favor of Israeli law, and it made this decision against recent precedents by the New York-based US Court of Appeals for the Second Circuit.

The state appeals court also reaffirmed the lower court's decision to keep the case in New York as opposed to moving it to China, and rejected outright the bank's appeal to apply Chinese law instead of either Israeli or New York law.

The court recognized the decision as significant, as Israeli law includes a right to sue and receive damages for violation of specific statutes, including a uniquely Israeli statute that places wide liability on banks and others that even indirectly aid or facilitate terrorists financing.

New York law's obligations on banks are more lenient regarding anything their clients may be involved in.

Certainly the entire case and chances of winning would have been radically different under Chinese law and in China than under Israeli law and in New York.

The victims and family members of victims of terrorist attacks perpetrated between 2004 and 2007 in Israel allege that starting in 2003, the Bank of China executed dozens of wire transfers for Hamas and Islamic Jihad totaling several million dollars.

The case is still far from trial or any sort of resolution, but unlike beating a regular motion to dismiss, where usually a plaintiff merely has to survive small procedural hurdles that do not impact the case later, this decision, especially in applying Israeli law, gives the plaintiffs a significant advantage at all points of the case going forward as the framework will always be one applying greater liability against the Bank of China.

The development comes shortly after another major development, where according to an ex-

The development comes shortly after another major development, where according to an exclusive report in the Post, key former Israeli government witness Uzi Shaya sent a letter out on the case that he was "inclined" to testify despite reports that China threatened to cancel Prime Minister Binyamin Netanyahu's visit to China last spring if Israel did not prevent Shaya from testifying.

Shurat Hadin had said that Shaya's letter would indicate that he has faced potential opposition from the Israeli government about testifying, but that he believes he can testify anyway.

Despite that belief, Shaya explained to Shurat Hadin that he wished to give the government time to formulate an official position, particularly since the government might, in the end, endorse his testifying.

In July, the bank's lawyers said that maybe the government was withholding Shaya's testimony because it believed his testimony would be inaccurate – though the court appeared to reject this out of hand.

The significant question of whether Shaya will testify is being reviewed by the government, according to an official letter response to the court from July 12 by deputy director of the international department of the State Attorney's Office, Yitzhak Blum.

The court expressed frustration that the letter did not give any deadline for an answer and indicated it would be responding to Blum's letter by requesting a deadline.

THE GLOBE AND MAIL

How a Canadian was charged with money laundering in sale of bitcoins

Tu Thanh Ha
The Globe and Mail
Published Wednesday, Feb. 12 2014, 3:11 PM EST
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On a hot Florida morning a week ago, a young Quebecker named Pascal Reid showed up at a boutique hotel in Miami's Art Deco district, carrying a laptop and an electronic wallet that held $316,000 in digital currency.

Mr. Reid was expecting to meet a man who had purchased bitcoins from him before. The buyer was, in fact, an undercover agent for the U.S. Secret Service, which arrested Mr. Reid and charged him with money laundering.

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The case has shone a spotlight on the way that virtual currencies such as bitcoin have been used for illicit purposes. The arrest is also significant because it targeted people using Localbitcoins.com, an online directory that is one of the last places where bitcoins can be traded anonymously, an expert said.

"Bitcoin may be pseudonymous, but actually buying and selling bitcoins anonymously is not easy," Nicholas Weaver, a senior researcher at the University of California at Berkeley's International Computer Science Institute, said in an e-mail interview.

He said there were past examples of criminals using Localbitcoins.com as a black-market venue. "Criminals have to buy their bitcoin using some anonymous method. Thus it is natural to expect law enforcement to continue to focus on anonymous transactions used to buy and sell significant quantities of bitcoin."

In Canada, concerns about the illicit use of bitcoins are reflected in Tuesday's federal budget, which stated that the government wants to bring in legislative amendments to regulate the "emerging risks" associated with online currencies such as bitcoin and prevent their use for terrorism or money

laundering.

According to his arrest form, Mr. Reid was told by the undercover agent that the money used to buy his bitcoins came from credit-card data stolen in the highly publicized hacking of the Target retail chain. Mr. Reid also asked the agent about buying forged identification papers, the police document alleged.

"The use of bitcoins in the transactions is a new technological flourish to this very old crime. Today's arrests may be the first state prosecutions involving the use of bitcoins in money-laundering operations," the office of Miami-Dade State Attorney Katherine Fernandez Rundle said in a statement after the arrest.

Mr. Reid is a 29-year-old Montrealer who moved to Florida about 15 years ago, according to his mother.

The allegations against Mr. Reid have not been tested in court. His lawyer, Ron Lowy, said the authorities are trying to send a message to other bitcoin users by prosecuting his client, who has pleaded not guilty.

The investigation began in early December last year when Secret Service Special Agent Mark Kramer went on the Localbitcoins.com website, looking for sellers of bitcoins. He saw that someone calling himself Proy33 could be contacted "anytime" to meet in public places and trade bitcoins for cash.

According to the arrest form, the agent texted Proy33, saying, "I want to start with about 600."

They met at a Starbucks, where Proy33 sold the bitcoins to Mr. Kramer, with a 20 per cent commission. Afterward, a surveillance team followed Proy33 to his Broward County home and identified him as Mr. Reid.

At a second meeting, Mr. Kramer bought nearly $1,000 in bitcoins and offered to sell stolen credit card data to Mr. Reid. The Quebecker declined but said he would "think about it," the arrest form says.

By the end of January, the two men agreed to a $30,000 transaction and Mr. Reid said he would send Mr. Kramer four to six bank account numbers to break up the deal into smaller portions, the arrest form alleges. Mr. Reid also told the agent that he would be flying to Switzerland to meet with bankers about bitcoins.

Mr. Reid later texted that "there has been some crazy stuff happening with cash deposits with Chase and Bank America since Saturday" and that they would need to meet in person.

They agreed to a rendezvous last Thursday at a beachfront hotel, the Casa Grande Suite.

They met around 9:30 a.m. and Mr. Kramer told Mr. Reid that the money used in the previous two

transactions came from credit-card data stolen in the Target hacking.

"Reid replied by stating that it would be good for the bitcoin community. Reid then redirected the conversation by asking if Kramer was able to obtain counterfeit Florida driver's licences and other counterfeit documents, such as social security cards and passports," the arrest form says.

The undercover officer mentioned the Target stolen credit-card data again and then showed a "flash roll" of $30,000 in $100 bills.

Mr. Reid inspected some of the cash, then, to prove that he was able to cover the deal, revealed that he had a wallet with 403 bitcoins, worth $316,000, the arrest form says.

Using a laptop, Mr. Reid completed the transaction, taking a $5,000 commission, the arrest form says. He was then arrested.

Less than two hours later, in the same hotel, in a similar investigation, investigators arrested Michell Abner Espinoza, a 30-year-old Peruvian who was approached on Localbitcoins.com in the same fashion as Mr. Reid.

Both men were each charged with two counts of money laundering and one count of operating an unlicensed money services business.

Mr. Reid is to return for a hearing in Miami-Dade criminal court on Feb. 27.

"He's a good kid. Never been any problem before, never, never, never," his mother, Chantal Desbois, said in an interview. "I don't know what could have happened. I don't understand."

Mr. Lowy, Mr. Reid's lawyer, described his client as a well-meaning "techno-geek" who is being scapegoated by authorities who are trying to send a message about the use of bitcoins.

"This is going to have a chilling effect on the public perception of bitcoins," he said in an interview.

infomart

NATIONAL POST

Euro brings risks to Latvian banks; Dirty money

National Post
Tue Dec 31 2013
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Section: Financial Post
Byline: Gary Peach
Dateline: RIGA
Source: The Associated Press

When Latvia adopts the euro on Jan. 1, it will bring with it a banking sector that is swelling with suspicious money from Russia and the east - just as the currency bloc is trying to clamp down on such havens.

It was just nine months ago that the eurozone had to rescue Cyprus, a similarly tiny member state that also specialized in attracting huge deposits from Russia. Since then, eurozone leaders have vowed to crack down on financial sanctuaries and improve transparency.

But as the 18th member of the eurozone, Latvia is likely to see a greater - not smaller - influx of dirty money as the country will be viewed as safer than other former Soviet states while financial oversight remains loose.

"Immediately after Latvia joins the eurozone, I imagine we're going to see an actual spike in dubious money flowing in," said Mark Galeotti, a professor at New York University who researches organized crime in the former Soviet Union.

For years, Latvia's political and financial leaders had hoped to create a mini-Switzerland in Eastern Europe - a place where capital in unstable countries such as Russia or Kazakhstan could either park for a while or channel its way further west to banking meccas like Zurich or London.

After a slight dip during Latvia's financial crisis in 2008-2010, the amount of non-resident bank deposits has risen rapidly over the past two years ahead of the country's entry into the eurozone.

"The issue with Latvia is that you have a pretty permissible political environment, and you have the massive and quite efficient infrastructure for managing these funds from the East. The question is, why wouldn't you want to go to Latvia?" Mr. Galeotti said.

Latvia has 20 domestically registered banks, or one for every 100,000 residents - an extremely high ratio. Of these, about 13 are considered "boutique banks" that rely almost exclusively on foreign funds, mainly from volatile countries of the former Soviet Union. Rather than lend to businesses and consumers, these tiny financial institutions primarily serve as safe havens or money transfer operations. They tend to keep their money in liquid assets so it can quickly be moved.

Some of the money is dirty. This year, Latvia's bank regulator slapped a 100,000-lat (US$200,000) fine on a bank for failing to exercise sufficient internal controls with money connected to the socalled Magnitsky case.

Sergei Magnitsky was a Russian **lawyer** who worked for Hermitage Capital, an investment fund whose chief executive accused Russian police officials of stealing US$230-million in tax rebates after illegally seizing Hermitage subsidiaries. In 2008, Magnitsky, at the age of 37, died in prison of pancreatitis, allegedly after being beaten and denied medical treatment.

Hermitage Capital claimed that tens of millions of dollars of the stolen money passed through Latvia.

Claiming confidentiality and a risk of destabilizing the industry, Latvia's regulator refused to "name and shame" the bank connected to the case. This refusal, as well as the small size of the fine, triggered criticism and renewed doubts about the regulator's integrity despite imminent eurozone membership.

"The regulators don't have teeth," Mr. Galeotti said. They maintain "a kind of culture that emerged in Latvia in the late 1990s ... which was ultimately 'Latvia desperately needs business, and therefore the role of the regulator is not to impede business,' " he said.

Non-resident bank deposits comprise nearly half of all deposits, which is unusual, and they are on the rise. In the first quarter of 2013, nonresident deposits soared 17.7% compared with the same period in 2012 - clear evidence that Latvia's attractiveness as a safe haven is not relenting. The economy has been the fastest-growing in the EU for the past three years and the country displays a remarkable degree of political stability.

"Latvia has historically had a large banking sector, has extremely strict data privacy laws, speaks Russian and 'gets' the post-Soviet mentality," said Tom Wallace, an analyst at C4ADS, a Washington, D.C.-based firm that specializes in data analysis and security.

Mr. Wallace, who co-authored a report on the links between Latvian banks and Ukrainian companies involved in the illicit arms trade, added that Latvia "is an EU member and so acts as a conduit to Western financial institutions. If you have money you want to discreetly move out of the former Soviet Union, Latvia has a lot of advantages."

Latvia's banks face scrutiny in a eurozone-wide review by the European Central Bank, which is trying to find weak spots in the financial sector to improve transparency and confidence.

The good news for the eurozone is that Latvia's banking system is not too big compared with its economy. That means the country is less likely to need a bailout from its new eurozone partners to save its banks, should they run into trouble, as happened with Cyprus.

As of Sept. 30, the banks held nearly 20-billion lats (US$30-billion) in assets, or about 120% of gross domestic product, far less than the average 320% in the eurozone in 2011.

On the flip side, for Latvia, the eurozone is now a safer economic bloc to join than it was 18 months ago, when many investors worried it would break apart. Markets have calmed since ECB vowed in the summer of 2012 to do whatever it takes to keep the bloc together.

Latvia's regulator says it has introduced a number of controls aimed at anti-**money laundering**, counter-**terrorist** financing and preventing excessively large sums from entering the banking system. Experts agree that the regulator has acknowledged the risks of dirty money and is addressing them, even if slowly.

But Latvian bankers say that pinpointing dirty money is not cut-and-dry.

"As anti-laundering regulations become more elaborate across the globe, so are the schemes used by persons who try to avoid them," said Arvids Sipols, who has worked 16 years in Latvian banks and is now on the board of Nord Capital Markets, a Riga-based asset management firm.

Illustration:
• Jason Alden, Bloomberg News Files / A Swedbank AB branch is illuminated against the night sky of Riga, the capital of the newest member of the eurozone.

NATIONAL POST

Criminals may exploit native banks: RCMP; Money Laundering; Tax-free status tempts organized crime, police say

National Post
Tue Oct 9 2012
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Byline: Stanley Tromp
Source: Financial Post

Organized crime groups could exploit banks located on Canadian Native reserves to launder money and grow their profits, according to an RCMP criminal intelligence report.

"A recent Supreme Court of **Canada** decision created a new window of opportunity for organized crime groups," the RCMP warned in the November 2011 report on cigarette smuggling, obtained under the Access to Information Act.

That assessment followed a July 2011 ruling by **Canada**'s top court that interest income earned from deposits in banks located on reserves is not taxable under the long-standing Section 87 of the Indian Act, a decision that overturned two previous judgments, one from the Tax Court of **Canada**, and the other from the Federal Court of Appeal.

The appellant (a legitimate businessman) had earned interest on term deposits in an aboriginal credit union on the Mashteuiatsh Reserve in Quebec, even though he was a member of the Obedjiwan Reserve, where there was no bank. The majority ruled his membership location was unimportant, and also stated there was no need to consider whether under Section 87 the property or the activity which generated it "benefited the traditional Native way of life."

Yet two of the nine justices dissented, writing: "To grant the exemption in such circumstances would be tantamount to turning the reserve into a tax haven for Indians engaged in unspecified for-profit activities off the reserve."

The RCMP agreed, writing that, as a result of the ruling, "organized crime groups may seek to make arrangements with individuals of Native status to benefit from this tax protection. Such arrangements could be used to conceal the origins of illicit profits, as well as grow those proceeds with the tax protection through further investments.

"This decision has the potential to create barriers for law enforcement investigating the contraband tobacco market in First Nations reserves, as it provides an opportunity to launder earnings by filtering it through on-reserve bank accounts, and diverting the funds into the mainstream investment markets. It also provides an opportunity for tax evasion, and the ability to profit extensively from those earnings."

But some observers believe the RCMP warning is overstated, because the same cash reporting rules apply to aboriginal banks just as they did before the ruling, laundering is a separate topic from tax exemption and the judgment does not deal with forms of investment income other than interest on bank deposits.

"I just don't see how earning tax-free interest on the reserve would facilitate **money laundering**," said Jeffrey Pniowsky, a **lawyer** who intervened in the case for the Assembly of Manitoba Chiefs and who formerly worked for the Integrated Proceeds of Crime Unit of the Justice Department.

"That seems like a pretty far stretch," Mr. Pniowsky said. "The tax-free status was already happening, and this ruling only clarifies it. There is also a big difference between lawful tax avoidance and criminal tax evasion. Moreover, if there is a concern of natives increasing their exposure in the mainstream commercial world, so be it, and frankly speaking, their doing so is a good thing."

Aboriginal banks were created in **Canada** as one means to help raise natives out of poverty and economic dependence on the state. The National Aboriginal Capital Corporations Association (NACCA) was founded as a voluntary network in 1993 to aid aboriginal financial institutions. It has since developed into a formal association with 56 members, and for its members' guidance, its website publishes a sample Code of Conduct (modified from codes from the banking sector).

Point No. 11 states: "Prevent **money laundering** and fraud: we must comply with local laws, regulations and AFI standards on **money laundering** and fraud prevention."

On aboriginal banks' activity, Inspector Jean Cormier, acting director of the RCMP Proceeds of Crime Branch, said the ruling "would not change their reporting requirement under the Proceeds of Crime **Money Laundering** and **Terrorist** Financing Act."

Under the law, financial institutions in **Canada** must track cash transactions of more than $10,000 daily (or other large suspicious deposits) that could be used to fund criminal or **terrorist** activities within and beyond **Canada**'s borders, and report them to the Financial Transactions and Reports Analysis Centre of **Canada** (FINTRAC)

within 15 days.

FINTRAC posts 22 administrative penalties on its website (distinct from criminal penalties) that it imposed on named financial institutions since 2009, ranging from $3,190 to $169,080, for three credit unions but mostly money service outlets.

"Our first concern would be the initial deposit and introduction of any criminal proceeds of crime into accounts at any financial institutions," Insp. Cormier added. "The accumulation of interest is also of concern but secondary."

"The thing that might bring an elevated risk of **money laundering**," FINTRAC spokesperson Peter Lamey said, "is lack of compliance with the [Proceeds of Crime act], which is a separate matter from the court decision.

"This act applies to credit unions operated by aboriginal groups. If they are meeting their obligations under the law it should mitigate the risk that they might be used by criminals to launder money."

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NATIONAL POST

U.S. Fed warns Bank of Montreal on anti-money laundering controls

Financial Post | Business
Fri May 17 2013
Section: FP Street
Byline: Canadian Press

TORONTO - The Bank of Montreal and its U.S. subsidiary have agreed to beef up efforts to combat money laundering after American authorities found its operations in Chicago lacking.

The Canadian bank, U.S. Federal Reserve and an Illinois state agency have signed an agreement that gives BMO until late July to submit an acceptable plan for resolving the short-comings.

Among other things, the document says state and federal authorities identified problems when they examined the bank's branch in Chicago, where its BMO Harris Bank is based. The Fed said Friday the bank "lacked effective systems of governance and internal controls to adequately oversee" compliance with anti-money laundering rules.

Related

Canada's banks could be on the hook to bail out CMHC if disaster strikes

Oryx adds BMO as book runner on its $250-million IPO

BMO to open tiny 'studio' bank branches

Details of the deficiencies weren't disclosed in the document but it outlined steps for BMO to take including improved oversight by its board of directors and better internal training and reporting within the bank's organization. Bank of Montreal operates a U.S. consumer lending business in the U.S. Midwest through its Chicago-based BMO Harris Bank unit.

The agreement, dated April 29 and made public on Friday, outlines several deadlines for BMO to meet including an acceptable a written plan within 90 days and regular progress reports.

The bank said it was working to correct the problems.

"BMO is fully committed to the highest standards of regulatory compliance with Bank Secrecy Act/Anti-Money Laundering requirements and expectations in each of the jurisdictions in which we operate," BMO vice-president Paul Deegan said in an emailed statement.

In recent years, U.S. authorities have increased efforts to prevent criminals and terrorists from using the banking system for illicit activities. Among other things, it requires banks within its jurisdiction to comply with the Bank Secrecy Act's anti-money laundering requirements.

The 11-page agreement says BMO Financial Corp., the U.S. subsidiary that technically owns BMO Harris Bank, "lacked effective systems of governance and internal controls to adequately oversee the activities of Bank of Montreal's U.S. Operations with respect to legal, compliance, and reputational risks related to compliance with BSA/AML requirements."

Under the deal, the bank has agreed to provide funding for personnel and other resources to operate a system that "fully addresses the organization's compliance risks on a timely and effective basis."

THE HINDU

'HSBC arranged for opening of accounts abroad and withdrawal from Delhi itself'

Gargi Parsai

India Against Corruption members, Arvind Kejriwal, Prashant Bhushan and Shanti Bhushan addressing the media on money stashed in Swiss banks, in New Delhi on Friday. Photo: V.V.Krishnan The Hindu

Three from the list of 700, which was shared by France, disclose bank's modus operandi

India Against Corruption (IAC) released on Friday "the modus operandi" for transfer of undisclosed funds to Swiss banks as disclosed in the statements of three persons who had opened accounts in Dubai, Zurich and Geneva with HSBC Bank. They were named in a list of 700, which was shared by the French government in a compact disc with the Indian government last year.

The names of the 10 VIPs, including the Ambanis, Congress MP Anu Tandon, Jet Airways chief Naresh Goyal and the Burman brothers of the Dabur Group, were among the 700 whose names were not revealed by the government. The accounts held by them pertained to 2006.

IAC members Arvind Kejriwal and Prashant Bhushan said Parminder Singh Kalra and Praveen Sawhney, who gave their statements, were based in Delhi, while the third person, Vikram Dhirani, was from Ghaziabad.

The persons, who were questioned under Section 132 (4)/133A of the Income Tax Act, 1961, revealed the modus operandi of the "underground banking" system or the 'hawala' network (money transferred but not moved).

As per the papers released by IAC at a press conference here, Mr. Dhirani said in his deposition that he had opened an account with HSBC in Dubai in 2005 and closed it in 2006. A bank representative came to him in Delhi to open an account. He did not travel to Dubai for opening or operating it. The formalities was completed in Delhi. He agreed that a person authorised by bank officials would collect the cash from him, which would show up in his HSBC account in Dubai. After the money was deposited, Mr. Dhirani was given a confirmation. However, no document was given.

IAC said the statement revealed that Mr. Dhirani told income tax officials that he had deposited about Rs. 12 crore in alleged unaccounted income in the Dubai account over a period of time. The account was closed in 2006, and the money was withdrawn and given to him in Delhi. Neither did he go to Dubai to collect the cash, nor did he arrange for his representative to take the cash on his behalf. "The bank officials arranged for delivery of cash... in India."

According to IAC, Mr. Kalra opened an account with HSBC, Zurich, on the advice of a Swiss investment consultant based in Zurich. To make deposits of undisclosed money to the tune of Rs. 8 crore-Rs. 9 crore, he gave the cash in instalments to a person in Delhi. Every time, a different person came to collect the cash for being remitted in the Zurich branch of HSBC. The account was closed in 2008-09 even while he remained in Delhi.

"The statement shows," Mr. Kejriwal said, "that bank officials are providing illegal channels for transfer of cash from their client account-holder in Delhi to Zurich and vice versa."

He said Mr. Sawhney, who had opened an account with HSBC, Geneva, told income tax officials that his father had

transferred $ 1.8 million to this account. "Regarding the modus operandi for withdrawal of money, Mr. Sawhney said he used to call the bank officials in Geneva who would arrange for delivery of cash in India through their agents in the hawala channel. All discussions with the bank officials were on the phone. Every time he asked for cash, a different person used to come to deliver it and he knew none of them."

Keywords: Kejriwal allegations, Swiss bank accounts, tax evasion, Ambani brothers, anti-corruption movement, black money issue

BUSINESS

Tax Crackdown Broadens

HSBC Pushed on Secret Bank Accounts in India Unit

By BRENT KENDALL And EVAN PEREZ

Updated April 8, 2011 12:01 a.m. ET

WASHINGTON—The U.S. Justice Department on Thursday asked a federal court to force HSBC Holdings PLC to disclose the names of U.S. customers suspected of having secret bank accounts in India

The move opens up a new front in the U.S. crackdown on tax evasion and comes days before the April deadline for taxpayers to file individual returns. Previous cases focused on Americans with Swiss bank accounts.

In court documents, the Justice Department said HSBC bankers told prospective clients that, as a foreign bank, HSBC's India operations wouldn't disclose their accounts to the Internal Revenue Service.

Armed with that knowledge, U.S. customers "have been able to maintain these foreign accounts with reasonable confidence that the IRS would not discover them," government lawyers alleged.

Thousands of U.S. taxpayers of Indian origin have opened up accounts with HSBC in India since 2002, when the bank allegedly began soliciting their business, according to the U.S. government. It asked a San Francisco court to allow the IRS to serve a so-called John Doe summons against the U.K. bank's U.S. unit, HSBC USA, to get the names of its U.S. clients with Indian accounts.

Thousands of U.S. taxpayers of Indian origin have opened accounts with HSBC in India in recent years. Above, an HSBC bank in Mumbai. *Bloomberg News*

An HSBC spokeswoman in New York said the bank has been engaged in a "constructive dialogue" with U.S. authorities and hoped the summons issue "can be resolved expeditiously."

"While we haven't seen the summons, HSBC does not condone tax evasion and fully supports the U.S. efforts to promote appropriate payment of taxes by U.S. taxpayers," spokeswoman Juanita Gutierrez said.

She said the bank complies with the law in all the jurisdictions and cooperates with requests from U.S.

"Our international efforts are not about just one country or one bank; it's about our wider effort to ensure compliance with the nation's tax laws," IRS Commissioner Douglas Shulman said in a written statement.

U.S. law requires U.S. taxpayers to declare their global income and any foreign bank accounts with more than $10,000 during that tax year.

Mr. Shulman said the summons request "is focused on obtaining more information to help us determine if additional actions are needed."

Bryan Skarlatos, an attorney with Kostelanetz & Fink, LLP, said Thursday's move signaled that U.S. authorities, now in possession of additional data on offshore tax evasion, are broadening their efforts.

"They are going to follow up with these other banks and other countries because it's low-hanging fruit," he said. "The IRS knows the money is there."

Mr. Skarlatos said India has some form of banking secrecy, but nothing as strict as the Swiss system. He said that, hours after the Justice Department announcement, he already was receiving calls from concerned HSBC customers with undeclared Indian accounts.

According to the U.S. government, HSBC opened a New York office in 2002 and a Silicon Valley office in 2007 to solicit and maintain accounts based in India but closed them in June 2010. HSBC's Ms. Gutierrez said the decision to close the offices was made "in the ordinary course of business" due to "cost efficiencies and a realignment of that business model."

The request for a "John Doe" summons follows the January indictment of a New Jersey businessman, Vaibhav Dahake, on charges that he conspired to evade U.S. taxes by hiding offshore bank accounts in India maintained by HSBC.

In that case, prosecutors alleged HSBC employees took several steps to help Mr. Dahake "stay below the radar," including advising him to transfer and withdraw funds in smaller increments to avoid detection.

Mr. Dahake's lawyer declined to comment.

According to an electronic court docket, Mr. Dahake is scheduled to appear for a plea-agreement hearing on Monday.

In its court filings, the government said the Dahake case "is not an isolated incident."

More

Documents: Memo in Support of Summons | IRS Declaration

According to court documents, HSBC informed the IRS last September that at least 9,000 U.S. "premier" clients—high-net-worth customers—had deposits with HSBC's Indian bank. The government said 2009 bank figures showed that U.S. resident premier clients had Indian deposits of nearly $400 million.

U.S. officials said that as of 2009, U.S. taxpayers had only disclosed 1,921 HSBC accounts in India. The IRS is seeking client information on premier accounts as well as standard accounts maintained for less-wealthy customers.

The government's long-running probe against secret bank accounts led Swiss banking giant UBS AG to admit in February 2009 to conspiring to defraud the U.S. government of billions in taxes by helping wealthy Americans hide assets. The bank paid $780 million in a deal to avoid prosecution and eventually released the names of more than 4,000 U.S. clients.

Earlier this year, the U.S. charged four former Credit Suisse AG bankers with helping wealthy U.S. citizens evade taxes. Credit Suisse itself wasn't named in the indictment.

In February, the IRS announced a new leniency program that offers reduced penalties to tax scofflaws that voluntarily report their offshore accounts. The agency offered a similar one in 2009 in the wake of the U.S. case against UBS that brought in more than 15,000 disclosures.

Write to Evan Perez at evan.perez@wsj.com and Brent Kendall at brent.kendall@dowjones.com

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U.S. Banks Steer Clear Of Sensitive Customers

By Robin Sidel and Andrew R. Johnson

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Under fire from several regulators, U.S. banks increasingly are rejecting customers involved in activities that are legal but might attract government scrutiny, according to executives, consultants and lawyers.

The banks are sacrificing revenue from a broad array of customers, from marijuana merchants and payday lenders to virtual-currency companies, online gamblers and people who have been convicted of a crime, in order to play it safe.

"In an era where banks are already suffering from a deficit of trust, the last thing they want to do is venture into things that can be perceived as risky, unsavory or detrimental to the social fabric," said Andy Schmidt, research director at consulting company CEB TowerGroup in Arlington, Va.

The decision to pull back comes at a time when banks are struggling with tepid loan demand, low interest rates and a thicket of new regulations.

While the temptation to deal with certain businesses might be high, some banking-industry veterans said, it isn't worth provoking regulators or adding more resources to ensure that the clients are meeting industry standards. And in the overall banking industry, such pullbacks aren't likely to hurt profits.

"Banks are making practical decisions about profitability versus risk exposure, and they are concluding this hill isn't worth the battle," said Gerard Comizio, a partner who specializes in banking at law firm Paul Hastings LLP.

J.P. Morgan Chase & Co. has jettisoned more than 2,000 customers since the New York bank last year decided to reduce its exposure to businesses that could add to its long list of regulatory problems, according to a person familiar with the bank's operations.

Among other things, the bank has said it won't lend to check-cashing companies and won't process transactions or clear certain types of payments for some 500 foreign banks.

J.P. Morgan also is cutting ties with a number of individual customers, from spouses of foreign leaders to people who have been indicted or convicted of a crime, said another person familiar with the lender's policies. The bank dumped twice as many of these customers in 2013 as it did in 2012, the person said.

The bank is ending the relationships even if there isn't any indication that the customer has done anything wrong, the person said. Instead, the bank doesn't want to spend the extra time and effort tracking activities of people who may be difficult to follow.

A spokesman for J.P. Morgan declined to comment on the number of clients with whom it has cut ties. The bank has paid more than $20 billion to regulators in the past year to avoid lawsuits and resolve compliance lapses, and has redeployed hundreds of employees to help resolve the issues.

The lack of banking services has been a big headache for Denver businessman Kayvan Khalatbari, co-owner of a medical marijuana dispensary and two pizza restaurants. He said he spent months last year wrestling with BBVA Compass after the regional, Texas-based bank dumped his accounts, including those associated with the pizza restaurants, an investment account and his personal account. BBVA Compass is a unit of Spanish lender Banco Bilbao Vizcaya Argentaria SA.

"It was a tumultuous time for us," said Mr. Khalatbari, who said he was forced to pay vendors in cash for a while. He has since found other banks willing to take his business, including one that is aware of his medical marijuana operation, which now has an account under a nondescript name. He declined to identify that institution.

"BBVA Compass does not bank businesses engaged in activities related to the cultivating, selling or distribution of marijuana," said a BBVA spokesman, who declined to comment on Mr. Khalatbari's accounts, citing privacy laws.

Some relief may be on horizon for legal marijuana businesses. Last week, U.S. Attorney General Eric Holder said during a discussion at the University of Virginia that the administration would soon announce regulations to address the issue. "You don't want just huge amounts of cash in these places," Mr. Holder said. "They want to be able to use the banking system."

The banks have refused to provide traditional deposit accounts to merchants operating marijuana businesses in Colorado, where recreational use of the drug became legal this year, and in states where medical marijuana is legal. The banks have said they are following federal law, which deems marijuana illegal.

Meanwhile, bankers said they are backing away from some types of businesses because they don't have sufficient controls to ensure their clients' customers are following the law. That is especially the case when it comes to money laundering, an area that is attracting interest from regulators and law enforcement.

Banks also are finding it particularly troublesome to do business with check-cashing firms and payday lenders. Such companies are under scrutiny from regulators and lawmakers for charging high fees and providing murky disclosures to customers, even if they are operating legally.

Bank of America Corp. said last year that it is exiting its relationships with payday lenders and isn't pursuing any new business in the industry.

New York and other states have targeted payday lenders whose loans allegedly violate state laws capping interest rates. Last week, online lender Western Sky Financial LLC and two affiliated firms agreed to pay $1.5 million and refund some interest payments to borrowers under an agreement with New York Attorney General Eric Schneiderman, who had sued the companies for charging annual rates as high as 355%. Western Sky neither admitted nor denied the allegations.

Bank of America, Wells Fargo & Co. and other big banks won't allow credit-card customers to use their plastic for online gambling in Delaware, Nevada and New Jersey, where such activity is legal.

Banks also are keeping away from doing business with companies involved with bitcoin, the virtual currency that has had connections with illegal activities even as it is becoming more accepted among mainstream merchants and consumers. On Sunday, federal prosecutors arrested a prominent bitcoin entrepreneur and charged him with money laundering. He hasn't entered a plea.

Grant Thornton

Reporting Entity Sector Profiles: Lawyers Appendices

Prepared for FINTRAC | March 31, 2014

Appendix A: Industry statistics and reporting entity data

Lawyers sector SIC codes

Code	Description
8111	Legal Services

Lawyers industry NAICS codes

Code	Description
5411	Legal Services
54111	Offices of Lawyers
54112	Offices of Notaries (NAICS 54112)
54119	Other Legal Services

Using NAICs codes, searches for statistical data on the Lawyers sector were carried out on Industry Canada's Canadian Industry Statistics (CIS) site.

Offices of Lawyers (NAICS 54111)

Exclusions

- offices of notaries (54112, Offices of Notaries); and
- offices of legal and paralegal practitioners, except offices of lawyers and notaries (54119, Other Legal Services).

Number of establishments in Canada by type and region: December 2012
Offices of Lawyers (NAICS 54111)

Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	2,394	1,476	3,870	14.3%
British Columbia	2,898	2,228	5,126	19.0%
Manitoba	432	381	813	3.0%
New Brunswick	332	170	502	1.9%
Newfoundland and Labrador	135	112	247	0.9%
Northwest Territories	16	14	30	0.1%
Nova Scotia	370	295	665	2.5%
Nunavut	3	4	7	0.0%
Ontario	5,761	4,891	10,652	39.5%
Prince Edward Island	62	34	96	0.4%
Quebec	1,700	2,526	4,226	15.7%
Saskatchewan	336	384	720	2.7%
Yukon Territory	23	20	43	0.2%
CANADA	14,462	12,535	26,997	100%
Percent Distribution	53.6%	46.4%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Offices of Lawyers (NAICS54111)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	1,924	462	8	0
British Columbia	2,240	651	7	0
Manitoba	332	99	1	0
New Brunswick	279	53	0	0
Newfoundland and Labrador	80	55	0	0
Northwest Territories	12	4	0	0
Nova Scotia	277	91	2	0
Nunavut	1	2	0	0
Ontario	4,194	1,541	21	5
Prince Edward Island	47	15	0	0
Quebec	1,358	331	10	1
Saskatchewan	242	93	1	0
Yukon Territory	16	6	1	0
CANADA	11,002	3,403	51	6
Percent Distribution	76.1%	23.5%	0.4%	0.0%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Legal Services (NAICS 54111)

Number of establishments in Canada by type and region: December 2012 Legal Services (NAICS 5411)				
Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	2,581	1,805	4,386	13.1%
British Columbia	3,301	2,765	6,066	18.2%
Manitoba	460	426	886	2.7%
New Brunswick	351	189	540	1.6%
Newfoundland and Labrador	165	129	294	0.9%
Northwest Territories	17	17	34	0.1%
Nova Scotia	398	342	740	2.2%
Nunavut	3	8	11	0.0%
Ontario	6,504	6,276	12,780	38.3%
Prince Edward Island	67	48	115	0.3%
Quebec	2,945	3,749	6,694	20.1%
Saskatchewan	364	416	780	2.3%
Yukon Territory	25	22	47	0.1%
CANADA	17,181	16,192	33,373	100%
Percent Distribution	51.5%	48.5%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Legal Services (NAICS5411)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	2,074	499	8	0
British Columbia	2,549	744	8	0
Manitoba	352	107	1	0
New Brunswick	298	53	0	0
Newfoundland and Labrador	105	59	1	0
Northwest Territories	13	4	0	0
Nova Scotia	299	97	2	0
Nunavut	1	2	0	0
Ontario	4,783	1,692	24	5
Prince Edward Island	52	15	0	0
Quebec	2,321	613	10	1
Saskatchewan	265	97	2	0
Yukon Territory	18	6	1	0
CANADA	13,130	3,988	57	6
Percent Distribution	76.4%	23.2%	0.3%	0.0%

Offices of Notaries (NAICS 54112)

Exclusions

- offices of legal and paralegal practitioners, except offices of lawyers and notaries (54119, Other Legal Services); and
- offices of notaries public engaged in activities, such as administering oaths and taking affidavists and depositions, and witnessing and certifying signatures on documents, but not empowered to draw up and approve legal documents and contracts (54119, Other Legal Services).

Number of establishments in Canada by type and region: December 2012 Offices of Notaries (NAICS 54112)				
Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	3	9	12	0.6%
British Columbia	127	59	186	9.3%
Manitoba	1	1	2	0.1%
New Brunswick	1	0	1	0.0%
Newfoundland and Labrador	1	0	1	0.0%
Northwest Territories	0	0	0	0.0%
Nova Scotia	0	0	0	0.0%
Nunavut	0	0	0	0.0%
Ontario	3	8	11	0.5%
Prince Edward Island	0	0	0	0.0%
Quebec	1,071	723	1,794	89.3%
Saskatchewan	0	0	0	0.0%
Yukon Territory	0	1	1	0.0%
CANADA	1,207	801	2,008	100%
Percent Distribution	60.1%	39.9%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Offices of Notaries (NAICS54112)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	3	0	0	0
British Columbia	90	37	0	0
Manitoba	1	0	0	0
New Brunswick	1	0	0	0
Newfoundland and Labrador	1	0	0	0
Northwest Territories	0	0	0	0
Nova Scotia	0	0	0	0
Nunavut	0	0	0	0
Ontario	2	1	0	0
Prince Edward Island	0	0	0	0
Quebec	837	234	0	0
Saskatchewan	0	0	0	0
Yukon Territory	0	0	0	0
CANADA	935	272	0	0
Percent Distribution	77.5%	22.5%	0.0%	0.0%

Exclusions

- offices of notaries (54112, Offices of Notaries); and
- offices of legal and paralegal practitioners, except offices of lawyers and notaries (54119, Other Legal Services).

Number of establishments in Canada by type and region: December 2012 Other Legal Services (NAICS 54119)				
Province or Territory	Employers	Non-Employers/ Indeterminate	Total	% of Canada
Alberta	184	320	504	11.5%
British Columbia	276	478	754	17.3%
Manitoba	27	44	71	1.6%
New Brunswick	18	19	37	0.8%
Newfoundland and Labrador	29	17	46	1.1%
Northwest Territories	1	3	4	0.1%
Nova Scotia	28	47	75	1.7%
Nunavut	0	4	4	0.1%
Ontario	740	1,377	2,117	48.5%
Prince Edward Island	5	14	19	0.4%
Quebec	174	500	674	15.4%
Saskatchewan	28	32	60	1.4%
Yukon Territory	2	1	3	0.1%
CANADA	1,512	2,856	4,368	100%
Percent Distribution	34.6%	65.4%	100%	

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

Number of employer establishments by employment size category and region: December 2012 Other Legal Services (NAICS54119)				
Province or Territory	Employment Size Category (Number of employees)			
	Micro 1-4	Small 5-99	Medium 100-499	Large 500+
Alberta	147	37	0	0
British Columbia	219	56	1	0
Manitoba	19	8	0	0
New Brunswick	18	0	0	0
Newfoundland and Labrador	24	4	1	0
Northwest Territories	1	0	0	0
Nova Scotia	22	6	0	0
Nunavut	0	0	0	0
Ontario	587	150	3	0
Prince Edward Island	5	0	0	0
Quebec	126	48	0	0
Saskatchewan	23	4	1	0
Yukon Territory	2	0	0	0
CANADA	1,193	313	6	0
Percent Distribution	78.9%	20.7%	0.4%	0.0%

Source : Statistics Canada, Canadian Business Patterns Database, December 2012.

NAICS Code 54111 –Office of Lawyers

Province	Number of Establishments
Alberta	1,425
British Columbia	2,266
Manitoba	371
New Brunswick	245
Newfoundland and Labrador	161
Northwest Territories	37
Nova Scotia	317
Nunavut	7
Ontario	4,958
Prince Edward Island	52
Quebec	1,729
Saskatchewan	396
Yukon	22
Total	11,986

Source: OneSource

NAICS Code 541191 – Title Abstract and Settlement Offices

State or Province	Number of Establishments
Alberta	10
British Columbia	32
Newfoundland and Labrador	1
Ontario	8
Quebec	1
Grand Total	52

Source: OneSource

NAICS Code 541199 – All Other Legal services

State Or Province	Number of Establishments
Alberta	140
British Columbia	319
Manitoba	37
New Brunswick	27
Newfoundland and Labrador	14
Northwest Territories	5
Nova Scotia	30
Ontario	1,098
Prince Edward Island	7
Quebec	1215
Saskatchewan	37
Yukon	2
Grand Total	2931

Source: OneSource

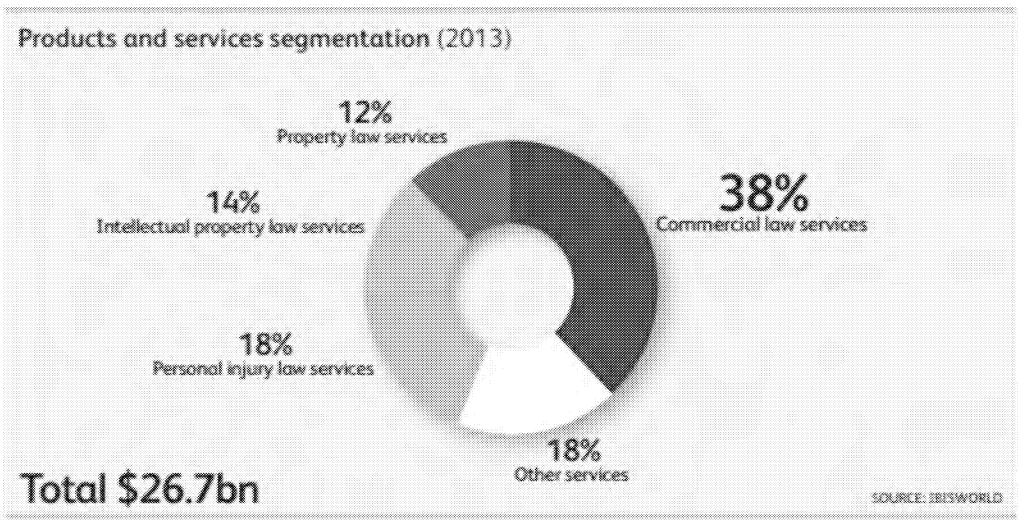
SIC Code 8111 – Legal Services

Ontario 4957

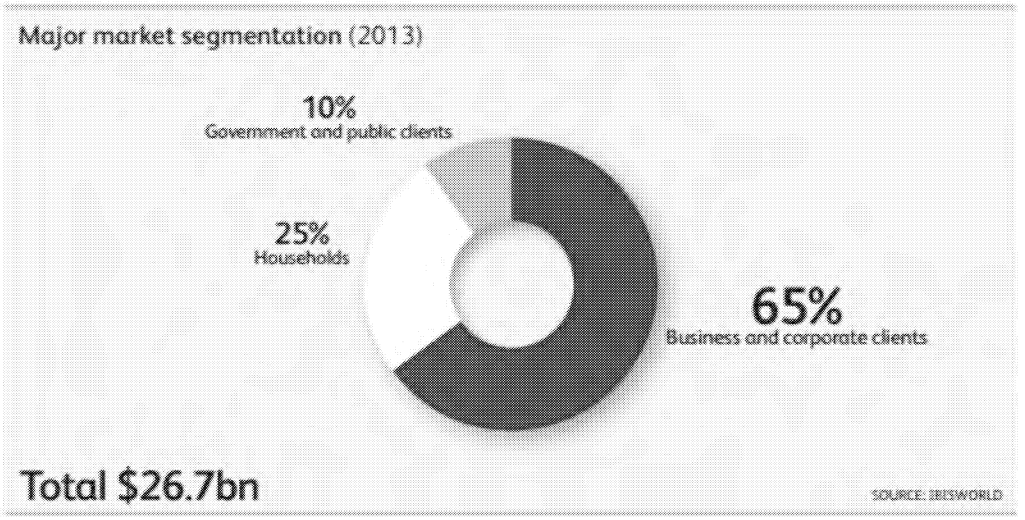
Province	Number of Establishments
Alberta	1,424
British Columbia	2,265
Manitoba	371
New Brunswick	245
Newfoundland and Labrador	161
Northwest Territories	37
Nova Scotia	316
Nunavut	7
Ontario	4,957
Prince Edward Island	52
Quebec	1,728
Saskatchewan	395
Yukon	22
Total	11,980

Source: OneSource

Products and Services Segmentation



Major Market Segmentation



Source: IBISWORLD

Canada's Largest Law Firms – 2014

Source: Lexpert

TORONTO: THE 20 LARGEST LAW FIRMS

	FIRM NAME	Toronto	All Offices		FIRM NAME	Toronto	All Offices
1	Borden Ladner Gervais LLP	273	769	11	Goodmans LLP	188	204
2	Blake, Cassels & Graydon LLP	270	534	12	Heenan Blaikie LLP	175	506
3	Osler, Hoskin & Harcourt LLP	258	380	13	McMillan LLP	155	313
4	McCarthy Tétrault LLP	238	544	14	Miller Thomson LLP	151	464
5	Torys LLP	228	255	15	Davies Ward Phillips & Vineberg LLP	146	231
6	Fasken Martineau DuMoulin LLP	221	631	16	Bennett Jones LLP	143	352
7	Gowling Lafleur Henderson LLP	220	715	17	Aird & Berlis LLP	140	140
8	Cassels Brock & Blackwell LLP	202	216	18	Blaney McMurtry LLP	129	129
9	Stikeman Elliott LLP	199	445	19	Dentons Canada LLP	126	473
10	Norton Rose Fulbright Canada LLP	190	604	20	Fogler, Rubinoff LLP	106	109

OTTAWA: THE 10 LARGEST LAW FIRMS

	FIRM NAME	Ottawa	All Offices		FIRM NAME	Ottawa	All Offices
1	Gowling Lafleur Henderson LLP	170	715	6	Kelly Santini LLP	32	32
2	Borden Ladner Gervais LLP	97	769	7	Heenan Blaikie LLP	30	506
3	Nelligan O'Brien Payne LLP	65	65	7	Smart & Biggar/Fetherstonhaugh	30	79
4	Perley-Robertson, Hill & McDougall LLP/s.r.l.	48	48	9	Emond Harnden LLP	27	27
5	Norton Rose Fulbright Canada LLP	37	604	9	Soloway, Wright LLP	27	27

MONTRÉAL: THE 13 LARGEST LAW FIRMS

	FIRM NAME	Montréal	All Offices		FIRM NAME	Montréal	All Offices
1	Norton Rose Fulbright Canada LLP	177	604	8	BCF LLP	95	120
2	Fasken Martineau DuMoulin LLP	170	631	9	Dentons Canada LLP	91	473
3	Heenan Blaikie LLP	158	506	10	Gowling Lafleur Henderson LLP	90	715
4	Stikeman Elliott LLP	155	445	11	Davies Ward Phillips & Vineberg LLP	85	231
5	McCarthy Tétrault LLP	142	544	12	Robinson Sheppard Shapiro L.L.P.	75	75
6	Lavery, de Billy, L.L.P.	139	162	13	Blake, Cassels & Graydon LLP	65	534
7	Borden Ladner Gervais LLP	124	769				

VANCOUVER: THE 12 LARGEST LAW FIRMS

	FIRM NAME	Vancouver	All Offices		FIRM NAME	Vancouver	All Offices
1	Fasken Martineau DuMoulin LLP	146	631	7	McMillan LLP	85	313
2	Borden Ladner Gervais LLP	136	769	8	McCarthy Tétrault LLP	83	544
3	Lawson Lundell LLP	99	116	9	Farris, Vaughan, Wills & Murphy LLP	77	90
4	Davis LLP	98	246	10	Clark Wilson LLP	76	76
4	Bull, Housser & Tupper LLP	98	98	11	Alexander Holburn Beaudin + Lang LLP	74	74
6	Blake, Cassels & Graydon LLP	91	534	12	Miller Thomson LLP	64	464

CALGARY AND EDMONTON: THE 16 LARGEST LAW FIRMS

	FIRM NAME	Calgary	Edmonton	All Offices		FIRM NAME	Calgary	Edmonton	All Offices
1	Bennett Jones LLP	171	36	352	9	Parlee McLaws LLP	34	52	86
2	Dentons Canada LLP	95	81	473	10	Miller Thomson LLP	33	52	464
3	Norton Rose Fulbright Canada LLP	151	—	604	11	McLennan Ross LLP	25	54	83
4	Burnet, Duckworth & Palmer LLP	142	—	142	12	Davis LLP	50	25	246
5	Borden Ladner Gervais LLP	129	—	769	13	McCarthy Tétrault LLP	56	—	544
6	Field Law	52	62	118	14	Witten LLP	—	54	54
7	Blake, Cassels & Graydon LLP	105	—	534	15	Brownlee LLP	12	45	57
8	Gowling Lafleur Henderson LLP	102	—	715	16	Osler, Hoskin & Harcourt LLP	52	—	380

WINNIPEG: THE 5 LARGEST LAW FIRMS

	FIRM NAME	Winnipeg	All Offices		FIRM NAME	Winnipeg	All Offices
1	Aikins, MacAulay & Thorvaldson LLP	97	97	4	Fillmore Riley LLP	60	60
2	Thompson Dorfman Sweatman LLP	73	77	4	Pitblado LLP	60	60
3	Taylor McCaffrey LLP	63	63				

ATLANTIC CANADA: THE 5 LARGEST LAW FIRMS

	FIRM NAME	Nova Scotia Total	New Brunswick Total	Prince Edward Island Total	Newfoundland & Labrador Total	All Offices
1	Stewart McKelvey	100	62	28	33	223
2	McInnes Cooper	109	50	18	27	204
3	Cox & Palmer	59	77	22	42	200
4	BOYNECLARKE LLP	51	—	—	—	51
5	Patterson Law	29	—	—	—	29

Appendix B: Case examples and typologies

The enclosed articles have been sourced from: news media databases, books and the Internet, and provide specific examples of the risk factors identified in the report.

1. Ex-Revenue Canada lawyer advised how to hide money offshore. CBC News, October 2, 2013.
2. Law Society '80%' sure missing lawyer died weeks after millions disappeared from trust. National Post, December 17, 2013.
3. Toronto lawyer facing fraud charges stripped of his licence. The Globe and Mail, November 16, 2012.
4. Trust account scam hits home – A true story. Advisor, Fourth Quarter 2009.
5. Money laundering conviction leads to lawyer's resignation. California Bar Journal, December 2001.
6. Nova Scotia lawyer admits embezzling 'friendly-fire' funds. The Globe and Mail, September 26, 2006.
7. Mortgage scam probed in Toronto house flips; Seven homes in the Junction were taken on a wild real estate tide that ended in a lawyer's suspension. Toronto Star, January 7, 2012.
8. Lawyer loses law license. The Kingston Whig-Standard, March 7, 2014.
9. Regina lawyer suspended. The StarPhoenix, December 18, 2013.
10. Disappearance of lawyer, and $3.6M, devastates clients. Mississauga News, November 29, 2013.
11. Lawyer who fled to France loses licence. The Ottawa Sun, October 29, 2013.
12. Toronto real estate lawyer charged with money laundering. The Globe and Mail, June 8, 2012.
13. Authorities to probe another disbarred lawyer. Kaieteur News, February 23, 2014.
14. U.S. and Canadian citizens charged with using offshore accounts and foreign nominee entities to launder $200,000. Department of Justice, March 24, 2012.

Exclusive

Ex-Revenue Canada lawyer advised how to hide money offshore

By Timothy Sawa, CBC News Posted: Oct 02, 2013 5:00 AM ET Last Updated: Oct 02, 2013 1:22 PM ET

An exclusive CBC News hidden camera investigation into the world of offshore banking uncovered a former executive with the Royal Bank of Canada and a former lawyer with the Canada Revenue Agency offering advice on how to hide money from Canadian tax authorities.

As part of the joint investigation with *Enquête*, the CBC'S French-language investigative program, CBC News hired a private investigator, who is also a restaurant and bar owner in Toronto, to test 15 different offshore service providers in Canada and abroad.

The investigator was given a story: over the years he had squirrelled away as much as a million dollars that he hadn't declared, and wanted to hide it offshore to avoid paying taxes.

More than half of the offshore service providers tested with hidden cameras by the CBC in Canada and Barbados provided advice that wouldn't stand up to scrutiny, according to CBC experts.

Among those tested during the CBC investigation was Gilles Gosselin, who practised law in Canada and used to work for the Canadian Revenue Agency before moving to Barbados.

His company's website says it specializes in helping Canadian companies with international business structure their company in Barbados — a perfectly legal activity.

The businessman travelled to Barbados to meet with Gosselin.

Gosselin told the businessman he wanted nothing to do with his plan. But when he was asked if there's anything preventing someone from opening an account at a bank somewhere and wiring the funds there, Gosselin was recorded on hidden cameras saying: "I just told you how the law works. And if you don't report the income in Canada, that's your business."

He later told the undercover businessman not to use Barbados because it's too expensive, there are too many reporting requirements and the stamp they put on his passport when he made this trip could get him caught.

Gosselin said if the businessman was audited, they would ask him why he was in the Barbados.

He also advised that if the businessman said he was there for vacation, "now you're in a position where you're

lying right," Gosselin said.

Recommended British Virgin Islands

Gosselin recommended the businessman use the British Virgin Islands to hide his million dollars and to avoid Canadian-owned banks offshore.

"You might not want to have a bank with a Canadian connection. There's other banks — Bank of Butterfield, which is a U.K. bank. So yeah I mean, it could be done," Gosselin said.

CBC policy for hidden-camera journalism

CBC's policy for hidden-camera journalism generally requires that we have credible information about wrongdoing before we film.

However when dealing with a secretive industry like this one, when the industry as a whole has come under critical scrutiny, the practice is to permit testing in this way, on a random basis.

He sent an email introducing the businessman to the British Virgin Island service provider. He explained the businessman needed an account there and that it should be "preferably with a non-Canadian bank."

But two hours later Gosselin sent a second email reminding the undercover businessman that he should follow all Canadian laws and report all Canadian income.

Andre Lareau, a professor at Laval University in Quebec, who teaches tax law, said that Gosselin, with his background at the Canada Revenue Agency, knows all the mechanisms for people who want to commit tax fraud. He said the plan involving the British Virgin Islands would be tax evasion.

Lareau added that the second email Gosselin sent is the right one and it's the information that he should have been giving from the beginning.

"It's kind of depressing that someone would go over, as we say, to the dark side so completely," said Jack Blum, an expert on white-collar financial crime in Washington.

Asked by CBC News why he helped the undercover businessman with his plan, Gosselin said that he told the man what he was contemplating was against the law in Canada.

"But if he wants to go ahead and open a BVI company and manage his assets with the BVI company, until he's actually gone there and done that, he hasn't done anything wrong," he said.

"This person told me that he was coming here, that he had a million dollars in a safety deposit box and he was looking to invest it outside of Canada, and that he wasn't — and I told him specifically that that was against the law. And my last communication with him says specifically that."

Gosselin later explained that his clients are usually legitimate Canadian-based businesses looking to take advantage of the legal tax benefits in Barbados.

He added that that he "probably entertained" the undercover businessman "more than I should have."

Banking executive among those tested

During the course of the CBC investigation, Lynn Garner, a vice-president with DGM, a private Barbados bank, was also among those tested.

Garner worked as an executive at several money management firms and banks and as the trust manager for the Royal Bank of Canada in Barbados.

At first, Garner was adamant that her bank would never get involved with someone like CBC's undercover businessman.

"We don't take clients who aren't reporting," she was recorded on hidden cameras saying. "So we don't — you know, our book is clean."

But then she went on to tell the undercover businessman how he could hide cash offshore, by setting up an anonymous paper company, moving the cash offshore and opening an account at her bank to hold the cash.

"You wire money from your account to an account at CIBC. Through CIBC head office, so it goes through your bank to CIBC Toronto, CIBC Toronto to CIBC Cayman. And then Cayman holds it on our behalf. So that's how it works," she said.

And she offered advice for avoiding detection by authorities when depositing the money.

"Depositing the money into the bank account in Canada, you'd have to do a little bit. It would take a long time."

She said if the cash is coming from Canada, he won't have to worry about a lot scrutiny from her about where he got it.

"If it's coming from a Canadian financial institution … we have to understand how you earned the money but we won't ask for proof as much except for a statement from the bank."

Garner then found someone in Barbados within a couple weeks who she said could help the undercover businessman create the offshore company to hold the cash at her bank.

But Lareau said Garner's plan constituted fraud and that it was sad to see people in the financial sector accommodating someone in this way.

"This is not a tape the bank would ever want to be made public. The fact that she's willing to take money she knows is tainted," said one insider, who used to run one of Canada's largest offshore banking companies.

In a statement, DGM said that it "is not engaged in any business practices that are not legal by the law of Barbados or of the laws of Canada. Any assertion to the contrary by the CBC will be aggressively rebutted both publicly and by legal means."

If you have tips on offshore havens, or other investigative stories, please email investigations@cbc.ca

Law Society '80%' sure missing lawyer died weeks after millions disappeared from trust

DREW HASSELBACK | December 17, 2013 | Last Updated: Dec 18 9:49 AM ET
More from Drew Hasselback

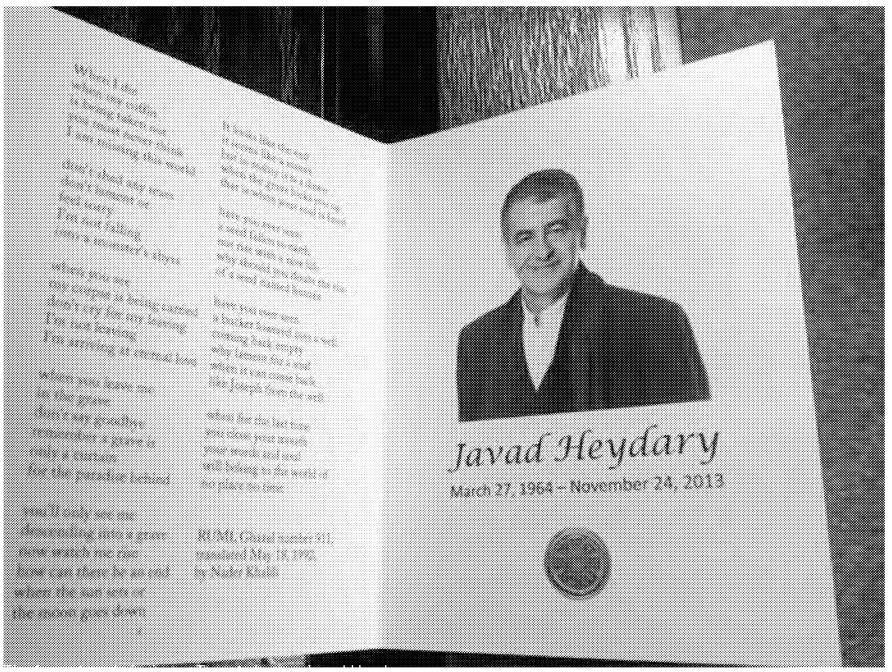


Photo: Drew Hasselback / National Post

The hunt for missing Toronto lawyer Javad Heydary and millions of dollars in missing trust account funds took a bizarre twist on Tuesday when counsel for the Law Society of Upper Canada told a Toronto courtroom it is now "80%" sure the lawyer died overseas on Nov. 24.

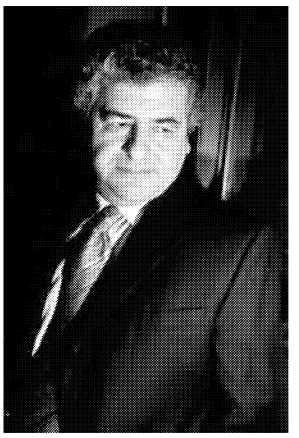
The Law Society is now seeking to confirm the paper work prepared just before a hasty funeral on Monday. The key document under review is apparently a statutory declaration by a former colleague of the lawyer who viewed the body and identified the deceased as Heydary.

It didn't feel like a funeral

If confirmed, the funeral marks an unusual end to the hunt for the whereabouts of the high-profile litigator. Witnesses say Heydary was buried in Richmond Hill, Ont., following a brief funeral service on Monday. The casket was sealed, though witnesses say it was briefly unlocked so some members of the family could view the body just before the conclusion of the service.

"It didn't feel like a funeral," one witness said after the court hearing. There didn't seem to be a lot of mourning, and children were laughing and playing during the visitation, the witness said.

But the internment will not trigger an immediate end to the hunt for millions in missing trust funds. On the contrary, counsel for the Law Society clarified in court on Tuesday that the investigation will continue as before, even if Heydary is now deceased.


Glenn Lowson photo for National Post

The funeral came just one day before an Ontario judge was scheduled to sentence the lawyer for civil contempt because he failed to comply with a Nov. 14 court order that he immediately return at least $2.1-million in trust account funds to former clients Samira and Hasan Abuzour.

The Law Society, which is the body that regulates the legal profession in Ontario, seized control of Heydary's legal practice on Nov. 25 after it learned that his trust account contained only $319,000, or some $3-million less than it was supposed to.

Heydary, who fashioned himself as a lawyer for victims of white collar fraud, left Canada on Nov. 15, the day after the court order was issued. He told staff at his Toronto law firm, Heydary Hamilton PC, that he needed to visit Dubai on business. While overseas, he told staff that he had suddenly been summoned to visit a sick uncle in Iran.

Staff remained in touch with him via email and phone until Nov. 18 or so. The last contact number he gave his staff was for a cell phone in Iran. The funeral card distributed on Monday states that Heydary died on Nov. 24, though it provides no cause of death. The funeral on Monday was organized shortly after the repatriation of the body.

Heydary has launched several high profile cases. He was representing investors in a lawsuit brought against developers of the Trump Hotel in Toronto. The plaintiffs claim they were induced to buy units in the project by "reckless and negligent misrepresentations" made by the defendants, among them Donald Trump himself. The lawsuit contains allegations that have yet to be proven in court.

Then there's the landmark summary judgment ruling Heydary obtained against Toronto businessman Robert Hryniak. That case has progressed all the way to the Supreme Court of Canada, which heard arguments last March but has yet to issue a written decision.

Heydary's undoing flows from another successful result. In April, the lawyer obtained a $3.6-million settlement for the Abuzours in a shareholders dispute. The couple spent months asking Heydary to release the funds from his trust account, and was ultimately forced to seek the court order that was issued Nov. 14. Heydary and his law firm were to give the Abuzours $2.1-million immediately, and provide proof the remaining $1.5-million was safely in the bank. Shortly after that, the Law Society seized control Heydary's legal practice and began looking for the missing trust funds.

Late last month, Justice Julie Thorburn of the Ontario Superior Court ruled that both Heydary and his firm, Heydary Hamilton PC, are in contempt of court for failing to comply with her Nov. 14 order. The matter was back in court on Tuesday for a sentencing hearing. However, the matter was adjourned after counsel for the Law Society said the regulator still needs to confirm that Heydary has died.

"I can say with about an 80-degree certainty that Mr. Heydary has passed," Margaret Cowtan, counsel for the Law Society, told court. But she said the regulator wants more proof before it is "100%" certain he is dead. In particular, she said the Law Society wants to review a statutory declaration made by an "independent third party" — namely a lawyer who once worked with Heydary who viewed and identified the body.

Judge Thorburn said she wants Law Society counsel to return to court on Jan. 20 with a detailed report about the status of the hunt for the missing money.

Speaking in court, Mr. Abuzour expressed his frustration over the loss of the money and the resulting adjournment. "I respect what you say. But what can I do? I don't have anything," he told the judge.

Judge Thorburn told Mr. Abuzour she understands his frustration. "The $3.6-million went somewhere," she said. If there's any consolation, she explained, it's that it's for the Law Society, and not him, to foot the bill for the investigation into where that money went. What's more, she added, the Law Society has rights to examine trust account records that outside investigators wouldn't be able to see due to solicitor-client privilege. "We're shocked that this happened," the judge said.

The Abuzours had hoped they could gain immediate access to some of the funds in the law firm's trust account. Judge Thorburn said she is not legally able to order that right now.

As of Nov. 25, only $319,000 was in the firm's mixed trust account, some $3-million less than was supposed to be there. Judge Thorburn explained in court that no funds can be released from that account until the Law Society figures out if any of that money is owed to other Heydary Hamilton PC clients or creditors.

THE GLOBE AND MAIL

LAW SOCIETY

Toronto lawyer facing fraud charges stripped of his licence

TIMOTHY APPLEBY
The Globe and Mail
Published Friday, Nov. 16 2012, 6:27 PM EST
Last updated Friday, Nov. 16 2012, 6:27 PM EST

A Toronto lawyer facing fraud and theft charges has been stripped of his licence after the Law Society of Upper Canada concluded he misappropriated more than $3-million of his clients' money, most of it belonging to a charitable foundation with long-standing links to the Toronto Rotary Club.

Over 2 1/2 years, the society said, Michael Ingram siphoned cash from trust funds he controlled and dispersed it to eight recipients, including his wife and his brother.

In all, there were more than 130 allegedly unauthorized transfers.

"The conduct in this case is egregious," said the LSUC, the body that oversees the province's lawyers.

"Over $3-million in trust funds were misapplied and over $2-million remains unpaid. ... The fact that over $2-million was taken from a charitable foundation is of particular concern."

Police say the cash was funnelled to the United States, Canada, Bermuda and Switzerland, possibly beyond, and where the money trail ends remains guesswork.

One of the clients was a charity. Although the law society does not name it in the ruling, it was the defunct Laughlen Centre, a long-term-care facility for seniors that the City of Toronto bought in 2006 for $8-million.

Mr. Ingram, 69, was charged in July of this year with theft over $5,000 and fraud over $5,000 and has a court appearance set for next month.

He has declined comment, and a message left on Friday with the lawyer who represented him at the LSUC disciplinary hearing, Nadia Liva, was not immediately returned.

The society found it "troubling" that Mr. Ingram did not attend the hearing.

Of the $8-million the city paid for the centre, about one-third was to have gone to the centre, which, until it ceased operations in 2004, was home to more than 200 residents.

The balance covered outstanding debts and mortgages.

Mr. Ingram, a former partner with the downtown law firm Coutts Crane Ingram, had been the charity's lawyer and had headed its board of directors.

In 2008, he was fired by Coutts Crane, to which he had belonged for 38 years, after the discrepancies came to light.

Coutts Crane also reported him to the law society, and in July of that year, Mr. Ingram agreed to cease practising law.

On learning its share of the funds was missing, the Laughlen Centre's board members in August, 2010, launched a lawsuit against Mr. Ingram, four of his former colleagues at Coutts Crane and three associates, seeking more than $2.5-million in lost funds, plus $1-million in punitive damages.

The suit accused the law firm of failing to supervise Mr. Ingram adequately and thereby being "vicariously liable" for the alleged theft.

The defendants denied that.

"CCI had reasonable safeguards in place to protect the funds in its trust account, which Ingram unilaterally and surreptitiously circumvented," their statement of defence read.

The defendants agreed to settle the suit for $1.5-million.

And because the Laughlen Centre had by then ceased to exist except as a legal entity, the money was paid via a liquidation firm to the Rotary Club, a greatly respected secular organization that had for years helped administer the centre and provide financial support.

For the same reason, the Rotary Club is named in the criminal investigation as the chief victim of Mr. Ingram's alleged theft, along with at least two smaller, unspecified charities.

The law society found that during the period spanning October, 2005, to May, 2008, Mr. Ingram shuffled the money between different trust accounts, and disbursed it to a range of beneficiaries, including overseas law firms, and at least one religious organization, The Glorious Praise Ministries.

As well, his brother received more than $100,000 to assist in a real estate venture, the law society wrote.

Fourth Quarter 2009

Advisor

An update on issues regarding liability protection for the legal profession.

Florida LAWYERS Mutual Insurance Company®

Trust Account Scam Hits Home
A True Story

By K. Judith Lane

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I had read from various sources, including The Florida Bar, that scam artists were actively trying to use lawyer trust accounts as a conduit to fraud and theft schemes, but to my knowledge, it was not something that local attorneys were dealing with. I just met with the FBI and to its knowledge, while the scam is being used on local businesses and individuals a great deal, ours was the first law firm hit with it. Here is what happened:

The story begins:

I was engaged via email and follow-up written correspondence by Microtel, Inc., a manufacturer in Grand Rapids, Michigan, to collect on a $325,000 debt alleged to be owed to Microtel by a local company Intellitec, Inc. I was hired to make a collection demand and, if needed, litigation. Importantly: I received a signed engagement letter and a request from Microtel to schedule a conference call to discuss the details of the dispute. At that point, nothing was out of the ordinary.

A few days later:

While we were trying to set up a phone conference with Microtel's president, Microtel sent me an email indicating its representatives had spoken with Intellitec and we should be receiving payment. Within days, I had an official check from Wachovia sitting on my desk for a little over $325,000, delivered by overnight delivery, payable directly to my firm's trust account.

Still, nothing totally out of the ordinary, but I was growing a bit suspicious as the Intellitec letter did not say very much and the folks at Microtel were not making it easy for my office to set up a phone conference with my new client to discuss the facts of the case or how to proceed.

I did not want to deposit the check into my trust account until I was certain Microtel was prepared to accept it as payment in full, so I emailed Microtel and called the company asking again to speak to the president. It was the Wednesday before Thanksgiving, so the banks were closed and I put the check in my safe.

Continued on page 2

The following Monday morning, my paralegal got a call from Microtel's president asking what the heck was going on and who we were. He had just gotten all the emails from our office. He said he never contacted us for representation and, while he had done business with Intellitec a few years before, they did not owe him any money.

By chance, he happened to be looking at an old email account that he rarely used anymore and saw the communications between my firm and someone holding themselves out to be him and acting on behalf of his company. At that point, the scam was up. He went to the Grand Rapids FBI; I went to the Daytona Beach FBI.

The story ends:

The scam artists in this case were brazen enough to: 1) hack into an old email account belonging to the president of a successful Michigan business, 2) actually use his email account to conduct business with my firm and engage our services, 3) forge an engagement letter as president of Microtel with my law firm, 4) forge letterhead from Intellitec, a local business operating as a going concern, and 5) forge an official check from a bank.

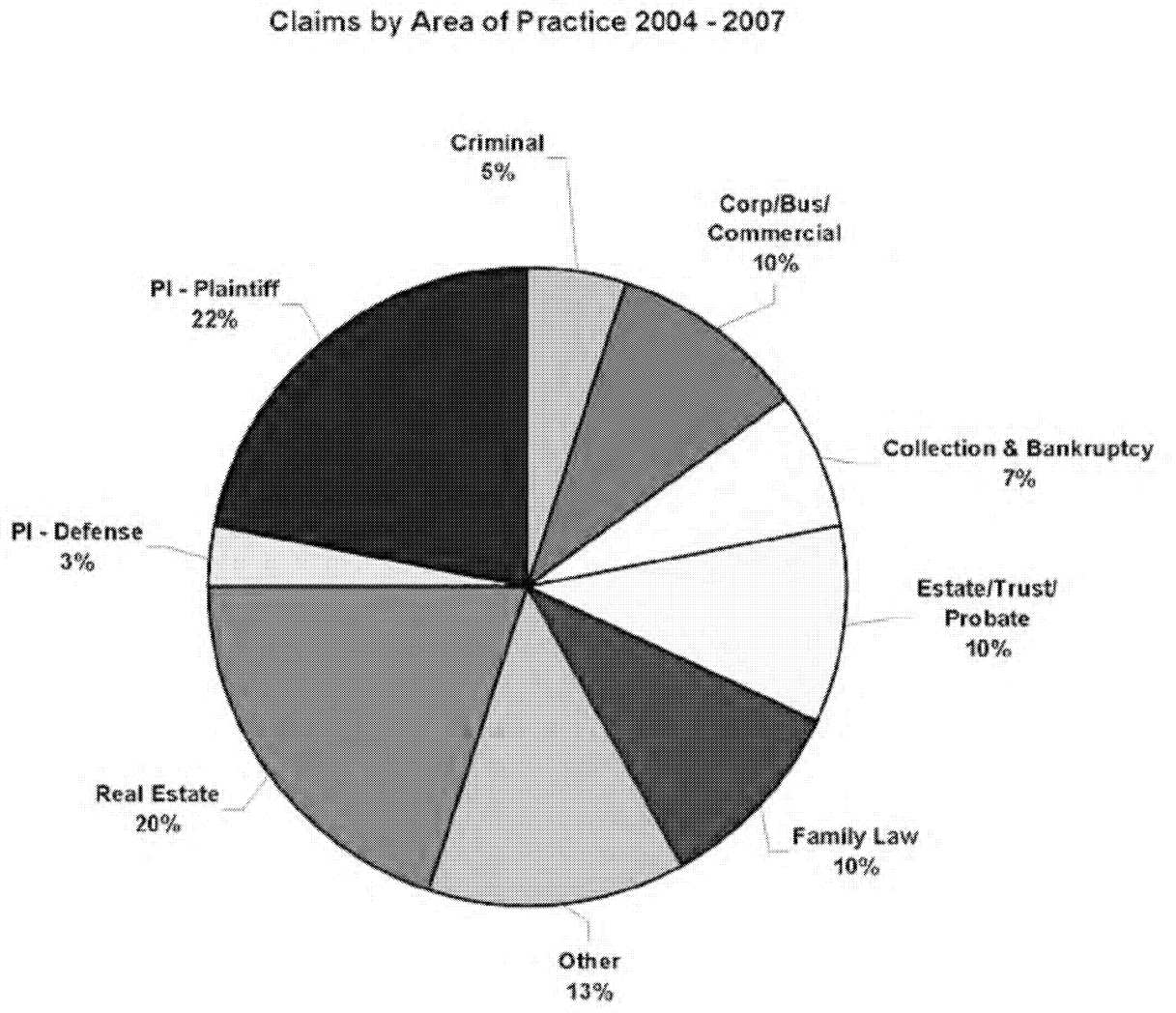
Had I deposited the money into my trust account, the next step would have been for Microtel to instruct me to wire the money to an account of their specifications. Typically, they instruct the lawyer to deduct the amount owed for legal fees and send the creditor the rest of the monies being held in trust. While we would not do that without the funds having actually cleared, in the interim, the imposter Microtel would have tried to get information from my firm's staff such as routing numbers, etc., to the trust account.

A number of firms are on the hook around the country for not waiting to make sure the checks clear before wiring the funds to the imposter client. Also, the banks are taking the position that, even if they verbally tell the lawyer that the funds are "available" or even if the wire transfer to the trust account is accomplished, the bank can still pull money back from the lawyer's trust account to satisfy the bogus official check.

The FBI says it is likely scam artists from Canada acting as an intermediary to other Nigerian scam artists. What makes it particularly realistic is that the written communications are not like the typical Nigerian or overseas emails you receive that are obviously scams. These are well written communications from someone with a very good command of the English language, and usually from a business person with very official looking documentation.

If anyone has a similar situation, they should contact the FBI. The Daytona Beach FBI agent I contacted says he has stacks of similar incidents on his desk from other businesses in the community being sued by the banks that made payment on the checks.

Claims by Area of Practice



Source: *Profile of Legal Malpractice Claims 2004-2007*, American Bar Association (2008)

Since 1985, the American Bar Association (ABA) has published a study of national legal malpractice claims data called the *Profile of Legal Malpractice Claims*. The chart above, "Claims by Area of Practice," is from the fifth and latest study, covering data from 2004 through 2007.

Regarding the results of the current study, the ABA wrote: " . . . noteworthy is how little the percentages have varied since the 2003 Study for the vast majority of claims categories." Personal Injury Plaintiff and Real Estate law have consistently ranked number one and number two respectively. The most dramatic change was the seven percent decrease in claims in the Personal Injury Defense category.

See a comparison of the areas of practice from all of the ABA malpractice studies, on page 4.

Comparison of Claims by Area of Practice: All ABA "Profile of Legal Malpractice Claims" Studies

Areas of Practice	2007	2003	1999	1995	1985
Personal Injury - Plaintiff	22%	20%	25%	22%	25%
Real Estate	20%	16%	17%	14%	23%
Family Law	10%	10%	10%	9%	8%
Estate, Trust and Probate	10%	9%	9%	8%	7%
Collection & Bankruptcy	7%	8%	8%	8%	11%
Criminal	5%	4%	4%	4%	3%
Corporate/Business Org.	5%	6%	9%	9%	5%
Bus. Transaction/Commercial	5%	3%	4%	11%	3%
Personal Injury - Defense	3%	10%	4%	3%	3%
All Other	13%	14%	11%	13%	11%

Totals may not equal 100% due to rounding.

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CALIFORNIA BAR JOURNAL

OFFICIAL PUBLICATION OF THE STATE BAR OF CALIFORNIA - DECEMBER 2001

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- 56.9 percent pass the July bar exam
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MCLE Self-Study

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DISCIPLINE

Money laundering conviction leads to lawyer's resignation

A Los Angeles attorney convicted earlier this year of laundering money that was part of the haul from an armored car company heist has resigned from the State Bar with charges pending. **DAVID MATSUMOTO [#77325], 51,** was placed on interim suspension July 20 and gave up his license Sept. 6, 2001. He was sentenced in October to 27 months in federal prison after pleading guilty to six counts of money laundering and one count of aiding and abetting the filing of a false tax return.

Matsumoto, who lived in Las Vegas but practiced in Los Angeles, and his ex-law office manager, Joaquin Bin, were indicted in September 2000 on 71 counts of money laundering, structuring financial transactions and subscribing to a false income tax return.

Bin, a Santa Ynez Arabian horse-farm owner, pleaded guilty in April to seven counts of money laundering and was sentenced to 30 months in federal prison.

Matsumoto admitted he took $1 million from two of the robbers who stole $18.9 million from the downtown Los Angeles office of Dunbar Armored in 1997. Federal authorities said it was the largest cash robbery of an armored car company in U.S. history, and agents still don't know what happened to most of the money.

Bin also received $1 million from the robbers.

He and Matsumoto deposited their take in Matsumoto's client trust account. Some was used to buy a house in Las Vegas, Matsumoto wrote checks to the robbers to give the impression they were earning wages, and the rest of the money was invested, according to a federal prosecutor.

Most of the money was invested in Combustion Processing Manufacturing Corp., a Houston company that is trying to develop a machine to clean contaminated soil after oil spills.

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Discipline
- Ethics Byte - Lawyers are members of the public, too
- Money laundering conviction leads to lawyer's resignation
- Attorney Discipline

Public Comment

Matsumoto also issued a W-2 tax form to one of the robbers, implying that he earned more than $40,000 for legitimate work.

The case was broken when the FBI traced a broken tail light found at the robbery scene to a truck rented by Eugene Lamar Hill Jr. of Bellflower, one of the two who provided the money to Matsumoto and Bin.

After his arrest, Hill pleaded guilty and fingered his accomplices. All have been convicted, sentenced to federal prison for terms ranging from eight to 17 years, and ordered to pay $18.9 million in restitution.

Former Dunbar security guard Allen Pace III, who had been fired the night before the robbery, was convicted in June of masterminding the robbery.

He was sentenced to more than 24 years in prison.

Matsumoto, who was a sole practitioner, also faces charges stemming from a drunken driving arrest earlier this year.

Nova Scotia lawyer admits embezzling 'friendly-fire' funds

The Globe and Mail ^ | September 27, 2006 | Canadian Press

Posted on **September 28, 2006 at 1:01:29 AM EDT** by **Heatseeker**

Halifax — A high-profile lawyer who sued the U.S. government for the mother of a Canadian soldier killed by American friendly fire has admitted he embezzled money from his clients, CBC Radio reports.

A disciplinary board with the Nova Scotia Barristers Society heard that Dick Murtha billed for work he didn't do, hid insurance settlements from recipients and took out high-interest loans for clients without their knowledge, according to CBC.

That has added up to $200,000 now missing from his clients' accounts.

Darrell Pink of the society says Mr. Murtha violated almost every trust account regulation for maintaining books appropriately.

Mr. Murtha, a decorated war veteran, is claiming he suffers from post-traumatic stress disorder that dates back to his time in Vietnam, where he served with the U.S. Marines.

His lawyer, Brian Smith, says the 9-11 terrorist attacks and Mr. Murtha's work with Canadian families who lost relatives in the friendly fire bombing in Afghanistan have worsened his condition.

Mr. Murtha will be banned from practising law in Nova Scotia and his clients will be reimbursed by his insurance company or the barristers society, CBC reported.

Mr. Murtha was suspended last January while the society conducted its investigation. His office in nearby Lower Sackville, N.S., has been closed and the society transferred his files and clients to other lawyers with the help of a receiver.

Mr. Murtha represented the mother of Pte. Richard Green, who was killed in Afghanistan with three other soldiers when a U.S. pilot dropped a laser-guided bomb on their position during a night-firing exercise in 2002.

Mortgage scam probed in Toronto house flips; Seven homes in the Junction were taken on a wild real estate ride that ended in a lawyer's suspension

Toronto Star
Sat Jan 7 2012
Page: A1
Section: News
Byline: Tony Van Alphen Toronto Star

Something strange was going on in the Junction.

At least seven modest homes, all on avenues in the working-class west end of Toronto, experienced a pattern of flips and price jumps as much as 60 per cent in less than a day.

Most of the deals didn't include deposits. Purchasers got money back. Mortgages exceeded the value of homes. The same buyers and private lenders popped up in many sales.

In one sale, a buyer effectively sold a home to herself.

A few sales even involved a notorious real estate agent who ended up in prison last year for helping mastermind marijuana grow operations in scores of other houses across Toronto.

And behind all the 2003-2005 deals that often defied common sense is a freewheeling **lawyer** - Ron Allan Hatcher - representing multiple parties and running roughshod over his profession's rules of conduct.

A real estate expert, Jerry Udell, reviewed the complex and convoluted deals for the Law Society of Upper **Canada** in a subsequent disciplinary case. He concluded that all of them pointed to one thing - mortgage fraud.

A lot of it.

Mortgage fraud remains a serious problem in the real estate industry. In the U.S., it undermined the housing market during the bubble years of 2004-2005 and brought it crashing down.

But proving fraud in the U.S. and **Canada** can be time-consuming and elusive.

Finding victims is sometimes even harder. In the case of the seven Junction houses, police never laid charges or opened a criminal investigation.

The Ontario Real Estate Council, which regulates the industry, confirmed in November that it had opened an investigation into the transactions involving the houses and possibly more properties.

Except for a one-year suspension for professional misconduct against **lawyer** Ron Allan Hatcher by a law society panel recently, no one has experienced repercussions from the flips and other financial gymnastics involving those houses.

In response to requests from the Star for an interview, Hatcher noted in a brief email that the law society found "there was no fraud" and he suggested waiting for the panel's reasons and "all of the relevant facts."

The law society's panel ruled in October 2011 Hatcher engaged in professional misconduct for "participating in or knowingly assisting in dishonest or fraudulent conduct" by clients obtaining mortgage funds under "false pretenses."

It also found Hatcher, who became a **lawyer** in 1994, wasn't honest or candid with clients, didn't disclose conflicts of interest to them, or meet the standard of a "competent **lawyer**."

Former clients have also won at least two default judgments totalling more than $230,000 against him in civil courts for deficient work on house loans.

Mortgage fraud usually involves people falsifying information such as property values on loan applications so they can gain larger amounts of funds.

In many cases, they default on payments and mortgage funds disappear.

A normal real estate transaction involves a seller receiving money for a home.

But in the case of these seven houses, buyers received unexplained or unaccounted funds as well.

Flips at much higher prices would follow, with a combination of mortgages from financial institutions and private lenders.

In some instances, there were two flips on the houses.

In the final flip, the purchaser would gain as much institutional financing as possible based on the much higher prices negotiated between familiar players in each case.

While the law society panel focused on Hatcher's conduct in its deliberations, a stinging review of Hatcher's work by real estate **lawyer** Udell cited more than 20 "red flags" of "potential fraud" in the transactions.

One of the more curious series of transactions involved 148 Edwin Ave,. where Ivor Pinkett and his sister-in-law Helen Pinkett closed a deal to buy a house for $270,000 on Nov. 17, 2003. Their names would appear repeatedly in The Junction juggling.

The Pinketts' real estate agent for the purchase was high-flying Sau San (Jennifer) Wu, who would plead guilty to marijuana cultivation, tax evasion, utilities fraud, **money laundering** and violating bail conditions in May of this year.

Wu admitted acting as an agent in renting 54 houses to marijuana farmers and received a 61/2-year prison term. None of the grow operations involved the seven houses, according to police.

Hatcher represented both the buying Pinketts on the Edwin Ave. sale and private lenders, who provided a $279,000 mortgage - more than the actual purchase price.

A numbered company for the Pinketts then flipped the Edwin Ave. house for $310,000, or 15 per cent more. Oddly, the deal closed Nov. 14, three days before the first transaction.

The expert review by Udell, a Windsor **lawyer** with 35 years experience, said the price "was significantly inflated."

Furthermore, one of the buyers was Helen Pickett, who effectively bought the house from herself. There was to be a downpayment of $5,000, but the review couldn't find any record of it.

"The second agreement makes no sense and is an obvious sham," said Sean Dewart, a **lawyer** for the law society, in a brief at Hatcher's disciplinary hearing.

Hatcher ran into further conflicts in the latter transaction by acting for the Pinketts' numbered company (now the seller), and lender Bridgewater Financial Services, which provided a first mortgage of $284,580.

He also arranged for two more mortgages on the property totalling almost $100,000, which easily exceeded the purchase price again.

Udell's review for the law society said although Hatcher complied with a rule limiting mortgage amounts while representing borrower and lender, he should have declined the work in "such a clearly manipulated mortgage transaction."

The review also said Hatcher may have "misled" Bridgewater by telling the financial firm he held $37,100 in a **trust**

account for Helen Pickett's downpayment.

In fact, the property was bought with no equity.

In July 2004, Helen Pinkett defaulted and the property was sold under a power of sale process to another investor who was involved in a transaction on one of the other seven houses. Bridgewater collected $265,000, almost $20,000 less than its original mortgage investment.

Udell's review said Hatcher's multiple positions in the transactions were "extremely unusual."

It should have put Hatcher "on alert for a potential fraud" in connection with no deposits, price increases and mortgages exceeding 100 per cent.

He also failed to inform lender clients about the oddities, the review noted.

Ivor Pinkett, a house painter by trade, acknowledged buying and selling some of the houses, but stressed he didn't make any money and never suspected improprieties. Nor was he aware of the law society's case against Hatcher.

The Pinkett's also worked on renovating the homes to boost their value in a resale.

"There were flips all over the map," he recalled. "On some of the houses I worked on, we just walked away and never made anything."

He described Hatcher as a "nice guy and straight up," but added he was unaware about the suspension and hadn't talked to him in years. Helen Pinkett described him as "one of the nicest men I've ever met."

Meanwhile, the Edwin Ave. property continued to sell in transactions that involved some of the same players in previous Hatcher deals.

In 2006, the house sold for $450,000 under another power of sale, with the buyer receiving most of the financing from Money Connect Home Lending.

The listing described the home as "completely renovated."

The owner defaulted in 2009 and Money Connect conducted yet another power of sale.

This time, the house sold for $360,000, leaving Money Connect with a loss. The listing indicated "renovations started."

Transactions at a house on 176 St. Clarens Ave. again featured Hatcher representing the Pinketts as buyers.

There was a second flip with a 64-per-cent price increase in 14 months - from $329,000 to $540,000 - with no deposits and private lenders providing more than 100 per cent financing.

In that flip, which the society review described as "suspicious," Hatcher took on a new role - buyer.

Hatcher, his wife and mother bought the house when the owner who purchased from the Pinketts defaulted.

The price had also soared despite a gutting of the house, which made it uninhabitable.

The review also found that "substantial" funds were paid to renovate the property before closing the deal to the Hatcher family and the work was ultimately paid for by sale proceeds.

Udell said he had never seen such a practice in more than three decades of work.

Fellow **lawyer** Dewart had a blunt assessment of the St. Clarens transactions: "It was a sham and a fraud," he told the society.

He also charged in a brief to the law society that Hatcher had participated in transactions which he knew were frauds.

While admitting the failure to notify lender clients about jumps in property prices was "unprofessional and negligent," Hatcher insisted those actions didn't support allegations of complicity in fraud.

It remains a mystery whether Hatcher gained anything financially.

In his filings with the law society, Hatcher said there was no evidence he received excessive fees or payments on any of the seven properties.

TD **Canada** Trust, the Bank of Nova Scotia and Bridgewater Financial Services - which provided some of the mortgages for the properties - would not comment on whether they lost money.

Money Connect Home Lending, did not respond to inquiries.

Mortgage fraud can also have an impact on the local real estate market.

For example, quick house flips and a jump in prices can artificially raise the value of neighbouring properties.

In this case, it is unclear whether the big price increases or a general uptick in the market pushed up values on the same streets or nearby.

So where are the victims?

One veteran real estate **lawyer** who looked at the seven deals said it is possible that there were no victims because significant increases in market value swept away any possible losses.

"It appears the deals were designed to artificially inflate property values to get higher mortgage amounts than should be permitted," said the **lawyer**, who requested anonymity.

"But in these cases, everyone just got lucky and no one got hurt because market values eventually increased so much in Toronto. In the case of the banks, perhaps they just didn't do their due diligence and looked the other way. If property values had remained stagnant, it may have become a police matter."

In its arguments, law society staff told Hatcher's hearing that financial damage is not necessary to prove fraud under the law.

Some real estate officials say there is an industry impression that police only pursue major incidents of possible mortgage fraud.

However, Det. Sgt. Cam Field, who heads the Toronto Police Service financial crimes section, counters that his department will devote the staff and time if there is evidence of mortgage fraud.

"We know, based on the information from the law society, the potential of more victims in this alleged scheme," Fields noted. "If people think they were criminally defrauded, we strongly suggest they contact us."

In addition to the suspension and an order for $30,000 in costs, the law society rapped Hatcher with a reprimand and $2,000 in further expenses for failing to co-operate in the investigation of his conduct.

But society staff said the penalties aren't enough. They have appealed to a higher society panel to disbar Hatcher.

THE KINGSTON WHIG-STANDARD

Lawyer loses law licence

The Kingston Whig-Standard
Fri Mar 7 2014
Page: A3
Section: News
Byline: THE WHIG-STANDARD

A Kingston **lawyer** found guilty of professional misconduct for having sex with a client while representing both her and her husband in their divorce has been ordered to turn over his law licence or have it revoked. Jehuda Julius Kaminer had earlier been found in conflict of interest for initiating and maintaining a sexual or romantic relationship with a female client in 2006. Kaminer also received money from the client and failed to account for it nor deposit the money into a **trust account**. Kaminer also failed to properly respond to voicemail messages and letters sent by law society staff.

On Feb. 25, a hearing panel at the Law Society of Upper **Canada** ordered Kaminer to turn over his licence within 10 days or have it revoked.

He was also ordered to pay $20,000 of the Society's legal costs within six months. In January 2013, a Law Society hearing found Kaminer had engaged in unprofessional conduct for engaging in the relationship. In September he was suspended for six months.

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The StarPhoenix

Regina lawyer suspended

The StarPhoenix (Saskatoon)
Wed Dec 18 2013
Page: A11
Section: Local
Byline: Barb Pacholik
Dateline: REGINA
Source: Leader-Post

The Law Society of Saskatchewan has taken the rare step of suspending a Regina **lawyer** - even before completing its investigation - after alleging misappropriation of thousands of dollars.

Well known family and estate **lawyer** Pauline Duncan Bonneau has been placed on interim suspension and isn't entitled to practise law until further notice.

Law society executive director Tom Schonhoffer said an interim suspension, while unusual, is imposed on occasion by the law society, the regulating body for the province's lawyers.

"It often is the result of an audit which provides information which is of immediate concern to protection of the public," he said.

Contacted Tuesday, Duncan Bonneau said she plans to resign her membership in the law society, meaning she would be ineligible to practise law regardless. "As a result of the problems, I have decided I will resign my membership and certainly regret the fact that these problems have occurred, but I'm doing my best to rectify the situation," added Duncan Bonneau, who has been practising law for more than 30 years.

"I did self-report the issues with respect to the **trust account** problems, and (have) made restitution," she said.

In its notice of suspension, the society accuses Duncan Bonneau of conduct unbecoming a **lawyer**. The allegations are that: In 2010, she misappropriated $19,800 from her **trust account**, by causing a law firm trust cheque that she created and signed to be deposited into her personal bank account.

In 2008, she misappropriated $14,879 from an estate when she took payment for a probate fee without ever having incurred that expense.

In 2011, she fabricated documents and submitted them to Information Services Corporation with the intent they be relied upon as genuine.

She took payment on two estate matters for legal fees totalling more than $70,000 via "in kind" payments of estate property without remitting income tax, GST or PST.

In 2013, she attempted to mislead the law society by providing it with a trust ledger that she had altered, along with additional altered supporting documents.

In response to the allegations, Duncan Bonneau said, "there were some accounting errors that occurred in my practice. I reported them to the law society, and made full restitution to the client that was involved." She said she also reported the situation to Revenue **Canada**. The suspension took effect on Dec. 11. **Lawyer** Scott Spencer of Robertson Stromberg has been appointed as trustee of Duncan Bonneau's legal practice. Schonhoffer explained that appointing a trustee further protects the public, by having someone to deal with clients' outstanding files.

He said the law society has an audit program that includes lawyers self reporting as well as unannounced "spot

audits" in law firms.

"It's often those types of processes that catch things," he said.

Schonhoffer declined to provide specific details about how this came to the society's attention while the investigation, which began only recently, is underway.

"Now an investigation committee is appointed by the law society and they make a report and decide whether a hearing is required," he said, adding the probe could take some time.

Schonhoffer said the Legal Profession Act requires the society to make a report to the attorney general's office if it discovers anything that may potentially involve a criminal act, "And so that (referral) will be done on this occasion."

In October and November, a hearing committee of the law society heard an unrelated complaint against Duncan Bonneau. The committee has yet to render its decision on liability.

According to the formal complaint in that matter, Duncan Bonneau was accused of altering a statement of account, abusing her power by threatening to increase fees charged to an estate if the beneficiaries requested a check by the court of her fees, and trying to compel a person to abandon a complaint against her to the law society.

bpacholik@leaderpost.com

infomart

Disappearance of lawyer, and $3.6M, devastates clients

Mississauga News
Fri Nov 29 2013
Page: 1
Section: News

MISSISSAUGA - Hasan Abuzour left the Middle East for **Canada** back in 2000, seeking refuge in a safe country renowned for its law and order.

Now he's virtually penniless and heading to court Friday - for the sixth time in seven months - desperately trying to salvage whatever he can from his life's hard work, some $3.6 million he thought was safe in a **trust account** and Heydary launched a high-profile lawsuit on behalf of investors in the Trump International Hotel & Tower.

No one is certain if the charismatic Heydary, 49, the founder of Heydary Hamilton and four other boutique downtown firms, is in his native Iran. According to one source, Heydary's wife told his law partners he's dead.

The Toronto Star has not been able to reach the wife or verify this.

The Law Society of Upper **Canada** is now in control of Heydary Hamilton, as well as Heydary Elliott, Heydary Green, Heydary Hayes and Heydary Samuel. Abuzour's **lawyer** Ray Thapar hopes auditors can unravel the complex financial web.

Most of the focus is on Heydary Hamilton because its trust fund is the only of the five firm's trust accounts that was solely controlled by Heydary himself.

Almost $163,000 was cleared out of the trust fund in just one day, Nov. 15. That was the court-imposed deadline for Heydary Hamilton, to hand over the Abuzour's money, according to financial records included in court filings.

That night Heydary, 49, left **Canada** for his native Iran, telling colleagues he had to tend to a sick relative. He hasn't been heard from since and no one answered the door at his Forest Hill Rd. home Thursday.

The Law Society of Upper **Canada** alleges that just $319,067.82 is left in the Heydary Hamilton trust fund and that Heydary himself is being investigated for "misappropriation, mishandling trust funds, and failing to comply with a court order."

In the wake of the resignations of some lawyers from the firm - and concerns among staff that Heydary "would be a very strong and disruptive presence in the office" if he returned - the Law Society took over as trustee of the businesses this week.

"I could have done family law, but I chose commercial litigation because there's no emotion, no drama," says Thapar, the Brampton **lawyer** that Abuzour is now looking to in order to save his family from financial ruin.

"But this is the worst I've ever seen. It's so important that people understand this is not just about a big Bay St. law firm, this is a real human tragedy."

Abuzour was an entrepreneur before coming to **Canada** from his native Gaza, buying up small apartment blocks, investing in businesses in hopes of building a better life in **Canada** for his family. His nine children range in age from 12 up to 32; four of them are married and on their own.

When Abuzsour decided to dissolve a printing business partnership last year, he needed a **lawyer** to handle the

paperwork. After searching the Internet, his son suggested hiring Heydary. Heydary ended up completing the deal for $200,000, says Abuzour. Abuzour was supposed to receive his $5.1 million share in installments, most of which were to be channeled through a trust fund, between last January and April.

Expecting to soon be flush with cash, Abuzour flew off to Egypt on vacation and put down a $500,000 U.S. deposit on a plot of land. Later he would put a $100,000 deposit on a property in Mississauga.

But after months, and more than 11 encounters with Heydary - who threw up a host of objections to handing over the money, including demanding sureties from Abuzour's former business partner on money the bank had already cleared - Abuzour contacted Thapar, head of commercial litigation at Simmons, da Silva and Sinton in August.

Worried that a relatively simple handover of funds had taken so long, he began proceedings to obtain the funds.

After numerous hearings, and what Thapar feared was just stalling from Heydary Hamilton, on Nov. 14 a judge gave the law firm until 5 p.m. the next day to hand over the funds.

The next night, the affidavit alleges, Heydary was on his way to Dubai and then his native Tehran.

"Lawyers are trusted to further the administration of justice and not obstruct it," says Thapar. "I've never seen anything of this magnitude.

As it stands, the Abuzours are not only out the $3.6 million, but also the $600,000 deposits on land deals which they can no longer afford to close.

"My clients made 11 requests to get the money and at every turn they were given excuse after excuse," says Thapar.

"What's happened here is a huge slight on the entire legal profession. When something like this happens it's a black mark on all lawyers."

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Lawyer who fled to France loses licence

The Ottawa Sun
Tue Oct 29 2013
Page: 12
Section: News
Byline: MEGAN GILLIS, OTTAWA SUN

A former Ottawa **lawyer** accused of funneling hundreds of thousands from his clients before fleeing to France was stripped of his licence to practice law Monday.

Luc Edmund Barrick was a no-show at the Toronto hearing where he was found guilty of professional misconduct.

He was ordered to pay more than $100,000 to the Law Society of Upper **Canada**, which vowed to consider every option to collect the cash from Barrick, who lives in Paris.

"It's better than nothing, but ultimately what is it going to mean?" **lawyer** Meg Green asked. "They can't touch him there.

"The clients are not going to get their money back."

Green worked with Barrick as an associate in 2009 but left feeling she was owed money and suspicious that something wasn't right with her "charismatic, charming" colleague's dealings.

No criminal charges have been laid but an Ottawa Police spokesman said Barrick is known to

them and an investigation is underway.

The law society had alleged that between 2009 and 2011 Barrick raided a **trust account** of Barrick Domey Tannis LLP of more than $116,000 to finance a condo he bought in his own name and $58,000 for personal expenses.

Before he shut down the drained account in June 2011, he'd allegedly taken 11 clients' cash and retainers totaling $308,000.

There was $200,000 from two clients waiting for a property sale to close, $72,000 from a life insurance policy that was supposed to go to a beneficiary and a $25,000 divorce settlement.

Seven clients said they paid Barrick for services -- including filing for divorce -- never provided.

The former legal expert on a local radio show said in 2011 and again earlier this year by e-mail that that he'd left Ottawa for his health.

He has hemophilia.

"I became very ill and I had to withdraw from the practice of law much more quickly than I wanted to," he said, denying misappropriating funds and maintaining the condo was an investment for clients.

Two years ago, a judge called his actions "unprofessional and possibly criminal" as she set aside a six-figure default judgment against a local real estate agent.

The judge heard that Barrick had agreed to defend the man in a civil lawsuit then "absconded" with his $4,000 retainer.

"That left a very black mark on the legal profession," the judge said.

THE GLOBE AND MAIL

Toronto real estate lawyer charged with money laundering

Tu Thanh Ha **and** Jeff Gray
Toronto — The Globe and Mail
Published Friday, Jun. 08 2012, 10:37 AM EDT
Last updated Friday, Jun. 08 2012, 3:20 PM EDT

A long-time Toronto-area real-estate lawyer has been charged with money laundering in connection with a drug investigation where the RCMP froze more than $7-million in suspicious assets.

In addition to the money-laundering accusation, Kenneth James, 71, a solicitor whose law office, James and Associates, is based in Concord, Ont., has been charged with fraud over $5,000 and possession of proceeds of crime.

Also charged is Rosemary Cremer, 61, who faces one count of money laundering and one count of possession of proceeds of crime.

Ms. Cremer is an employee at Mr. James' law firm.

In addition to raiding Mr. James' office on Thursday, police also executed a search warrant at Ms. Cremer's Willowridge Road residence.

Mr. James lives at Ms. Cremer's residence but investigators are not aware of a personal relationship between the two, said Detective Inspector Derek Matchette of the RCMP's Integrated Proceeds of Crime unit.

Land records show that the house, which was purchased for $221,000 two decades ago, was re-mortgaged last February for $130,869. That debt was discharged two weeks ago.

The RCMP said they also filed money laundering and possession of proceeds of crime charges against Mr. James' law firm and two companies, Eveline Holdings Limited and Sterling Capital Inc.

Court documents in previous litigations show that Mr. James has acted as Eveline's solicitor in Ontario and that at one point he got part of a disputed $2-million sum to be wired to Eveline off-shore accounts in the Turks and Caicos.

The RCMP said the charges filed this week stemmed from a two-year investigation into the exportation of drugs from Canada that began in June 2010 with the force's GTA Drug Section. A primary suspect and other people have been arrested but details are under a publication ban.

"Criminal organizations frequently use sophisticated means to launder the profits of their crimes . . . By removing those illicit profits and bringing to justice those who assist criminal groups we are able to disrupt organized crime that affects all Canadians," RCMP Inspector Mark Pearson, the officer in charge of the Toronto Integrated Proceeds of Crime Unit, said in a statement.

Mr. James has previously been named in a number of civil litigations and one criminal case.

In an Ontario Superior Court decision last year in a Mississauga real-estate fraud case, the court heard that "fraudulently obtained funds" were moved between several accounts including one belonging to James and Associates.

Canadian trustees of the Church of Jesus Christ of Latter-day Saints have also alleged in court litigations that in 1990, Mr. James was the solicitor in a number of real-estate transactions where Mormon church properties were flipped and the profits pocketed without the church's knowledge. The church eventually dropped its action against Mr. James.

Mr. James also faces an ongoing disciplinary proceeding before the Law Society of Upper Canada, which he has been fighting. In May of 2010, the legal profession's regulator alleged he had participated in or knowingly assisted with "fraudulent or dishonest conduct" in connection with 12 Toronto-area mortgage transactions. If he is found to have violated the profession's rules, he could lose his licence to practise law.

Law enforcement agencies have long identified lawyers, and the use of their trust accounts by potentially unscrupulous clients, as weak links in worldwide efforts to crack down on money laundering.

But Canada's legal profession has waged a battle in court for over a decade, successfully resisting attempts to include it under Ottawa's anti-money-laundering regime. The rules, among other things, require bankers and others who handle money to report certain suspicious transactions. The Federation of Law Societies of Canada argued the rules threatened lawyers' independence and required them to betray their clients.

Instead, law societies across the country have brought in their own rules to combat money-laundering, including the banning of lawyers from accepting cash deposits into their accounts of more than $7,500, excluding payments of legal fees.

Authorities to probe another disbarred lawyer

FEBRUARY 23, 2014 | BY **KNEWS** | FILED UNDER **NEWS**

The leadership of Guyana's judiciary is to probe yet another Guyanese lawyer who has run afoul of the law while practicing overseas.

This has resulted in him being struck off the list of attorneys eligible to ply their trade in Canada where he committed the offence.

However, he is still operating openly in Guyana.

Attorney General Anil Nandlall told reporters on Friday that while "I have not yet received formal notification about the (Canadian) case," he has nevertheless forwarded correspondence to Chancellor Carl Singh about the issue of Attorney Vishnu "Joey" Poonai being disbarred by judicial authorities in Canada after he was convicted and served time for committing frauds that involved millions of dollars.

The former Canadian based lawyer was ordered by the Milton Superior Court back in 2007, to pay CND$59,000in restitution to several banks before serving his three and a half years prison term for mortgage fraud. Poonai was further disbarred by the Upper Law Society of Upper Canada.

Nandlall confirmed however that the members of the Guyana Bar Association (GBA) have expressed concern over the issue. This written concern, he added, has been dispatched to the Chancellor. "Someone from the Bar Association wrote to me and I forwarded the letter to the Chancellor," the AG said.

President of the local Bar Association Ronald Burch-Smith told media operatives that a member of the organization's Executive Council-in a personal capacity-wrote the AG last November expressing concerns over the disbarred lawyer. Secretary to the Bar Christopher Ram also confirmed making the issue known to senior judiciary officials.

Poonai told Kaieteur News that he will continue to practice here since he was admitted to Guyana's Bar, "long before" he was admitted to the Canadian and UK Bars. He said his, "problem in Canada has nothing to do with what I am doing here." "I am licensed to practice in Guyana and until somebody stops me… I will practice here."

According to the online report from Law Times, Poonai, the Brampton Ontario lawyer defrauded four financial institutions of some $4M. A 99-page agreed statement said that the former real estate lawyer admitted to engaging "in professional misconduct and that the appropriate penalty was immediate disbarment."

The law society said that Poonai was involved in 13 counts of professional misconduct, including acting as the solicitor in 49 mortgage transactions between 1997 and 2003 where he knowingly assisted in a scheme to obtain mortgage funds from mortgagees under false pretences, in what the court called a "flip fraud."

The total aggregated loss to the financial institutions (the rest was covered by insurance) was $2,853,403, according to the ruling from Poonai's criminal trial.

The lawyer was arrested in October 2003, and pleaded not guilty to the initial set of charges during his trial. At one point, he claimed that the Law Society of Upper Canada had given him permission to do the flips. The frauds occurred when a property was purchased around its market value, conveyed immediately afterwards for a falsely inflated, significantly higher price to a second buyer who was not a bona fide buyer and mortgage funds were advanced based on the higher second selling price. The difference between the funds needed to close the first deal and the mortgage for the second deal is the profit for the fraudsters, with the mortgage then falling into default.

In these lucrative flips, Poonai or another lawyer "acting in concert with him" would act for all the parties including the lending institution, without fully apprising the lender of the circumstances of the transaction.

In one of the transactions, the report said, the property saw a 2.123-per-cent increase in price over the two-week period between the first agreement and second agreement, resulting in a $275,999 profit. Another property increased by 1.508 per cent over four days.

The agreed statement notes that Poonai "admits that the transactions were dishonest and fraudulent and that he was aware of their dishonest and fraudulent nature."

The report went on to say that in October 2003, Poonai was also charged with five counts of fraud over $5,000 relating to 12 real estate transactions between April 2002 and May 2003. The court lists the Royal Bank of Canada, the Bank of Montreal, CIBC Mortgages Inc., and Scotia Mortgage Corp., as being defrauded in the schemes.

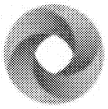
While the misconduct proceedings against him were initiated in 2003, in 2004 Poonai agreed to an interim suspension in exchange for an adjournment sine die of the law society proceeding, pending the outcome of the criminal trial.

He was found guilty on December 22, 2006 of four counts of fraud over $5,000 and pleaded guilty to an additional count of fraud over $5,000 on March 30.

In December, Poonai was found guilty of professional misconduct for providing legal services while suspended and

destroying client property. At that point, he was ordered suspended for two years. Ten days later, he was convicted of four counts of criminal fraud in the Ontario Superior Court, with Justice John Murray concluding: "Mr. Poonai acted in a manner that reasonable, decent persons would consider dishonest and unscrupulous."

It was noted by the Law Times that two other lawyers – Pretam Kaur Purewal and Patience Boatemaa Whyte – were also involved in the frauds. It was reported that, "They knowingly assisted in or encouraged dishonesty, fraud, crime, and/or illegal conduct or to have become the dupe of clients who were engaged in dishonesty, fraud, crime, and/or illegal conduct, with respect to several properties." Whyte was given permission to resign in January and Purewal was disbarred on March 19.



Grant Thornton

Reporting Entity Sector Profiles: Money Service Businesses Appendix B

Prepared for FINTRAC | March 31, 2014

Appendix B: Case examples and typologies

The enclosed articles have been sourced from news media databases, books and the Internet, and provide specific examples of the risk factors identified in the report.

1. Western Union faces probe for fraud-induced money transfers. Reuters, February 25, 2014.
2. The hawala money trail: How a tiny money-transfer service in Ottawa was linked to bin Laden's multimillion-dollar global financial empire. The Ottawa Citizen, November 10, 2001.
3. Israel cracking down on money changers. Haaretz, March 19, 2014.
4. Texas man convicted in $3.9 million money laundering scheme. United States Attorney's Office, Middle District of Pennsylvania, July 22, 2013.
5. Global finance: Currency probe reaches to Julius Baer. The Wall Street Journal, February 4, 2014.
6. Forex market investigation: Collusion in the chat rooms? Bloomberg Businessweek, January 2, 2014.
7. U.S. unveils world's 'largest' money laundering probe. ABS-CBNNews, May 29, 2013.
8. Fears of financing terror closes another money transfer outlet for overseas Somalis; Terror financing fears stop transfers to Somalia. Canadian Press, June 25, 2013.
9. Police investigate a money transfer service after allegations of theft. Australian Broadcasting Corporation News, December 12, 2013.
10. Funding terrorism: Illegal cash flows may be aiding terrorists. The Financial Daily, January 6, 2014.
11. Money agency fined for laundering. The Australian, December 18, 2013.
12. Italy money laundering probe swoops on 21 cash transfer bureau. Reuters, October 31, 2012.
13. 2 face charges of money laundering; Langley men operated two currency exchanges. The Vancouver Sun, June 27, 2009.
14. Raids on hawala trader expose Rs 400-crore deals. The Times of India, February 4, 2014.
15. Why did criminals trust Liberty Reserave? The New Yorker, May 31, 2013.

Western Union faces probe for fraud-induced money transfers

Tue Feb 25, 2014 12:43am EST

Feb 25 (Reuters) - Money-transfer company Western Union Co is being probed by the Federal Trade Commission and a U.S. district court over fraud-induced money transfers, the company said in a regulatory filing on Monday.

The company said it received a civil investigative demand from the FTC on Feb. 21, requesting documents related to consumer complaints regarding fraud-induced money transfers sent from or received in the United States since 2004.

Western Union also said it has received multiple subpoenas since Nov. 25 from the U.S. attorney's office for the Middle District of Pennsylvania.

The inquiries have sought documents related to complaints made by consumers to Western Union relating to fraud-induced money transfers since Jan. 1, 2008, as well as information about Western Union's agents, the company said in the filing.

"The government's investigation is ongoing and the company may receive additional requests for information as part of the investigation," Western Union said.

Western Union has been battling the FTC over a civil investigative demand for information about consumer complaints in December 2012. A federal judge in New York ordered the company to comply with the request last December.

The world's largest money-transfer company reported a 27 percent drop in fourth-quarter profit, largely due higher costs linked to tightened regulations to prevent money laundering.

OTTAWA CITIZEN

The hawala money trail: How a tiny money-transfer service in Ottawa was linked to bin Laden's multimillion-dollar global financial empire

The Ottawa Citizen
Sat Nov 10 2001
Page: B1 / FRONT
Section: Saturday Observer
Byline: Ian MacLeod
Column: Ian MacLeod
Source: The Ottawa Citizen; with files from Citizen News Services

After scouring the globe, the hunt for Osama bin Laden's cash flow came crashing down this week on an ironic Ottawa address -- Bank Street -- and a tiny money-transfer service in a Somali grocery store.

U.S. President George W. Bush alleged this week that the service used by unsuspecting Somali immigrants at the back of the modest south-end shop is part of a sophisticated, underground financial network funnelling millions to the al-Qaeda **terrorist** organization.

About five per cent of the cash transferred from such hawala operations to oversees family and friends is skimmed and diverted to al-Qaeda, officials charge. The worldwide network, they say, generates an estimated $25 million U.S. annually for Mr. bin Laden's **Terrorism** Inc.

The Canadian government quickly added the Ottawa service, Barakaat North America Inc., to its list of companies whose assets are being frozen in the war on **terrorism**. About $72,000 is believed to have been frozen in the business's bank account.

Across town the same day, Somali immigrant Liban Hussein stood outside his family's Orleans townhouse pleading his innocence to a newspaper reporter.

Mr. Hussein, 31, operates a Barakaat outlet near Boston and is charged there with illegally operating a money transfer business. He too is now on the U.S. blacklist. His brother, Mohamed, was arrested in Boston on Wednesday.

On Thursday, the shades were down and the Pineglade Crescent home appeared deserted.

Canadian officials have since offered few details on how the hawala counter at a mom-and-pop Ottawa grocery store and a man inside a home on a suburban Canadian street came to be fingered by the president of the United States for possibly aiding and abetting the world's most wanted thug.

But U.S. intelligence officials point to Barakaat North America's Somalia-owned parent firm, al Barakaat (Arabic for blessings), a banking and telecommunications conglomerate with branches from the United States to Australia.

The Boston Globe reported yesterday that the business was founded by Mr. bin Laden, Somali financier Ahmed Ali Jumale and a radical Somalia-based Islamic group. It is one of several connections Mr. bin Laden has to the war-torn African nation.

In fact, of the 62 organizations and individuals that had financial assets in the U.S. frozen this week because of suspected al-Qaeda ties, 25 are located or have offices in Somalia, where Mr. bin Laden is believed to have played a key role in the bloody campaign against U.S. peacekeepers in the early 1990s.

At the time, Somalia had a well-established financial network, much of it built on contributions from the Saudi

government and wealthy Saudis to the regime of Siyad Barre, which fell in 1991. In the political turmoil that followed, Mr. bin Laden was able to gain control of the network and use it to fund his anti-U.S. operations in Somali, according to the book Bin Laden: The Man Who Declared War on America.

Authorities say Mr. bin Laden and his associates have since used the network to help build their al Barakaat organization and bankroll a killing campaign on U.S. soil. U.S. Treasury Secretary Paul O'Neill this week called the business a "pariah of the civilized world" and said it also aides **terrorist** groups by fudging records, relaying intelligence, communications and helping far-flung **terrorist** allies stay in touch.

The Wall Street Journal says al Barakaat is one of the world's largest hawala networks. U.S. officials claim Mr. Jumale, the head of al Barakaat, has a long relationship with Mr. bin Laden stretching back to the war in Afghanistan in the 1980s.

"He has used al Barakaat's 60 offices in Somalia and 127 offices abroad to transmit funds, intelligence and instructions to **terrorist** cells," the White House said in a statement. Mr. Jumale denies any ties to Mr. bin Laden.

Still, official portrayals of Barakaat and related firms as shadowy, underground operations, are somewhat misleading. Barakaat North America Inc., for instance, is listed on page 644 of the Yellow Pages, under "Money Order & Transfer Services," right along with Western Union.

Sharif Abdalla, the man who ran the Ottawa service and whom authorities have not accused of any crime, said he deposits his customers' money into a TD-**Canada Trust account** and then has it legally wired to a company office in the United Arab Emirates city of Dubai. Mr. Abdalla says he has transferred about $700,000 annually since 1996 for clients across **Canada**. From Dubai, the money is believed to be relayed to the intended recipients by hawala brokers in various countries.

In a traditional hawala operation, a customer hands over cash to the agent who, for a small fee, promises to get the money to the recipient. The agent then arranges, either through a phone call, fax or e-mail, to have a hawala agent in the receiving country hand over the money in local currency.

The agents settle their accounts, perhaps once a year, to make sure that neither is owed any money. There is usually little or no paper trail and the agents' profits come mainly from changes in currency values and commissions off large transfers, often made by criminals.

But officials now realize that hawala networks also have had very open relationships with western banks and that there have been warning signs about some of al Barakaat's suspected activities.

The Wall Street Journal reports that al Barakaat used several unwitting U.S. firms -- Royal Bank of Scotland PLC's Citizens Bank unit, KeyCorp.'s Key Bank unit, J.P. Morgan Chase & Co.'s Chase Manhattan, and First Data Corp.'s Western Union, Citigroup Inc.'s Citibank unit and SunTrust Banks Inc. -- for its alleged activities.

About $110,000 U.S. in transfers from Dubai to two of the hijackers involved in the Sept. 11 attacks on New York City and Washington, D.C., moved from an exchange house in the U.A.E. via Citibank in New York to the hijackers' joint account at SunTrust.

The modus operandi of Barakaat North America, the newspaper says, is very similar to how a group of Russian-born businesspeople moved about $7 billion U.S. in questionable funds through Bank of New York Co. in the mid-to-late 1990s. Two people involved in that scheme since have pleaded guilty to a conspiracy to launder money; Bank of New York hasn't been charged with any wrongdoing.

The criminal complaint against the Husseins outlines ties between Barakaat North America and the al Baraka Exchange, an al Barakaat outfit that is one of dozens of wire-transfer houses that pepper Dubai's city centre and serve the more than two million foreign workers in the U.A.E, the newspaper says.

The complaint says the brothers opened accounts with two U.S. banks last year -- Citizens Bank in Boston and Key Bank in Portland, Maine -- so they could make transfers. From March 2000 through Aug. 1, nearly $1 million U.S. was transferred to the U.A.E. from the Key account. Between July 5 and Sept. 26 of this year, $595,373 was sent from Citizens to Chase in New York, then on to Emirates International Bank in Dubai, a hub of Islamic financial activity.

When the funds arrived at Emirates International, a prominent U.A.E. institution, they were deposited in the account of al Baraka Exchange. Many of of the city's wire-transfer houses, including al Baraka Exchange, offer to send transfers via Western Union, a unit of First Data Corp. of Denver. Government officials say the Sept. 11 hijackers also received funds from U.A.E. via Western Union. The company, which recently told investors it has signed agreements this year with transfer firms in India, China, Thailand, South Korea, Yugoslavia and the Ukraine, declined to comment other than to say it cooperates with law enforcement.

In all, yesterday's Boston Globe reported, Barakaat North America received deposits of more than $3 million between January and September alone. And as of Wednesday, U.S. officials said, they have seized nearly $1 million in Barakaat assets.

Authorities emphasized the Husseins may not have realized some of the money from their business might have eventually made its way to **terrorists**.

"There are no charges at this point about any connection to **terrorists** or suspected **terrorists**," said Samantha Martin, a spokeswoman for the U.S. prosecutor's office.

As far back as August 1997, Liban Hussein opened two accounts at another bank, BankBoston, and received permission to use the accounts to make transfers, the The Boston Globe reported

But in April 1999, BankBoston told Mr. Hussein it planned to close his accounts because of suspicious activity: repeated deposits and wire activity just under $10,000. He sued, claiming the branch manager told him his business was being used for illegal money laundering.

In court documents, Liban Hussein claimed his company functioned simply as a wire transfer agent for al Baraka, "not in any way different from other corporate businesses like the Western Union and the MoneyGram."

The Husseins' **lawyer**, Sam Osagiede, told The Boston Globe the FBI investigated the brothers and their company for possible links to **terrorist** groups and found no connection.

The U.S Treasury Department this week also froze a a Seattle bank account used by Barakat Wire Transfer Co., based in the back of a neighbourhood food market. Washington State documents show the business, formally established April 11, estimated its gross annual income at $28,001 to $60,000. Under the heading "business description," it says: "We transfer money sent by people in the U.S.A. to their relatives in Somalia, Kenya, Ethiopia, etc."

Other documents provided by Massachusetts regulators suggest another reason al Barakaat was able to penetrate the U.S. banking system with relative ease.

Al Barakaat's Mr. Jumale, documents indicate, learned his banking from Americans. From 1979 to 1986, according to a resume for Mr. Jumale submitted to Massachusetts regulators, he worked in Jeddah, Saudi Arabia as a senior clerk at the Saudi American Bank. The bank was founded by Citibank, which owned 40 per cent of it at the time he worked there. Among the bank's seminars he attended: "Money Remittance Operations."

But one of al Barakaat's European partners says the allegations against Mr. Jumale and the group of companies is a joke.

"Sheikh Ahmed (Ali Nur Jumale) has been a very good friend of mine over the years, and I am shocked at some of the perceptions of the Barakaat 'empire,"' said Mike Fitzgerald of Ireland's Microcellular Systems. "It is comical really."

Mr. Fitzgerald's communications company financed al Barakaat's move into telecommunications in the 1990s with an initial investment of $800,000, and says he is absolutely certain al Barakaat had no other source of funds.

"If bin Laden was involved, money would have come from him, but it never did," said Mr. Fitzgerald, who said his company was bought by InterWAVE of the U. S. last year.

Mr. Fitzgerald has spent years with Mr. Jumale and his associates, meeting him regularly in Dubai and training many of his leading managers in telecommunications for weeks on end in Britain.

"We have always had to trust them, and it would be impossible for them to be evil **terrorists**," Mr. Fitzgerald told

Reuters in a telephone interview. "You can look in Sheikh Ahmed's eyes, and you know he is a good person."

Analysts say the closure of al Barakaat, one of Somalia's biggest private sector companies and employers, will further cripple the economy in impoverished Somalia, already facing a humanitarian crisis caused by drought and inflation.

Al Barakaat

- Al Barakaat is a type of hawala, which means "in trust" in Hindi, an informal system of transferring funds globally based on trust, family, friends and a small fee that is used in many Arab, south Asian and East African countries.

- Hawalas are often housed in small nondescript rooms above a store, the tools of the hawala in **Canada** are a telephone, fax, safe and a book of receipts.

- the Manager of One Hawala Agency in Toronto That Services Primarily East African Clients, An Offshoot of a Company Based in Dubai, Said Canadian Brokers Transfer, on Average, Between $30,000 and $120,000 a Month.

HAARETZ.com

Israel cracking down on money changers

Demands more info on large transactions, details on big customers, to foil terror, money-laundering.

By Sivan Aizescu | 10:10 19.03.14 | 1

Tweet

Money changers face tougher reporting requirements, following the Knesset Constitution and Law Committee's approval of regulations yesterday to prevent them being used as conduits for laundering money.

The new regulations will require money changers to report on large transactions to the government's Anti-Money Laundering Authority, as well as the details of the customer.

They will also be required to implement a "know your customer" policy to ensure that customers are not connected with the shadow loan market or with terrorist groups.

Until now only banks were required to report such transactions to the authorities in which money laundering or terror finance might be suspected. But experts say money changers are key conduits for organized crime to launder money and that many changers are owned by criminal groups.

The new regulations — which passed the committee by a 5-4 vote — which go into force in another nine months, require money changers to report all transactions in excess of 5,000 shekels ($1,445) involving funds coming into or going out of the country without reporting the identity of the customer. The same rule will apply to all transactions in excess of 10,000 shekels cash or 50,000 shekels in any form.

They will also be required to identify all customers or beneficiaries of foreign currency transactions whose total business exceeds 200,000 shekels in any six-month period. Money changers will be required to identify the source of the funds being changed and report any suspicious transactions to the authorities.

Adi Barkai, an attorney who represents money changers, said the law added a regulatory burden on money changers and would not achieve its goals.

"The problem today is not about collecting information on customers. The problem is the lack of enforcement of existing regulations," Barkai said. "The authority knows very well that side by side with regulated money changers, a big industry of unsupervised changers is operating."

Combined with changes planned to tax regulations, the money changing restrictions will strike a blow at the ultra-Orthodox community, many of whose members engage heavily in off-the-books transactions to avoid taxes.

On Tuesday, Haredi lawmakers objected on procedural grounds to how the committee vote was conducted and asked it to be taken again, which resulted in the committee re-voting along the same lines two hours later.

Texas Man Convicted In $3.9 Million Money Laundering Scheme

FOR IMMEDIATE RELEASE July 22, 2013

The United States Attorney's Office for the Middle District of Pennsylvania, announced that following a week long jury trial before U.S. District Court Judge Christopher C. Conner, a Texas man was convicted on July 19 on 14 Conspiracy and Money Laundering counts stemming from a scheme to defraud hundreds of victims across the country, including several from central Pennsylvania, out of more than $3.9 million and to launder the proceeds.

Olufemi Adigun, age 27, of Stafford, Texas, was indicted in December 2012 along with two other defendants, Uchechukwu Stanley Ohiri, age 29, and Benjamin Chikwe, age 32, both of Houston, Texas.

According to U.S. Attorney Peter J. Smith, the trial revealed that in 2008, Adigun operated MoneyGram and Western Union outlets out of an empty Houston storefront known as "FAB Tax Services," a fictional tax service provider. The storefront was used by Adigun and his codefendants to intercept and launder $3.9 million sent by victims defrauded by advance fee, mass marketing schemes via the MoneyGram and Western Union money transfer systems.

The schemes rely heavily upon the MoneyGram and Western Union money transfer systems for success. More commonly known as Secret Shopper, Advance Fee, or Canadian Lottery schemes, perpetrators contact victims via the U.S. mail or the internet promising large cash prizes, lottery winnings, fictitious loans, or automobiles and motorcycles for sale. Counterfeit checks are sometimes sent to the victims who are induced into depositing them before returning a portion of the funds to the fraudsters via the MoneyGram and Western Union money transfer systems. The victims suffer a financial loss when the counterfeit checks bounce or after they send the fraudsters thousands of dollars of their own money for non-existent merchandise.

Adigun and his codefendants would intercept the victims' money transfers and launder the proceeds before sending the proceeds back to the fraudsters minus a money laundering fee, typically 10-20%. Adigun and his codefendants would also enter false payee identification information into the MoneyGram and Western Union databases, thereby maintaining the anonymity of the fraudsters and creating the illusion that a bona-fide payee had physically entered the receiving outlet.

In almost all of the schemes the victim sender is instructed to provide the Money Transfer Reference Number (MTRN) to the fraudster immediately after the transfer is sent. Armed with the MTRN, FAB Tax Services or any other corrupt money transfer agent could query the MoneyGram and Western Union money transfer databases and remove the funds from the systems, even though FAB was physically located thousands of miles away from the intended payee.

Adigun began operating FAB as a Western Union outlet in December 2007 and as a MoneyGram outlet in May 2008. Thereafter, more than 500 customers filed Consumer Fraud Reports (CFRs) with the two companies complaining they had been defrauded. The investigation revealed all 500 of the transfers had been paid out at FAB. As a result, MoneyGram and Western Union terminated FAB on August 20, 2008 and September 2, 2008 respectively. By that time, however, more than 1,241 victims had been defrauded out of $3,919,711. Adigun and his codefendants laundered $3.1 million of the $3.9 million by converting it into cash, withdrawing as much as $70,000 to $80,000 a day from 3 FAB bank accounts they controlled in the greater Houston area. The trio also forwarded another $650,000 offshore via the MoneyGram and Western Union money transfer systems, primarily to Canada, Nigeria and Romania. More than $100,000 of the offshore transfers were sent to just one MoneyGram agent in Toronto, which was also later closed for money laundering activity.

Adigun's codefendant, Benjamin Chikwe, pleaded guilty to conspiracy to commit money laundering and is awaiting sentencing. Uchechukwu Stanley Ohirihas remains a fugitive.

Following the conviction, Judge Conner revoked release and committed Adigun to prison pending the sentencing in October.

This case was investigated by the Harrisburg Office of the U.S. Postal Inspection Service and was prosecuted by Assistant United States Attorney Kim Douglas Daniel.

The Postal Inspectors' investigation has resulted in the conviction of more than 21 corrupt MoneyGram and Western Union agents from across the United States and Canada in the Middle District of Pennsylvania. The Postal Service's investigation has also resulted in the prosecution of MoneyGram in the Middle District for aiding and abetting wire fraud, and for its failure to maintain an effective anti-money laundering program as required by federal law. In November 2012 the Company entered into a Deferred Prosecution Agreement with the government that required MoneyGram to pay $100,000,000 into a victim's restitution fund, to make substantive improvements to its anti-money laundering programs, and to retain a Corporate Compliance Monitor selected by the government for the next five years.

FACTIVA DOW JONES

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Global Finance: Currency Probe Reaches to Julius Baer

By John Letzing and Chiara Albanese

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4 February 2014
The Wall Street Journal
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C3
English

The chief executive of Switzerland's Julius Baer Group AG said the private bank has had to "clarify a few cases" of currency trading to the country's regulator, an indication that the global investigation of possible market manipulation has spread beyond the big lenders that have been at its center.

Several of the world's largest banks, including Deutsche Bank AG and Citigroup Inc., have suspended traders since the probe started in April. Those two banks alone facilitate just under one-third of all currency trading.

During a presentation Monday of Julius Baer's annual results, Chief Executive Boris Collardi said the bank has been approached regarding the foreign-exchange probe, adding that it had to "clarify" some cases in which the bank had hired employees from larger lenders "more in focus" in the investigation.

In a subsequent interview with The Wall Street Journal, Mr. Collardi said the Swiss financial regulator, Finma, was the only one to contact the bank regarding the matter. Mr. Collardi said the regulator had inquired about "a couple of employees" who had joined the bank from UBS AG and Credit Suisse Group AG, though ultimately "it hasn't been necessary" to discipline or fire anyone as a result.

The Zurich-based bank maintains a foreign-exchange trading desk for its private banking clients. It ranks 62nd in global currencies-market trading, according to the annual Euromoney survey.

A spokesman for Finma said its investigation of foreign-exchange markets was continuing. UBS declined to comment on the Julius Baer probe, while a Credit Suisse spokesman didn't respond to a request for comment.

In October, Finma said it was conducting probes into "several Swiss financial institutions in connection with possible manipulation of foreign-exchange markets." That same month, in an interview with a Swiss media outlet, Credit Suisse Chairman Urs Rohner said the bank had received inquiries from regulators but hadn't found any evidence of foreign-exchange manipulation.

UBS, whose currencies-dealing business is one of the biggest, said in October that it had taken disciplinary action against employees during its internal review of its foreign-exchange business.

In January, HSBC Holdings PLC became the latest big bank to suspend traders. Around the same time, Citigroup suspended two people, adding to one previous firing over this issue.

As previously reported by The Wall Street Journal, Standard Chartered, PLC last year suspended a trader who had recently moved to the U.K.-based bank from UBS.

Meanwhile, Julius Baer said assets under management it will draw in from a continuing acquisition will be at the low end of expectations and reported a 30% decline in 2013 net profit.

The bank is in the midst of an acquisition of Bank of America Corp.'s Merrill Lynch wealth-management business outside the U.S., a process that is expected to last until next year.

Overall, assets under management rose 34%, to 254 billion Swiss francs ($280.3 billion), in 2013 from the previous year. Net profit fell to 187.8 million francs, pressured by the cost of the Merrill Lynch deal.

In Zurich, Julius Baer's shares fell 5.9%, to 41.44 francs.

Bloomberg Businessweek

Markets & Finance

http://www.businessweek.com/articles/2014-01-02/foreign-exchange-traders-may-have-used-chat-rooms-to-rig-market

Forex Market Investigation: Collusion in the Chat Rooms?

By Liam Vaughan, Gavin Finch, and Bob Ivry January 02, 2014

It's 3:40 in the afternoon in London, and computers blink red and green as traders buy and sell billions of dollars of currency. The pace picks up with the approach of the "fix"—the one-minute period beginning 30 seconds before 4 p.m. Trades made during the fix help determine the WM/Reuters currency exchange rates used as benchmarks by multinational corporations, money managers, and investors around the world to value contracts and assets.

As they check prices and complete deals, some traders participate in as many as 50 online chat rooms. Messages from salespeople and clients appear on their monitors, get pushed up by new ones, and vanish from view. Now regulators from Bern, Switzerland, to Washington are examining evidence that a small group of senior traders at big banks had something else on their screens: details of each other's client orders. Sharing that information may have helped dealers at JPMorgan Chase (JPM), Citigroup (C), UBS (UBS), Barclays (BCS), and others manipulate prices to maximize their profits, say five people with knowledge of the probes who asked not to be identified because the matter is pending.

At the center of the inquiries are instant-message groups with names such as The Cartel; The Bandits' Club; One Team, One Dream; and The Mafia, in which dealers exchanged information on client orders and agreed how to trade at the fix, according to the people familiar with the investigations.

Unlike sales of stocks and bonds, which are regulated by government agencies, spot foreign exchange trades—buying and selling for immediate delivery, not a future date—aren't considered investment products and aren't subject to specific rules. Traders are bound only by market abuse laws prohibiting trading on inside information and sharing confidential data about client orders with third parties. "This is a market where there is no law, and people have turned a blind eye," says Ted Kaufman, a former Democratic senator from Delaware, who sponsored legislation in 2010 to shrink the largest U.S. banks.

A lack of regulation has left the foreign exchange market vulnerable to abuse, according to Rosa Abrantes-Metz, a professor at New York University's Stern School of Business. "Since the gains from moving the benchmark are possibly very large, it is very tempting to engage in such a behavior," says Abrantes-Metz, whose 2008 paper *Libor Manipulation* about the London interbank offered rate helped spark a global probe of how that benchmark is set. "Even a little bit of difference in price can add up to big profits."

London is the world's biggest hub for currency trading, accounting for about 41 percent of all transactions, compared with 19 percent for New York and 6 percent for Singapore, according to a Bank for International Settlements survey. About $5.3 trillion changes hands globally every day, BIS

data show, as companies convert revenue into dollars, euros, or yen, and managers overseeing pensions and savings buy and sell stock around the world.

Spot currency trading is conducted in a small and close-knit community. Many of the more than a dozen traders and brokers interviewed for this story live near each other in villages dotting the Essex countryside, a short train ride from London's financial district. They stay in touch over dinner, on weekend excursions, or during rounds of golf. "This is a market that is far more amenable to collusive practices than it is to competitive practices," says Andre Spicer, a professor at the Cass Business School in London.

The data used to determine WM/Reuters rates for 160 currencies is collected and distributed by World Markets, a unit of State Street (STT), and Thomson Reuters (TRI). Bloomberg LP, the parent of *Bloomberg Businessweek*, competes with Thomson Reuters in providing news and information, as well as currency trading systems and pricing data. Bloomberg LP also distributes the WM/Reuters rates on Bloomberg terminals.

A story about possible exchange rate manipulation by Bloomberg News in June triggered internal probes as banks began reviewing millions of instant messages, e-mails, and transcripts of phone calls. The U.K.'s Financial Conduct Authority (FCA), the European Union, the Swiss Competition Commission, and the U.S. Department of Justice are investigating currency trading.

At least 12 foreign exchange traders have been suspended or put on leave by banks as a result of internal probes, and 11 firms have said they were contacted by authorities. Government-controlled Royal Bank of Scotland (RBS) turned over transcripts of instant messages. Deutsche Bank (DB) says it's cooperating with regulators, and UBS says it's taking unspecified disciplinary measures against employees. UBS, RBS, Citigroup, Deutsche Bank, JPMorgan, Goldman Sachs (GS), and Lloyds Banking Group (LYG) are banning traders from participating in chat rooms with employees of other banks, say people at the banks. None of the traders or their employers have been accused of wrongdoing.

One focus of the investigation is the relationship of three senior dealers who participated in The Cartel—JPMorgan's Richard Usher, Citigroup's Rohan Ramchandani, and Matt Gardiner, who worked at Barclays and then UBS—according to the people with knowledge of the probe. Some of the traders interviewed for this story say they eagerly sought entry to The Cartel's chat room because of the influence it exerted. Usher, Ramchandani, and Gardiner, along with at least two other dealers over the years, would discuss their customers' trades and agree on exactly when they planned to execute them to maximize their chances of influencing the fix, two of the people say.

Usher was the moderator of The Cartel, according to people with knowledge of the matter, who say the chat room died when he quit RBS in 2010. He revived the group with the same participants when he joined JPMorgan the same year as chief currency dealer in London, they say. Ramchandani is head of European spot trading at Citigroup. Gardiner joined Standard Chartered (STAN:LN) in London as assistant chief currency dealer. He previously worked at UBS in Zurich and was co-chief dealer with Chris Ashton at Barclays in London.

Usher, Ramchandani, and Gardiner were put on leave by their employers after the FCA opened its inquiry in October, according to people with knowledge of the matter. Ashton, now global head of spot trading at Barclays, has been suspended, along with five other spot traders at the bank in London and New York. Ashton and Ramchandani declined to comment. Gardiner didn't return messages left on his mobile phone. Usher couldn't be located, and JPMorgan declined to provide contact details for him.

Thomson Reuters says in an e-mail that it "would lend its expertise to support any authorities' investigation into alleged disruptive behavior on benchmarks." State Street says in an e-mail that "the WM/Reuters benchmark service is committed to reliability and robust operational standards. WM continually reviews recommended methodology and policies in order to ensure that industry best practices are considered."

The currency investigations are taking place as authorities grapple with a widening list of scandals involving the manipulation by banks of financial benchmark rates, including Libor and ISDAfix, used to determine the value of interest rate derivatives. "Some of these problems developed over many years without anybody speaking up," says Andrew Tyrie, chairman of Britain's Commission on Banking Standards and Parliament's Treasury Select Committee. "This is remarkable. It suggests something very wrong with the culture at these institutions."

The bottom line: *Authorities are investigating whether traders used chat rooms to rig rates in the $5.3 trillion foreign exchange market.*

Vaughan is a reporter for Bloomberg News in London.

US unveils world's 'largest' money laundering probe

Agence France-Presse
Posted at 05/29/2013 9:53 AM | Updated as of 05/29/2013 9:53 AM

NEW YORK- The United States on Tuesday unveiled the world's "largest" money laundering probe targeting the digital currency operator Liberty Reserve, striking a major blow against what a prosecutor termed the "Wild West" of virtual banking.

The Costa Rica-based entity, which handled huge amounts of money outside the control of national governments, is charged with running a "$6 billion money laundering scheme and operating an unlicensed money transmitting business," the US Attorney's office for New York said.

Prosecutors said Liberty Reserve processed at least 55 million illegal transactions for at least one million users "and facilitated global criminal conduct."

The probe involved law enforcement in 17 countries and "is believed to be the largest money laundering prosecution in history," the prosecutor's office said.

Liberty Reserve's principals were arrested Friday in a round-up launched simultaneously in Costa Rica, Spain and New York, sealing the fate of a company that had been one of the most successful in the popular but increasingly scrutinized world of unofficial banking and virtual currencies.

One of them, Russian citizen Maxim Chukharev, is set to be extradited to the United States, Costa Rican authorities said Tuesday.

The indictment accuses Liberty Reserve founder Arthur Budovsky -- a former US citizen who took Costa Rican nationality -- and his partners of creating a firm that masqueraded as a convenient and legitimate money transfer system.

In reality, the organization turned itself into the "financial hub of the cyber-crime world," the indictment said.

US Attorney Preet Bharara said "the only liberty that Liberty Reserve gave many of its users was the freedom to commit crime."

Customers would go to Liberty Reserve's now shut-down website to buy the online currency, known as LRs, that could then be used in transactions with other LR users.

The system was not registered with US authorities and unlike some other non-state currency systems did not require proof of identity for users.

Adding another important layer of anonymity, Liberty required customers to buy or sell their LRs via third party exchangers, meaning that there was no direct link between a customer's traditional bank account and Liberty's system.

An extra service would allow a user to hide "his own Liberty Reserve account number when transferring funds, effectively making the transfer completely untraceable, even within Liberty Reserve's already opaque system."

The system, the indictment says, was tailor-made for criminal transactions and money-laundering, facilitating "a broad range of online criminal activity, including credit card fraud, identity theft, investment fraud, computer hacking, child pornography, and narcotics trafficking."

"The scope of the defendants' unlawful conduct is staggering," the indictment said.

"With more than 200,000 users in the United States, Liberty Reserve processed more than 12 million financial transactions annually, with a combined value of more than $1.4 billion."

Authorities say that when Liberty Reserve realized it was under investigation it made a show of shutting down, yet continued to operate behind an array of shell companies in Australia, China, Cyprus, Hong Kong, Morocco, Russia and Spain.

Budovsky and his partners started Liberty Reserve after an earlier similar venture, Gold Age Inc, which traded the E-Gold digital currency, was shut down by US authorities.

It was then that Budovsky, 39, emigrated to Costa Rica, later renouncing his US citizenship, and becoming resident in The Netherlands. He was arrested in Spain.

He and his four partners, who range in age from 27 to 46, face maximum prison terms of 20 years if found guilty of conspiracy to commit money laundering, as well as up to 10 years on charges related to running an unlicensed money transmitting business.

Chukarev was described as being co-responsible for Liberty Reserve's technical infrastructure.

Virtual currencies have grown exponentially, but face pressure on numerous fronts. The popular Bitcoin system has come under scrutiny by financial authorities and seen growing trading volatility.

Acting Assistant Attorney General Mythili Raman said the United States had used "every tool we have" to combat "global illicit finances."

As Bharara put it, "the global enforcement action we announce today is an important step towards reining in the 'Wild West' of illicit Internet banking."

"As crime goes increasingly global, the long arm of the law has to get even longer, and in this case, it encircled the earth," he added.

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THE CANADIAN PRESS

Fears of financing terror closes another money transfer outlet for overseas Somalis; Terror financing fears stop transfers to Somalia

Canadian Press
Tue Jun 25 2013
Section: Business
Byline: Abdi Guled And Jason Straziuso

MOGADISHU, Somalia - When a bank transfers **money** to Somalia, can it be sure it's not sending **money** to **terrorists**? That question is forcing one of Britain's largest banks to cut ties with the largest cash **transfer** bank in Somalia, a company that brings in the majority of the country's $1.2 billion in yearly remittances.

Many in Somalia are in desperate need of **money**. Payments from family and friends overseas are how many get by, and that's why more than 100 aid workers and Somalia experts signed a letter this week pleading with the British government to find a solution.

Barclays bank will no longer allow customers to send **money** to Somalia via the Somali bank Dahabshil. A financial power-house in Somalia, Dahabshil describes itself as "the most trusted **money transfer** company for many immigrants willing to support their families and friends." But anti-terror laws hold banks - like Barclays - responsible if they **transfer money** to criminal or terror elements. As a result, fewer are willing to send **money** into Somalia.

Such transactions for Somalis in the United States became more difficult in late 2011, when a bank in Minnesota closed accounts that facilitated such transfers. Sunrise Community Banks decided to halt the transactions after two women were convicted of sending **money** to the **terrorist** group al-Shabab.

"It is recognized that some **money** service businesses don't have the proper checks in place to spot criminal activity and could therefore unwittingly be facilitating **money laundering** and **terrorist** financing," Barclays said in a statement. "We want to be confident that our customers can filter out those transactions, because abuse of their services can have significant negative consequences for society and for us as their bank."

Dahabshil did not immediately respond to a request for comment. The company's website says that customers "must provide government authorized identification and personal information for anti-**money laundering** compliance if amounts reach certain limits."

The group of aid workers and researchers said the decision at stake here "is a lifeline that provides essential support to an estimated 40 per cent of the population of Somalia." The group said it has seen firsthand the impact remittances have on families in the Horn of Africa.

"My son is in the U.K. He sent us **money** every month for our sustenance and school fees for the children. Where are we going to get the **money** to pay our bills?" said Dahabo Afrah, a longtime customer of Dahabshil in Mogadishu. "This is unfair to us and will affect hundreds of thousands of Somali people."

Many big banks in the U.S. have already stopped handling transfers to Somalia, saying the federal requirements designed to crack down on **terrorism** financing were too complex and not worth the risk. Last April, U.S. Bank confirmed it is working with Dahabshil to allow Somalis in Minnesota to send **money** back home. U.S. Bank spokeswoman Teri Charest said Monday that the bank is working closely with Dahabshil but the transactions have not yet started.

Barclays said it remains happy to maintain a relationship with businesses that have anti-financial crime controls. Western Union operates in Somalia but does not have a presence in many places, including Mogadishu, the capital.

The aid groups said that one study of financial transactions in Somalia found that 73 per cent of remittance recipients said that they use the **money** they receive from relatives - an average of $2,040 per year - to pay for basic food, education, and medical expenses.

"One-third of recipients said that they would not be able to afford basic food if the remittances were stopped," the group said in a letter to the British government on Monday.

The group is calling on the British government to help **money transfer** businesses to find alternative banking partners. It also asked that Barclays extend its termination deadline for six months until other solutions are found.

A study released earlier this month by the Food Security Nutrition Analysis Unit for Somalia, a project by the United Nations' Food and Agriculture Organization found yearly remittances to Somalia to be a minimum of $1.2 billion per year. The aid group Oxfam said that soon to be published research shows that Somali immigrants in the U.K. send more than $154 million back to Somalia each year, behind only the U.S.

Straziuso reported from Nairobi, Kenya. Associated Press reporter Amy Forliti in Minneapolis, Minnesota contributed to this report.

ABC

Police investigate a money transfer service after allegations of theft

275 words
12 December 2013
Australian Broadcasting Corporation (ABC) News
ABCNEW
English

The WA Police Major Fraud Squad is investigating a **money transfer** service over allegations they stole hundreds of thousands of dollars from customers.

The WA Police Major Fraud Squad is investigating the owners of a Girrawheen video shop over allegations they stole hundreds of thousands of dollars from customers.

The video shop doubles as a **money transfer** service, which is used by many in the Vietnamese community to wire funds overseas.

Clients of the service have been sending money back to **Vietnam** to repay student loans or to help relatives who are undergoing urgent medical procedures.

At least one alleged victim has lost nearly $70,000.

Detective Senior Sergeant Dom Blackshaw from the Major Fraud Squad says it is alleged the money is being siphoned off.

"We've had a number of complainants come forward and we've identified hundreds of thousands of dollars of funds that have not arrived at their intended destination and of course it is a investigation into the alleged theft of those funds," he said.

Local MP Margaret Quirk's electorate office has been flooded with complaints.

She says many of the alleged victims are anxious about what has happened to their money.

"The Vietnamese community is a very hard-working diligent community, they've earned that money the hard way and they are pretty concerned that it appears to have gone for good," she said.

Detectives recently raided the premises and seized documents and cash.

Police say the proprietors of the store are assisting them with their inquiries.

Investigators believe there may be more victims yet to come forward.

News

Funding terrorism: Illegal cash flows may be aiding terrorists

Staff Reporter

318 words
6 January 2014
The Financial Daily
PMFIND
English

KARACHI: **Terrorist** groups in the Federally Administered Tribal Areas (Fata) and Balochistan have been receiving billions of rupees each month through banking channels and money exchange companies, sources in Federal Investigation Agency (FIA) have revealed.

These companies in collusion with some bankers have been transferring huge amounts to unnamed bank accounts in Quetta and Peshawar. The FIA has recently found evidence of transfer of billions of rupees to the two cities in the last few months.

According to sources, the FIA made these discoveries during its investigations into the multibillion rupee Trade Development Authority Pakistan (TDAP) scam.

Ironically, the Financial Monitoring Unit (FMU) and other institutions, whose task is to curb the illegal business of hundi and hawala, are completely unaware of these dubious transactions, made right under their nose.

If the law enforcers can trace the people receiving billions of rupees through unnamed accounts in Peshawar and Quetta, they will possibly be able to unearth **terrorist** activities funded by this money.

Sources said that after these startling facts, FIA officials were busy uncovering the huge illegal business of **money transfer**. After discovering evidence of transfer of Rs1billion to Peshawar and Quetta in the last few months, the FIA has registered nine cases under the Anti-Money Laundering Act and arrested dozens of officials of private banks.

According to sources, a renowned money exchange company has transferred around Rs34billion to Quetta and Peshawar in the last few months through its unnamed accounts. Interestingly, money exchange companies and banks have no information about the senders and receivers of the money.

The FIA has frozen dozens of unnamed accounts in Quetta and Peshawar and issued written notices to their holders. However, as the details submitted for opening the accounts have proven to be incorrect, the FIA has started trying to look for their possible link to **terrorist** activities.

THE AUSTRALIAN
Australia's national daily newspaper

Finance

Money agency fined for laundering

ANTHONY KLAN, REGULATION

275 words
18 December 2013
The Australian
AUSTLN
1 - All-round Country
19
English

THE federal government has fined Ria Financial Services -- one of the world's biggest **money transfer** agencies -- more than $225,000 over 26 alleged breaches of anti-money laundering and counter-**terrorism** finance laws.

The Australian Transaction Reports and Analysis Centre (AUSTRAC) said Ria Financial Services had operated unregistered Australian affiliates and had transferred money via those unregistered arms.

``The money remittance sector is recognised internationally as being particularly vulnerable to exploitation by criminals," AUSTRAC chief executive John Schmidt said yesterday.

He said the AUSTRAC required remittance, or **money transfer**, companies to be registered with the federal government, and that those laws had been in place for more than two years.

``The (registration) scheme was established to ensure that remittance service providers implement the necessary measures to identify, manage and mitigate money laundering and other risks," Mr Schmidt said.

``Money laundering points to other crimes that the Australian community does not tolerate, including fraud, people-smuggling, tax evasion and **terrorism** fighting.

``The industry should be on notice that we are supervising your behaviour and we will take action."

A spokesman for the Australian arm of Ria Financial Services declined to comment when contacted by The Australian yesterday.

The company had paid the $225,600 fine, AUSTRAC said.

Rita has 650 affiliates in Australia and is part of a global network of about 207,000 agents worldwide across 135 countries.

On November 1, 2011, it became mandatory for all businesses bound by the federal government's Anti-Money Laundering and Counter-**Terrorism** Financing Act 2006 to be enrolled on AUSTRAC's ``reporting entities roll", the agency said.

Italy money laundering probe swoops on 21 cash transfer bureaux

MILAN | Wed Oct 31, 2012 8:57am EDT

Oct 31 (Reuters) - Italian police have sequestered 21 money transfer bureaux as part of an investigation into a scheme to launder billions of euros from drugs and people trafficking.

The tax police said on Tuesday they had sifted through 30 million money transfer operations carried out in 2010-2011 through 11 of Italy's major payment agencies, with an overall value of 10 billion euros ($13 billion).

The probe, which started in the northern Italian city of Brescia, showed that 35 percent of the operations were for money laundering.

Police said they had found "a mechanism used extensively to let money of doubtful origin circulate", and that they were looking at possible failures by the agencies to prevent money laundering. ($1 = 0.7705 euros) (Reporting By Danilo Masoni; Editing by Robin Pomeroy)

THE VANCOUVER SUN

2 face charges of money laundering; Langley men operated two currency exchanges

Vancouver Sun
Sat Jun 27 2009
Page: A14
Section: Westcoast News
Byline: Gerry Bellett
Source: Vancouver Sun; with files from the Langley Advance

The operators of two Langley currency exchanges, Robinderpal Rathor, 30, and his cousin, Taranjit Rathor, 21, are facing several counts of money **laundering** and conspiracy to commit money **laundering** following a two-year investigation by the RCMP's Federal Integrated Proceeds of Crime Unit.

The pair will be in court July 15.

According to RCMP Sgt. David Gray, the investigation began in 2007 with investigators targeting Global Tourist Centre Currency Exchange and Capital **Forex** on suspicion that they were being used to launder proceeds of crime money.

On March 10, both men were charged after a total of $160,000 US was seized by police during the investigation. Undercover officers had infiltrated the businesses and successfully laundered $21,300 Canadian and more than $550,000 US, Gray said.

RCMP Insp. Wade Lymburner, who is in charge of the proceeds of crime unit, said money **laundering** was usually linked to drug trafficking. "People who knowingly participate in money **laundering** by turning a blind eye and not asking the right question on where the money is coming from, are contributing to help put profits into pockets of drug traffickers," said Lymburner, adding businesses owners should question the source of money before incorporating it into their own businesses.

Meanwhile, the unit has launched its annual Merchants Against Money **Laundering** awareness campaign. UBC students will give presentations to businesses about money **laundering** and how it negatively impacts communities.

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THE TIMES OF INDIA

Raids on hawala trader expose Rs 400-crore deals [Chandigarh]

The Times of India
Mon Feb 4 2013
Section: News
Byline: Singh, I P

JALANDHAR: After the enforcement directorate unearthed a major hawala racket following raids on two operators - one in Jalandhar and the other in Ludhiana – on Saturday, several exporters are also reportedly coming under the scanner for shady transactions through hawala channels.

Sources revealed that the value of transactions through the Jalandhar-based operator – Happy Forex Pvt. Ltd -- is pegged at above Rs 400 crore in the preliminary estimates by directorate officials, who continued raids till late night at the premises of the money exchanger in Adda Hoshiarpur locality. According to sources, hawala operator Jiwan Kumar was into the trade for the last around two decades. He was a small courier for bigger operators earlier, but later grew to be very big in the business. It is learned that he had also developed proximity with some police officials.

He was the biggest hawala operator not just in Punjab, but in the entire north of Delhi region.

As ED has recovered several incriminating documents from the raided premises, it is emerging that several business houses were using this route for money **laundering**. "Land mafia is also involved in the transactions and the route was being used for turning black money into white by sending money abroad and then getting it back as payments for exports - which were being made at exorbitant prices," sources said.

Meanwhile, industry sources revealed that after netting Jiwan Kumar, fear has spread among industry and exporter circles, who were using the network, as they now fear that their modus operandi would be exposed and they would also face action.

Enquiries revealed that a hawala operator based in Ludhiana was doing business under the garb of jewellery exports. "Jalandhar and Ludhiana based operators were having a symbiotic relationship and were using each other in making transactions," they said.

The countries where the hawala network had connections included Dubai, UK and **Canada**.

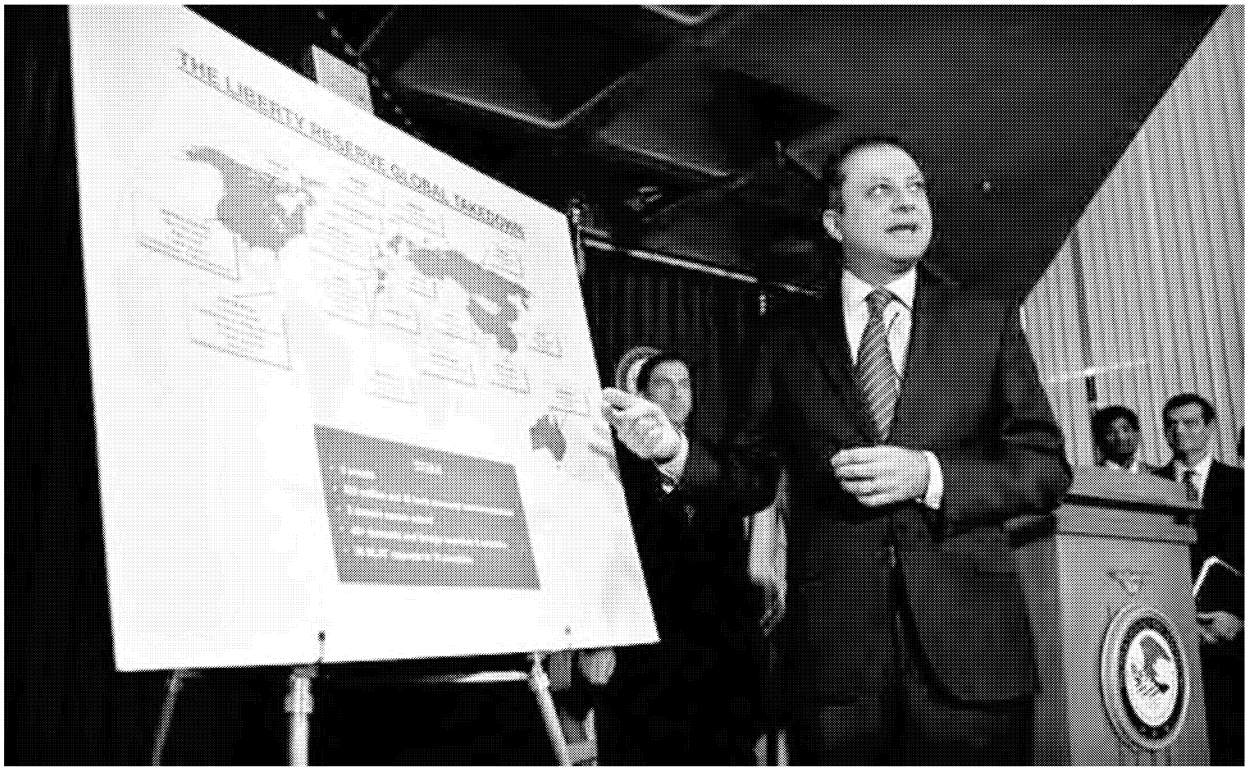
ED had also recovered Rs 1.15 crore cash from the operator's office. "He was doing hawala business under the garb of running a **foreign exchange** outlet. He was into the illegal trade even before getting a license for **foreign exchange** business and with time, he grew to be a big hawala operator, from being a small time fruit/vegetable vendor," said a man, who has been watching the operator's rise over time.

Man booked

Police have registered a case of theft, obstructing officials in discharging duty, criminal intimidation against one Gopi who had tried to run away with a bag carrying cash when enforcement directorate officials had raided a money exchange office at Adda Hoshiarpur in Jalandhar. While initially some police officials had claimed that the fellow was nabbed by them, on Saturday police said that he had managed to escape in the crowd even as they could pick the bag which fell down when they chased him. A senior police official said the bag had around Rs 30 lakhs. A case against Gopi was registered on the complaint of ED's assistant director Alok Kumar.

WHY DID CRIMINALS TRUST LIBERTY RESERVE?

POSTED BY JAMES SUROWIECKI



Liberty Reserve, the alternative-payment network and digital currency that federal prosecutors shut down a couple of days ago, was not, as it described itself, the Internet's "largest payment processor and money transfer system." (PayPal, obviously, is much bigger.) But Liberty Reserve was, by all accounts, the Internet's largest payment processor for illicit and criminal transactions. The Justice Department says that since the founding of Liberty Reserve, in 2006, it has handled more than fifty-five million transactions totalling more than six billion dollars, and as of last year it had more than a million users. In effect, Liberty Reserve provided a key piece of the infrastructure for criminal activity on the Web. What makes it so interesting is that it was only able to do so by getting hundreds of thousands of criminals to trust it.

Descriptions in reports of the legal action against Liberty Reserve have made its day-to-day business sound enormously confusing. So let's walk through how it worked. Liberty Reserve functioned like a bank that only took deposits in its own currency (also called the Liberty Reserve). If you wanted to launder money, you would open an account with Liberty Reserve, providing them with a name, which could be fake, and an e-mail address. The key to the scheme was that you couldn't then deposit money directly into the account. Instead, you had to work through middlemen, who were called "exchangers." These were typically unlicensed moneymen

in countries like Malaysia, Nigeria, and Vietnam, who bought Liberty Reserves in bulk from Liberty Reserve. You would pay them dollars (or whatever currency) for a certain sum of Liberty Reserves, which they would then deposit into your account. And when you wanted to withdraw money, the process worked in reverse, perhaps with an exchanger in a different country. (Liberty Reserve itself took a one-per-cent fee on transactions, while the exchangers typically charged five per cent or more.) The point of doing it this way was that the Liberty Reserve bank would have no identifying data for you (no record of how or from where you sent the money), since the deposits and withdrawals were all done through the exchangers.

This arrangement made money laundering easier, which seems to have been the main function of the network. But Liberty Reserves were also used as a digital currency, in the sense that that there were "merchants" who would accept L.R.s as a form of payment for goods and services. (Liberty Reserve actually designed a shopping-cart interface for their Web sites.) These merchants were, at least according to the government, "overwhelmingly criminal in nature," engaging in transactions in which both the buyer and the seller had an interest in anonymity. They included traffickers in stolen credit-card and social-security numbers, drug dealers, and hackers. If you wanted to pay for someone to hack a company's data, you could just transfer L.R.s from your bank account to theirs. What Liberty Reserve offered criminals, in other words, was something that had, relatively speaking, the anonymity of cash (since all that identified you was an e-mail address) in the virtual world.

What's fascinating about all this is that, at least for a while, it worked—drug dealers were willing to trade real drugs and hackers were willing to do real work in exchange for Liberty Reserves. That suggests they were confident that the currency wouldn't become worthless, and that when they wanted to trade their Liberty Reserves for dollars (or euros), they'd be able to do so with reasonable ease and at a reasonable price. This is a little surprising. It makes sense to accept dollars for your work, because you can be certain you'll be able to use them to buy stuff tomorrow—the fact that they're the legal currency of the U.S. is a good guarantee of that. But Liberty Reserves were backed by nothing at all. They were historically pegged to the U.S. dollar —one L.R. equaled one dollar—but there were no legally binding rules that guaranteed that exchange rate (the whole point of the system was that it was outside the law), which means that Liberty Reserve could, in theory, have raised or lowered the rate at will. More important, there were no restrictions that would have prevented Arthur Budovsky (who founded Liberty Reserve) from simply printing as much currency as he wanted and using it to buy illicit goods. (This makes it different from Bitcoin, which has been algorithmically engineered to permanently limit the number of bitcoins in existence.) Had Budovsky done this, it would have radically devalued the wealth that everyone else had in Liberty Reserves. Yet, even knowing that,

hundreds of thousands of people, many of whom broke the law for a living, put their faith in the system.

The reason they were willing to do so, presumably, was that the long-term value of Liberty Reserve as a business depended on it not screwing over its customers. Like good disciples of Adam Smith, Liberty Reserve's users relied not on Budovsky's benevolence but, rather, on his pursuit of his own self-interest. This was a good gamble for a while, but there was an important catch: because Budovsky couldn't protect Liberty Reserve from the U.S. government, all of those L.R.s are now essentially worthless. Still, Liberty Reserve's success (short-lived as it was) is a kind of testament, however perverse, to the fact that markets can flourish even when there is no government to supervise them, and no legal way to enforce the rules. When self-interest is well-harnessed, apparently, you get honor even among thieves.