

## **CULLEN ENQUIRY – Luxury Vehicle Subgroup**

### **Scope**

Project Athena initially was a probe into the money laundering activities in the LMD casinos however as the project expanded, meeting participants began to diversify in other sectors. Many of which held an interest in mitigating the money laundering issue in their respective sectors.

This interest stemmed partly through the release of GERMAN and MALONEY reports (early 2019) and other contributing factors from the police perspective such as ongoing intelligence, police investigations that consistently involved organized crime groups using luxury car dealerships and shady leasing companies to facilitate their criminal funds. The purchase and exportation of high-end luxury vehicles to China seemed relatively seamless with minimal oversight as to where the source of funds came from.

A luxury vehicle subgroup was initiated on January 22, 2020 focused on identifying money laundering activities within the sector, bridging gaps that are being identified as well as an open forum for ongoing information sharing.

### **Work Done to Date**

In May 2019 PADDON began looking into the Business Practices of high-end luxury car dealerships and leasing companies to establish what checks and balances were in place to mitigate money laundering in the sector.

Enquiries were conducted to compare legitimate and suspect high-end luxury dealerships.

### **Legitimate Car Dealerships vs Illegitimate Car Dealerships**

- Risk, capacity and procedures when accepting cash for the purchase of vehicles;
- In house leasing vs. outsourcing;
- Due diligence as to source of funds;
- Foreign owner purchases; and
- Protocols in place to mitigate money laundering.

Finding of the luxury dealership enquiries were presented at the July 24, 2019 Project ATHENA quarterly meeting as well as the November 21<sup>st</sup>, 2019 bi-annual meeting. Participants, some of which were from the luxury car dealership sector had a keen interest in a subgroup being formed.

On January 22, 2020 the Luxury Vehicle Dealership sub group was held (first meeting).

### **Stakeholders**

- CFSEU, RCMP, Municipal Police Forces, ICBC, IMPACT, Motor Vehicle Sales Authority of B.C., CBSA, CRA, and Financial Institutions (RBC, HSBC, BMO and Canada Western Bank).

IMPACT - Integrated Mun/Prov Auto Crime Team

MVSA of BC – Motor Vehicle Sales Authority of BC – Responsible for licences, motor dealers, wholesalers, agents, brokers – leasing (old and new vehicles)

**Specific issues identified by Stakeholders/Police**

- Purchase of high end vehicle from dealership using a nominee. Nominee resells to exporter within 7 days and the vehicle is exported to a foreign jurisdiction. The exporter claims the PST and the nominee gets a cut. – PST fraud
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- Straw buyers are being used to purchase vehicles (make commission), on behalf of exporter (in Canada) who ship vehicles overseas for resale making twice the profit but are not declaring income to CRA – CRA fraud;
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- No reporting requirement through FINTRAC. Inconsistency in filing STRs, unknown source of funds;
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- Information that is shared is not acted upon immediately (lack of police resources)
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- No oversight on shady leasing companies – Dealership owner and Leasing Company owner are one and the same.
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- Vehicles exported overseas, minimal measures in place. Vendor places vehicles in container for export, yet CRA business number / export license is often obtained after the shipment has left;
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- Containers are only checked at the port if there is intelligence that the container has stolen vehicles;
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- Luxury vehicles purchased and reported stolen. Dealership paid out by ICBC in certain time frame then the vehicle reappears and is shipped out to foreign jurisdiction.
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- Many stakeholders do not have sufficient authority to take action as they are in the role of regulatory oversight only rather than having the authority to act (suspension of Dealership licence or dealer)

**Typologies / ML used in the sector**

Dealership 1 leases out a vehicle. Dealership 2 approaches the Lessee, agrees to give a better lease price, fraudulently transfer the vehicle into Dealership 2's name and ships the vehicle overseas. When Dealership 1 discovers lease payments are being defaulted on the vehicle has left the port for foreign jurisdictions.

Trade Base Money Laundering – Vehicles are shipped overseas to Philippines and sold and the funds are used to purchase firearms which are smuggled through container back into Canada.

Vehicles being purchased in Alberta, PST is 4% rather than 5% in B.C., vehicle never registered in BC (no history of ownership) exported overseas.

Car Dealerships with a bad name close and open under another name or hide behind the BC LTD. numbered company so as not to draw attention.

Working in tandem. Dealership 1 works with Dealership 2. A foreign customer (known to Dealership 1 and/or 2) orders a car through Dealership 2 however the inventory is at Dealership 1's business at a covert location. On the date of the delivery dealership 2 cancels the contract claiming "client changed his mind". Draft cheque is cut for the deposit less service fee (money has been laundered).

Recycling vehicles - Dirty dealerships take proceeds of crime from criminals, place it in a dealership account and leasing out to criminal. When the vehicle is used in a crime, client returns the vehicle and recycles it for another vehicle. The crime vehicle is placed in storage;

### Bridging the Gaps

Education – What is Money Laundering / indicators / Due Diligence within the sector

Police Resources – Investigations

FINTRAC Reporting – access to information as it impacts investigations

Sharing of Information (Banks and Police) through written agreement