

**Commission of Inquiry into
Money Laundering in British Columbia**

Public Hearing

Commissioner

The Honourable Justice
Austin Cullen

Held at:

Vancouver, British Columbia
via video link

Tuesday, May 26, 2020

APPEARANCES

Brock Martland, QC Patrick McGowan	Cullen Commission
Jacqueline Hughes Chantelle Rajotte	B.C. (Ministry of Finance and GPEB)
Judith Hoffman Ashley Gardner	Canada
Ludmila Herbst, QC Catherine George	Law Society of B.C.
Ron Usher	Society of Notaries Public of B.C.
Shannon Ramsay	BCLC
Mark Skwarok Melanie Harmer	Great Canadian Gaming Corporation
Christine Mainville	Robert Kroeker
Robin McFee, QC Maya Ollek	James Lightbody
Chris Weafer Patrick Weafer	B.C. Real Estate Association
Morgan Camley Carina Chiu	BMW
Megan Tweedie	BCCLA
Jo-Anne Stark	Canadian Bar Association, B.C. Branch
Kevin Westell	Criminal Defence Advocacy Society
James Cohen	Coalition

TABLE OF CONTENTS

	PAGE
Witnesses called for the Commission:	
Dr. Stephen Schneider	
In chief by Mr. Martland, QC	2
Cross-examination by Ms. Herbst	52
Cross-examination by Mr. Skwarok	62
Cross-examination by Ms. Mainville	78
 EXHIBITS	
7 Document entitled "Money Laundering in Canada: An Analysis of RCMP Cases"	53
8 Document entitled "Money Laundering in British Columbia; An Annotated Bibliography"	59

Vancouver, B.C.
May 26, 2020

THE REGISTRAR: Good morning, everyone, and thank you
for your patience. The hearing is now resumed.

THE COMMISSIONER: Yes, Mr. Martland.

STEPHEN SCHNEIDER, a
witness, recalled.

MR. MARTLAND: Thank you, Mr. Commissioner. We're
continuing with the examination of Professor
Stephen Schneider, and where we left off
yesterday is page 54 of the literature review.
As we get going, I thought I would canvass two
points, one of them being that, for the sake of
transparency, overnight Professor Schneider sent
an email just to alert me that he had noticed a
few areas where there were typos or one or two
citation things to fix up, and had asked about
having a revised version that would correct those
issues posted, because of course Exhibit 6 is the
literature review.

And so what I'm proposing to do -- I don't
think we should try to work our way through
corrections one by one here. But I wonder if I
might pick up with him on that topic later today,
and after the hearing, if there's a set of
revisions to the version, we would circulate that
around to participants and make sure there's no
issues and everyone's clear about any changes of
that nature and raises any issues they have. But
barring any issues with that, that may well be
marked as an exhibit tomorrow.

So I simply put that out there equally
knowing that Professor Schneider was wondering
about that and that that would be one way of
approaching it.

THE COMMISSIONER: That seems sensible to me as long
as everyone's had chance to weigh in on the
revisions before we do anything with it.

A And the revisions were purely typos, that's all.
There's no changes to the substance or formatting
or pagination, so it's more out of my own vanity
to correct those issues than anything else.

THE COMMISSIONER: Well, vanity is an important point
to consider, particularly when we're all under

2 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 the scrutiny of cameras.

2 A Mm-hmm.

3 MR. MARTLAND: Okay. And the other point I thought
4 would say for the sake of both the witness and
5 the people watching and the participants, in
6 terms of timing and the questions that I have yet
7 to cover, I'm at page 54 and I'm proposing to go
8 fairly quickly through pages 54 to about 118, and
9 so I'll be looking to move along apace, and my
10 planning is to be done by about halfway through
11 our time available today so that we're leaving a
12 good amount of time for any examination from
13 participants. We do have a schedule of time
14 allocations and requests from participants to
15 work our way through.

16
17 EXAMINATION IN CHIEF BY MR. MARTLAND, continuing:

18
19 Q So having said that, why don't I launch us right
20 in at page 54. At this portion of the report,
21 you're moving into a discussion of particular
22 sectors of the economy that are used for money
23 laundering. We had some discussion about
24 financial institutions, deposit institutions,
25 broadly, and then at page 54 you move to speaking
26 specifically about British Columbia, and I note
27 your comment in the middle of that page:

28
29 The use of banks in B.C. for ML purposes
30 does not deviate significantly from the
31 information provided above, with perhaps two
32 significant exceptions. First, for years
33 B.C. branches of deposit institutions were
34 highly vulnerable to the proceeds from the
35 province's burgeoning marijuana trade.
36 Second, bank branches in B.C. are much more
37 exposed to capital flight money from China.

38
39 Do you have any particular comments that relate
40 to banks in this province versus the comments
41 that you made yesterday about financial
42 institutions?

43 A Not particularly. Again, I don't, as I stated in
44 the literature review, as least the literature
45 doesn't indicate any particular divergence of
46 banks -- bank branches in B.C. relative to the
47 rest of the country except what I noted, and

3 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 certainly during the peak of the marijuana grow-
2 op phase, if I can use that term, back in the
3 sort of '90s/early 2000s, certainly banks and
4 deposit institutions were much more exposed to
5 the proceeds from marijuana grow-ops than the
6 rest of the country on the assumption that a
7 disproportionate amount of the grow-ops were in
8 B.C. And again, as I mentioned, certainly bank
9 branches in B.C. would be more vulnerable or
10 susceptible to capital flight as well.

11 So there wasn't -- I didn't find a lot of
12 information in the literature on -- specifically
13 on deposit institutions in B.C. except for what I
14 noted in the lit review, which was a news story
15 from the *Globe and Mail* on CIBC and how CIBC was
16 accused of facilitating some of this capital
17 flight into real estate.

18 But other than that, again, there's sort of
19 a paucity of literature specific to banks in B.C.
20 But I guess of particular note to this Commission
21 would be this article from the *Globe and Mail*
22 that again makes accusations of CIBC facilitating
23 some of this capital flight.

24 Q That's the report that you summarize at page 54
25 of the literature review?

26 A Correct.

27 Q So at page 55, you move into discussing real
28 estate, and you comment there about since at
29 least 2011 -- I'm looking under the heading of
30 "Real Estate" -- an increasing number of news
31 stories, studies, reports, and police cases that
32 deal with ML through the real estate market in
33 Canada.

34 Then in the next paragraph you talk about
35 how there are particular attributes of the real
36 estate sector that make it attractive for people
37 aiming to launder money. Could you please tell
38 us about that.

39 A Sure. Well, real estate satisfies pretty much --
40 or can satisfy pretty much all the objectives of
41 money laundering and all the phases as well.
42 You're converting cash into an alternative asset,
43 in this case real property. You can use real
44 property to conceal a criminal source, and
45 certainly the literature is replete with
46 references to beneficial ownership, the ability
47 to use nominees and beneficial ownership to hide

1 the true criminal source or criminal ownership of
2 real property. And you can also use a number of
3 functions to create a seemingly legitimate source
4 for the funds that were invested in the real
5 property and you can create a number of revenue
6 streams using real estate, whether you're
7 purchasing rental properties or flipping real
8 estate. So real estate is beneficial for money
9 laundering because it satisfies some of the basic
10 objectives.

11 At the same time, you know, it provides a
12 home for someone to live in. In many cases that
13 I looked at, the vast majority of real estate
14 purchased with the proceeds of crime was simply
15 for a home for somebody to live in, the criminal
16 offender or family.

17 And in the case of B.C., what's interesting
18 is -- I'm not sure if you want to move straight
19 into that, Brock. But --

20 Q Sure.

21 A -- in B.C., it was particularly, you know,
22 vulnerable to money laundering, not only because
23 of, you know, it's a hot real estate market which
24 makes it a very attractive investment, and there
25 was obviously a very strong disposition of Asian
26 investors to invest their money in real estate,
27 not only for a home to live in but as a long-term
28 investment, somewhere where their wives and their
29 family and kids can live and go to school.

30 And certainly when you look in the context
31 of the so-called Vancouver model, there was a
32 fairly unique twist. We've seen before that the
33 offenders will use mortgages. Not only will they
34 finance their home through a mortgage from a bank
35 or another financial institution, but they'll
36 also create their own mortgages, so they'll use
37 the proceeds of crime and they'll use private
38 mortgages through a shell company or through a
39 nominee, basically financing their own home
40 through a fake mortgage or private mortgage. And
41 this was what really predominated, I found in
42 reviewing the literature, in Vancouver. The so-
43 called Vancouver model was -- a fundamental
44 aspect of this model was basically taking drug
45 money and lending that drug money as basically
46 private mortgages, in cash form in many cases, to
47 buyers. And so this was done not only by the

1 central players in the Vancouver model -- Silver
2 International and their staff and directors --
3 but the *Globe and Mail* identified others as well,
4 including they identified at last seven or eight
5 people who had a criminal past as well. So...

6 So it's not unusual for criminal offenders,
7 money launderers, to use drug money to basically
8 create, you know, a private mortgage, a
9 fraudulent mortgage, but it seemed to be really
10 predominant in the Vancouver model and that this
11 was one way that the central professional money
12 launderers were laundering the proceeds of drug
13 trafficking, was basically lending the money out
14 in cash form as private mortgages for purchase in
15 the real estate market in Greater Vancouver.

16 Q If I can move to casinos, beginning page 66 of
17 the literature review and introducing that topic
18 at page 66 under the heading of 6.2.3:

19
20 Casinos facilitate the exchange of cash for
21 another asset, in particular, casino chips
22 and/or a casino issued cheque, while a
23 winning lottery ticket purchased from a
24 lucky winner with the proceeds of crime
25 provides a launderer with a seemingly
26 legitimate source [of] funds.

27
28 I should probably pause to preface this with
29 the indication, as you probably appreciate, we
30 have a number of inquiries who have standing,
31 sorry a number participants who have standing in
32 this inquiry who are involved in the gaming
33 sector. We have a set of hearings in the fall
34 that focus in particular on casinos and gaming.
35 And so today we're reviewing some of the context
36 of the public narrative around casinos, the
37 available literature, the news reports and the
38 like, but appreciating that there will be some
39 specific evidence, there may be areas of factual
40 disagreement indeed with some of what's appeared
41 in news reports, as one example. So the
42 Commission will be looking to original evidence
43 where we need to do that. So I simply put that
44 out as we move into this topic.

45 You've described in this section of the
46 report how casinos can satisfy different money
47 laundering objectives and the role that they

1 play. I wonder if you could comment on that.
2 A Sure, just a quick editorial note. This is
3 actually one area where I've made a slight -- the
4 original section was on gaming in general, so
5 casinos and lotteries. And I didn't have a lot
6 of literature on lotteries so I ended up just
7 focusing on casinos but obviously forgot to
8 remove that sentence on lotteries.

9 Lotteries is another aspect of gaming where
10 money can be laundered, and there has been cases
11 of that. But considering that casinos seem to
12 form such an important part of the money
13 laundering in B.C., I just focused on that. So
14 that actually has slightly been changed, that
15 section.

16 Q And it's a given I had to read it out loud to
17 you, the one --

18 A Yes.

19 Q -- artefact of drafting. There we go.

20 A Yes, thank you for, yes, pointing out my error.

21 Q It's just blind luck. [indiscernible -
22 overlapping speakers]

23 A Yeah. But specific -- yeah. Specific to
24 casinos, again, we know that organized crime,
25 criminal groups have been involved in casinos,
26 you know, ever since, you know, Las Vegas came
27 into its own. But certainly as far as money
28 laundering is concerned, casinos are fairly
29 limited in what they can do with respect to
30 laundering the proceeds of crime.

31 But they can satisfy, you know, the goals of
32 money laundering in two ways. First is they
33 facilitate the conversion of cash into other
34 assets, less suspicious assets, so this can
35 either be a casino chip, but ultimately you want
36 to convert those casino chips into monetary
37 instruments. In some cases the casino chips can
38 actually be used outside a casino to purchase
39 goods or to use with a conspiring, say, money
40 service business to purchase a monetary
41 instrument with casino chips. But traditionally
42 you're converting cash into casino chips and then
43 you want to convert those casino chips back into
44 a less suspicious asset, which could be a
45 monetary instrument, a casino-issued cheque.

46 So it satisfies the goal of converting cash
47 into a less suspicious asset and it also

1 satisfies the justification and even
2 extraction/repatriation goal, which is basically
3 claiming casino winnings as legitimate revenue.
4 So you have the cash, you convert it to chips,
5 you play a few games, you cash out, you get your
6 cheque, and then you basically claim the cheque
7 as casino winnings. So you're able to basically
8 create a seemingly legitimate source of funds
9 that way.

10 What I've read through the literature as
11 well, with respect to B.C., is that in some cases
12 casinos were used almost as quasi financial
13 institutions so that there was cash deposited in
14 accounts, and then cheques were drawn against
15 those accounts. There are some media articles
16 that accuse some casinos of actually taking
17 monetary instruments from users -- so these are
18 players -- so these would be individuals who had
19 already converted the proceeds of crime into
20 cheques and then deposited those cheques, say a
21 cashier's cheque, into a casino account, player
22 account, and then a casino cheque would be
23 issued. So that would be a layering technique.

24 So those are the basic techniques. So
25 casinos can satisfy some of the money laundering
26 techniques like refining. So there's cases where
27 you come in with large amounts of, you know, \$20
28 bills and then you convert that into higher
29 denominations, so instead of asking for a cheque,
30 you can ask for higher denomination bills.
31 They've been used in some cases for currency
32 exchange, so American cash has been brought in
33 and exchanged to Canadian cash.

34 Structuring has been used, again, where you
35 have a number of individuals come in and place
36 money or cash into accounts under the \$10,000
37 threshold.

38 So again, you're fairly limited in what you
39 can do with casinos for money laundering. But
40 certainly, if you use a casino as sort of a quasi
41 financial institution, then there are a number of
42 avenues open to you to be able to launder money
43 above converting and creating a legitimate source
44 and layering and other techniques.

45 Q And in your review of the situation in British
46 Columbia and the available literature, it seems
47 like there's a bunch of reporting, journalists in

1 particular, Global and the Postmedia Group and
2 CBC, I think around pages 70 and onwards for some
3 number of pages, a description of the lay of the
4 land that really derives from a lot of that work.
5 Is it fair to say -- and maybe is an easy
6 contrast -- the paucity of reporting or
7 information around lottery winnings as compared
8 to casinos, that there's been a great deal of
9 activity and focus, in particular by journalists
10 on, on the casino sector in this province?

11 A Yes, certainly. And perhaps that's justified.
12 Not simply journalists but -- you know, it's been
13 documented in police investigations, in FINTRAC
14 reports, Financial Action Task Force, Peter
15 German's report, and numerous -- you know. So
16 certainly there's been a number of news media
17 articles on this. But again, there's been a
18 number of other credible sources as well.

19 And I guess, you know, the casino portion of
20 the so-called Vancouver model is fairly central
21 to that model. Essentially the accusations are
22 that drug money is laundered by providing the
23 cash, mostly in \$20 bills, to gamblers who have
24 allegedly been recruited from China and from B.C.
25 and Macau as well. The gamblers are given the
26 cash, basically lent the money in some instances,
27 and the gamblers go in and they, again, take the
28 cash in. They convert the cash into chips. They
29 play a few games and then they cash out. And so
30 a lot of certainly the media and other reporting
31 on this has been focused on the central aspects
32 of using drug -- laundering drug cash through
33 casinos by recruiting these so-called, you know,
34 VIP gamblers or whale gamblers.

35 And, you know, again, the media is certainly
36 replete with numerous examples or accusations of,
37 you know, people literally walk in with bags full
38 of \$20 bills and -- you know, the accuracy,
39 again, is in question. But certainly at the core
40 of this, including the police investigation, was
41 the accusation that much of the proceeds of drug
42 trafficking that Silver International and those
43 were doing, were being laundered through casinos.

44 Q And you say the accuracy is in question in the
45 sense that -- I take it that what you're doing
46 really is having read through the literature and,
47 in this area in particular, news reporting on

1 that topic, to the extent you're describing
2 techniques and methods and things that are said
3 to have occurred, that really comes out of the
4 reporting. So to the extent there's an earlier
5 card that falls down, the cards on top of it
6 might fall as well if there's something
7 inaccurate about the reporting, that's the sort
8 of inaccuracy that you're alerting us to?

9 A Well, I know there certainly have been pushback
10 by the casinos and B.C. Lottery Corporation on
11 the veracity of the claims that, you know, hockey
12 bags full of \$20 bills had been literally dragged
13 into casinos. And, you know, there's been eye
14 witness testimony, in the media at least, of
15 gaming staff that-- or casino staff that have
16 accused, you know, young men literally coming in
17 with the whale gamblers and giving them \$20 bills
18 at the baccarat tables.

19 So again, you know, I think the -- certainly
20 the casino -- the casinos, I think, have -- and
21 B.C. Lottery corporation as well, I think -- or
22 they did commission a study to try to refute the
23 use of -- or to refute these allegations. But
24 again, it's certainly not out of the norm for a
25 large amount of cash to be taken into a casino
26 for laundering. I mean, that is the basic core
27 of money laundering through casinos. So the
28 fundamental allegation is certainly not askew
29 from what we've seen in the past. I think it's
30 more of some of the allegations of the amount of
31 money being laundered through casinos. Certainly
32 some of the casinos are pushing back on the idea
33 that player accounts were being used as quasi
34 financial accounts, cheques were being deposited
35 and cheques -- or casino cheques were being
36 issued haphazardly to launderers, and, you know,
37 compliance was being ignored.

38 So we have a lot of media reporting on this,
39 and then you've also had at least one study
40 carried out by the B.C. Lottery Corporation that
41 tends to refute at least some of these
42 allegations.

43 Q I'm going to move next to motor vehicles at page
44 74 of the literature review. And you make a
45 comment there: "Cars and other vehicles are a
46 frequent destination for the proceeds of crime."
47 You go on to comment to the effect that generally

10 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 the car is for the personal use of the offender,
2 "although in some cases they are also used as a
3 conveyance to transport drugs." I don't propose
4 -- I guess I'll hit the gas on cars a little. I
5 don't propose to spend a lot of time on the
6 topic. But do you have any particular comments
7 about cars or high end luxury cars in particular
8 in Vancouver and B.C.?

9 A Well, generally speaking, again, cars are very a
10 popular destination for the proceeds of crime,
11 just like homes in many respects when you're
12 investing money into big-ticket items. It's --
13 from my research, primarily the cars are being
14 used for personal use but also used for
15 conveyances, like I said, for transporting drugs.
16 In the case of Vancouver, there has been
17 accusations -- through the media, actually
18 through a doctoral dissertation, and Peter German
19 spends a lot of time on motor vehicles -- that,
20 you know, the cars were bought, you know, as kind
21 of an extension of the ostentatious criminal
22 lifestyle of some of these gang members and that
23 really fuelled the luxury car market in
24 Vancouver. And so this includes not only buying
25 expensive cars but also fitting these cars with
26 security as well.

27 So in B.C., it's not that much different
28 than what we see elsewhere. Much of the purpose
29 of cars being purchased with proceeds of crime is
30 for personal use. But there are some limited
31 laundering techniques you can use with cars, such
32 as under-invoicing, for example. I think of one
33 case someone came in and put a cash deposit on a
34 car and then came back a week later and said he
35 decided not to buy that car and got a cheque in
36 return. So that's a laundering technique as
37 well.

38 So there's a limited number of ways to
39 launder money through dealerships or through
40 private car sales. But again, I think I would,
41 based on my own research, that like homes, much
42 of the money that goes into purchasing cars is
43 for personal use.

44 Q So it really is a destination or an end or sort
45 of an output at the end of the money laundering
46 process --

47 A Right.

11 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 Q -- or whatever it would have been?

2 A And again, it satisfies that core objective,
3 which is to convert cash into a less suspicious
4 asset, which in this case can be used for
5 personal reasons and it satisfies the whole
6 repatriation phase as well because now this
7 explicitly allows the launderer or the criminal
8 offender to enjoy the proceeds of their efforts.

9 Q Okay. Let's shift into discussing MSBs or money
10 service businesses. At page 78 you offer the
11 comment:
12

13 Money service businesses provide currency
14 transfer and exchange services; that is,
15 people generally use MSBs to transfer funds,
16 exchange currency, or to purchase or redeem
17 negotiable instruments.
18

19 You talk about the diversity of the almost 1,000
20 MSBs in this sector in Canada, and then a little
21 lower on that page, under the heading about how
22 MSBs satisfy money laundering objectives and the
23 role they play, you talk a little bit about the
24 vulnerability, in particular, of MSBs to money
25 laundering. Could you please address that point?

26 A Sure. Well, first of all, money service business
27 is a pretty vague term, and it refers to a whole
28 range of businesses that are generally -- I would
29 think the core of these businesses are currency
30 exchange, money transfers and cheque cashing
31 services as well.

32 Historically in Canada, it's been the
33 currency exchange companies that have been most
34 vulnerable to money laundering, based on my
35 research. And it's also, when the RCMP undertook
36 their undercover operations, they basically set
37 up currency exchange -- retail currency exchange
38 businesses, which, I guess, attest to their
39 popularity among money launderers.

40 But essentially, you know, the vulnerability
41 of money service businesses to money laundering
42 is obvious there. They're in the business of
43 providing services that are highly conducive to
44 cleaning dirty money, so they're attractive to
45 criminal entrepreneurs because they can satisfy
46 many of the phases of the money laundering
47 process. First and foremost, they're in the

12 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 business of accepting cash, whether you're
2 exchanging denominations or currencies or
3 transferring money internationally or nationally.
4 And I think what makes them also popular is that
5 there is the perception, real or not, that
6 they're less regulated compared to financial
7 institutions.

8 So you can do -- again, use MSBs as again
9 sort of a quasi financial institution and without
10 the kind of -- the idea that you're not going to
11 get the same level scrutiny from MSBs, of staff
12 in MSBs, that you would get at a bank.

13 And what also makes MSBs popular is that
14 they're -- you can fairly easily incorporate your
15 own money service business, and so there's
16 certainly numerous cases we've come across --
17 well, numerous. Enough cases in the last 30-40
18 years where money launderers, criminal offenders
19 have incorporated their own currency exchange
20 business. There's actually a very recent case
21 out of Ontario where an individual was basically
22 charged in North York with laundering money
23 through a currency exchange company that he
24 founded. And that's documented in the report,
25 so...

26 Q That's the case study you have at page 80 of your
27 report --

28 A Correct.

29 Q -- the North York case?

30 A That's right, exactly.

31 Q Yeah.

32 A Yeah. So yes, MSBs are popular because, again,
33 they satisfy the fundamental goal of converting
34 cash, but then once the cash is in, you can do
35 layering through monetary instruments, through
36 transfers. You can set up your own currency
37 exchange. And there's the idea that they're less
38 regulated and you're going to have less scrutiny
39 at an MSB than you would, say, at a bank or
40 another financial institution.

41 Q Good. Let's move to page 83 in securities and
42 capital markets. Some of your comments yesterday
43 in addressing areas identified as vulnerabilities
44 across the country included capital markets.
45 Would you care to address that, please?

46 A Sure. Again, the capital markets have always
47 been vulnerable to organized crime, whether it's

1 stock market manipulation, theft of stock
2 certificates, extortion of brokers. As far as
3 money laundering is concerned, again, securities
4 and capital markets can satisfy a number of the
5 objectives of money laundering, from converting
6 cash into a less suspicious asset, in this case a
7 trading account or stocks or bonds or other
8 equities. It allows the money launderer to
9 conceal criminal ownership through nominee
10 accounts. It can also -- you can create a
11 seemingly legitimate revenue by selling stocks,
12 for example, and then claiming that as your own
13 investment revenue.

14 And so really there's, you know, three ways
15 -- the way I see it, based on the literature,
16 there's three broad categories of money
17 laundering securities. The most basic is
18 purchasing and manipulating investments with the
19 proceeds of crime, including purchasing -- giving
20 cash to brokers, there's cases. And that's the
21 money put into a trading account.

22 The second is an extension of the first but
23 it's really specific to capital market crime. So
24 without a doubt, the majority of the proceeds of
25 crime that are laundered through the securities
26 industry, the predicate offences are security
27 offences. So insider trading, market
28 manipulation. And that is, as I mentioned
29 yesterday, very challenging because it's often
30 difficult to differentiate the predicate criminal
31 offence from the money laundering because the
32 type of transactions, obfuscating transactions,
33 are quite similar. And like I mentioned as well,
34 you don't -- in these cases it's not really cash.
35 You don't have cash being invested in the
36 markets. It's already in electronic form and
37 accounts may be a monetary instrument.

38 And the third strategy is actually the
39 reverse of the two, where the bad guys actually
40 form their own company and take it public, issue
41 shares in that company, and then basically claim
42 the capital financing as a legitimate source of
43 revenue. And of course the most famous example
44 of that, which is documented in the lit review,
45 is the YBM Magnex case from Ontario, which was a
46 public company that issued stock through the
47 Toronto Stock Exchange and basically turned out

14 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 just to be a huge laundering vehicle for Russian
2 organized crime. And you may remember the OSC,
3 Ontario Securities Commission, held years of
4 inquiries, a commission of inquiry actually into
5 the YBM Magnex scandal.

6 So you don't see that a lot. I have come
7 across a few of those cases, but certainly YBM
8 Magnex was an extreme example of organized
9 criminals basically laundering money through
10 founding their own publicly traded company.

11 Q And as I look at page 90, you talk in particular
12 about methods and techniques. I think some of
13 this derives from a FINTRAC report, the
14 discussion that you have there about the
15 suspected ML methods and techniques for markets
16 and to do them in a staccato way, deposit of
17 physical certificates -- so that's the -- not
18 transferring title but rather the physical share
19 certificate, I think you're describing --
20 manipulating securities traded over the counter,
21 early redemption of securities, proceeds of sale
22 in the form of negotiable instruments, and
23 transfers of funds between accounts. You go on
24 to say those methods generally fall into the
25 layering phase of the ML process.

26 A Mm-hmm. Yeah. And I think, similar to casinos
27 or money service businesses, you know, trading
28 accounts, brokerage firms, are used to some
29 extent as quasi financial institutions. So it's
30 -- the intention in some cases is not to trade in
31 securities. It's to get that cash into a trading
32 account and then use layering techniques such as
33 purchasing negotiable instruments, transfers of
34 funds between accounts, you know, connecting with
35 banks, for example, transferring that way funds
36 from a bank account to a trading account.

37 So certainly I -- there's a pattern where,
38 while banks continue to be the prime destination
39 proceeds of crime, some of the launderers are
40 trying to move away from banks and use other
41 types of financial service providers as banking
42 institutions basically. And so brokerage firms
43 certainly are vulnerable to money laundering, not
44 just through trading of securities but also being
45 abused as a sort of quasi financial institution.

46 Q I'll move next, please, to criminally-influenced
47 companies. There's a discussion beginning page

15 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 91. When you use that term, criminally-
2 influenced companies, can you please tell us what
3 that describes.

4 A Sure. Again, this is simply criminal offenders
5 establishing their own companies, whether it's an
6 incorporated company or otherwise -- a very
7 common technique and primarily used in the
8 layering phases but also it's used to create a
9 guise of legitimate source -- sorry, a guise of
10 legitimate source of -- source of legitimate
11 revenue. But they are -- so they're -- because
12 there's such diversity in the type of companies
13 you can form, it also allows the money launderer
14 access to different laundering vehicles. So
15 companies are a laundering vehicle in and of
16 itself, but they also allow access to other ways
17 to launder money. So if you want to invest money
18 in real estate and launder money through real
19 estate, then you can, you know, form a real
20 estate development company or a construction
21 company or a mortgage brokerage firm, for
22 example.

23 But traditionally, when we're talking about
24 criminally-influenced companies, the type of
25 companies generally speaking are ones that are
26 cash intensive, so bars, restaurants, even
27 currency exchange businesses, for example. And
28 that way you can intermingle the legitimate cash
29 from a legitimate business with drug proceeds or
30 simply claim drug proceeds as legitimate revenue
31 from a legal business, and then have those funds
32 deposited in a bank account. So...

33 So first and foremost, it's about cash
34 intensive businesses, but again, the ability to
35 use criminally-influenced companies for diverse
36 ways to launder money is really limited to the
37 imagination of the launderer. And again, there's
38 so many different techniques you can use with
39 criminally-influenced companies, including
40 setting up shell companies in financial haven
41 countries as well, which is -- continues to be a
42 pretty predominant type of laundering mechanism.

43 Q So that category of criminally-influenced
44 companies includes both operating companies to
45 cash intensive business but it's sort of -- I'm
46 thinking of the car wash in *Breaking Bad*, that
47 sort of example of a lot of money moving through

16 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 intermingling with some earnings but effectively
2 laundering criminal earnings --

3 A Right.

4 Q -- but on the other hand also would be a category
5 that you would include within it, shell
6 companies? So holdings, offshore holdings
7 wherever they may be?

8 A Exactly, yes.

9 Q All right. In terms of the techniques for
10 criminally-influenced companies, around page 95,
11 you list a number of these different -- I think
12 you term it as services, products and assets that
13 are used in ML techniques that appear in this
14 area: using nominees as owners or directors,
15 establishing multiple companies, establishing
16 companies, as you just mentioned, in financial
17 haven countries, flipping companies, purchasing a
18 company already owned by the criminal enterprise,
19 and paying out fictitious salaries.

20 A Right, yeah. Yeah. Again, the range of
21 different money laundering techniques that you
22 can use with a company is, again, almost
23 unlimited. But one aspect I forgot to mention as
24 well that makes companies attractive is simply
25 the ability to use nominees and beneficial
26 ownership to hide the criminal ownership and
27 criminal source as well. So companies, shell or
28 real companies, can be quite effective in
29 concealing criminal ownership of the company
30 itself as well as the assets purchased with the
31 proceeds of crime. So nominees can be used as
32 shareholders, directors, officers, owners, staff.
33 And also there's been cases as well where
34 companies can actually legitimize the criminal
35 offender. So in Montreal during the years of the
36 Cotroni crime family, they owned numerous
37 businesses throughout Montreal -- pizza parlours
38 and ice cream shops -- and they basically used
39 their, you know, made members to work in these
40 stores and receive a salary, so they were
41 laundering funds through salaries -- salary
42 cheques as well, so.

43 So again, it's very -- companies are really
44 a central part of a laundering -- a lot of money
45 laundering operations. And again, the Vancouver
46 model was purportedly Silver International, which
47 was basically set up as a money service business,

17 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 basically was just a -- you know, it's just a big
2 money laundering operation allegedly.

3 Q Let's move to gold and diamonds and the like,
4 please. At page 97 you have a heading of
5 "Precious Metals and Gems." Please tell us a
6 little bit -- that may or may not be a more
7 intuitive area -- about how precious metals and
8 gems are used in money laundering.

9 A Again, similar to cars, a lot of the research in
10 police cases indicate that much of the purchases
11 of gems are for personal use, and from some of
12 the case studies I included are mostly focused on
13 a personal use. But again, gems and -- again,
14 obviously the compactness of gold, of expensive
15 jewellery is beneficial for transporting value
16 across borders. So there's a lot of cases
17 internationally where jewellery has been
18 purchased with the proceeds of crime and then
19 smuggled across the border and then sold and that
20 cash being used to finance further criminal
21 activity. So there's no shortage -- so while
22 many of the cases I've seen involve the purchase
23 of jewellery and precious gems with the proceeds
24 of crime for personal use, it also can serve a
25 valuable purpose of being able to transfer value
26 across borders. And I think I included a case
27 study on that in the literature review. So both
28 for money laundering and terrorist financing as
29 well.

30 Q Mm-hmm?

31 A And again, relatively unregulated industry.
32 Jewellery stores are relatively unregulated.
33 There are certainly cases where the bad guys had
34 set up their own precious gem dealerships and
35 jewellery stores, and it's, again, relatively
36 easy to take -- to sell jewellery through the
37 black markets or even through legal markets once
38 you've -- if you want to convert it back into
39 cash.

40 Q I'll move, please, to page 100. You have a
41 heading "The Internet, Other Virtual Medias, and
42 Crypto-Currencies." That's quite a broad
43 collection of things that are described there.
44 Yesterday you touched on something that you
45 developed at further length in the discussion
46 about the online game.

47 A Mm-hmm.

18 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 Q At the risk of doing it backwards, why don't you
2 tell us a bit about that as an example, but then
3 more broadly the Internet, crypto-currencies,
4 virtual assets, those headings as areas that are
5 at risk of exploitation of money laundering and
6 how that could [indiscernible].

7 A Well, certainly we've all heard of the dark web.
8 The dark web is a place where people can go
9 online to buy illegal commodities and services,
10 but they're -- some of these dark websites also
11 provide money laundering services as well, which
12 includes bidding on goods, for example, and
13 actually being able to purchase those goods with
14 cash or with virtual currencies, crypto-
15 currencies.

16 But certainly what has seemed to emerge as
17 one of the more vulnerable aspects of online life
18 are these, you know, what they call massively
19 multiplayer online games. I'm not familiar with
20 online games, quite frankly. I think I'm from
21 the Tetris generation or the Pong generation.
22 But these games now basically, if anyone has
23 kids, know that there is money involved and that
24 your avatar can purchase goods, can purchase
25 services to continue in the game, and some of
26 these games have created their own virtual
27 currencies. So you would go into a game like
28 Second Life. You would purchase the Second Life
29 currency, and then once you have this currency,
30 you can use that currency for various reasons.
31 And so this obviously, any kind of virtual
32 currency now is vulnerable to money laundering.
33 So once a value is placed on any object, no
34 matter what that object is, virtual or real, you
35 know, criminals are going to find a way to abuse
36 it through fraud or money laundering.

37 So for example, a player in Second Life can
38 use his or her credit or debit card to purchase
39 online money and then redeem those credits for
40 actual money with another player in another
41 country, which can serve as a money laundering
42 vehicle. So it's not difficult for a number of
43 co-conspirators to play a game and to transfer
44 value, transfer money internationally through a,
45 you know, multiplayer online game.

46 Q So that's really an illustration that the concept
47 that really almost wherever you can find some

19 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 milieu that allows for the transfer of value,
2 especially if that's coupled with anonymity or
3 crossing jurisdictions or making it complicated
4 to trace things along, there's some real prospect
5 that money launderers will look to make use of
6 that to transfer and really hide the source of
7 origin?

8 A Right. I have not come across any specific
9 cases, case studies, of the using of games, but
10 there is certainly an emerging body of literature
11 on the potential for the abuse of these online
12 games for money laundering. And you can
13 definitely see in the way they're set up -- and
14 they're impossible to regulate, these games, as
15 well, which make it, again, a very attractive
16 laundering vehicle.

17 Q And then stepping back to think about the
18 internet, the dark web, virtual currencies,
19 virtual assets and the like, do you see this as
20 sort the future of the direction that, for
21 example, governments, law enforcement agencies
22 should be orienting themselves towards?

23 A Well, my understanding is certainly crypto-
24 currency like bitcoin -- correct me if I'm wrong
25 -- is going to be covered under the federal money
26 laundering and suspicious transaction reporting
27 requirements. So obviously the federal
28 government sees that as a potential.

29 My own belief is that cash will continue to
30 be the predominant form of currency in drug
31 trafficking and the underground markets, and
32 it'll be a while before any virtual currency or
33 even value transfer systems replace cash. With
34 that said, again, for the savvy money launderer,
35 the technophile, you know, the potential to be
36 able to use the internet, to use these games, to
37 use crypto-currency, you know, there's great
38 potential in that.

39 So again, while there's -- you have to keep
40 in mind that while there's certainly a great
41 level of sophistication in some of these criminal
42 organizations, I mean, most of these are criminal
43 offenders who are typical criminal offenders.
44 They're not particularly smart. They're
45 reactive, they're impulsive, they're not
46 technically savvy. So they're going to continue
47 to rely on, you know, cash and more rudimentary

1 forms. It's in many cases easier for them to
2 smuggle cash because they're already in business
3 smuggling drugs, so you might as well just use
4 the same, you know, conveyance to smuggle cash.

5 So my own feeling is that cash will continue
6 to be the primary source of currency in the drug
7 market, underground markets. But with that said,
8 there are cases emerging where crypto-currency is
9 being used, and simply the potential of the
10 internet and potential of sort of this virtual
11 reality or virtual mediums, you know, have great
12 potential for laundering, especially
13 internationally. And I think that's where Second
14 Life shines a light on how that can be used to
15 transfer value internationally.

16 Q Let's move, please, to page 102, professionals
17 and occupations that are used for money
18 laundering activity. You have a discussion in
19 the second paragraph about broadly two
20 categories: on the one hand, front-line staff,
21 in particular retail businesses, people coming
22 into contact with money launderers, so bank
23 tellers, real estate agents, automobile dealers,
24 currency exchange staff, jewellery store
25 salespeople as examples. And then a second group
26 being those with specialized skills, expertise,
27 powers, and resources, and then you go on to
28 talk about lawyers. You also have a discussion
29 about accountants. Please tell us a little bit
30 about this header and this category of
31 professionals that are used and how they might be
32 used in money laundering.

33 A Right. Well, I always feel a little
34 uncomfortable talking about the issue in an
35 audience of mostly lawyers, but I'll dive in
36 anyways. The first time I ever presented a paper
37 on money laundering was at an American Bar
38 Association conference.

39 But certainly there is no shortage of cases,
40 of reporting of legal professionals being
41 involved in money laundering. And based on my
42 research, again, the majority of them are
43 involved unwittingly. There's certainly cases of
44 willful blindness, and there's definitely cases
45 of lawyers knowing fully well what they're doing
46 and they are actively engaged in money
47 laundering. And there's, again, no shortage of

21 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 cases in Canada of lawyers being involved in
2 actively laundering money.

3 You know, again, lawyers are particularly
4 vulnerable or attractive to money launderers not
5 only because they can be involved in
6 incorporating companies, they can be involved in
7 real estate transactions. But certainly, you
8 know, what's caught the attention of most is,
9 again, the abuse of legal trust accounts and also
10 the strict client-solicitor confidentiality.

11 So in my research the money launderers only
12 gravitated to lawyers because they were involved
13 in a financial or commercial transaction that
14 required legal advice or legal intervention, in
15 particular real estate. So most of the cases
16 involving lawyers, in my research, they were
17 involved simply because they were facilitating a
18 real estate transaction involving the proceeds of
19 crime. In other cases, again, they were more
20 actively involved and were explicitly laundering
21 money.

22 But again, certainly the use of legal trust
23 accounts is something that's very attractive to
24 money launderers for obvious reason, because
25 hiding beneficial ownership -- or criminal
26 ownership is obviously key to money laundering,
27 and the best way to do that is probably through a
28 legal trust account, so... But again, the role
29 of lawyers in the money laundering process ranges
30 from a very passive sort of provision of basic
31 legal services, for example, in a real estate
32 transaction all the way to cases where lawyers
33 explicitly were involved in setting up shell
34 companies and, you know, transporting cash and
35 many -- many transactions that were clearly
36 illegal and part of the money laundering process.

37 Q And you also discuss accountants as a profession
38 that might be engaged for the purpose of money
39 laundering activity. Please tell us about that.

40 A Well again, if you are someone that's generating
41 a large amount of cash, a large amount of
42 revenue, illicit or otherwise, accountants can --
43 and bookkeepers can be very important in keeping
44 track of that money. And the one case that I
45 identified was with the Hells Angels in Quebec,
46 where they were generating so much cash that they
47 needed the help of professionals just to keep

1 track of all the cash coming in and going out
2 through spreadsheets. And so there's a police
3 wiretap that caught one of the outlaw bikers in
4 Quebec talking about accountants. They had an
5 accountant that worked for Vito Rizzuto.

6 But there's not a lot of cases on
7 accountants. Not that many came up in my study.
8 Certainly the ones that came up in one of the
9 case studies documented on page 109, I think,
10 shows the kind of range of work that an
11 accountant can do for a client, including not
12 just accounting but notary work as well, helping
13 set up companies, advice, financial advice as
14 well. But not -- I have not come across a large
15 number of cases that involved accountants.

16 Q Okay. Let's move, please, to 110. You shift out
17 of the sectors of the economy into talking about
18 the underground economy. At least I read that as
19 a shift from one area to a different area. If
20 you could please introduce that topic when you
21 talk about the underground economy. What do you
22 mean by that term?

23 A Well, in this instance I'm really referring to --
24 I mean, the underground economy, say for in
25 Canada, is very vast and it includes not just
26 criminal activity as well but, you know, any type
27 of commercial/financial transaction that tries to
28 avoid taxes basically. You know, we know that
29 the home renovation industry, for example, has a
30 large underground component to it.

31 But with respect to money laundering, you
32 know, really what I'm talking about are informal
33 systems, but also criminal systems as well, that
34 can be used and abused to facilitate money
35 laundering.

36 So the way I categorize it is I sort of
37 group it into four different areas. First and
38 foremost is this emergence of the money
39 laundering specialist or the professional money
40 launderer, and that's at the core of the
41 Vancouver model. Basically a lot of these -- you
42 know, Silver International and others were
43 basically -- their purpose was first and
44 foremost, if not exclusively, to launder money.
45 And we've seen that in the past throughout
46 different countries as well and different cases.

47 Second is the use of corruption and internal

1 conspiracies. And again, if you have someone on
2 the inside of a bank or a casino that is
3 complicit in the conspiracy, that is certainly
4 one of the greatest benefits to a money
5 launderer, and that is -- it's often difficult to
6 achieve, but certainly there are cases where
7 criminals have corrupted lawyers, have corrupted
8 bankers, have corrupted casino staff, to help
9 facilitate money laundering.

10 The next is informal value transfer systems.
11 Again, these are historic systems that go back
12 centuries in the case of some countries and
13 regions, whose role is basically to transfer
14 value across international borders. So you're
15 not transferring cash per se; you're transferring
16 value. And we can talk about that in a little
17 more detail if you want. But again, that was at
18 the core of the Vancouver model as well, the
19 value transfer systems.

20 And finally is trade-based money laundering,
21 which is an extension of an informal value
22 transfer system but basically uses commercial
23 trade practices, primarily under-invoicing, to
24 launder money. I know some of this may sound
25 vague and I -- if you like, I can get more detail
26 on the informal value transfer system because
27 that's really emerged as a key way to not only
28 launder money internationally but to use to help
29 facilitate international drug purchases as well.

30 But that was --

31 Q [indiscernible - overlapping speakers]

32 A -- absolutely at the core of the Vancouver model
33 were these informal value transfer systems.

34 Q So let's do exactly that. And just to ground
35 some of the discussion, page 114, you quote from
36 the 2018 Peter German report. He gives a
37 description about IVTS, informal value transfer
38 systems, and then describes that as being
39 "unlicensed operations which rely on political
40 geographic, family, or close personal
41 relationships, in order to conduct business."

42 He goes on to write in his report, and you
43 have the quotation from it, in the middle of page
44 114, "Their clientele tends to be from a specific
45 ethnic group." And you go on to describe some of
46 the terms that are used for these alternate
47 remittance or value transfer systems: the hawala

24 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 in India, hundi in Pakistan, the chit and chop
2 from China, and described that as being something
3 indeed in the next paragraph you indicate that
4 many developing world countries which don't have
5 established banking systems are heavily reliant
6 on them -- sorry, not you but Dr. German does --
7 and he goes on to comment that even international
8 aid organizations will sometimes make use of
9 those systems to pay their employees, so they
10 really serve as de facto banking institutions in
11 some parts of the world.

12 A Right. Right. I mean, we in the West really
13 became attuned to these informal transfer systems
14 following 9/11. Amongst all the investigations
15 was investigations into terrorist financing, and
16 the accusations were being made that the hawala
17 systems were being used to transfer funds that
18 were being used to fund 9/11 and other terrorist
19 activities, which in fact were wrong. Most of
20 the funds were being transferred using
21 conventional banks. But it sort of alerted
22 authorities, alerted researchers and others to
23 this informal system and how it can be used to
24 launder money or a part of terrorist financing.

25 Again, some are quite historic. Some are
26 very commonly accepted in many countries simply
27 because they don't have sophisticated banking
28 systems so the underground systems are what
29 really are used by many people to transfer value.
30 It's often used, you know, again with migrant
31 labour, especially in the U.S. That's, you know,
32 where they will come work in the U.S. and instead
33 of using a bank or a formal transfer system will
34 send money through an informal system.

35 I think the best way to describe an informal
36 value system is just to give you an example.
37 First of all, we have to move away from -- we
38 have to understand the concept of value and --
39 here you're not transferring physical cash.
40 You're literally transferring, I mean, value.

41 So an example is this. You have an
42 individual in China who wants to relocate a
43 million dollars to Canada. Doesn't want to go
44 through a bank. Doesn't want to physically
45 smuggle the cash. So what option does he have?
46 The option basically is to approach, you know, a
47 money service business in China who has a

1 corresponding money service business in Canada.
2 And what they work out is the money service
3 business in Canada makes that money available to
4 the individual in Canada, so now that person has
5 a million dollars in Canada that's basically lent
6 to him or her from this money service business,
7 or a professional money launderer in some cases
8 in Canada.

9 And simply put, once that cash is in Canada,
10 it's made available to the individual to use
11 either when he's in Canada or, you know, a family
12 member or a business associate. But the cash is
13 now in the destination country where the
14 individual wants it. And the next step is simply
15 for the money service business in Canada to
16 negotiate with the money service business in
17 China on how the Canadian broker is repaid. And
18 that's often -- that's done -- can be done
19 through numerous techniques, but one method to do
20 that is a trade-based money laundering approach.
21 And so trade-based money laundering is like
22 under-invoicing. It's that -- for example, a
23 company in China will sell the broker in Canada,
24 you know, a million dollars in goods that are
25 really worth \$3 million. So now you've
26 transferred the value of \$2 million to Canada.
27 Hopefully that makes some sense. But it's a
28 relatively basic concept in that, you know, you
29 have two brokers in two different countries.

30 It's primarily used for international funds
31 transfer, so you have brokers in two countries
32 and they simply, as long as they have a
33 sufficient amount of cash on both sides, they can
34 make the system work.

35 Q That sounds like it's really an analogue to the
36 sort of bank transfer that might occur where
37 there's a deposit in one place and a credit in
38 the other, or a transfer, however that is done
39 mechanically. But I suppose a few things differ
40 about it. Number one: it's not -- it's sort of
41 off-market in the sense that it doesn't leave the
42 same paper trail. I assume the second feature to
43 it is that it really is highly dependent on the
44 trust of the people involved. It's not --
45 A Right. Yes, absolutely. Yeah. And again, there
46 is -- you know, whether -- in many developed
47 countries, including China, you know, these

1 systems have been in place, like I said, for
2 hundreds of years. At least a hundred years
3 in -- but it's also important because it's not
4 simply used to launder money. It's also used to
5 finance illegal operations. So if it's used to
6 basically provide money in a source country, a
7 drug source country money -- source country. So
8 that's where the danger of -- or the potential of
9 these informal value transfer systems are so
10 dangerous and such pose a high risk, is that
11 they're not used simply for money laundering;
12 they're used for any kind of international
13 transfer of funds or value, and that's absolutely
14 essential to getting cash from the destination
15 country where drugs are sold back to the source
16 country.

17 And so that's -- again, the informal value
18 transfer systems were fundamental to the
19 Vancouver model so the brokers in Canada, in
20 Richmond, were basically working with brokers in
21 China to illegally transfer value from China.
22 And then that system was intermingled with the
23 drug trafficking proceeds so the cash in some
24 cases was used to pay back these loans or first
25 given to the casino gamblers and they laundered
26 it, and then the cheques were perhaps provided
27 back as payment with interest and fees to the
28 brokers in Canada. And we also see in the
29 Vancouver model -- and we'll talk about this, I
30 guess, when we talk about the Vancouver model in
31 more detail. But the laundered money was
32 intermingled with drug money as well, and so --
33 so the danger of the informal -- or the threat
34 that these informal value systems pose is not
35 simply for money laundering, but because it's
36 international transactions, they're very
37 conducive to financing drug trafficking as well.

38 Q And you touched on TBML or trade-based money
39 laundering, probably not a totally intuitive
40 topic for people who haven't read about it. Page
41 116, you have the FATF, the Financial Action Task
42 Force, description of how TBML has been defined.
43 And I'll just read it out:

44
45 The process of disguising the proceeds of
46 crime and moving value through the use of
47 trade transactions in an attempt to

27 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 legitimize their illegal origins or finance
2 their activities. In practice, this can be
3 achieved through the misrepresentation of
4 the price, quantity or quality of imports or
5 exports. Moreover, trade-based money
6 laundering techniques vary in complexity and
7 are frequently used in combination with
8 other money laundering techniques to further
9 obscure the money trail.

10
11 Reading on from your literature review:

12
13 The FATF concludes that TBML "represents an
14 important channel of criminal activity and,
15 given the growth of world trade, an
16 increasingly important money laundering and
17 terrorist financing vulnerability."
18

19 And you go on to then, reliant on the FATF
20 report, describe four basic variations of TBML?
21 A Right. Yeah. TBML is again -- poses a very high
22 threat for money laundering, primarily because to
23 use it properly, you really need to operate in
24 vast sums of money. I mean, you can use it for,
25 you know, 10,000, 100,000 dollars. But really
26 it's -- when we look at police cases, it's
27 typically used by quite sophisticated
28 transnational crime groups. I mean, the
29 Colombian cartels used what was called the Black
30 Market Peso Exchange, and I included details of
31 that in the report.

32 Again -- so as an extension of the example I
33 gave earlier, trade-based money laundering can
34 actually be used to repay money. So now the
35 broker in Canada has put forth a million dollars
36 out of his own cash and needs to be repaid. And
37 so one way to repay that individual without
38 transferring cash is to have set up an under-
39 invoicing scheme. So the broker in China sets up
40 a company, sells, again, \$2 million -- or sells a
41 million dollars in goods to the broker in Canada,
42 but the goods are actually worth more than
43 \$2 million. So now the broker in Canada has that
44 million dollars repaid to him or her. And so
45 trade-based money laundering is an extension to
46 some extent of the informal value transfer system
47 as well. But that's where the under-invoicing

1 technique is used at a more massive scale. And
2 this is a technique that was used extensively
3 with the Colombian cartels.

4 But you know, at an international level when
5 you're talking about high intensity threats,
6 large criminal organizations like, you know,
7 Mexican cartels or the Hells Angels or whatever,
8 trade-based money laundering is a very effective
9 way to transfer value or funds internationally,
10 and we're seeing in cases it being used. And all
11 the literature from FATF to the RCMP, to FINTRAC,
12 have flagged this as a particularly important
13 technique that law enforcement needs to -- and
14 government regulation needs to focus on more,
15 again because it's international in scope and it
16 tends to be used on a very large scale by very
17 high intensity organized crime threats.

18 Q And you've on a number of occasions talked about
19 the Vancouver model and told us a bit about it.
20 But let's move right into that discussion in your
21 report, page 118 of the report.

22 And let me start with just an obvious
23 question. When you use that term "Vancouver
24 model" -- I don't need you to repeat ground
25 you've already covered. But how do you use that
26 term? What do you describe with that moniker?

27 A Okay. Well, the term was originally used by
28 Professor John Langdale, who is an Australian
29 professor, and he was making a presentation about
30 the different criminal alliances from China that
31 posed a threat to Australia, and he had about
32 five or six case studies, all revolving around
33 how Chinese criminal groups work with other
34 criminal groups to launder money as well as other
35 criminal activities.

36 So his fourth case study was what he called
37 the Vancouver, Canada, Model. And in each of the
38 case studies, he tried to make a case that they
39 were quite unique in their goals and purposes and
40 strategies. And certainly the Vancouver model,
41 you know, was unique. I had not come across
42 something like that, the techniques that were
43 being used and how so many different techniques
44 were being amalgamated into a kind of a very
45 long-running and to some extent sophisticated
46 money laundering model.

47 So in his presentation he really only had

1 one slide in his PowerPoint presentation
2 dedicated to this conceptual Vancouver model, so
3 it's pretty skeletal. But through the literature
4 -- whether it's the news media. Peter German
5 talked about it a bit. FATF talks about it
6 somewhat. FINTRAC has some reporting on it. And
7 looking at some of the theoretical literature on
8 informal value transfer systems -- and some of
9 the pieces have come together. So in my overview
10 or details of the Vancouver model, it's based on
11 a sort of skeletal model that Langdale proposes
12 and then filled in with some detail from the
13 literature.

14 Again, I think there's probably more
15 questions raised than answered in this. The
16 Vancouver model also overlaps with the RCMP
17 investigations, E-Pirate and E-National or
18 E-Nationalize. So based on my understanding of
19 the literature, really at the core of the
20 Vancouver model was Silver International,
21 although, again, there's a number of other
22 individuals that were involved in similar
23 laundering, you know, making loans through real
24 estate, that may have been connected with Silver
25 International or it may have been operating
26 independently.

27 So I think the Vancouver model explains more
28 in sort of generic terms how this laundering
29 process works, but certainly this is not a
30 theoretical model. He based this model clearly
31 on what was going on in Vancouver, and really
32 what gave rise to this Commission, in my opinion.

33 So by way of summary, this is how I
34 understand the Vancouver model and the different
35 facets of it. The first was -- involved
36 facilitating capital flight from China to Canada
37 via an informal value transfer system. This
38 would -- including the capital flight from
39 wealthy Chinese but also government officials and
40 even some financial crime offenders.

41 Silver International and Jin were also
42 involved in collecting cash proceeds of drug
43 trafficking from other criminal organizations.
44 So now they've established themselves basically
45 as an underground money laundering service. Jin
46 basically and Silver International were basically
47 a professional money laundering organization.

1 So what they did was they -- and this was
2 where the criminal alliance portion comes in, is
3 that they connected with a number of other
4 different criminal groups, most of them in Canada
5 but also some connections to Mexican cartels, to
6 Chinese organized crime. And basically what
7 Silver International did was launder the cash
8 proceeds of crime from these other criminal
9 organizations. And in the literature and the
10 news media, in Peter German's report, there's
11 accusations that bags of cash were literally
12 dropped off in the parking lot of Silver
13 International by couriers. And it wasn't just
14 cash from criminal organizations; also cash from
15 debtors to some of the loan sharks that were
16 involved with Silver International. But the
17 majority of the money came from drug trafficking
18 groups. And basically Silver International was
19 laundering the money for these criminal
20 organizations.

21 And basically what they would do was they
22 would use the drug monies provided to them in
23 Canada, and that drug money would be given to
24 gamblers and it would be laundered through
25 casinos, but it would also be lent out as private
26 mortgages. And so you had drug cash being
27 laundered through casinos, drug cash being
28 laundered through real estate primarily, but
29 banks were also used, other legitimate money
30 service businesses as I understand it. But the
31 two main laundering vehicles seemed to be casinos
32 and real estate, according to the literature.

33 And then basically once the money was
34 laundered, that money was provided as the capital
35 to the Chinese -- the wealthy Chinese that were
36 trying to relocate their funds in Canada. So
37 that's how the capital flight was connected to
38 the drug money.

39 So the final stage of this process was
40 basically transferring illicit funds and value to
41 and from China to other countries, including
42 Mexico and Colombia, not only to settle the
43 accounts that were involved in the international
44 value transfer systems but also to finance the
45 purchase of drugs in source countries. So
46 apparently there was, you know, dozens if not
47 hundreds of underground bank accounts in China to

31 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 which this money was finally transferred, and
2 that money was supposedly used to finance
3 fentanyl production and trafficking in Canada.

4 So it's, again, at this point more
5 speculative and anecdotal than empirical. Like I
6 said, I have probably more questions to ask than
7 answered. But certainly based on the literature,
8 it was a fairly complicated wide-ranging model or
9 operation that ultimately was there to benefit
10 the wealthy Chinese transferring the money to
11 Canada. It was primarily to benefit the criminal
12 organizations that were laundering drug money.
13 And also it benefitted people who wanted to
14 purchase houses because a lot of this drug money
15 was being lent out as private mortgages. And the
16 accusations were that these mortgages were being
17 literally provided in cash to property developers
18 as well as home buyers. So hopefully --

19 Q And you've really taken -- no, that's very
20 useful. You've taken some care in your report
21 and then through answering questions here to use
22 words like "accusation" and "allegedly." The
23 sources, just to be clear about it here, when you
24 described that that really derives from, am I
25 right to say primarily news reports and perhaps
26 some other reports you've looked at?

27 A Well, certainly the -- again, the basic
28 conceptual model, if you can call it that,
29 originated with Langdale.

30 Q Right.

31 A He kind of put the parts together, but at the
32 same time it was -- Peter German went into some
33 detail describing it. The Financial Task Force
34 had, in a report they had on professional money
35 laundering, talked about the system as well
36 because Silver International is considered
37 basically a professional money launderer. But
38 certainly fleshing out the details, the media was
39 -- the news media was of some value, definitely,
40 yeah.

41 Q And I suppose in terms of, were one to move it
42 from alleged to proved, we would probably need a
43 court judgment. There never was one on the
44 merits of this case.

45 A Right.

46 Q That, I think, probably takes us to page 126.
47 And just as we get into that, there was one

1 correction which had been drawn to both of our
2 attention by counsel for Canada, and we're
3 grateful for them pointing it out. I take it
4 that there were references there to a media
5 release by the RCMP that with Canada's assistance
6 you've since determined in fact the media release
7 relates to a different investigation to
8 E-Nationalize rather than E-Pirate, E-Pirate
9 being the Silver International case.

10 A Right. But I think the important point was that
11 there was considerable overlap between the
12 criminal activities and the suspects targeted in
13 both E-Nationalize and E-Pirate with the
14 Vancouver model. I mean, my argument is that
15 Silver International really was at the core of
16 this criminal alliance. Now, there certainly
17 were many others involved, both in laundering and
18 certainly there was the criminal alliances with
19 the other organized crime groups that were
20 providing the drug money to be laundered.

21 My interpretation is that you wouldn't have
22 the Vancouver model without Silver International
23 and their directors and Mr. Jin, who is, you
24 know, at the centre. So there's considerable
25 overlap between what the RCMP were targeting or
26 what police were targeting in their
27 investigations and what Langdale and others were
28 purporting to be -- to make up this Vancouver
29 model.

30 And yes, you're correct that the charges
31 against Silver International, its directors and
32 Jin were stayed, although I understand that the
33 Civil Forfeiture Office is -- launched several
34 suits against Silver International, Jin, some of
35 Jin's relatives, his wife, to force the
36 forfeiture of assets that they argue were the
37 proceeds of crime.

38 But again, the RCMP and the Combined Forces
39 Unit and all the police agencies involved in
40 these investigations have released very little
41 information that I have seen publicly, very few
42 press releases on this. So there's not a lot of
43 information on this. But my inference is that,
44 given that Silver International and Jin were the,
45 you know, the focus of E-Pirate investigation,
46 they also, in my opinion, are the core of the
47 whole Vancouver model. I mean, they were the

1 glue. They were the central professional money
2 launderer that really was the, you know, vortex
3 around which all of these different transactions,
4 whether it's capital flight, casino money
5 laundering, real estate money laundering, they
6 were really the orchestrators of this, I would
7 argue. But again, that's based on a shortage of
8 the literature and an over-reliance on the news
9 media.

10 Q I take from your last answer you haven't seen the
11 police report on E-Pirate?

12 A No, I have not.

13 Q And I guess one other small point to cover off,
14 the reference on page 126 to the CFSEU having led
15 the E-Pirate investigation from the information
16 that counsel for the federal government gave us,
17 you understand that's not the case now? They
18 didn't?

19 A Yeah.

20 Q Am I right about that? Okay.

21 A Correct, yeah. And that's one of the issues
22 being addressed in this revised -- but yes. It's
23 -- it's fairly complicated. It is unique. I've
24 never seen a system like this before. But it's
25 sophisticated at the same time. Obviously like a
26 lot of other criminal operations of money
27 laundering, you know, they set themselves up to
28 be eventually detected because so much has been
29 laundered through casinos allegedly. So much has
30 been laundered through real estate -- in a very
31 confined area, Greater Vancouver. I mean, the
32 majority of this money laundering took place in
33 Vancouver.

34 So on the one hand it was quite
35 sophisticated; on the other hand, you know, it
36 was inevitable that they were going to get caught
37 simply because of the scope of the laundering
38 operation that was ongoing.

39 Q And we'll, I'm sure, return to the Vancouver
40 model in moving to more of the analysis section
41 of your literature review. I propose to go to
42 page 128. You have a discussion about the
43 effects of money laundering. And what you -- one
44 of the points that you address there, as you call
45 it, "A Critical Analysis of the Dominant
46 Narratives on the Effects of Money Laundering."
47 So I'd welcome you to address that as you'd like

34 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 to, but I'd be interested in hearing your
2 comments about the effects of money laundering.
3 A Sure. Well, certainly there has been no shortage
4 of literature and arguments that money laundering
5 has a significant effect on not only organized
6 crime, contributes to organized crime, but also
7 has a significant effect on the economies and
8 societies of certain countries. I tend to be
9 sceptical of a lot of these arguments of the
10 wide-ranging pernicious effects of money
11 laundering, a) because we've really never had any
12 rigorous study that truly documents the impact of
13 money laundering on financial markets, on
14 economies, on companies, on society as a whole.
15 You know, certainly in some extreme cases, like
16 Colombia in the 1980s where the cocaine
17 trafficking became, you know, such a huge part of
18 their economy. You know, the narco econ -- you
19 know, we refer to it as the narco economy -- did
20 have an impact on the Colombian economy. You
21 don't see that in Mexico, for example, because
22 the economy there is too large, even as large as
23 the cocaine trafficking is out of there.

24 So I'm sceptical of the arguments that money
25 laundering has any significant effects on a macro
26 economy. I would argue that it's -- you know,
27 relative to the size the Canadian economy, it's a
28 very small proportion of it, very tiny, and
29 really doesn't have an impact.

30 As far as the impact on organized crime is
31 concerned, again the argument is made that money
32 laundering is sort of an essential aspect of
33 organized crime. It perpetuates organized crime.
34 It perpetuates organized crimes.

35 Again, I'm sceptical of that because really
36 money laundering is -- really what it's about is
37 just basically allowing the offenders to enjoy
38 the benefits of their activities. When you look
39 at consensual crimes, like drug trafficking or
40 bookmaking or prostitution or people-smuggling,
41 and there's one factor overall that drives these
42 criminal activities, and that's demand. If you
43 have demand for drugs, you'll have supply. If
44 you have demand for gambling, there'll be a
45 supply.

46 So you know, the laws of supply -- economic
47 laws of supply and demand are equally applicable

1 to the underground criminal economy. Money
2 laundering has no impact on demand whatsoever, so
3 I always argue that it really doesn't influence
4 supply because it doesn't influence demand.

5 Now, with that said, one of the questions I
6 wanted to pursue is, you know, if this was at a
7 microlevel, if the money laundering and the
8 proceeds of crime was significant enough that it
9 was concentrated in a particular jurisdiction and
10 concentrated in a particular industry, then it
11 could have an impact. And certainly the Expert
12 Panel on Real Estate makes the argument that
13 money laundering did inflate housing prices.
14 Again, their model -- I'm not an expert in
15 modelling -- the problem with doing this kind of
16 modelling is that you have to first estimate the
17 scope, which is, you know, a crap shoot. And
18 then based on that tenuous foundation, you have
19 to estimate the impact so you have sort of a
20 tenuous modelling based on an even more tenuous
21 model. Again, not to criticize their report,
22 although even they acknowledged the limitations.

23 But certainly the argument can be made is
24 that, you know, there was enough drug money being
25 circulated through the Vancouver real estate
26 market that it in fact did have an impact and
27 could have increased the inflationary aspect of
28 the real estate market in Greater Vancouver.

29 The last point I make in the literature
30 review is that the -- that the Vancouver model,
31 the techniques that were used, the strategy used,
32 actually did contribute to drug trafficking
33 because the funds that were being laundered were
34 being transferred back to drug source countries
35 through the informal value transfer system. So
36 that is a specific example where money laundering
37 can contribute to the further (sic) of a criminal
38 activity.

39 But again, it's how you define money
40 laundering. Just because you're transferring
41 money internationally doesn't necessarily mean
42 that's money laundering. I mean, what drug
43 traffickers want to do most of all is being able
44 to move their money internationally from the
45 destination country where drugs are sold to the
46 source country.

47 But, with that said, central to the

1 Vancouver model is -- that the literature
2 proposes is that before that value was being
3 transferred back to China or Asia to purchase
4 fentanyl, it was being laundered through casinos
5 and through real estate. And the same
6 international value system needed to launder
7 money was used to transfer value for drug
8 purchases.

9 So with respect to Vancouver, while I'm
10 generally sceptical about the sort of hysteria
11 around the effects of money laundering, certainly
12 I think an argument can be made that the
13 Vancouver model, the money laundering did
14 contribute to drug trafficking and furthering
15 drug trafficking, and certainly the argument has
16 been made that the money laundering did have a
17 negative impact or an impact on the housing
18 market, the real estate market in Vancouver.

19 Q In terms of those who have identified there being
20 sometimes described as very serious consequences
21 from money laundering activity, I'm just going to
22 turn to a section of your report where you
23 address some of that. So page 129, you refer to
24 the Criminal Intelligence Service of Canada and
25 language they've used about the laundering of
26 money can undermine the legitimate economy,
27 giving illegitimate businesses unfair advantages,
28 having an effect on the integrity of financial
29 institutions and the loss of investor and public
30 confidence. You refer equally to McDowell and
31 Novis stating that "money laundering has
32 potentially devastating economic, security, and
33 social consequences." Left unchecked, it can
34 "erode the integrity of a nation's financial
35 institutions." They go on to say it can
36 "adversely affect currencies and interest rates."
37 And then you have a number of specific negative
38 effects that those authors identify as
39 consequences that can come from money laundering.

40 I wonder if I can ask you this question. Is
41 there a sense in which there's maybe two
42 different things that don't admit of easy
43 comparison in this sense. On the one hand, you
44 express some scepticism about assertions that
45 measure the effects on the economy. And I took
46 you as making the point that there surely have
47 not been verifiable measurements that establish

1 the proposition that the economy has been
2 seriously negatively affected. So on the one
3 hand, measuring the effects, I guess in dollar
4 values, on the economy, and, on a different
5 level, really a disagreement of principle, which
6 is to say whether one puts a dollar -- whatever
7 dollar figure is put on it at the level of
8 principle, there's a fundamental disagreement. I
9 don't know if I'm making that point very clearly.
10 But do you see a little dissonance between those
11 two or a distinction between those two?

12 A Yeah, I'm not sure if I understand the question,
13 Brock. I mean, certainly, you know, my
14 scepticism perhaps derives from two foundations.
15 The first is that, as you inferred, you know, a
16 lot of these arguments are made, but yet very
17 little evidence is provided to back them up. I
18 have seen very little evidence of national
19 economies, even, you know, provincial economies,
20 that have been seriously affected by money
21 laundering.

22 So it's -- as a scholar, you know, we want
23 to have -- if you're going to make an argument,
24 you need to have rigorous -- especially an
25 argument like this where you're trying to
26 establish a cause and effect, you would need some
27 fairly rigorous evidence. And again, the Expert
28 Panel on Real Estate, you know, attempted to do
29 so by developing a fairly rigorous model. But
30 even as rigorous as the models are, they're based
31 on broad estimates. We simply don't know in any
32 accurate way how much drug money is being
33 circulated through the economy.

34 So again, lack of rigorous studies. And I
35 just, having looked, you know, at this for years
36 and years and years, you see the same arguments
37 being recycled without any kind of evidence that
38 supports them.

39 My second area of scepticism is that, again,
40 the argument of the devastating effects of money
41 laundering are generally advocated most by
42 government agencies and law enforcement agencies
43 who have a clear vested interest in -- I don't
44 want to say inflating the scope of the problem or
45 the effect of the problem, but obviously drawing
46 attention to the high -- the threat level of a
47 particular problem.

1 And so money laundering, there's been a lot
2 of, I think, sort of a momentum of hysteria
3 around how -- the impact it has. And certainly
4 the greatest, you know, advocates of the
5 devastating impact of money laundering has been
6 agencies like the Drug Enforcement Administration
7 and the Bureau for International Narcotics
8 Affairs and United Nations, you know, Office of
9 Drugs. You know, it really emanates from the
10 United States. I mean, the United States has
11 been trying to impose their anti-money laundering
12 system, their sort of RICO approach to organized
13 crime, for years, and they've influenced numerous
14 international agencies. And they even -- you
15 know, blacklist countries that don't have certain
16 American style enforcement measures in place. So
17 I'm an eternal -- I'm someone who works
18 extensively with law enforcement, both Canadian
19 and American, and I've seen it firsthand, the
20 attempt to sort of inflate the scope of the
21 problem.

22 But again, so I'm sceptical generally but
23 I -- again, I think there's some credible
24 evidence with Vancouver that there has been
25 effects on both drug trafficking and on the
26 housing market.

27 Q I understand. And I think you're right to say
28 the Expert Panel -- Professors Maloney,
29 Somerville and Unger -- in their Expert Panel
30 report on the real estate sector and money
31 laundering, express a number of cautions around
32 their use of what they call the gravity model, in
33 an effort to understand the magnitude and extent
34 of money laundering activity. Do you have views
35 about -- appreciating the challenges involved in
36 finding the right barometer to use to measure the
37 extent of that activity, do you have views about
38 whether that's even achievable?

39 A I've always argued no. And I've been approached
40 on numerous occasions by the federal government
41 to undertake some kind of modelling to not only
42 estimate the scope of money laundering but its
43 effects, and I have simply said no. And it's
44 very rare for me to turn down a contract, so that
45 says something right there.

46 But it simply --

47 Q That's[indiscernible - overlapping speakers]

39 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 fodder for your cross-examination --

2 A Well, exactly. That's right, yeah.

3 Q Okay.

4 A But it's just, again, your -- it's the, you know,
5 the ultimate conundrum of criminology and doing
6 organized crime research is that you're dealing
7 with such -- you know, so many estimates that
8 it's really difficult, even with the most
9 rigorous model, to be able to build something
10 reliable with these estimates. Some models are
11 more rigorous than others. But again, the fact
12 is, you know, even the experts that have built a
13 whole career around estimating the scope and
14 effects of money laundering have sort of
15 acknowledged that their work has to be subject to
16 a lot of scrutiny because of sort of the tenuous
17 nature of the data that they're working with.

18 Q Well, by definition, I take it, we're talking
19 here about deliberately secretive conduct and
20 transactions, about in many instances activity
21 that spans across not only different sectors of
22 the economy and different professions and
23 different typologies, but across borders, around
24 the world and what have you. So I take it, by
25 definition, something that's very difficult if
26 not impossible to measure with any precision.

27 A Right. Right. I'll just --

28 Q But in the face of that, though -- I mean, I
29 guess I want to ask you this question. In the
30 face of that, in the face of it being perhaps
31 ultimately unknowable with precision, does one
32 throw up their hands and say it's unknowable so
33 we stand by, or let it roll or --

34 A Well, no. I mean, again, you don't necessarily
35 need to, you know, understand the scope and
36 nature of a problem to address that problem. We
37 know that. I mean, again, it gets back to the
38 underlying argument of the importance of
39 targeting the proceeds of crime in combatting
40 organized crime or serious and financial crimes.

41 This, again, was -- you know, this idea of
42 targeting the proceeds of crime sort of emerged
43 in the '80s and it became kind of a flavour of
44 the day then. And it was held out as this was
45 the ultimate, most effective approach to target
46 organized crime and drug trafficking and other
47 consensual crimes because you're going after the

1 money, and that's what drives organized crime and
2 drug traffickers is the money.

3 But again, you have to look carefully at,
4 you know, what role does money laundering
5 actually play in contributing to the continuity
6 of sophisticated criminal organizations, of
7 sophisticated transnational crimes? Again, I
8 argue that, in my opinion, money laundering
9 really doesn't contribute that significantly to
10 the operations of a high intensity organized
11 crime group.

12 Instead, you know, what we should be
13 focusing on in many cases is the international
14 transfer of funds. I've always argued that
15 that's the greatest vulnerability of the large-
16 scale transnational crime groups. Like I
17 mentioned, their greatest goal or what they're
18 most focused on is moving that money around
19 internationally to continue their criminal
20 operations. And again, that's not necessarily
21 money laundering. It's international transfer.
22 That's why trade-based money laundering has
23 emerged as so important. That's why informal
24 value transfer systems, cash smuggling, are such
25 important, vulnerable aspects to focus on.

26 So I'm rather, again, sceptical of the whole
27 proceeds of crime approach. Focusing on money
28 laundering -- is it a particularly -- is this the
29 best use of law enforcement resources or -- you
30 know, there's a whole range of problems that
31 confront focusing on the proceeds of crime.

32 Again, it's certainly a complementary
33 strategy along with all the other interdiction
34 approaches. The question is, you know, does it
35 actually -- by targeting proceeds of crime
36 actually do any harm to these criminal
37 organizations? And by extension, does money
38 laundering really contribute to perpetuation of
39 organized crime and criminal activity? So...

40 MR. MARTLAND: Mr. Commissioner, I'm going to suggest
41 this might be a useful point for us to take a
42 brief break and then reconvene. Oh, and I don't
43 think -- I can see your lips moving but not hear
44 the audio so I think we've --

45 A I think he's muted.

46 MR. MARTLAND: Well, he showed as unmuted there a
47 moment ago and we didn't hear the audio line.

41 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 This is going to very presumptuous, but Mr.
2 Commissioner, if you could nod to signal a
3 10-minute adjournment, that would mean we're back
4 at about 11:15, on my clock.

5 THE COMMISSIONER: All right.

6 MR. MARTLAND: I'm happy that worked. We'll be back
7 in 10 minutes.

8

9

(WITNESS STOOD DOWN)

10

11 THE REGISTRAR: This hearing is adjourned for a
12 10-minute recess until 11:10 a.m. Please mute
13 yourself and turn off your video. Thank you.

14

15 (PROCEEDINGS ADJOURNED)

16 (PROCEEDINGS RECONVENED)

17

18 THE REGISTRAR: The hearing is now resumed. Please
19 ensure you are muted unless you are speaking.

20

21

STEPHEN SCHNEIDER, a
witness, recalled.

22

23

24 THE COMMISSIONER: Thank you. I understand that my
25 microphone was not functioning just at the end
26 before the break, but I understand now people can
27 hear me. Is that so?

28 MR. MARTLAND: Yes indeed.

29 THE COMMISSIONER: All right. Thank you, Mr.
30 Martland. Please carry on.

31

32 EXAMINATION IN CHIEF BY MR. MARTLAND, continuing:

33

34 MR. MARTLAND: Thank you.

35

36 Q Professor Schneider, I'm nearing the conclusion
37 of my questions for you. I'm sure you'll be
38 relieved to hear that. I'm going to now take us
39 to page 135 of your literature review. You have
40 a section entitled "Discussion and Analysis:
41 Factors that put Canada and B.C. at Risk of Money
42 Laundering."

42

43 Through the course of the evidence you've
44 given thus far, I think you've touched on a great
45 many topics, so it may be that some of these are
46 points that you've made. But I'd welcome you to
47 lead us as you'd like through this discussion and
through the discussion in your literature review.

42 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 A Certainly. Well, one of the issues that I was
2 asked to address in the literature review is what
3 the literature says and my analysis of literature
4 on whether or not Canada and B.C. in particular
5 are particularly vulnerable to money laundering.
6 Are they particularly -- is B.C. unique?
7 Particularly what has transpired in the last
8 five-ten years?

9 Certainly Canada, you know again, has always
10 been flagged as sort of punching above its weight
11 as far as organized crime and money laundering is
12 concerned. But you know, quite frankly any
13 country and every country in the -- every
14 developed country is highly vulnerable to money
15 laundering. If you look at the United States,
16 they put out a report every year from the
17 Department of State that kind of assesses, you
18 know, whether a country is a major money
19 laundering vehicle, and pretty much every
20 developed country is included in that list.
21 So...

22 But, with that said, you know, there is
23 certain aspects of Canada that makes it
24 particularly vulnerable to organized crime and to
25 money laundering. I mean, certainly we do tend
26 to punch above our weight as far as organized
27 crime is concerned. We have -- for years, you
28 know, the Rizutto crime family in Montreal was
29 considered -- emerged as one of the most powerful
30 Mafia groups in the world. We have more Hells
31 Angels members per capita than any other country
32 in the world.

33 So we have a very vibrant drug trade in this
34 industry, a very high level of economic,
35 commercial crime, fraud, counterfeiting, you
36 know. We're now -- we're not just a drug-
37 consuming country; we're a drug source country.
38 We produce marijuana. We produce synthetic
39 drugs. We're a transit country for cocaine.

40 So we're vulnerable to money laundering
41 because we're vulnerable to organized crime.
42 Every country in the world is vulnerable to
43 organized crime and drug trafficking. Canada's
44 no different.

45 But again, you can argue that our location
46 next to the United States obviously makes us very
47 unique. The United States is one of the biggest

1 consumers of illegal drugs and contraband in the
2 world. You know, we have the longest unguarded
3 border. Much of our population lives within a
4 hundred-mile radius of the United States border.
5 You know, certainly our relationship with China
6 as well, British Columbia's in particular --
7 China may certainly have now surpassed the United
8 States as the biggest producer of contraband in
9 the world.

10 So there's certainly a number of factors,
11 you know. And with respect to money laundering
12 in particular, the argument's been made that we
13 have a very sophisticated banking system that
14 attracts dirty money. We have a very stable
15 economy, a stable political situation. You know,
16 we're a very multicultural society; therefore we
17 attract criminal operations and groups from all
18 different ethnicities and nationalities. Of
19 course crime is never concentrated in one
20 ethnicity or nationality. And people have also
21 made the argument that our criminal justice
22 policies are weak and that, you know, they don't
23 serve -- they're not punitive enough and they
24 don't serve to deter bad guys. I've never bought
25 into that argument.

26 Certainly the argument that we have a very
27 strong *Charter of Rights and Freedoms*, and if
28 you're a bad guy, you're going to get, you know,
29 far less time, prison time, if you're a drug
30 trafficker in Canada than the United States, that
31 certainly would be true.

32 So to some extent you can argue that there
33 are some unique features about Canada that make
34 it more vulnerable or susceptible to money
35 laundering.

36 You know, with B.C. in particular, again,
37 being a province of Canada, everything that makes
38 Canada susceptible to money laundering applies to
39 B.C. And again, there's some unique aspects of
40 B.C. as well. Obviously, you know, the
41 relationship -- being a Pacific Rim country and
42 having such important ties to China, commercial
43 ties, immigration -- that obviously has influence
44 on organized crime and money laundering in
45 Canada. Especially with the drug trade, the
46 whole emergence of fentanyl.

47 Peter German actually notes some unique

1 characteristics of Vancouver. You know, a large
2 international airport which is extremely
3 vulnerable to cash smuggling. We have a marine
4 port -- a number of marine ports up and down the
5 west coast which are very vulnerable to drug
6 smuggling, contraband, a whole range of smuggled
7 goods from not just China and Asia but also from
8 the United States and Latin America.

9 You know, again, the close proximity to the
10 United States, the fact that Mexico now is the
11 major supplier of cocaine, and you have --
12 basically a tractor-trailer can get on a highway
13 in Mexico and pretty much drive straight through
14 the U.S. to British Columbia. As I mentioned
15 earlier, cocaine fetches a far higher price in
16 Canada, which has made it quite attractive to the
17 Mexican cartels.

18 Again, high tech sector. We have one of the
19 largest addict populations in the country on a
20 per capita basis. And again, British Columbia
21 was very open to, as German notes, the crypto-
22 currency. Not that I think that's a significant
23 factor.

24 So Greater Vancouver has always had a long
25 and very vibrant underground -- illegal
26 underground economy. Probably many people don't
27 know that the precedent for our marijuana trade
28 was actually opium production. We were the
29 biggest opium producers in the 1920s and '30s
30 when opium and morphine and heroin were really
31 becoming popular throughout North America. Now,
32 as I mentioned, we're both a -- B.C. is a centre
33 for both marijuana production and synthetic drugs
34 as well.

35 And we have two of the -- you know, the
36 Hells Angels and some of these Chinese criminal
37 networks including the triads and Big Circle
38 Boys. B.C. is a very lucrative venue for not
39 only criminal activities but also is sort of a
40 means of a headquarters and a base for
41 international operations.

42 So to some extent I would agree that -- I
43 don't want to carry this too far, but I think
44 certainly B.C. has some characteristics that make
45 it vulnerable to not just organized crime and
46 illegal drugs but also to money laundering as
47 well.

1 But you know, what really, again, in my
2 opinion, the underlying factor that really
3 precipitated the Commission, the inquiry, all the
4 inflation in housing prices of that effect and
5 all the reporting and police investigations into
6 money laundering really revolved around the
7 Vancouver model. There's some very extensive,
8 ongoing and very ambitious -- perhaps over-
9 ambitious -- attempt to launder money. I mean,
10 everything sort of -- you've always had money
11 laundering here. There's always been money
12 laundering through real estate in Vancouver. But
13 certainly the kind of intensity and the scope of
14 the laundering and the amount of drug money that
15 was being laundered through Vancouver in the last
16 10 years is really unprecedented, in my opinion.
17 I've never seen anything this scope in this short
18 a period of time concentrated locally.

19 So we've had professional money laundering
20 organizations like the Caruana-Cuntrera group
21 that was linked with the Rizutto family. But
22 they laundered their money internationally. It
23 wasn't just -- and all over the country. But
24 I've never seen as big a laundering operation, if
25 in fact the evidence is true, that is so
26 geographically confined. And not just
27 geographically confined, but really focused on
28 two major sectors: casinos and real estate. And
29 that was their Achilles' heel, in my opinion, was
30 that they focused too much on laundering in
31 particular industries in a sort of concentrated
32 geographical area. But...

33 So to me that -- you know, this really
34 massive sort of ongoing money laundering
35 conspiracy is, in my opinion, an outlier. We've
36 never seen anything like this in Canada and
37 probably really won't see anything like this
38 anytime soon. To me, it was very unprecedented.

39 Now, with that said, there were certain
40 characteristics of Vancouver, B.C., that
41 attracted the dirty money here and that was
42 attractive to Silver International and the
43 accused to conduct operations in Vancouver. So
44 there were certain factors in Vancouver that made
45 it an attractive hub or location or headquarters
46 for this particular criminal conspiracy.

47 Q When you say, just to clarify one point you make,

1 that Canada punches above its weight, just to be
2 clear I have your meaning in that phraseology. I
3 took you to say that organized crime, or money
4 laundering maybe, maybe both, those -- it's the
5 organized crime in Canada that punches above its
6 weight as opposed to the response to it? Do I
7 have that right or do I have that --

8 A I say that for a relatively small country
9 population-wise -- I mean, we are, you know, one
10 of the seven biggest economies in the world. But
11 certainly I would say there's a disproportionate
12 amount of organized crime and organized criminal
13 activity in this country relative to its
14 population size and its -- you know. And again,
15 I think the best -- you know, I use this all the
16 time, again. You know, the Hells Angels here
17 have more members per capita in Canada than
18 anywhere else in the world, and that was on
19 purpose. They located here and they grew here
20 because they saw Canada as not only a good
21 domestic market to conduct their criminal
22 activities but also a good base for their
23 international -- and the Hells Angels in Canada
24 have become a real hub for Hells Angels chapters
25 throughout the world.

26 So what I mean by punching above its weight
27 is, you know, that the organized crime problem
28 seems to be more disproportionate to Canada than,
29 say, to other countries, including the U.S. But
30 again, that is more not based on any strong
31 empirical evidence, more of just sort of my
32 musings and anecdotal observations over the
33 years.

34 Q And then would you go to the next level with this
35 province and say that within Canada or among
36 provinces that B.C. -- to carry on that language
37 -- punches above its weight?

38 A To some extent. I mean, again, it's no
39 coincidence that the three hubs for organized
40 crime money in Canada are Montreal, Toronto and
41 Vancouver. I mean, that's -- you know, they are
42 the three biggest --

43 Q Three biggest cities?

44 A Yeah. But again, what's -- there's a number
45 of -- you know, I always get back to the marine
46 ports. We tend to ignore how crucial the west
47 coast marine ports are to organized crime and

1 drug trafficking. Again, it's no -- you know,
2 marine ports are absolutely essential to
3 organized crime and drug trafficking in
4 particular. So in Montreal -- you know, for
5 decades Montreal was the major conduit for
6 southwestern heroin into North America. The
7 American mafia groups basically established
8 Montreal as the major conduit.

9 Halifax punches way above its weight because
10 it's a marine port city. It has a very vibrant
11 marine port and we get a lot of hashish, a lot of
12 cocaine, synthetic drugs through the Halifax
13 port. Halifax punches way above its weight just
14 because of the marine port.

15 And then Vancouver as well. And Vancouver
16 has a lot more factors than, say, Halifax. But
17 it has the marine port. And so if you want to
18 talk about drug trafficking, especially now that
19 -- you have heroin, you've got fentanyl,
20 carfentanyl, coming in from Asia. It makes the
21 Port of Vancouver even more significant as sort
22 of a grounding or a foundation for organized
23 crime in the province.

24 Q The fentanyl flow, does that -- I don't want to
25 guess too much. I'm assuming both China and
26 Mexico would be conduits of the drug into this
27 country?

28 A China overwhelmingly. And not just China now.
29 It's expanding into regions that traditionally
30 are heroin sources like Myanmar and Laos and
31 Thailand. So now we're seeing some of the
32 production -- and again, fentanyl is a synthetic
33 drug so it can be easily produced anywhere. But
34 now -- so the majority is coming in from Asia.
35 Mexico is the primary fentanyl supplier to the
36 United States. But now we're beginning to see --
37 now that the Mexican drug cartels are more active
38 in Canada, we're starting to see not just
39 fentanyl from Latin America in Canada but also
40 synthetic drugs like crystal meth that's being
41 produced in Mexico. And this is, again, fairly
42 recent now that, again like I said, the Mexican
43 drug cartels are more active in Canada. So we
44 are going to start seeing more fentanyl and
45 synthetic drugs and more cocaine in Canada from
46 Mexico and other South American sources.

47 Q I'd like to ask you a question that draws on the

48 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 comment on page 140 of your report. So if you
2 have that at hand, and then under the heading of
3 "Conclusion," the latter part of that paragraph.
4 You say:
5

6 Despite its underworld connotations, the ML
7 process itself is not an economic
8 aberration; for the most part, it thrives on
9 the very same commercial and financial
10 transactions that are conducted by most
11 Canadian citizens and companies. Indeed, a
12 fundamental tenet of money laundering is to
13 ensure that the transactions used to cleanse
14 the criminal proceeds appear as legitimate
15 as possible.
16

17 Is there a side of perhaps the stability, the
18 rule of law, some of the features of Canada that
19 in turn -- and the legitimacy of in the main
20 financial institutions and such, that are indeed
21 factors that give rise to it being attractive to
22 money launderers?

23 A Are you asking, is our financial institutions or
24 our financial system, banking system in Canada
25 particularly attractive to money laundering?

26 Is --

27 Q Yes.

28 A -- what you're asking? I would say so. Again,
29 you know, money launderers are going to be
30 attracted on one extreme to informal systems,
31 especially in developing countries but not
32 exclusively to them. At the same time they're
33 very much attracted to very sophisticated
34 systems. They seem to want to go to the extreme.
35 Informal systems obviously because they can
36 operate under the radar. More sophisticated
37 systems like in Canada, simply because those
38 systems have the services, the assets, the
39 products, the -- you know, that are conducive to
40 money laundering.

41 But as far as the argument that money
42 laundering is not an economic aberration, again,
43 if you look at the vast majority of money
44 laundering, it not only takes place in the
45 legitimate economy but it capitalizes on
46 legitimate financial and commercial transactions.
47 I mean, certainly there are specific money

1 laundering techniques that can be -- and methods
2 that can be used, but those basically abuse
3 legitimate transactions.

4 Q Professor Schneider, you spend a lot of time in
5 this field, and I wonder if you'd have a
6 perspective on the extent to which the prominence
7 or the profile of in particular the money
8 laundering topic has changed over time and if you
9 observed it to be something that ebbs and flows
10 over time. Do you have a comment about where we
11 stand right now?

12 A I guess this is where I invoke my sort of
13 pessimistic outlook on things. The one thing I
14 know, in studying this for over 30 years, is, you
15 know, the first thing that comes to mind is no
16 matter what you do to combat the bad guys,
17 they're going to find a way to get around that.
18 No matter what measures you put in place, whether
19 it's law enforcement, legislation, criminal
20 penalties, you know, the regulatory measures
21 deputizing a private sector, they're going to
22 find a way around it. And I think that's what
23 history teaches us is that it's -- money
24 laundering and organized crime is extremely
25 resilient. As long as you're going to have
26 demand, you're going to have supply, period.
27 It's resilient. It's flexible. They always --
28 they're very adaptive, and they are going to --
29 you know, whatever you put in place, as long as
30 there's a buck to be made, they're going to find
31 a way around that.

32 So as far as money laundering is concerned,
33 you know -- you know, there was a prediction back
34 in the -- you know, the late '80s, early '90s,
35 that now that the Canadian banks and deposit
36 institutions, you know, really ramped up their
37 anti-money laundering compliance measures, that,
38 you know, you would see money starting to, you
39 know, reach other sectors. And we really haven't
40 seen that.

41 I haven't, in the last 30 years -- you know,
42 when we issued our first report in 1989, or 1990,
43 I really -- you know, the predominant sectors,
44 the predominant methods, really haven't changed
45 that much. Banks, real estates, you know, the
46 financial services sector in general,
47 incorporating companies, trying to, you know,

1 corrupt lawyers and others, it really hasn't
2 changed that much. Certainly -- and we've always
3 had informal value transfer systems. We only
4 really became aware of them in post-911. The
5 trade-based money laundering has been around
6 since the 1980s. You know, obviously the one
7 significant change has been the rise of the
8 internet and the virtual gaming community and
9 cryptocurrencies. But, again, I would argue that
10 these are still a fairly minor part of money
11 laundering as far as the scope of money
12 laundering is concerned.

13 So, in a way, you know, I -- that is really
14 the only significant change that I have perhaps
15 seen in the last 30 years. We had professional
16 money launderers in the '70s and '80s and, you
17 know, Canada was laundering money from -- drug
18 money from the U.S., you know, as far as the
19 1940s. And, you know, the old saying, the more
20 things change, the more they stay the same. You
21 know, if you look at the history of organized
22 crime, it really is -- you know, again, like I
23 said, you can find, you know, B.C. is
24 [indiscernible] for, you know, manufacturing
25 illegal drugs since the 1920s. And even, you
26 know, the mafia has been laundering money here
27 since the 1940s. And Vancouver, Halifax and
28 Montreal have been, you know, international drug
29 conduits since the 1930s.

30 So the products may change and the groups
31 may change, but really not much, in my opinion,
32 changes over the years, quite frankly.

33 MR. MARTLAND: Mr. Schneider, I think that concludes
34 my questions for you. Mr. Commissioner, I had
35 noted earlier the point about Professor Schneider
36 wanting to make a few editorial corrections to
37 the literature review. I'm proposing to follow
38 up with him on that. Were we in a trial, of
39 course I would seek the court's approval and make
40 it clear that I wanted to speak with the witness
41 who is moving under cross-examination. We're not
42 exactly in a trial setting, but I did want to be
43 perfectly transparent about that request and make
44 the request that I might be able to speak with
45 him this evening, specifically and only to deal
46 with edits and corrections to the report. My
47 hope there would be that assuming we have a

51 Stephen Schneider (for Commission)
In chief by Mr. Martland

1 revised version with those edits, we would
2 circulate that to participants, maybe with the
3 document setting out the changes so it's very
4 clear, and then see if that raises any concerns
5 or issues.

6 THE COMMISSIONER: Yeah, I -- I don't see any problem
7 with that, Mr. Martland, and certainly unless any
8 of the participants raise an objection, we can
9 deal with that. But I don't see a flurry of
10 activity on the -- on the screen before me, so I
11 think you're safe. Safe to say you can go ahead
12 and proceed on that footing. Thank you.

13 MR. MARTLAND: Thank you. So, Professor Schneider, we
14 now move into a phase of our hearing process
15 where not all of the participants have asked to
16 examine you, to ask questions of you. Of those
17 that have, we have time requests and time
18 allocations. For the benefit of participants, we
19 may be a little more police-like or timekeepers,
20 I suppose, in terms of following what the time
21 allocations are, especially where we have a
22 witness where we only have a limited period. The
23 way the time requests line up here, we're able to
24 give everyone their requested time. So what I'll
25 do is, among the counsel who have sought to ask
26 questions of you, I'll be sort of interjecting to
27 work our way down the list. And subject to
28 either the Province or Canada -- and I'll just
29 speak slowly, to give them a moment to unmute if
30 they have anything to add, but subject to them
31 seeking to ask you questions, I don't understand
32 there to be questions from the Province or
33 Canada. And I have the Law Society of B.C. with
34 a 30-minute time allocation as the first
35 participant with questions.

36 MS. HUGHES: Brock, it's Jacqueline Hughes, speaking
37 on behalf of the Province. We do have questions
38 for this witness, and I understand we're
39 scheduled to cross further down the list,
40 tomorrow --

41 MR. MARTLAND: Oh, I'm sorry.

42 MS. HUGHES: -- shortly before BCLC.

43 MR. MARTLAND: That's quite right, and I managed to
44 not look down my list very far. So the Province
45 is on the list, and that's right, and that will
46 be timed up for tomorrow. I appreciate that
47 clarification, Ms. Hughes.

1 MS. HUGHES: Thank you.

2 MR. MARTLAND: You're quite right about that. So I
3 have Ms. Herbst, for the Law Society.

4 MS. HERBST: Thank you, Mr. Martland. Thank you, Mr.
5 Commissioner.

6

7 CROSS-EXAMINATION BY MS. HERBST (LAW SOCIETY OF B.C.):

8

9 Q So, Professor Schneider, as you'll have just
10 heard, my name is Ludmila Herbst. I'm counsel
11 for the Law Society of B.C., and I have, of
12 course, had a chance to read your literature
13 review and hear Mr. Martland's questions, so I
14 have some follow-up items in relation to that.
15 And I have quite document-intensive sort of
16 questions, with apologies to those who will be
17 following along, and the document that I would
18 like to start with is, no doubt, one you've still
19 got handy, Professor Schneider, it's Exhibit 6,
20 your literature review. And yesterday, Mr.
21 Martland -- and, of course, continuing on today
22 -- took you to various parts of the literature
23 review. And I'd like to take you, just for
24 reference, to a page that's quite early on in the
25 literature review, and it's page 11, following
26 the numbering at the bottom right. And if you
27 could turn to that page, and just to situate
28 ourselves, you had answered some questions
29 further up on that page before. Where I'd like
30 you to turn now is the footnote, the top footnote
31 in the list, footnote 12. And the footnote
32 refers to "Schneider, S. (2004). *Money*
33 *laundering in Canada: An analysis of RCMP cases.*
34 Toronto: Nathanson Centre for the Study of
35 Organized Crime and Corruption," and so on. And
36 there was some discussion yesterday, as well as a
37 2004 study that you had prepared. Is this a
38 reference to that 2004 study that we've heard
39 somewhat about?

40 A Yes.

41 Q Okay. Now, I would ask the hearing officer if
42 it's possible to pull up a document that I had
43 provided to Commission counsel and Mr. Martland
44 had circulated to participants on Friday,
45 entitled "*Money Laundering in Canada - An*
46 *Analysis of RCMP cases.*" And perhaps if we could
47 go to the first page of that just to situate

1 ourselves. Now, Professor Schneider, you may
2 have, either on your screen or you may have, in
3 preparation for this session, have a printout or
4 another reference separately. And you'll see a
5 document, it's headed "Nathanson Centre for the
6 Study of Organized Crime and Corruption, *Money*
7 *Laundering in Canada: An Analysis of RCMP cases.*"
8 Professor Schneider, is that the document that's
9 referred to that we were just talking about? So,
10 for example, the document referred to at footnote
11 12 on page 11 of your literature review?

12 A I believe so, yes.

13 Q Okay, and is there any hesitation? Do you need
14 to turn to some more pages to verify that?

15 A No, no.

16 Q Okay.

17 A Sorry, your question was?

18 Q Is this the document that is the same document
19 referred to at footnote 12 --

20 A Yes.

21 Q -- on page 11?

22 A Yes.

23 Q Yes, it is, okay.

24 A Yeah.

25 Q And I see, of course, your name at the bottom of
26 the first page. Is this a study that you
27 prepared?

28 A It is, yes.

29 Q Okay. Now, I'd like to have that marked as the
30 next exhibit, please, Mr. Commissioner.

31 THE COMMISSIONER: Very well, that will be Exhibit 7.

32 MS. HERBST: Right, Exhibit 7, thank you.

33

34 EXHIBIT 7: Document entitled "Money Laundering
35 in Canada: An Analysis of RCMP Cases"

36

37 MS. HERBST:

38 Q And I'll have a few questions about this document
39 a little bit further on, but just for the moment,
40 if we could briefly return to your literature
41 review, Professor Schneider, and back down to --
42 back down to page 11 of that literature review.
43 You'll see again, we had touched on footnote 12
44 being "Schneider, S. (2004). Money laundering in
45 Canada." And I just wanted to check. So,
46 Schneider -- the abbreviation "Schneider, 2004"
47 appears quite frequently in your reports. If you

1 could turn to footnote 16, I believe it is, at
2 the bottom of page 11 of your literature review,
3 and it says "Schneider, 2004." Could you confirm
4 for us, Professor Schneider, that when you use
5 that abbreviation in your review, you're
6 referring to that 2004 study that was just marked
7 as Exhibit 7?

8 A That's correct.

9 Q Okay, thank you very much. And so we -- of
10 course Mr. Martland took us through various pages
11 of your literature review yesterday and this
12 morning, but if, for example, you turn on -- so,
13 just some pages we were skimming through this
14 morning on professionals, for example, at page
15 105 and page 106 of your literature review you'll
16 see footnotes 318, 319, 320, and then over the
17 page to 107, footnotes 321 and 322 are -- are
18 "Schneider, (2004)." Those are references,
19 again, to your 2004 study?

20 A Correct, yeah, yes.

21 Q Okay, perfect.

22 A Yeah.

23 MS. HERBST: Now, I've got some questions specifically
24 on portions of that 2004 study. Professor
25 Schneider, if you've got that handy, and if the
26 Commissioner and Mr. Martland do, we can probably
27 proceed without it onscreen, but otherwise, if
28 it's more convenient for participants, then I'd
29 ask if the hearing officer could pull that back
30 up. And then I perhaps would look to Mr.
31 Martland for some guidance, or if Mr.
32 Commissioner would have a preference?

33 MR. MARTLAND: I'm very slow to direct my learned
34 friend. I really think -- I do expect everyone
35 one will or should have access to that with a few
36 clicks of their mouse, so maybe if the witness
37 has it, as I did in my questions, and you don't
38 need to have it onscreen, that'll do the trick.
39 Otherwise -- but I think you should feel free to
40 do as you please. Frankly, I think either one,
41 from a convenience point of view, either can be
42 done.

43 MS. HERBST: All right. Well, I see -- I see the
44 hearing officer has very kindly pulled the
45 document back up onscreen. Maybe we'll proceed
46 with that for the moment, and if it becomes
47 cumbersome, of course just let me know.

55 Stephen Schneider (for Commission)
Cross-exam by Ms. Herbst

1 Q So, Professor Schneider, if you could turn to
2 page 1 of the 2004 analysis, using the bottom
3 right-hand number, you'll see a heading called
4 "Executive Summary." And in the third paragraph
5 on that page -- or, yeah, it's the third
6 paragraph on that page, there's a statement:

7
8 The exclusive source of primary data for this
9 study was Royal Canadian Mounted Police
10 proceeds of crime (POC) case files.

11
12 That's an accurate statement, Professor
13 Schneider?

14 A Yes.

15 Q Okay, and the next statement in that paragraph
16 is:

17
18 The final number of cases included in the
19 sample totalled 149.

20
21 That's also, I take it, an accurate statement,
22 Professor Schneider?

23 A Yes.

24 Q Okay. Now, turning a few pages on to the page
25 number 7, at the bottom right, there is a --
26 sorry, one page before then -- there are -- the
27 last couple of sentences in that paragraph, I
28 would just like to turn to briefly, and they say:

29
30 The findings and analyses include both a
31 quantitative component (a statistical
32 analysis of data gleaned from the case files)
33 and a qualitative component (in-depth
34 narratives of the money laundering
35 operations). In most of the narratives, the
36 names of the accused and other parties have
37 been changed or omitted for privacy reasons.

38
39 Now, that's also an accurate statement of the
40 nature of the study and what you've done for
41 privacy reasons, Professor Schneider?

42 A Yes. Pseudonyms were used for some accused. In
43 some cases where the information was already
44 public, in the public venue, the names weren't
45 changed. But I would say when I relied
46 exclusively on an RCMP case file without any
47 public supportive data, then -- then pseudonyms

1 were used.

2 Q Okay, and maybe just to take an example of that.
3 If we could turn to page 26, at the bottom right,
4 and -- and I have to -- I have to thank my
5 colleague, Ms. George, for giving me the cultural
6 reference, which I had missed, not being -- not
7 having watched this show before, but where you --
8 in the blue shaded part, you refer to:

9

10 Maude Flaunders used her relatives as
11 nominees for bank accounts...

12

13 I understand that's a pseudonym drawn from *The*
14 *Simpsons*?

15 A That's correct.

16 Q Okay, and if you turn a few pages beyond that to
17 page 32 of the -- of the 2004 study and go to --
18 and, again, at the bottom right-hand page 32,
19 you'll see a reference to a case involving Anna
20 Karenina and the Vronsky's, and I take it,
21 Professor Schneider, you're drawing on the
22 Tolstoy-- novel of a similar character name?

23 A Yes, correct.

24 Q All right. Now, just to give us a sense of the
25 documents that are available or that are put
26 forward to the Commission to draw upon, were the
27 case files that the descriptions were drawn from
28 something that you provided to Commission
29 counsel?

30 A No. The raw data, no. The raw data was
31 destroyed after five years after the study.

32 Q Okay, and so -- so at this point you're relying
33 on your -- the descriptions that are captured
34 within your 2004 study?

35 A Correct, yes.

36 Q Okay. Now, just turning back a few pages within
37 your 2004 study, back to page 9, I believe, and
38 -- and you noted the privacy considerations in
39 some cases that pertain to the -- to the
40 information that was being extended, and if you
41 go to the paragraph at the middle of the page,
42 starting with, "The researchers were instructed
43 to examine all relevant documents," if you turn
44 to the second sentence in that paragraph, it
45 says:

46

47 This data generally came from documents

1 prepared to obtain judicial authorization to
2 execute certain police powers, such as an
3 "Information to Obtain a Search Warrant,"...
4

5 -- and so on, and -- and I think certainly for
6 many of the people listening here, they -- they
7 are attuned to the privacy considerations that
8 sometimes attach to that. Is that, too, an
9 accurate statement of where the data generally
10 came from, Professor Schneider?

11 A Generally speaking, yes, yeah.

12 Q Okay, and it's fair to say -- and you've
13 certainly not suggested otherwise, but I just
14 wanted to confirm, you don't have any personal
15 knowledge of the truth or falsity of the content
16 of the police files? You're relying on the
17 information that was set out there?

18 A Correct, yes, yeah.

19 Q Okay, and I think, more generally for the purpose
20 of your literature review -- and Mr. Martland
21 very fairly noted yesterday that the Commission
22 counsel weren't planning to rely on your review
23 for any specific factual assertions, but to the
24 extent you're detailing case studies there and so
25 on, you don't have personal knowledge of the
26 truth or falsity of the episodes that are
27 described?

28 A Well, all of these cases were closed, and so
29 either they were plea bargained or they were
30 criminal convictions. That was -- we explicitly
31 used closed cases so that we had the same
32 standard of proof that a criminal court would
33 use.

34 Q I see.

35 A So I'm not sure if that answers your question or
36 not.

37 Q Okay. You weren't, for example, an investigator
38 on any of these?

39 A Oh, no. No, no, no, no.

40 Q I see.

41 A I was a researcher that was granted access to
42 these case files as part of this research. Yeah.

43 Q Okay.

44 A No, I was not involved in any -- any of these
45 files from an investigative or analytical or any
46 perspective.

47 Q Okay, and -- and I note that sometimes you're --

1 you're using terms like "accused" and "alleged"
2 and "suspected" and so you're being quite careful
3 to -- to detach yourself from a conclusion where
4 it's not otherwise publicly available?

5 A Correct.

6 Q All right. Now, if you could turn a little bit
7 before in the study to page 8. I just wanted to
8 touch on a few date references there. And there
9 are a couple of bullet points, and one of them I
10 think cross-references to a point that you just
11 made about closure following forfeiture of assets
12 from either a conviction or a plea bargain. And
13 there's also a reference in the first of those
14 bullet points to some dates. And so there's a
15 statement that to qualify for your study, the
16 file --

17
18 ... the file was successfully closed between
19 1993 and 1998...

20
21 And then there's a footnote right at the bottom
22 of the page saying:

23
24 While most POC cases examined for this study
25 were concluded by 1998, some investigations
26 were concluded in 2000.

27
28 And so just to situate ourselves, Professor
29 Schneider. I take it from this that closures of
30 the files occurred in the 1993 to 1998 period.
31 In some cases it may be that some investigative
32 steps were still lingering and wrapped up by
33 2000; is that correct?

34 A Right, exactly, yeah.

35 Q Okay. Now, I take it from the reference that
36 closures, starting 1993 and extending to 1998,
37 that some of the actual events that might have
38 precipitated the police investigations could have
39 predated 1993?

40 A Right, correct, yes.

41 Q Okay, thanks. Now, if you could turn to -- and
42 I'm almost at the end of questions on your 2004
43 study, but thank you for -- thank you for walking
44 through it with me. If you could turn to page 10
45 of your 2004 study. I see it includes a figure,
46 Figure 1, called "Distribution of survey cases
47 across Canada."

59 Stephen Schneider (for Commission)
Cross-exam by Ms. Herbst

1 A Mm-hmm.

2 Q And so, again, we saw the total here, some bars,
3 and I see at the very left-hand side there is a
4 reference to B.C., and there's an 18 above
5 that -- above that block?

6 A Mm-hmm.

7 Q Professor Schneider, does that mean that there
8 were -- that 149 cases in your sample, 18 of them
9 were from British Columbia?

10 A Correct, yes.

11 Q Okay, and then if we could turn to page 11 of
12 your 2004 study, pages -- or starting on page 11,
13 anyway. You very fairly included here a Section
14 3.5 called "Limitations." And in your -- in your
15 second sentence there you -- in the first
16 paragraph under that heading, second sentence,
17 saying:

18
19 These limitations are the result of the
20 inherently secretive nature of money
21 laundering, the reliance on law enforcement
22 cases as the primary source of data, and
23 problems encountered in selecting a random
24 sample.

25
26 And that's a fair characterization of the
27 limitations you'd like readers to take away with
28 them as a bit of a caution here?

29 A Absolutely, yeah.

30 Q Okay. So the next document I'd like to ask you
31 about -- and, again, I'm holding true to the
32 document-intensive warning I issued at the
33 beginning -- is an annotated bibliography that
34 was submitted to the Commission, and -- and I'd
35 ask if the hearing officer would kindly pull that
36 up, as well, and it's -- it's dated April 17 of
37 2020 and it's entitled "Money Laundering in
38 British Columbia: An Annotated Bibliography."
39 Thank you. Thank you very much, indeed.

40 Professor Schneider, is this an annotated
41 bibliography that you submitted to the Commission
42 in April of 2020?

43 A It is.

44 MS. HERBST: All right. Now, Mr. Commissioner, I'd
45 like to have this document marked as the next
46 exhibit, if possible.

47 THE COMMISSIONER: Very well, that will be Exhibit 8.

1 THE REGISTRAR: Exhibit 8.

2
3 EXHIBIT 8: Document entitled "Money Laundering
4 in British Columbia; An Annotated Bibliography"
5

6 MS. HERBST: Thank you.

7 Q So, Professor Schneider, just to clarify a little
8 bit. On the first page of this document, I see
9 under your name "Stephen Schneider" with two
10 other names. Are they individuals who helped you
11 put together the annotated bibliography?

12 A Yes.

13 Q And was their role to help assemble some of the -
14 - some of the literature that was included in the
15 bibliography?

16 A Yes.

17 Q Okay. Now, did they assist you as well in
18 preparing the literature review or simply in
19 gathering sources for it?

20 A Just gathering sources.

21 Q Okay. Now, a small point, just for my own
22 understanding. If we could turn to page 27 of
23 the annotated bibliography. Thank you. There --
24 at the very top of the page there is a statement,
25 "No abstract available," and it refers back to --
26 there's a source that's cited, or a document
27 that's cited on page 26, I believe, at the very
28 bottom of the page, that is:

29
30 Canadian Imperial Bank of Commerce, &
31 Financial Transactions and Reports Analysis
32 Centre of Canada.
33

34 And so on.

35
36 Money laundering and terrorist financing
37 typologies...
38

39 Just for clarification, Professor Schneider, when
40 it says "No abstract available," what is -- what
41 does that mean, or where would abstracts usually
42 come from?

43 A That's a good question. This document was
44 available through the St. Mary's Library only in
45 a physical form, and because of COVID-19, we
46 weren't allowed onto campus. I was not able to
47 get my hands on that actual document, so I wasn't

1 able to get the abstract.

2 Q I see, and --

3 A Or the contents generally.

4 Q I see, and -- and for abstracts generally, there
5 are some references in here, not very often, to
6 book jackets and so on.

7 A Mm-hmm.

8 Q Are the abstracts something that you or those
9 assisting you prepared or were they drawn from
10 publisher's material?

11 A Some were drawn from publisher material, yes. I
12 try not to rely too much exclusively on published
13 -- publisher material, but in some cases, I could
14 not get my hands on the actual document or book,
15 and had to rely on the publisher abstract.

16 Q Okay. Now, I see that not all of the items that
17 are -- that are set out in your annotated
18 bibliography or in your reference list in your
19 literature review are actually footnoted in your
20 -- in the literature review itself. Would you
21 say that the remaining materials that are cited
22 in your bibliography are still useful, but
23 simply not -- you didn't find them as pertinent
24 to your particular point?

25 A Yes, exactly, yeah.

26 Q Okay. Now, if we could turn to page 2 of the
27 annotated bibliography, so reversing a little
28 bit. I just wanted to ask you a question about
29 one description -- one description within that --
30 within that. And you helpfully set out what
31 you're doing in the annotated bibliography, and
32 so on. And at the very bottom, in the last
33 paragraph, the paragraph starting with "In
34 general," the second sentence of that, you say --
35 or you and your co-preparers say:

36
37 Sources that concentrate on money laundering
38 control (enforcement, law and legislation,
39 compliance, etc.) were not included, except
40 for those that also provide sufficient detail
41 on the nature and characteristics of money
42 laundering.

43
44 And so that's clear. I just wanted to confirm,
45 for the purpose of your literature review, as
46 well, you set out at various portions of it,
47 topics you are covering. Is it fair to say that,

1 likewise in your literature review, you weren't
2 focusing specifically on money laundering
3 control?

4 A Exactly, yes, I did, yeah.

5 Q Okay. Now, I think that -- I'm just taking a
6 quick look down at my questions, and thank you
7 for bearing with me. This is an unusual setup of
8 looking at many -- at many places at once, so I
9 appreciate -- I appreciate that. But I believe
10 those are my questions, and thank you. Thank you
11 very much.

12 A Thank you.

13 THE COMMISSIONER: Thank you, Ms. Herbst.

14 MS. HERBST: Thank you.

15 MR. MARTLAND: Thank you. Mr. Commissioner, next I
16 have counsel for Great Canadian Gaming
17 Corporation and Gateway Casinos, a 30-minute
18 allocation, is the next participant.

19 THE COMMISSIONER: Yes, thank you. Is that Mr.
20 Skwarok?

21 MR. SKWAROK: Sorry, I think I was on mute
22 accidentally.

23 THE COMMISSIONER: Thank you.

24 MR. MARTLAND: We hear you now.

25 MR. SKWAROK: Thank you.

26

27 CROSS-EXAMINATION BY MR. SKWAROK (GREAT CANADIAN
28 GAMING CORPORATION):
29

30

31 Q Professor Schneider, my name is Mark Skwarok.
32 I'm representing Great Canadian Gaming
33 Corporation, and with me is Ms. Melanie Harmer.
34 Good afternoon.

35 A Good afternoon.

36 Q In your literature report, you -- and in your
37 testimony -- you indicated that you rely
38 exclusively on public sources, including the
39 media, and as a result, you very fairly
40 acknowledge there are limitations to the accuracy
41 and completeness of the report's filing fees, and
42 that there may be factual errors in it. Do you
43 agree?

44 A I agree.

45 Q You've said pages 8 and 9 -- I won't quote from
46 it -- but you say that a literature review is a
47 summary of what's been written, and it's meant to
give the reader a complete understanding of the

1 issue. Is that an accurate paraphrasing of what
2 you said?

3 A Yes, yeah.

4 Q You'll agree with me, if the literature is
5 inaccurate, then the reader will not have a
6 complete understanding of the issue, will they?

7 A Certainly in the -- if the collective literature
8 is consistently inaccurate, then, yes, then the
9 reader will get an inaccurate view, yes.

10 Q Get an inaccurate view, did you say?

11 A Yes. If the -- if the literature is consistently
12 inaccurate on a particular issue, then yes, but
13 again, there's great diversity in the literature.
14 Some may be accurate, some may be inaccurate, so
15 -- so in the totality, if the literature is
16 inaccurate, then it'll give an inaccurate view.

17 Q And I take it, sir, you didn't undertake to any
18 type of personal investigation of any money
19 laundering at any casinos, correct?

20 A Correct.

21 THE COMMISSIONER: I think we're having some
22 difficulties. Mr. Skwarok, I'm sorry. I don't
23 know if you asked a question recently, but for a
24 moment your screen froze and we heard nothing
25 from you. So, if you would just back up to the
26 question that you may have asked after asking
27 about any personal investigation, if there was a
28 subsequent one.

29 MR. SKWAROK: I think I dealt with it adequately, and
30 I apologize for the internet connection
31 apparently.

32 Q At the bottom of page 9 of your report, you say
33 that:

34

35 Among other sources, this review relies on
36 the news media for descriptive case study
37 information on money laundering... This
38 dependence is due to the widespread coverage
39 and timely reporting of pertinent issues,
40 events, and developments by the news media
41 collectively. The reader is exhorted,
42 however, to critically analyze journalistic
43 accounts of organized crime and money
44 laundering.

45

46 I believe you testified yesterday that your
47 report contains more references to media articles

1 than in the normal literature review. Is that
2 right?

3 A To some extent. Again, the nature of the
4 subjects I look at, organized crime, money
5 laundering, whether I'm writing a book or a
6 literature review, tends to rely a lot on the
7 news media, simply, again, because it's, you
8 know, a timely source and these issues are not
9 well-covered by scholarly sources. So, relative
10 to my other books or sources that I've written, I
11 tend to use the news media rather extensively,
12 certainly not at the expense of other sources,
13 but, again, given the nature of the topic, I tend
14 to rely on the news media quite a bit in my
15 research; as far as public sources are concerned.

16 Q And in particular, in your work on casinos, you
17 rely very heavily on media articles, correct?

18 A Yeah, media articles, yes. Certainly there are
19 also reports from FINTRAC on casinos, as well. I
20 think Peter German's report, I rely on, as well.
21 But certainly, yes, there is a number of news
22 media sources in the section on casinos.

23 Q You don't have very independent knowledge of the
24 truth or lack thereof of the assertions in those
25 various reports?

26 A Not specific details. Again, what I try to do,
27 as a researcher, is to triangulate my data, so if
28 there's, you know, a particular argument that has
29 been consistently made, or evidence that's been
30 introduced that is consistent from other sources
31 or consistent with the theoretical literature or
32 other research or police case studies, you know,
33 that -- that is the information that I'll
34 emphasize. If there's, again, information in
35 there that I deem to perhaps be just erroneous,
36 based on my knowledge or expertise, or is an
37 outlier among other information, then, you know,
38 it won't be excluded. But if -- if the
39 information is, again, consistent with what other
40 information has been presented, then, you know, I
41 will include it in the literature review. But,
42 no, I have no independent source of verification
43 of the actual, you know, evidence or facts I
44 presented in one particular article or book or
45 other source.

46 Q You stated in your report that a literature
47 review must ensure all sources or subject to a

1 critical analysis. This is especially true of --
2 you list a couple of things. And then, "as well
3 as the news media." Do you recall that in your
4 report?

5 A Yes.

6 Q You're saying that when you look at media
7 articles, you have to be particularly careful in
8 analyzing them?

9 A Correct.

10 Q All right. You agree with me, sir, that media
11 articles are subject to a number of frailties?
12 For example, journalists aren't scholars and
13 newspaper articles are not scholarly sources,
14 right?

15 A That's correct, yes, but that doesn't necessarily
16 undermine their factual accuracy or methodology
17 or veracity of what they're reporting. Certainly
18 I'd say it's a different type of --

19 Q So it isn't true [indiscernible]?

20 A Right, exactly. No. Yeah, I mean, all sources,
21 I try, again, to be able to draw from all sources
22 and then triangulate my data from those sources.
23 So I try to make sure that -- if, for example, we
24 talk about, you know, cash being laundered at
25 casinos, that it's not exclusively from the news
26 media, that I have theoretical literature or
27 police cases or scholarly studies that establish
28 that, yes, this is a common, you know, laundering
29 technique. And even in this particular
30 literature review, I'll try not to rely
31 exclusively on one source or one, you know, genre
32 or sources to establish a point.

33 Q And since they're not scholarly articles, and
34 since they're not peer-reviewed, they may be
35 wrong?

36 A Sure, but scholarly -- scholarly reports can be
37 wrong, as well. Reports can be wrong. I mean,
38 all of these sources have the potential to be
39 inaccurate or wrong, and -- you know, certainly
40 the media is -- the news media because some of
41 these articles, they have to meet certain
42 deadlines and there is certain, you know,
43 sensationalization of the news media, but at the
44 same time, I would -- you know, my opinion is
45 that there's been some very good reporting by the
46 local media in Vancouver and B.C. on this issue.
47 Again, I'm not discounting that there's

1 inaccuracies and distortions and factual
2 mistakes, but many of the journalists that
3 breathe behind these articles are credible, and
4 there's some good analysis, and -- and the media
5 has some methodologies and advantages that
6 scholars don't have in reporting, as well. So,
7 you know, there's strengths and weaknesses of all
8 the sources in this literature review.

9 Q So you're not suggesting that media articles
10 carry the same degree of import as, say, a peer
11 review university article?

12 A Well, again, they're different animals, their
13 purpose is different. Again, you know, the media
14 has -- doesn't have the advantage of, you know,
15 being able to work over, you know, a period of a
16 year or two years to finish an article and do
17 rigorous research. They often have to report,
18 you know, by a deadline. That's, you know,
19 hours, if not years. So, again, the -- you know,
20 the media, the news media has certain strengths
21 and weaknesses. The scholarly -- you know,
22 scholars, scholarly articles, peer-reviewed
23 articles, have strengths and weaknesses, as well.
24 And, again, each of them are -- the purpose of
25 each is to make their own unique contributions to
26 this literature review. Journalistic articles
27 have certain unique contributions and strengths,
28 and scholars' articles do, and consultant
29 reports. So, but certainly, you know, as far as
30 perhaps accuracy is concerned, facts, getting
31 facts straight, you know, scholars have a little
32 more room to work with on that, more methodology
33 and longer time periods. But, you know, I
34 certainly excluded media articles that I thought
35 -- and references and facts they point out that I
36 thought were erroneous, based on my experience,
37 based on other sources. I've tried to include
38 articles and journalists that I thought were
39 credible. But with that said, I certainly cannot
40 guarantee that all the facts reported were
41 accurate or -- or there were exaggerations,
42 perhaps, problems with sources. You know, that's
43 why I include the disclaimer up front, you know,
44 to look at these sources with, you know, a
45 critical eye.

46 Q I'm going to suggest to you, sir, that you have
47 no reason to believe that newspaper articles

1 generally are evidence of anything except a
2 reporter's opinion?
3 A Well, I wouldn't agree with that, no.
4 Q All right. In your section on casinos, which
5 starts at page 66, you talk about a number of
6 issues with casinos, and you go to page 66 to 74,
7 and by my count, there were 31 footnotes and
8 around only nine didn't reference media. Do you
9 have any reason to take issue with my counting?
10 A I haven't counted it myself, but I'll rely on
11 your mathematical skills.
12 Q That's -- it's close enough. The majority of the
13 references in your section on casinos are
14 about --
15 A Mm-hmm.
16 Q -- based on news articles. You also have a
17 number of references, and there's five of them, I
18 believe, to the FINTRAC report that you mentioned
19 earlier, right?
20 A Right, correct.
21 Q And that FINTRAC report is dated 2009; isn't that
22 right?
23 A There's two FINTRAC reports, one from 2009 and
24 one from 2019.
25 Q Right, but the majority of your references --
26 A Yes. Yes, you're right. Correct.
27 Q 2009 was a long time ago. You're aware, there's
28 been a lot of changes in the anti-money
29 laundering procedures since then?
30 A I'm not -- I confess that I'm not up to date on
31 all the anti-money laundering procedures that
32 have been enacted since 2009.
33 Q Well, you're aware there's been an evolution of
34 changes, aren't you?
35 A I'm aware of them. I'm not aware of the specific
36 changes themselves, no.
37 Q When you're saying that you need to critically
38 analyze things, would it not be incumbent upon
39 you to determine whether these older articles are
40 accurate?
41 A Well, again, it's -- I argue that it's the source
42 that's most important, and that in this case
43 FINTRAC is a very credible agency. Their data
44 they've obtained is data that many researchers
45 would not be able to obtain this, because their
46 data's primarily from suspicious transaction
47 reporting. Having studied organized crime, you

1 know, over a hundred, 200 years, it's not
2 necessarily how old a document is or how old a
3 study is, it really comes down to the credibility
4 of a source, of the methodology. You know, I'll
5 take a 2002 study that is rigorously conducted
6 over a 2019 study that was perhaps sloppily put
7 together. But, with that said, certainly I try
8 to rely on more recent documents. But, again, as
9 I state in my caveats, the public literature, you
10 know, on the subject was fairly limited. So it
11 was maybe sometimes had to rely on older
12 documents. But, again, I think within the
13 context of money laundering, organized crime, 10
14 years is not necessarily a long period of time as
15 far as examining the techniques, the nature and
16 -- the techniques that are used to launder money,
17 which is really what this FINTRAC study was
18 about, was looking at different methods of
19 laundering money in casinos. And I would argue
20 that what they point out in that 2009 report are
21 still relevant today.

22 Q You have no personal knowledge of that at all, do
23 you?

24 A Of their report?

25 Q Of what their goal was?

26 A Well, again, I apply my expertise. I triangulate
27 the data from FINTRAC with other sources,
28 including the news media, including other
29 reports, and I -- you know, if I found there was
30 a -- you know, a method in that report that was
31 completely irrelevant today, I may not have
32 included. But the point here is that this is a
33 literature review. My job is to cover the
34 literature review and report on the literature.
35 It's not necessarily to make a judgment of
36 whether or not the date has any, you know, effect
37 to the accuracy. You know, again, I have to look
38 at the results and, again, compare and contrast
39 it with other sources. And, again, the -- what I
40 found in that report, relative to my knowledge,
41 my experience, my expertise, my own research,
42 other sources, is still valid, in my opinion.

43 Q Well, we'll have evidence later on to suggest
44 that's not quite right.

45 A Well, I'm --

46 Q You don't have --

47 A Again, I say quite clearly up front that this is

a literature review based solely on public sources. I don't have access to any internal documents that you may have, that the government may have. And so, again, you know, it's stated right up front that there may very well be other documents out there that I don't have access to that contradict what's in here. I don't refute that at all.

Q And you don't refute the suggestion that things may have changed substantially since 2009, right?

A Not with respect to what FINTRAC has necessarily laid out here. I still feel that, again, a lot of the methods, techniques, suspicious transactions that they flagged, are still being used.

Q All right. I'm going to suggest to you, sir, that Great Canadian has a very strong robust compliance department. It takes anti-money laundering measures exceptionally seriously and the propriety of its actions are the forefront of what the company stands for. Do you have any reason to disagree with that assertion?

A No, I don't, no.

Q All right. Can I take you please, sir, to page 38 of your report? I'm not sure if you have a hardcopy handy.

A I have my electronic -- but 38, yes.

Q And I'm going to take you to the top paragraph, halfway down where it starts off with the word "Launderers." Do you see that?

A I'm sorry, what page? 38?

Q Page 38.

A Yeah, sorry.

Q Halfway down that paragraph, and there's a sentence that starts with, "Launderers may open accounts." Do you have that?

A Let me just find that page. Give me a minute.

Okay, 38. Yes, go ahead.

Q And you write:

Launderers may open accounts at other non-bank entities, such as... even a casino, which are then exploited for their quasi-banking services. For example, there is evidence that in B.C., the cash proceeds of drug trafficking were deposited into casino patron accounts and then eventually

"withdrawn" via a casino-issued cheque.

What's your reference to that proposition?

A That would have been the *Vancouver Sun*.

Q All right. Do you agree with me, that's a very significant statement?

A It is, yes, yes.

Q And you've formed your assertion based on a newspaper article, right?

A Well, there's other -- as you go through that section on casinos, there's other sources that substantiate that, as well. But again, yeah, it was consistent with other evidence that I've seen from other sources. And, again, it's -- it might have been a heavily reliance on one particular source in that sentence. But the -- again, the broader context is other evidence that I have seen would support that argument.

Q What evidence?

A From other reports, as well, and that I think are documented there. I may have drawn that simply from that one article. I'd have to look through. But, again, it's -- it's an article that I saw as credible and -- and so I included it.

Q All right.

A Regardless of, you know, how, you know, extreme you might have seen it or against your policies that you perceived it to be.

Q I'm not saying so much that it's against policies. What I'm suggesting to you, sir, is that a tenuous form of evidence to support such a dramatic proposition. Do you agree?

A Not necessarily. Again, you know -- you know, I don't think we need to engage in bashing the news media. The *Vancouver Sun*, they had dedicated reporters working on this issue and, you know, again, they're a credible news media outlet. You know, I'm sure they wouldn't have made that allegation without sufficient evidence. I have to, at times, trust my sources, as well, and even with respect to critically analyzing it. But, again, I had limited sources to be able to draw these conclusions and that I thought was a credible accusation and consistent with other techniques used at casinos, and certainly the potential to use this technique at a casino. So I deemed it to be credible, and I included it.

71 Stephen Schneider (for Commission)
Cross-exam by Mr. Skwarok

1 Q Just to be clear, sir, I'm not bashing the media
2 at all. My questions are aimed at your reliance
3 on the media.

4 A Right, okay. Well, my reliance is based on the
5 credibility of the source and the fact that it's
6 consistent with what I understand to be the
7 broader issues, my understanding of money
8 laundering through casinos, the potential, and
9 techniques that can and -- can potentially be
10 used, and have been used.

11 Q All right. If I could take you to page 66,
12 please.

13 A Mm-hmm.

14 Q Bottom paragraph:

15
16 Most of the laundering at casinos satisfy the
17 placement and extraction/repatriation stages;
18 casinos are commonly used to place the cash
19 proceeds of crime into the legitimate
20 economy...

21
22 We'll omit the next few words.

23
24 The minimal layering that can be accomplished
25 through a casino includes cashing in chips
26 for a casino-issued cheque...

27
28 And I'll leave the next few words out.

29
30 Casinos can satisfy the justification
31 function
32 by claiming the proceeds of crime to be the
33 winnings from gambling while the
34 extraction/repatriation phase is accomplished
35 when the launderer is able to cash in chips
36 for cash...

37
38 I read that fairly accurately, right?

39 A I'm trying -- sorry, I'm just trying -- that's
40 page 66?

41 Q Yes, sir, at the bottom.

42 A The final paragraph?

43 Q Yes.

44 A Yes. Yeah, I have it.

45 Q All right. Now, again, this is, in my -- well,
46 my question and view -- you would agree that that
47 is a fairly important dramatic statement?

1 A Yeah. Again, it's consistent with what I
2 understand money laundering at casinos to be and
3 consistent with what the literature has stated on
4 in that regard.

5 Q I'm suggesting to you, sir, that the literature
6 that you refer to on casinos consist of media
7 articles, a few references to an 11-year-old
8 FINTRAC report, and a couple of other minor
9 references. So when you say you're relying on
10 literature, it's really the media, primarily,
11 right?

12 A Yeah, to some extent. Certainly in these -- the
13 news media was a very prominent source for my
14 reporting of casinos, yeah. And, again, if you
15 feel that -- if you believe that the media, these
16 particular sources, the *Vancouver Sun*, is an
17 unreliable source of news, then -- then, yes, you
18 can question those results. I, again, thought
19 their reporting was credible. It was consistent
20 with what other outlets have been reporting,
21 whether news media, or my understanding from my
22 own research in the area, understanding on the
23 theoretical literature, on the scholarly. So,
24 again, I felt that the statements are consistent
25 with what's understood about laundering in
26 casinos.

27 Q Well, to be fair, sir, in that whole section,
28 you're making reference to media articles and
29 FINTRAC, not to your own personal knowledge, not
30 to other external sources?

31 Are you aware about what the policies are at
32 Great Canadian and other casinos regarding what
33 can be suggested to be cash for cheques?

34 A No, I'm not intimately familiar with their
35 policies. And, again, my -- my literature review
36 wasn't about the policies, it was about looking
37 at, regardless of policies, how money laundering
38 was enacted. And that doesn't -- you may have
39 policies, it doesn't necessarily mean your
40 policies are always being followed. Or, that the
41 launderer may find a way around a policy. There
42 might be a corruption in a casino. There might
43 be internal conspiracy. So, just because you
44 have a policy doesn't mean that somehow that is
45 going to eradicate a particular money laundering
46 technique.

47 Q All right. You're aware, or you're -- I suppose

1 you're not aware that if a patron or a gambler
2 wagers a very minimal amount, let's say not a
3 *bona fide* play, they don't get cheques back, they
4 get cash, in the same denomination that they
5 bought in. Were you aware of that?

6 A I'm not aware specific of your policy. But,
7 again, the -- generally speaking, that's the
8 policy of Great Canadian Game Corporation. It
9 may not necessarily be the policy of other
10 corporations that run casinos. Or, again, there
11 is instances where launderers can find a way
12 around that policy. There could be, again,
13 corruption in a casino that somehow works with
14 the launderer to get around that policy, so --

15 Q But you don't have any personal knowledge of any
16 of those things, do you?

17 A Only, again, what the literature reports on
18 suspected cases of internal conspiracies and
19 corruption. Not just the casinos, but in other
20 sectors, as well. But, no, I don't have any
21 personal knowledge of whether the policies at
22 your company have been enforced consistently.

23 Q If you go to page 69. This is another theme that
24 you repeat in your report. It's under the
25 heading "Front Money Accounts." Do you see that?

26 A 69, yes.

27 Q

28 A front money account at a casino allows
29 customers to deposit money with the casino,
30 which they can then draw upon for gaming
31 purposes.

32
33 I'll leave out the next sentence.

34
35 To use a front money account to launder the
36 proceeds of crime a casino patron will
37 deposit cash, a cheque, or a bank draft...

38
39 And the cite for that is the 2009 FINTRAC report
40 that was talked about, right?

41 A Correct.

42 Q Are you aware, sir, that since then the rules are
43 that only a bank draft can go into a patron
44 gaming account?

45 A I'm not familiar with that.

46 Q The bank draft has to come from a recognized
47 financial institution?

74 Stephen Schneider (for Commission)
Cross-exam by Mr. Skwarok

1 A That's a policy of your corporation.

2 Q You're not -- you're not aware that you can't put
3 cash into a patron gaming fund?

4 A Is that just for your corporation or is that in
5 general for all casinos?

6 Q That's for in British Columbia, as I understand
7 it, but certainly for Great Canadian.

8 A Yeah. Well, again, this was a report of FINTRAC.
9 They were responding to suspicious transaction
10 reports from all over the country, from different
11 jurisdictions, from different casinos, so there
12 would be obviously different policies in
13 different provinces and different corporations,
14 so --

15 Q I'll take you to page 72, please.

16 A Mm-hmm. Yeah, 72.

17 Q In the first full paragraph:

18
19 By 2015, an RCMP investigation called Project
20 E-Pirate...

21
22 Do you see that?

23 A Yes.

24 Q And you're aware, sir, that that investigation
25 came to a conclusion with all charges being
26 withdrawn?

27 A That's correct.

28 Q And so there really isn't any evidence in any
29 judicial forum that the facts underlying the
30 investigation were actually true, correct?

31 A Not in a -- certainly in a judicial form, no.
32 Those -- that evidence was not corroborated in a
33 judicial forum. You're correct.

34 Q In the next paragraph you refer to a *Vancouver*
35 *Sun* article as giving:

36
37 ... speculation that laundering through
38 casinos in B.C. involved the deposit of
39 large-value cheques into a casino's "non-cash
40 patron gaming fund accounts." The patron
41 then requests a cash-out by cheque without
42 "an expected level" of gambling.

43
44 We've talked about that before. Your source for
45 this proposition, again, is a newspaper article,
46 and you don't have any other supporting
47 information there, right?

75 Stephen Schneider (for Commission)
Cross-exam by Mr. Skwarok

1 A Correct, yeah.
2 Q If you go to page 122, the bottom paragraph:
3
4 The casinos in...
5
6 Sorry, do you have that?
7 A Just give me a minute here. 122, okay, go ahead.
8 Q And that bottom few lines, there's discussions
9 about events that are happening in casinos,
10 including -- and this is the penultimate line:
11
12 ... setting up patron accounts and allowing
13 gamblers to use the accounts under suspicious
14 circumstances.
15
16 And the cite for that is another media article.
17 I see that you actually, in that footnote,
18 consistently make reference to Dr. German, but I
19 advise you that that particular proposition was
20 not contained in that part of the --
21 A I'm sorry, which footnote?
22 Q Oh, the footnote is 226.
23 A Oh, I'm on the wrong page, obviously. Sorry,
24 what page are you referring to?
25 Q 122.
26 A And what's the footnote number?
27 Q I beg your pardon, sir. That's my mistake, my
28 computer glitch. I beg your pardon. 73, which
29 is --
30 A Page 73 or footnote 73?
31 Q Page 73, footnote 226.
32 A Mm-hmm.
33 Q Are you there?
34 A I do see that, yes, a reference -- footnote 226.
35 Q Yes, and so, again, this is another reference
36 about cheques for cash, again, the authority
37 being media articles, right?
38 A Yes, yeah. Yes. And a web -- yeah, and a
39 website, as well.
40 Q I won't take you to -- well, I will, briefly. If
41 you look at page 123. Again, the top of 123,
42 there are more discussions about the dirty cash
43 for clean casino cheques, right?
44 A Yes.
45 Q And, again, we're talking the source is another
46 Vancouver Sun article, right?
47 A Which footnote number?

76 Stephen Schneider (for Commission)
Cross-exam by Mr. Skwarok

1 Q The footnote, according to you, is 371, and then
2 there's another at 372?

3 A Yes, those are media articles, as well, yeah.

4 Q I'm going to take you now to my final point, and
5 that's in your conclusion, and if I could take
6 you to page 140, please.

7 A Mm-hmm.

8 Q And if you go to the second from the bottom
9 paragraph --

10 A Mm-hmm.

11 Q And you state:

12
13 In British Columbia in recent years, the
14 sectors of the economy that appear to be
15 vulnerable to money laundering...

16
17 And you include casinos there, right?

18 A Right.

19 Q And then -- and I'm going to quote this:

20
21 Beyond the inherent capacity of casinos to
22 launder the proceeds of crime, ML was
23 pervasive at Lower Mainland casinos...

24
25 And I'm going to stop there. On what basis do
26 you say the money laundering was pervasive in
27 Lower Mainland casinos?

28 A Well, I guess the estimated amount of money that
29 was laundered through casinos, the evidence, the
30 other supporting evidence that is contained
31 throughout that section, again, there's -- from
32 my perspective, based on the literature, I would
33 come to the conclusion -- and, again, based on, I
34 guess, "pervasive" is a subjective term, but I
35 would conclude that -- that relative to typical
36 laundering activity at casinos, I would argue
37 that in the last recent years, that money
38 laundering has been pervasive at casinos, based
39 on the review of the literature.

40 Q And the literature, again, sir, consists, in
41 recent years, of media articles, right?

42 A Primarily, yes.

43 Q Okay. Those are my questions, sir. Thank you
44 very much.

45 A Thank you.

46 THE COMMISSIONER: Thank you, Mr. Skwarok.

47 MR. MARTLAND: Mr. Commissioner, I know it's terribly

1 bad form for me to ask questions of another
2 lawyer attending, but Mr. Skwarok still has his
3 mike unmuted. I just thought I would clarify one
4 thing, which is I had introduced his questions by
5 referring to -- under the -- under your ruling,
6 Mr. Commissioner, on standing, the joint
7 participant group of Great Canadian Gaming
8 Corporation and Gateway Casinos. But I thought I
9 would just clarify, in his introduction, he
10 introduced himself as counsel for Great Canadian
11 Gaming. And perhaps you could just speak to the
12 capacity in which he had asked questions of the
13 last witness, so we're clear about that, and then
14 I'm going to suggest we take a brief break,
15 because there's one issue I need to address with
16 colleagues.

17 MR. SKWAROK: All my questions were asked in my
18 capacity as counsel for Great Canadian. Counsel
19 for Gateway is not in attendance today.

20 THE COMMISSIONER: All right, thank you.

21 MR. MARTLAND: Thank you. Mr. Commissioner, if I
22 could suggest a break, and then we'll be able to
23 continue on with our questions, please.

24 THE COMMISSIONER: Yes, thank you. How long would you
25 like, Mr. Martland?

26 MR. MARTLAND: 10 minutes should be fine, thank you.

27 THE COMMISSIONER: Fine. We'll take 10 minutes, then.
28 Thank you.

29 MR. MARTLAND: Thank you.

30 THE REGISTRAR: The hearing is now adjourned for a 10-
31 minute break until 12:50 p.m.

32
33 (WITNESS STOOD DOWN)

34
35 (PROCEEDINGS RECESSED)

36 (PROCEEDINGS RECONVENED)

37
38 THE REGISTRAR: Thank you for waiting. The hearing is
39 now resumed. Please ensure you're muted unless
40 you are speaking.

41 MR. MARTLAND: Thank you. Mr. Commissioner, the next
42 participant examining Professor Schneider is
43 counsel for Robert Kroeker. And her allocation,
44 by the way, is an hour and 40 minutes, so that'll
45 take us to when we break at 1:30 today, and then
46 returning tomorrow. Thank you.

47 MS. MAINVILLE: Thank you, Mr. Martland.

STEPHEN SCHNEIDER, a
witness, recalled.

CROSS-EXAMINATION BY MS. MAINVILLE (ROBERT KROEKER):

Q Good afternoon, Professor Schneider.

A Good afternoon.

Q So, as indicated, my name is Christine Mainville.
I'm counsel for Mr. Kroeker, who was formerly VP
of Compliance with BCLC, in addition to other
capacities. So let me start with a point that I
believe you've made quite clearly already, which
is --

THE COMMISSIONER: I'm sorry to interrupt, but I'm
having some difficulty with hearing, so I'm just
going to briefly go offscreen and try and fix
that up.

(DISCUSSION RE AUDIO)

THE COMMISSIONER: Thank you. I am -- I've remedied
it by pressing the "On" button.

MS. MAINVILLE: Thank you. Always the simplest
solutions.

THE COMMISSIONER: Yes.

Q So, Professor Schneider, I was saying that you've
been clear that the objective, the ultimate
objective of money laundering is for the offender
to be able to use the laundered money at the end
of the process?

A Correct.

Q Correct, so it's to convert the proceeds, and
with the ultimate objective of repatriating the
money, but not to lose it, but to be able to
benefit from it?

A That's correct.

Q And I believe you've also, by now, made it
abundantly clear that when we're talking about
money being laundered through the casinos, what
we are talking about is offenders being able to
recuperate funds from the casino that they are
then able to use for other purposes?

A Correct. Repatriate the funds, yes.

Q And so we are not simply talking about spending
proceeds of crime in the casinos, when we're

1 discussing, for instance, the so-called Vancouver
2 model, correct?

3 A That's correct, unless you happen to use someone
4 who's a compulsive gambler and then loses all the
5 money in there, which has actually been
6 documented. But, yes, the general idea is to --
7 to emerge from the casino with as much of the
8 proceeds -- laundered proceeds of crime intact as
9 when you entered.

10 Q Okay, and we'll get back to that theory you've
11 just posited. But there is a difference, then --
12 and I believe you allude to it in your report --
13 between simply spending laundered proceeds at the
14 casino and the process of getting clean money to
15 then be able to use in whichever way the offender
16 wants?

17 A Well, that -- that wasn't a reference specific to
18 a casino. That was a general reference.

19 Q [Indiscernible - recording].

20 A Yes.

21 Q And the distinction is referenced -- you don't
22 need to turn to it, but at page 17, in particular
23 in respect of what most petty criminals do, which
24 would simply be to disburse the proceeds as
25 opposed to try to launder them?

26 A Right, exactly, yes.

27 Q And I'm right, as well, that the Vancouver model
28 that you describe, based on the literature,
29 consists of ways of achieving this overarching
30 goal of money laundering, getting clean money out
31 of the casinos?

32 A As I understand it from the literature, yes,
33 correct.

34 Q Correct, and you reference three typologies
35 reportedly used, so three ways in which the
36 casinos would have been used to launder money
37 under the Vancouver model, and simply correct me
38 if I'm wrong, but the first being chips
39 purportedly purchased with dirty money and then
40 cashed in for a casino-issued cheque; second,
41 small denominations of cash converted to larger
42 denominations; and third, bank drafts previously
43 purchased with drug cash or other proceeds,
44 deposited into casino patron accounts at the
45 casino, and then the funds withdrawn in the form
46 of a casino-issued cheque?

47 A Yes, those are some methods that were documented

1 in the literature, correct.
2 Q And they're the three main ones that I've seen
3 repeatedly stated in your report and referenced
4 in the media reports?
5 A I guess you can say they're -- I don't know if
6 they're the three main ones, but certainly
7 they're three dominant techniques used at
8 casinos, yes.
9 Q And to be specific, I meant for the Vancouver
10 model.
11 A Oh, right. Okay, yes. Sorry, yes, you're
12 correct.
13 Q And so that's what people are talking about, what
14 we're talking about when we're talking about
15 money being laundered through the casino --
16 A Mm-hmm.
17 Q -- under the Vancouver model, that the offenders
18 would be getting these funds out of the casino
19 typically in one of these three ways, correct?
20 A Correct.
21 Q So let's suppose, for a minute, that the bulk of
22 what was occurring in B.C.'s casinos is that the
23 money was being spent, dispersed, thoroughly
24 gambled, you'll agree with me, if that were the
25 case, that we are not talking about money
26 laundering in any traditional sense?
27 A Sorry, could you repeat that again, just repeat
28 your question?
29 Q If we suppose, if we look at these cases and we
30 -- suppose for a minute that the money was being
31 spent, disbursed --
32 A Mm-hmm.
33 Q -- thoroughly gambled in the casinos, you'll
34 agree with me that we're not talking about money
35 laundering in any traditional sense?
36 A Right, exactly, unless you had a money launderer
37 who thought they were a consummate gambler and
38 somehow they were going to emerge with, you know,
39 winnings, but -- so there are limited number of
40 cases, but in general, yes, just going in and
41 blowing all your money on gambling, it would not
42 be considered money laundering.
43 Q And certainly we still want to be vigilant and
44 wary and not knowingly accept casinos' proceeds
45 of crime, we'd still want to track and report
46 suspicious instances of that, but we would not,
47 I'm going to suggest, be talking about a

81 Stephen Schneider (for Commission)
Cross-exam by Ms. Mainville

1 mechanism by which criminals are getting clean
2 money to then spend at their leisure, to go
3 purchase real estate, for instance, correct?

4 A Correct.

5 Q And so, in fact, under that model or supposition,
6 the casinos would simply be the person's
7 preferred way of spending their cash instead of
8 buying a car or luxury items? They would simply
9 like to gamble their money?

10 A Certainly, sure.

11 Q And suppose the Commission were ultimately to
12 find that in the majority of cases, these Chinese
13 VIP players that the Vancouver model is centred
14 upon were not engaging in minimal play and were
15 spending their cash inside the casinos, and
16 indeed, lost the bulk of their money. Let's
17 suppose that for a minute. We wouldn't be
18 talking about money being laundered through the
19 casinos, correct?

20 A Correct, yeah.

21 Q And if, in fact, the typologies referenced as
22 part of the Vancouver model turned out to be
23 wrong, if it's found that the processes described
24 did not occur on any great scale, then we would
25 not be talking about money systematically being
26 laundered through the casinos?

27 A Correct.

28 Q Because the goal of money laundering wouldn't
29 have been achieved, correct?

30 A Right, correct.

31 Q Now, I think we've gone over this. You've
32 acknowledged that some of this information, these
33 typologies, in fact could be erroneous, I'm going
34 to suggest, but you can't ultimately assist with
35 -- not having any direct knowledge of what's
36 happening in the casinos or of the controls in
37 place, you can't ultimately assist with the
38 veracity, in fact, of those typologies?

39 A Correct.

40 Q And you cautioned us about being particularly
41 careful -- and I know Mr. Skwarok went over this
42 -- but about media reports and government
43 reports, as well, and I -- I wanted to just go
44 back to a point you made in your testimony in
45 chief regarding the -- the void in the literature
46 about -- on the topic of money laundering in
47 particular, and -- and the need to -- the need

1 for increased reliance on media. In particular,
2 for something like the Vancouver model which, as
3 you indicate in your report, is a recent, fairly
4 recent, relatively recent phenomenon?

5 A Right.

6 Q Correct?

7 A Mm-hmm, correct.

8 Q And that is not simply applicable to you, but I
9 would think anybody who studies money laundering,
10 correct?

11 A Sorry, can you repeat that?

12 Q That not only you, but others in your field, need
13 to rely on things like media reports, because
14 it's such an obscure topic -- or not obscure, but
15 it's difficult to have better evidence of what is
16 in fact happening?

17 A I can only speak for myself.

18 Q Okay. I'm going to suggest that it's possible
19 that because of the need, at least in your case,
20 to have to rely on media reports and other
21 reports that may not have been entirely verified
22 or that may require a cautionary approach, that
23 there is a risk of information in fact getting
24 repeated and bolstered, even though it may be
25 erroneous.

26 A There was definitely the danger of that, yes.

27 Q For instance, you relied on some of the media
28 reports on the Vancouver model. Someone down the
29 road may well rely on your report which has been
30 filed today in this Commission, and so on and so
31 forth, and so these assertions might well be
32 repeated, but if -- if several of these
33 underlying reports are erroneous, people might
34 come to believe that there's a consensus on the
35 issue, when in fact one would need to exercise
36 some caution still?

37 A Yes, absolutely.

38 Q Am I right that you've also not been in a
39 position to verify Dr. German's assertions, as
40 stated in his report, or his sources, correct?

41 A I have not.

42 Q Now, in terms of going back to the typologies
43 that are posited for the Vancouver model, the
44 first one, as I indicated, was cashing out for
45 casino-issued cheques. And let me first briefly
46 address the alleged method of depositing cash in
47 a casino account. Mr. Skwarok took you to this

1 passage with -- we might not need to pull it up,
2 as you might recall it, but at page 38 of your
3 report, he read to you, I believe, the sentence:
4
5

6 For example, there is evidence that in B.C.,
7 the cash proceeds of drug trafficking were
8 deposited into casino patron accounts and
9 then eventually "withdrawn" via a casino-
10 issued cheque.
11

12 Do you recall that?

13 A I do, yes.

14 Q If, in fact, it is impossible to deposit cash
15 into a casino patron account in B.C., you'd agree
16 with me that this report and this alleged
17 methodology of money laundering is wrong?

18 A Yes, I would agree with you.

19 Q And you've indicated that -- earlier in your
20 testimony -- that casinos in fact are fairly
21 limited in what they can do on the money
22 laundering front, but if -- if casinos are used
23 as a quasi-financial institution, then many
24 avenues may be available to you? If I'm
25 paraphrased correctly.

26 A Yes, their -- their utility as a laundering
27 vehicle is limited relative to other laundering
28 vehicles, like banks or money service businesses,
29 yes, but generally speaking, they're --

30 Q And if this -- and so if this particular avenue
31 of depositing cash into an account for the
32 purpose of withdrawing the funds is not
33 available, I'm going to suggest that weakens the
34 attraction of casinos for money laundering as a
35 quasi-financial institution, fair?

36 A I wouldn't say it weakens it. I think that
37 particular method you're talking about, my
38 understanding, it certainly wasn't the exclusive
39 method. There are certainly other ways, so --

40 Q Absolutely.

41 A -- you know, I guess if that wasn't available,
42 they would perhaps be forced to use another
43 quasi-financial institution or bank. So, yeah,
44 certainly you can suppose that if that wasn't
45 available, then they would go elsewhere perhaps.

46 Q Okay. Well, let's address this, another sub-
47 typology of this first broad category, which is

1 to obtain chips, casino chips, and then cashing
2 them out for a cheque. And so the typology would
3 involve the individual buying in with cash,
4 obtaining casino chips, perhaps engaging in
5 nominal play, perhaps not, and then cashing out
6 in exchange for a casino-issued cheque?

7 A Yes.

8 Q So, and specifically, if I might take you -- or
9 if we could pull up page 119 of your report, and
10 you talk here about the Vancouver model and how
11 -- I think it's maybe not up yet. But I'll be
12 asking you to look at the fourth bullet point --

13 A Mm-hmm.

14 Q -- where you indicate that Mr. Jin's organization
15 would launder the drug cash through two main
16 routes, casinos being one of them. And you have
17 here:

18
19 ... (gamblers were recruited and provided
20 with drug cash to purchase chips which are
21 then redeemed for a casino-issued cheque)...

22
23 A That's what I understand from the literature,
24 yes.

25 Q Right, so without play or potentially after
26 minimal play?

27 A That is generally the method, yes.

28 Q And you've acknowledged in your report the Ernst
29 and Young audit report commissioned by BCLC to
30 look into these media reports about cheques being
31 used for money laundering purposes. And you've
32 indicated that it tends to -- this audit report
33 tends to refute some of these allegations,
34 correct?

35 A Yes.

36 Q And I would suggest it's a fairly significant
37 report in that it undermines this assertion that
38 -- that this occurred at least for the time
39 period under review, and at River Rock Casino, in
40 particular?

41 A Yes, that's why I included it.

42 Q Yes, and you -- you suggested that the findings
43 could be flawed because Ernst and Young didn't
44 look at cheques below \$10,000, and indeed, that
45 gamblers may have requested and been issued
46 cheques for under \$10,000 as a common money
47 laundering technique, to avoid reporting

1 thresholds?

2 A Correct.

3 Q Now, if in fact the evidence ultimately shows
4 that BCLC closely monitors for this typology, for
5 this purposeful avoidance of FINTRAC thresholds,
6 and that they closely, very closely monitor
7 cheques issued below the large cash transaction
8 threshold, and -- and if the evidence shows that
9 these are few and far between -- in fact, the
10 qualification that you raised -- you'll agree
11 with me, then, that this audit by Ernst and
12 Young, based on a thorough review of the source
13 documentation, is very significant?

14 A Certainly as it applies to River Rock, between
15 2014 and 2016.

16 Q Okay.

17 A If you can -- I don't think they try to
18 generalize beyond that --

19 Q No, fair enough.

20 A -- so they're not generalizing to other casinos,
21 they're not generalizing to an allotted time
22 period, but certainly Ernst and Young is a very
23 credible consulting firm and their methodology
24 seemed credible. I read the report. And, yeah,
25 so definitely there's certain credibility to that
26 report, without a doubt.

27 Q And you -- I don't know if you noticed in your
28 media review that a lot of the criticism or
29 attention over the last few years has been
30 focused in particular on River Rock Casino?

31 A Correct, yeah.

32 Q Including this particular allegation.

33 A Right.

34 Q Now, in support of the assertion that casino
35 cheques were used as a money laundering
36 technique, if I could direct you to pages 71 to
37 72 of your report, you -- there you reference an
38 October 2015 case from Kelowna, B.C.

39 A Mm-hmm.

40 Q And you cite *The Province*, a media source, for
41 the proposition that a man was pulled over in a
42 casino parking lot, with some cash and a casino
43 cheque. The man said -- and I'm paraphrasing --
44 he said it was casino winnings. And ultimately,
45 government officials immediately accused the man
46 of being part of a massive drug money laundering
47 operation, and the Provincial Civil Forfeiture

1 office launched a lawsuit to force him to forfeit
2 the money. That's at the bottom of page 71.
3 A Right.
4 Q In other words, you indicate that the Civil
5 Forfeiture office filed a suit to have the
6 gambling cheques forfeited, on the basis that
7 they were believed to be proceeds laundered
8 through the casinos, which is supportive of this
9 alleged methodology under the Vancouver model,
10 correct?
11 A Correct.
12 Q And if, in fact, the evidence subsequently
13 confirmed that the cheques were legitimate
14 winnings, and not laundered proceeds, and the
15 forfeiture claim was withdrawn on that basis, as
16 per the court file, you would agree, this would
17 not be a case that is supportive of the money
18 laundering typology you reference in that
19 section, fair?
20 A I would agree with that, yes.
21 Q The second typology alluded to in your report in
22 respect of the Vancouver model is the conversion
23 of small denominations into larger ones. And at
24 page 122, if we could pull that up, you refer
25 there to an article by the *Vancouver Sun* which
26 cites a confidential audit from June 2016 of
27 provincially banned cash facilitators, which --
28 at the last paragraph there, page --
29 A On page 122?
30 Q 122.
31 A Okay.
32 Q And this -- this audit concludes, it states here,
33 that gamblers playing high-limit tables at River
34 Rock Casino used the money laundering method
35 process known as "refining", whereby they would
36 buy chips with wads of street cash, \$20 bills,
37 and cash out with neat bundles of \$100 bills,
38 suitable for banking?
39 A Right, playing.
40 Q Yes. First, this report suggests that the
41 players observed to be doing this were banned
42 from casinos by BCLC, correct? Because it's an
43 audit regarding provincially banned cash
44 facilitators.
45 A Hmm. Yeah, I'm assuming that's what they're
46 referring to, yes.
47 Q Certainly it suggests that this incident or

1 typology was tracked and reported, and indeed,
2 the denominations coming in and those coming out
3 are reported?
4 A Sorry, I -- I don't understand the question.
5 Q The fact that this is recorded in this audit --
6 A Right.
7 Q -- and that these cash facilitators were banned,
8 I'm going to suggest -- provincially -- I'm going
9 to suggest that it is indicative of the fact that
10 this type of method of refining and exchanging
11 certain denominations for others is recorded or
12 tracked to a certain extent, in B.C.?
13 A Is by --
14 Q By the --
15 A Tracked by the Provincial Government, BCLC?
16 Q By the casinos, by the --
17 A I can't answer that question. I don't know.
18 Q Fair enough, fair enough. Can you answer this?
19 Would an effective control against that
20 phenomenon be to give these players back the same
21 denominations they come in to play with, if there
22 are refining concerns?
23 A Absolutely, yes. And I was surprised -- and,
24 again, I did not -- it wasn't my mandate to look
25 at the policies of casinos, or provincial
26 policies, but I was actually surprised when I
27 came across some of these stories, these
28 allegations, because I am quite aware that the
29 policy at most casinos is to return the cash,
30 especially if it's suspicious. So that is why
31 these particular methods may have stood out to
32 me.
33 Q Okay
34 A At the same time, again, policies are not always
35 followed. There could have been corruption,
36 internal conspiracies. So, but yes, some of
37 these methods did take me by surprise, because I
38 am familiar, generally speaking, with some of the
39 policies, money laundering policies, especially
40 when it comes to currencies.
41 Q Okay, and so that if ultimately BCLC, under Mr.
42 Kroeker, started doing just that, requiring that
43 the same denominations be returned to the player,
44 if there was any suspicion, that's -- that's a
45 helpful anti-money laundering control, from your
46 perspective?
47 A Certainly, if they're followed, yes.

1 Q And in terms of this typology generally, at the
2 end of the day, what we're talking about is, as
3 we've said, layering or refining, but the player
4 has not gained a legitimate explanation for the
5 cash, correct?

6 A Correct.

7 Q There's no justification, in other words, the
8 justification function is not served by this
9 typology, it doesn't obscure the ownership of the
10 cash. The person still would have a lot of cash,
11 with no explanation for its source, correct?

12 A Correct.

13 Q And so it's a typology that really only serves to
14 further obscure the paper trail, which is what
15 layering is about, correct?

16 A Yes, yeah. In general, yes.

17 Q And would you agree -- and I appreciate you don't
18 necessarily have a direct knowledge of the
19 workings of casinos, but you'd agree with me,
20 there would be a paper trail when someone goes
21 into a casino and engages in a transaction of
22 this nature, certainly for instance, there'd be
23 large -- assuming everybody follows the rules,
24 large cash transaction reports, and potentially a
25 suspicious transaction report?

26 A Well, generally speaking, again, policies are not
27 always followed. There's corruption in terms of
28 conspiracies, and certainly there's credible
29 evidence that a lot of sectors do not comply
30 sufficiently with federal anti-money laundering
31 regulations. So, but in general, yes, if all the
32 rules were followed, and everyone was honest,
33 then yes, I would agree with you.

34 Q Right --

35 A But again, you can't exclude those caveats,
36 because -- and it gets back to what Mr. Skwarok
37 said -- excuse me if I'm mispronouncing your name
38 -- that regardless of policies, of laws and
39 regulations, there's credible evidence that
40 policies weren't followed, that there were
41 deficiencies in reporting suspicious
42 transactions, that there are internal
43 conspiracies. And these are not outliers, these
44 are fundamental aspects of money laundering by
45 organized crime in casinos. And the literature
46 in Canada, United States, elsewhere, documents,
47 you know, quite well that -- these facts, that

1 policies aren't always followed. And, again,
2 within this case study, it's mostly news media
3 that makes the allegation, so you can question
4 their credibility, but -- but, again, I think we
5 have to keep in mind these caveats when you are
6 talking about following these -- whether paper
7 trails or suspicious transaction reports are
8 filed, because you're assuming that everyone's
9 honest, that all the policies are followed, that
10 suspicious transaction -- all suspicious
11 transactions are flagged, which is not the case.

12 Q And with all due respect, you'll agree with me
13 that we will allow the Commission to make its own
14 findings in that respect, on whether -- to what
15 extent policies were followed or not, to what
16 extent they are verified --

17 A Absolutely. I'm just offering my opinion, based
18 on my expertise, that based on my knowledge of
19 this industry, and all industries, quite frankly,
20 that internal conspiracies, not following
21 policies and not filing suspicious transaction
22 reports are all quite common. Not just in
23 casinos, but throughout many economic sectors.

24 Q Okay. I will get, later, to -- to the
25 indications of the actions taken by BCLC, but
26 let's leave that for now. If I could just
27 address first, before we break, the third
28 methodology identified in respect of the
29 Vancouver model, which is the claim that bank
30 drafts, obtained with proceeds of crime, were
31 deposited in BCLC casino patrons' accounts, to
32 then be withdrawn in the form of a casino-issued
33 cheque. And if I could take you to page 123,
34 just the next page over from where we were.
35 You'll see there at the very top that:

36
37 There was also speculation that bank drafts,
38 purchased with the proceeds of crime and
39 supplied to VIP Chinese gamblers by Jin and
40 associates, were also being deposited into
41 BCLC casino patron's accounts. The money
42 would then be withdrawn and a BCLC casino
43 cheque issued, with no indication that any
44 gambling occurred with the funds.

45
46 And --

47 A According --

1 Q According to this report, yes.

2 A Exactly.

3 Q And now we've dealt with the cheques being issued
4 and the Ernst and Young report that addresses
5 that to a certain extent.

6 A Mm-hmm.

7 Q In respect of a bank draft deposited into casino
8 accounts, part of this allegation has been that
9 these bank drafts had defects, which included
10 being anonymous. Is that fair?

11 A Right.

12 Q And, for instance, there's a reference of that at
13 page 72 of your report where you cite a *Global*
14 *News* article from January 2019, where the author
15 states -- let me just locate it -- the excerpt in
16 the middle there:

17
18 But according to audit documents, the patron
19 gaming accounts were mostly funded with bank
20 drafts, and often these drafts were
21 suspicious.

22
23 There were "concerns around money services
24 businesses," and patrons "bringing in bank
25 drafts from multiple different banks."

26
27 Other problems included anonymous "third-
28 party" gamblers using "nominees"-- meaning
29 stand-in buyers -- to fund patron gaming
30 accounts. And these nominees were "bringing
31 in bank drafts that do not have the bank
32 customer/account holder name on it."

33
34 Now, if it's demonstrated first that BCLC does
35 not -- a couple minor exceptions -- allow third
36 party transactions, and more significantly, that
37 BCLC reviewed more than 7,000 bank drafts, and
38 found none with the defects alleged, in other
39 words, that these defects that are alluded to in
40 this article are not substantiated, what we would
41 have, you'll agree, is legitimate bank drafts
42 funding these accounts, correct?

43 A Yes, correct.

44 Q And in such a case, the placement in the
45 legitimate economy has already occurred, correct?

46 A Yes, correct.

47 Q Which is, I think you've stated, the key part of

1 the laundering process, and the most vulnerable
2 part?
3 A Yes. To some extent, yes.
4 Q It's now -- you'll agree, though, it's now harder
5 to detect, once the money's --
6 A Yes. Yes, I would say that, yes.
7 Q And not only because offenders who have bulky
8 cash on their hands are easier to detect, the
9 cash can more easily be traced to its criminal
10 sources, but I believe you -- you've said, in a
11 casino, it's -- it's also more likely to be the
12 subject of a suspicious transaction report, the
13 cash?
14 A Correct. Well, it would be subject to a cash
15 transaction report, not necessarily a suspicious
16 transaction report.
17 Q Yes. Or potentially both, but yes.
18 A Both, yes. Yes, potentially both.
19 Q And once the cash has been placed into the
20 legitimate economy, you've agreed, it's -- once
21 you have a non-cash instrument, it's more
22 difficult to detect?
23 A Generally speaking, yes.
24 Q And let's assume that, for casinos in particular,
25 they have no visibility into the other side of
26 that bank draft, in other words, into what
27 transpired at the bank or other financial
28 institutions. Right? So that they have no way
29 of knowing that the financial instrument, for
30 instance, is proceeds of crime, fair?
31 A Sure, fair enough.
32 Q And, again, so this process has only served to
33 further obscure the source of the funds, to bury
34 it further, because instead of a bank draft, now
35 the person has a casino cheque, correct?
36 A Right. Correct.
37 Q And I'm going to suggest it's only served to
38 further obscure it, to a limited extent, if it's
39 indicated on the cheque, return of funds, not
40 verified win?
41 A Right.
42 Q And, again, that the source is only further
43 obscured if those funds are ultimately withdrawn
44 from the casino, if they're not largely gambled?
45 A Right.
46 Q And you'll agree that it is a good anti-money
47 laundering policy not to accept cash in these

1 casino patron accounts, that that would
2 constitute a much greater money laundering risk,
3 a placement risk?
4 A Yeah, certainly to outlaw cash in general, yes,
5 that would definitely minimize money laundering,
6 without a doubt.
7 Q And would you agree with me, it's good anti-money
8 laundering policy to only accept bank drafts from
9 reputable financial institutions and not, for
10 instance, from money service businesses?
11 A Certainly, yeah, that would minimize risk. Yes,
12 I would agree with that.
13 Q And you've already discussed the particular
14 vulnerabilities of money service business to
15 money laundering, so you would agree with me that
16 if BCLC, and specifically Mr. Kroeker, in his
17 role as Vice President of Compliance, banned
18 money emanating from money service businesses
19 entirely from B.C. casinos, that reduces the
20 money laundering risk in the casinos, it's a
21 positive step?
22 A I would agree with that.
23 Q And going back to the issue of lack or visibility
24 into what happens at the financial institution,
25 or elsewhere outside of the casino. You'd agree
26 with me -- in fact, a number of facets of this
27 Vancouver model, or to money laundering processes
28 in general, would not be visible to casino
29 service providers, or indeed, to the Lottery
30 Corporation, fair?
31 A Can you repeat that question?
32 Q That a lot of -- a lot of the -- many of the
33 facets of the Vancouver model, some of the things
34 that are taking place in terms of underground
35 banking and elsewhere --
36 A Mm-hmm.
37 Q -- the casinos and the Lottery Corporation
38 wouldn't normally have visibility into that?
39 Right? I think you'd agree on that.
40 A I can't really speak on behalf of casinos, what
41 they'd be aware of or cognisance, so I'll --
42 Q Okay.
43 A -- I won't answer that question.
44 Q Well, my main point is that in order to bring
45 down something like this, a complex operation
46 like this, is really that it requires law
47 enforcement involvement; is that fair? It's a

1 fundamental part of combatting money laundering?
2 A Well, law enforcement, and obviously the
3 compliance and vigilance of sectors that are
4 vulnerable to money laundering. I mean, there's
5 two parts.

6 Q Fair enough.

7 A There's the enforcement and then there's, of
8 course, the onus that's placed on casinos and
9 other reporting entities that have been, as I
10 call it, deputized to prevent and report this.
11 So it's not just law enforcement, it's contingent
12 upon the --

13 Q Certainly it's a team effort.

14 A Exactly.

15 Q But let's say BCLC is doing its job and the
16 casinos are reporting, and FINTRAC and the
17 regulators, and indeed, law enforcement, have a
18 lot of information about what is taking place at
19 a certain point in time, they've done what they
20 can, and law enforcement, or others, need to do
21 their part; is that fair?

22 A Certainly, yes.

23 MS. MAINVILLE: Mr. Commissioner, this -- I have a
24 minute left. It might be a good point for me to
25 break. I don't have a minute left in my cross-
26 examination, but for the day.

27 THE COMMISSIONER: No, I understood that. Thank you,
28 Ms. Mainville. We will -- this being an
29 appropriate time for you to break, we will break
30 now until tomorrow morning at 9:30. And
31 Professor Schneider, I just have to caution you
32 that as long as you're under cross-examination,
33 you're not permitted to discuss your evidence
34 with anyone. I know that you and Mr. Martland
35 will be discussing modification of your report
36 this evening, but Mr. Martland is well aware of
37 that prohibition, and I just wanted to ensure
38 that you were, as well. All right? So, tomorrow
39 morning at 9:30.

40 Mr. Martland, is there anything further that
41 we should discuss or deal with at this point?

42 MR. MARTLAND: No, that's fine. Thank you.

43 THE COMMISSIONER: All right, thank you, everyone, we
44 will adjourn until tomorrow morning at 9:30.

45

46 (PROCEEDINGS ADJOURNED TO MAY 27, 2020, AT 9:30
47 A.M.)