

**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

Monday, May 25, 2020

APPEARANCES

Brock Martland, QC Patrick McGowan	Cullen Commission
Jacqueline Hughes Chantelle Rajotte Cherisse Friesen	B.C. (Ministry of Finance and Gaming Policy and Enforcement Branch)
Judith Hoffman Ashley Gardner	Canada
Ludmila Herbst, QC Catherine George	Law Society of B.C.
Ron Usher	Society of Notaries Public of B.C.
William Smart, QC Shannon Ramsay Matthew Palmer	B.C. Lottery Corporation
Mark Skwarok Melanie Harmer	Great Canadian Gaming Corporation
Jitesh Mistry	B.C. Government Employees Union
Christine Mainville Carly Peddle	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	B.C. Civil Liberties Association
Jo-Anne Stark	Canadian Bar Association, B.C. Branch

Kevin Westell

Criminal Defence Advocacy Society

James Cohen

Coalition

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1
Introductions

Vancouver, B.C.
May 25, 2020

THE REGISTRAR: The hearing has now commenced.

MR. MARTLAND: Mr. Commissioner, I'll just speak slowly. And I have Mr. McGowan on my screen, so if I see a nod, hopefully that means he can hear me. That's what I was hoping to see.

It's Brock Martland as Commission counsel.

I think we're now in a position to begin with our hearings.

THE COMMISSIONER: Thank you, Mr. Martland.

MR. MARTLAND: Mr. Commissioner, I'll start if I might with a few simple logistical points and then we will move our way through introductions from the lawyers who are attending and participants who are attending, all by Zoom video today. And following that, I understand you may have a few remarks. I have a few remarks before we launch the ship in the water in these hearings. And after that we will then move right away to Professor Stephen Schneider as the first witness.

By way of addressing those logistical points, first of all we want to express our great gratitude and appreciation for the incredible work and flexibility and commitment to the shared cause on the part of all of the participants and our team, a number of whom have been working flat out over the weekend to be ready to do this by video. And we're just exceedingly grateful for that level of cooperation and commitment.

What I plan to do here is to introduce counsel. These proceedings occurring through the video are our best attempt at replicating the courtroom type of experience that we had hoped to have before COVID-19 came on the scene. In a courtroom, counsel would probably spell out their names, et cetera, but the spelling of the names isn't required here. But I do want to work our way through a list of the participants to make sure we're recording who is here in attendance.

First, by way of introducing Commission counsel, for today's appearance it's myself, Brock Martland, and Patrick McGowan. The other Commission lawyers most intensively involved in the overview hearings -- Alison Latimer and Kyle McCleery -- are not actually connected through

Introductions

1 Zoom but are attending and watching at least on
2 the live stream, which, I understand, is or will
3 be up shortly.

4 What I'm going to do with respect to the
5 participants, I'm going to move through the list
6 in the order of what I circulated on Friday, the
7 general what I call batting order of the sequence
8 of participants, and I'll do that by participant,
9 asking each participant to please have whoever is
10 the speaking lawyer, the lawyer dealing with this
11 witness, to then unmute themselves and introduce
12 both themselves and their team members, anyone
13 else in attendance from their group. And once
14 we've worked our way through that list, then we
15 can move to dealing with the overview reports and
16 a few other things.

17 So having covered that point, I'll begin,
18 please, with the Province, which is to say the
19 Ministry of Finance and the Gaming Policy
20 Enforcement Branch.

21 MS. HUGHES: Commissioner, Jacqueline Hughes,
22 appearing on behalf of GPEB and the Ministry of
23 Finance. And with me is Chantelle Rajotte and
24 Cherisse Friesen.

25 MR. MARTLAND: Thank you. I'll ask next counsel for
26 Canada, please.

27 THE COMMISSIONER: I wonder if their mikes are muted.

28 MS. HOFFMAN: Judith Hoffman. Can you hear me now?

29 MR. MARTLAND: Yes.

30 MS. HOFFMAN: Sorry. Commissioner, appearing on
31 behalf of Canada is Judith Hoffman, and I have
32 with me Ashley Gardner.

33 THE COMMISSIONER: Thank you, Ms. Hoffman and Ms.
34 Gardner.

35 MR. MARTLAND: Thank you. Next I have counsel for the
36 Law Society of B.C.

37 MS. HERBST: Thank you. Mr. Commissioner, it's
38 Ludmilla Herbst, appearing for the Law Society of
39 British Columbia, and with me is Catherine
40 George.

41 THE COMMISSIONER: Thank you, Ms. Herbst and Ms.
42 George.

43 MR. MARTLAND: Next, the Society of Notaries Public.

44 MR. USHER: Good morning. It's Ron Usher appearing on
45 behalf of the Society of Notaries Public of
46 British Columbia.

47 THE COMMISSIONER: Thank you, Mr. Usher.

Introductions

1 MR. MARTLAND: British Columbia Lottery Corporation.
2 THE COMMISSIONER: Mr. Smart, I think you may be
3 muted.
4 MR. SMART: Mr. Commissioner, I think I'm unmuted now.
5 I'm a little slow with my -- I'm left-handed and
6 I'm using my right hand.
7 THE COMMISSIONER: Thank you.
8 MR. SMART: Thank you. So it's William Smart for the
9 B.C. Lottery Corporation, Mr. Commissioner, and
10 with me is Shannon Ramsay and Matthew Palmer.
11 THE COMMISSIONER: Thank you, Mr. Smart, Ms. Ramsay
12 and Mr. Palmer.
13 MR. MARTLAND: I have next the participant group of
14 Great Canadian Gaming Corporation and Gateway
15 Casinos.
16 MR. SKWAROK: Mr. Commissioner, Mark Skwarok appearing
17 for Great Canadian Gaming Corporation, and with
18 me is Melanie Harmer.
19 THE COMMISSIONER: Thank you, Mr. Skwarok and Ms.
20 Harmer.
21 MR. MARTLAND: I have next the BCGEU.
22 MR. MISTRY: Hello, Mr. Commissioner. Jitesh Mistry,
23 last name Mistry, M-i-s-t-r-y, for the British
24 Columbia Government and Service Employees Union.
25 THE COMMISSIONER: Thank you, Mr. Mistry.
26 MR. MARTLAND: Next, counsel for Robert Kroeker.
27 MR. MAINVILLE: Good morning, Mr. Commissioner. I'm
28 Christine Mainville and I am attending with Carly
29 Peddle.
30 THE COMMISSIONER: Thank you, Ms. Mainville and Ms.
31 Peddle.
32 MR. MARTLAND: Counsel for Mr. James Lightbody,
33 please.
34 MR. MCFEE: Mr. Commissioner, Robin McFee, and with me
35 is Maya Ollek.
36 THE COMMISSIONER: Thank you, Mr. McFee and Ms. Ollek.
37 MR. MARTLAND: The Canadian Gaming Association. And I
38 didn't think to say this at the outset, but there
39 may be some participants who aren't in
40 attendance, so I don't have an easy way to
41 checklist that myself. But I'll take from the
42 silence we may not have anyone from the Canadian
43 Gaming Association for today's hearing.
44 THE COMMISSIONER: All right. Thank you.
45 MR. MARTLAND: The B.C. Real Estate Association.
46 MR. WEAVER: Good morning, Mr. Commissioner. Chris
47 Weaver appearing for the B.C. Real Estate

1 Association, and by separate Zoom feed, Patrick
2 Weafer appearing as co-counsel.

3 THE COMMISSIONER: Thank you, Mr. Weafer and Mr.
4 Weafer.

5 MR. MARTLAND: Next, BMW.

6 MS. CAMLEY: Mr. Commissioner, it's Morgan Camley,
7 appearing on behalf of BMW, and with me is Carina
8 Chiu, also appearing as counsel.

9 THE COMMISSIONER: Thank you, Ms. Camley and Ms. Chiu.

10 MR. MARTLAND: The B.C. Civil Liberties Association.

11 MS. TWEEDIE: Good morning, Mr. Commissioner. Megan
12 Tweedie, appearing on behalf of the BCCLA. I
13 should note that I have two colleagues who will
14 also be co-counsel with me at these hearings.
15 However, they're not on right now. And that is
16 Emily Lapper and Latoya Ferrell.

17 THE COMMISSIONER: Thank you, Ms. Tweedie.

18 MR. MARTLAND: The joint participant group of the
19 CBABC and Criminal Defence Advocacy Society.

20 MS. STARK: Good morning, Commissioner. Jo-Anne Stark
21 here for CBABC.

22 THE COMMISSIONER: Thank you, Ms. Stark.

23 MR. WESTELL: Good morning, Commissioner. Kevin
24 Westell. I'm here for the Criminal Defence
25 Advocacy Society. With me on the brief but not
26 on the feed today is Mr. Samuel Williams, who's
27 assisting me.

28 THE COMMISSIONER: Thank you, Mr. Westell.

29 MR. MARTLAND: And finally the Transparency
30 International Coalition.

31 MR. COHEN: Good afternoon from Toronto, Commissioner.
32 My name is James Cohen from Transparency
33 International Canada representing TI Canada and
34 the project Canadians for Tax Fairness.

35 THE COMMISSIONER: Thank you, Mr. Cohen.

36 MR. MARTLAND: Thank you. Mr. Commissioner, there's
37 one other, I suppose, housekeeping item of
38 business that I had indicated to participants we
39 would address early on. Pursuant to Rule 33 of
40 the Rules of Practice and Procedure for this
41 Commission, having circulated five overview
42 reports, received very helpful comments and input
43 from participants and then revised them, I'm
44 proposing to have the five overview reports
45 marked as the first exhibits in these
46 proceedings. I'll begin, please, with the
47 Basel -- I may get the pronunciation wrong --

1 AML, which is Anti-Money Laundering Index
2 Overview Report. My suggestion would be -- and
3 I'll slow down to let Madam Registrar indicate if
4 I've got this right. But I'll propose that
5 become Exhibit 1.

6 THE COMMISSIONER: Very well. That will be Exhibit 1.

7 THE REGISTRAR: Exhibit 1.

8 THE COMMISSIONER: Thank you, Madam Registrar.

9

10 EXHIBIT 1: Basel AML Index Overview Report

11

12 MR. MARTLAND: Secondly, I have the Internal AML
13 Initiatives Overview Report. Mr. Commissioner, I
14 ask that please become Exhibit 2.

15 THE COMMISSIONER: Very well. Exhibit 2.

16 THE REGISTRAR: Exhibit 2.

17 THE COMMISSIONER: Thank you.

18

19 EXHIBIT 2: International Legal Initiatives
20 Overview Report

21

22 MR. MARTLAND: Third, the Canada Reports Overview
23 report. I ask that that be the next exhibit,
24 please.

25 THE COMMISSIONER: Exhibit 3.

26 THE REGISTRAR: Exhibit 3.

27 THE COMMISSIONER: Thank you.

28

29 EXHIBIT 3: Canada Reports Overview Report

30

31 MR. MARTLAND: Fourth, I have the FATF, or Financial
32 Action Task Force Records Overview Report. I ask
33 that become Exhibit 4, please.

34 THE COMMISSIONER: Exhibit 4. Thank you.

35 THE REGISTRAR: Exhibit 4.

36

37 EXHIBIT 4: FATF Records Overview Report

38

39 MR. MARTLAND: And the fifth is the Hansard Overview
40 Report. I ask that please be marked as the next
41 exhibit.

42 THE COMMISSIONER: Exhibit 5.

43 THE REGISTRAR: Exhibit 5.

44

45 EXHIBIT 5: Hansard Overview Report

46

47 MR. MARTLAND: Thank you. Mr. Commissioner, before I

Opening Remarks

1 offer a few remarks, I wanted to see if you wish
2 to offer comments as we start.

3 THE COMMISSIONER: Thank you, Mr. Martland, yes. On
4 October 18th of 2019, I made some opening remarks
5 at the first public hearing of the Commission.
6 The purpose of those remarks was in part to
7 identify the context in which the Commission was
8 established, to outline the principles governing
9 the conduct of the inquiry, and to summarize the
10 objectives which we hope to achieve through this
11 undertaking. I will not repeat those remarks.
12 They are posted on the Commission website and can
13 be accessed easily.

14 At the time I made those remarks, no one
15 anticipated that the world would be in the grip
16 of a pandemic when our spring hearings were
17 scheduled to commence. As I noted in a statement
18 issued on April 16th of this year, although money
19 laundering is a significant issue which needs to
20 be addressed, it is important to acknowledge the
21 priority of the health crisis that continues to
22 beset the province, the country, and even the
23 world.

24 Accordingly, we made the decision to conduct
25 our spring hearings remotely using video
26 conferencing technology, which we hope will
27 provide a suitable substitute for a traditional,
28 in-person hearing.

29 As a result, in addition to the hard work of
30 preparing the hearings, Commission counsel and
31 Commission staff have been working tirelessly to
32 find and adapt the available technology to ensure
33 these hearings can be conducted fairly and
34 effectively without compromising the need to
35 provide access to the public and media and
36 without prejudicing those whose rights or
37 interests are ultimately at stake.

38 It is important to emphasize that this is a
39 new departure for a hearing such as this and
40 there are many moving parts which need to be
41 monitored and maintained. If, from time to time,
42 the inquiry is required to recess to address some
43 issue or another, I hope everyone will understand
44 that it is in aid of promoting fairness and
45 effectiveness in the context of a new and
46 unfamiliar process.

47 I think it is important to acknowledge, as

Opening Remarks

1 Mr. Martland has already done, that the
2 participants and their respective counsel have
3 been very cooperative in their willingness to
4 engage with this technology and have assisted
5 along the way in the Commission's attempts to
6 test and make this process workable.

7 I am now going to ask Mr. Martland to
8 provide some opening remarks as we move into the
9 hearing phase of this inquiry. Yes, Mr.
10 Martland.

11 MR. MARTLAND: Thank you, Mr. Commissioner. I'll be
12 very brief with these remarks. There's one or
13 two further practical items I should touch on. I
14 believe everyone is likely muted, which helps
15 enormously. If there's a reason that counsel
16 needs to interject, or object for that matter, or
17 speak at all, please simply unmute yourself and
18 interject that way. That's what we've put
19 forward as the best way to raise an objection, as
20 one would do in court is to stand and object
21 fairly clearly as opposed to trying to put up a
22 hand or ask a question in the comment box or what
23 have you.

24 It occurs to me we may also do well as we
25 get familiar with one another to ask if anyone is
26 doing that, to please, maybe for the first few
27 times, state your name and the participant you
28 act for so that we're all familiar with who is
29 raising an objection and what they wish to
30 address us on.

31 We'll have one or two breaks through the
32 course of this block of hearing. Our hearing
33 times are 9:30 to 1:30, and so we'll simply plan
34 to indicate if there's a need for a break or
35 that's a suitable juncture, and likewise if
36 someone wants to suggest that, they can do so.

37 Before we move into the first piece of
38 evidence in these hearings, I wanted to simply
39 offer a few remarks about the plans and aims of
40 Commission counsel, in particular with the first
41 witness and with the overview evidence.

42 With respect to Professor Schneider's
43 literature review, we are not relying on specific
44 factual assertions or statements that appear, for
45 example, in media reports which he has reviewed
46 and summarized in his literature report. We're
47 not relying on those assertions as they appear in

Stephen Schneider (for the Commission)

1 Professor Schneider's report to establish the
2 truth of the underlying assertion. To the extent
3 there are areas or situations where we need
4 evidence in order to ground a finding of fact,
5 our plan is to move to that and have documents
6 and witnesses and evidence that speak to it. But
7 I simply say that it's not -- it may be the case,
8 for example, that something in a media report
9 that is described in the literature review or
10 touched on today is put forward clearly as part
11 of the public narrative and the reporting and the
12 context leading up to the creation of this
13 Commission, but to the extent that's a live issue
14 in our hearings, we won't be saying: There it
15 is, it's in evidence. We'll move to having
16 evidence to resolve those sorts of issues.

17 Commission counsel's hope is that the
18 literature review will serve as a useful general
19 introduction to the topic of money laundering in
20 the province.

21 And the other simple point is to state that
22 we're in this present block of hearings in the
23 spring dealing with the overview and introduction
24 to the topic of money laundering. We have a set
25 of hearings scheduled for the fall that move into
26 very specific topics and issues, for example
27 casinos. In addition there's a piece dealing
28 with what I would term the government response
29 question, and those issues will be the focus of
30 far more specific evidence in the course of the
31 fall hearings.

32 Having offered those few further remarks,
33 Mr. Commissioner, subject to anything else that
34 we need to touch on now, I think we're in a
35 position to have the first witness, Professor
36 Stephen Schneider from Nova Scotia be brought on
37 screen, so to speak, and then affirmed, and we'll
38 begin with his evidence.

39 THE COMMISSIONER: Great. Thank you, Mr. Martland.

40 THE REGISTRAR: Mr. Schneider, can you please unmute
41 your mike.

42 MR. SCHNEIDER: I'm unmuted.

43 THE REGISTRAR: Thank you.

44
45 STEPHEN SCHNEIDER, a witness
46 called for the Commission,
47 affirmed.

Stephen Schneider (for the Commission)

1 THE REGISTRAR: Please state your full name and spell
2 your first name and last name for the record.

3 A Stephen Russell Schneider. The first name is
4 S-t-e-p-h-e-n and the last name is spelled S-c-h-
5 n-e-i-d-e-r.

6 THE REGISTRAR: I'm sorry. Can you speak a little
7 louder. We cannot hear you.

8 A Yeah. It's Stephen, S-t-e-p-h-e-n, and Schneider
9 is S-c-h-n-e-i-d-e-r.

10 THE REGISTRAR: I'm sorry. Your voice tends to drop
11 towards the end, and we really need you to speak
12 to the mike closely.

13 A Very well. It's Schneider, S-c-h-n-e-i-d-e-r.

14 THE REGISTRAR: Sorry, we can barely hear you.

15 A Well -- let's see if I can -- obviously there's
16 some issues here. [indiscernible]

17 THE REGISTRAR: Sorry, we cannot hear you. I could
18 hear you at the beginning but then your voice
19 dropped.

20 MS. MATTERS: Mr. Schneider, we are going to connect
21 to the hearing through a phone call, and we'll
22 call you.

23 A Let me just try to fix my microphone here. Yeah,
24 I think using a phone is a better idea.

25 MR. MARTLAND: Mr. Commissioner --

26 THE COMMISSIONER: Yes, Mr. Martland, I think this is
27 one of those occasions which I alluded to in my
28 remarks where we'll have to experience a slight
29 delay before we get on with Mr. Schneider's
30 evidence. I didn't intent to be quite so
31 prescient.

32 MR. MARTLAND: Yes. I was hoping I'd be able to say
33 that never came to pass or at least not right
34 away. I think it makes sense we simply wait here
35 and hopefully the audio is connected in a viable
36 way and then we can move on.

37 THE COMMISSIONER: Yes, I think so.

38 MR. MARTLAND: Mr. Commissioner, I wonder if there may
39 be some logic in our standing down for a few
40 minutes so that we can -- we don't all need to
41 wait [indiscernible] on the line and can try to
42 establish a good connection and test that that's
43 working well and then reconvene. So I wonder if
44 I might, having said there would be one or two
45 breaks, suggest that we take maybe five or so
46 minutes and plan to connect then. I think we'd
47 given some suggestion to participants that if we

Stephen Schneider (for the Commission)
Examination by Mr. Martland, Counsel for the
Commission

So with that in mind, Madam Registrar, I'm hopeful that you might be able to display on the screen the literature review. It's the document -- and maybe just the first page of that.

EXAMINATION BY MR. MARTLAND:

Q Professor Schneider, you'll recognize the May 11, 2020, date and then the title, "Money Laundering in British Columbia: A Review of the Literature." That is your literature review prepared for this Commission, is that so?

A That is correct.

MR. MARTLAND: I'll ask, Mr. Commissioner, this become the next exhibit, please.

THE COMMISSIONER: Very well. That will be Exhibit 6.

EXHIBIT 6: Money Laundering in British
Columbia: A Review of the Literature

MR. MARTLAND:

Q Professor Schneider, next I will ask you please move to page 142 because I'll be referring to some of what's described there. And this is in section 11 of your report as an appendix to it. You refer to it as being the relevant expertise and experience of yourself, the penultimate section of your report, the very last section being section 12, the list of references that were used in the literature review.

So by way of explaining who you are and about your experience in this area, you're a professor with the Criminology Department of St. Mary's University in Halifax, is that so?

A That is correct.

Q Degrees from, if I have it correctly, Carleton, a bachelor of arts in political science, a master of science degree in international development from the University of Pennsylvania, and finally a Ph.D. in urban and regional planning from the University of British Columbia?

A That's correct.

Q And with respect to your background and the work that you've done, particularly addressing money laundering, if you could please provide us with a description of that.

A How brief would you like that?

Stephen Schneider (for the Commission)
Examination by Mr. Martland, Counsel for the
Commission

1 Q I don't mind if you take some time. I think it's
2 helpful for us to know -- I mean, it may make
3 some sense, as you've done at page 142, to
4 narrate how it is that you came to work in this
5 field. I understand some of that involved work
6 where you were doing research and policy analysis
7 for the federal Ministry of Solicitor General and
8 also working with the late Margaret Beare.

9 A Right. Well, I guess my experience in the area
10 began in the late '80s. As a student at Carleton
11 I was very interested in underground economy
12 issues. In my economics classes I wrote a paper
13 on money laundering. And Margaret Beare, who you
14 mentioned, got wind of that and asked me to do
15 some work as a summer student on research they
16 were doing into money laundering in Canada. This
17 was just before the first piece of legislation
18 was introduced to criminalize money laundering.

19 So our study was entitled "Tracing Illicit
20 Funds: Money Laundering in Canada." Subsequent
21 to that report I continued to work in the issue
22 area of money laundering/organized crime, which
23 included subsequent study that looked at money
24 laundering enforcement, and that study directly
25 led to the establishment of the Integrated Anti-
26 Drug Profiteering Units, which then led to the
27 reformulation of the Integrated Proceeds of Crime
28 Units.

29 Other responsibilities when I was with the
30 federal government with Solicitor General
31 included providing policy advice, organized
32 crime, proceeds of crime, money laundering
33 issues, to the minister and senior civil
34 servants, coordinating development of training
35 videos for police on proceeds of crime
36 enforcement, representing the federal government
37 in Financial Action Task Force meetings.

38 When I left the federal government I worked
39 in the private sector for a firm, KPMG consulting
40 firm, which actually -- the front accounting
41 division, and part of my work there was
42 conducting surveys among the financial services
43 sector on money laundering, mostly a
44 victimization survey as it were. We also
45 provided services to firms to help ensure they
46 comply with money laundering, anti-money
47 laundering legislation and regulations.

Stephen Schneider (for the Commission)
Examination by Mr. Martland, Counsel for the
Commission

1 When I left KPMG, I joined the faculty at
2 St. Mary's University, and there I've undertaken
3 a number of studies on the subject money
4 laundering. And probably the most prominent was
5 a survey of RCMP police cases, so I provided
6 access to case files, money laundering and
7 proceeds of crime case files for the RCMP, and I
8 conducted a quantitative survey, the goal of
9 which was to really try to understand how the
10 proceeds of crime are disbursed and laundered in
11 Canada according to police investigations or
12 according to police data. So that study is
13 really limited to police-reported perspective on
14 the issue.

15 From that study I was able to publish a
16 number of peer-reviewed articles, including
17 looking at organized crime and financial crimes
18 in the real estate markets, the securities
19 markets, also looking at involvement of lawyers
20 and legal professionals in money laundering, the
21 incorporation of criminally influenced companies
22 as well.

23 And of course Margaret and I published a
24 book in 2007 on the subject of money laundering
25 enforcement entitled *Money Laundering in Canada:
26 Chasing Dangerous Dollars*. And I've also
27 presented a number of papers on the subject at
28 conferences. And I also worked as a consultant
29 to the federal government for a number of years,
30 basically helping to assess and evaluate the
31 Integrated Proceeds of Crime Units. Much of my
32 research were interviews and focus groups and
33 some surveys.

34 And I also received funding from the Social
35 Sciences and Humanities Research Council for
36 research into money laundering as well.

37 And I think I'll leave it at that for now.

38 Q Well, that's a very helpful review of your
39 background. And just because you've touched on
40 it, Dr. Margaret Beare passed away last year and
41 is often described as one of the leading experts
42 in the field of money laundering in Canada, a
43 long-time professor at York University in Toronto
44 with both the Department of Sociology with a
45 cross-appointment to the Osgoode Hall Law School.
46 A That's correct, yes. Margaret was definitely a
47 trail blazer in the area of -- she was a seminal

Stephen Schneider (for the Commission)
Examination by Mr. Martland, Counsel for the
Commission

figure in in helping to get the original
legislation introduced and she'd be able to
conduct research and understand the issue better
both as a civil servant and as a scholar as well.

Q Right, okay. In the courtroom I would be
signalled with someone's eyes or passed a note,
and in our milieu I'm passed a digital note so
I'm looking at those from time to time. I
understand that my experience that I'm only
seeing a phone button and not your face may be a
shared experience that other people have. What
I'm proposing to do is that we'll still carry on
and cover some ground this way, but then at our
break make some effort to connect up your video
feed as well as the phone connection and maybe
have the two running at the same time. Just for
your awareness, that's my proposal is that we
carry on and cover some ground this way and then
circle around at the break and make an effort to
fix that up.

A All right. Sounds good.

Q I have one other question, sir, about page 143.
And near the end of the biographical summary that
you've set out there, you describe some of the
work that you're doing right now researching a
book, looking at large financial institutions,
how they become implicated in money laundering
and other organized financial crimes. Can you
tell us -- without this being the sort of late
night sales pitch for the upcoming book, I
suppose, tell us a little bit about what that
upcoming work is.

A Sure. Well, I was asked to present a paper
looking at money laundering using the HSBC case
study. HSBC was implicated in a major money
laundering scandal about 10-12 years ago that
involved laundering millions if not billions of
dollars in drug revenue including transport of
bulk cash across the U.S.-Mexico border.

Essentially once I started in on that case
study, I realized that money laundering scandals
weren't limited to HSBC. It was among a number
of large -- what we call large complex financial
institutions, global banks -- Bank of America
Boston, a Barclay's, a Swiss Bank. I mean, it
touched -- pretty much every major bank had been
implicated in some kind of money laundering

Stephen Schneider (for the Commission)
Examination by Mr. Martland, Counsel for the
Commission

1 scandal in recent years, including quite severe
2 criticism and even fines and other regulatory
3 actions over the lack of compliance measures and
4 anti-money laundering measures being implemented
5 by these firms.

6 And what I found as well was the problems
7 weren't limited to money laundering. There's a
8 whole host of issues, unethical issues, even
9 criminal offending issues, that were popping up
10 in these firms. And I basically identified eight
11 different types of issues that had come up in
12 recent years among large global banks, from
13 helping counsel and clients evade taxes, capital
14 flights. There was involvement in the 2008
15 financial crisis, the Libor scandal, manipulating
16 foreign exchange rates, evading American trade
17 sanctions.

18 So really, when I started looking at the
19 issue of money laundering, it really snowballed
20 into a whole range of other type of malfeasance
21 or even criminal behaviour as well. And so my
22 book is looking at this range of financial
23 crimes, financial improprieties, and again trying
24 to analyze, you know, why this is and in
25 particular looking at sort of the corporate
26 culture of these big banks. So that's the nature
27 of the book I'm writing right now.

28 Q That's very helpful. Page 143, just before the
29 list of the books, peer-reviewed articles, other
30 articles as well as conference presentations,
31 you've got a description about doing some work
32 for the RCMP Outlaw Motorcycle Biker enforcement
33 program. I understand you wanted to make some
34 modification or clarification to the way you've
35 described that work?

36 A Oh, yeah. I'm working -- there's no formal
37 contract right now. I work with Sgt. Andy Cook,
38 who's the head of the biker enforcement program,
39 and while nothing has been written as far as a
40 contract, I am engaged in -- he has assigned
41 certain tasks to me as far as trying to work on
42 my own expertise and experience to become an
43 expert witness in that program. I can't go into
44 detail of what he's assigned to me, but the long-
45 term goal is they're looking for not just police
46 members to become expert witnesses. They also
47 want others that can provide more rigorous

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empirical data as well. And so Sgt. Cook has recruited me to become an expert witness in the program. And it was initiated, but of course then COVID-19 came along and it kind of upended everything. But so I would say, as far as clarification on that point, I'm working with the RCMP in an informal manner, and specifically with Sgt. Cook, on that issue.

Q Fair point. And so informal as opposed to -- you described a work in progress instead of something that's moved to the next stage?

A Well, I mean, there's no formal agreement that I've signed. But as I said -- as I mentioned, I've met with Andy Cook several times and am working on some specific projects with him with respect to the expert witness program.

Q Right. So now I'll move -- and this will be the, I hope, one dramatic page jump from 143 or wherever I was back to page 8 of your report, please.

A Mm-hmm.

MR. MARTLAND: And for the benefit of the participants or anyone watching, the literature review that I'm covering in the course of asking these questions has been marked as an exhibit. I'm not sure what the timing if it will be, but once we're in a position to have that posted on our website, we'll do that. These exhibits will be available publicly through the Commission website. But because I think it might be cumbersome for me to try to have our registrar scroll through every single page where I'm asking a question, I don't propose to bring up particular pages on the screen. But just for the benefit of participants to complete the thought, if counsel wanted to do that, they should be able to make that request for a particular page and have something shown if that's needed.

So as I say, I propose to be flipping pages but not asking the Registrar to do that for everyone.

Q So I'll begin if I might, then, at page 8 in the introduction. And what you have there, Professor Schneider, is a description about what this literature review is and, more broadly, what a literature review is. Could you explain that, please. The concept may not be one familiar to

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1 everyone.

2 A Well, a literature review, again, is basically
3 concerned with describing and analyzing a
4 particular topic based on a comprehensive
5 understanding of the extant literature, the
6 literature on a particular topic. So it is a
7 summary of what's been written and published on a
8 particular subject. It's meant to give a reader
9 a comprehensive understanding of the issue and
10 how it's interpreted through the literature, how
11 -- it's really assumed that the author has
12 assimilated all or a majority of the seminal
13 works -- but not just seminal works, but really
14 all the relevant work pertaining to the field
15 under study. So literature reviews should
16 enumerate, describe, summarize, assess, clarify
17 and critically analyze the existing works on a
18 subject. The literature -- it's primarily
19 descriptive. It's really there to document what
20 the research or the state of the art of the
21 publications on a particular topic is, but at the
22 same time the literature review provides the
23 writer with the opportunity to critically
24 [indiscernible] and even to synthesize some of
25 those sources as well, which I've done in this
26 report to some extent.

27 And so analysis is, for example, taking a
28 particular compendium of issues and being able to
29 analyze them as a whole, collectively. And it's
30 also about critically analyzing the sources as
31 well, so being able to, you know, critique the
32 state of the art or the research, critique
33 particular literature within that review as well.

34 And so in the case of this literature
35 review, I try to again rely primarily on Canadian
36 sources, and there is, again, given that the
37 literature review is meant to focus on B.C.,
38 there's not a lot of, you know, published
39 literature, especially scholarly literature, on
40 the topic specifically with respect to B.C. The
41 other factor as well in doing this literature
42 review is that, you know, this is fairly recent.
43 These issues have come to the fore in the last
44 four or five years, I guess, certainly into
45 public view in those last years. And so because
46 of that there is not a lot of academic research
47 on this. Certainly we have seen some important

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1 reports come along which have been cited in my
2 literature review. But because of this as well,
3 I've had to rely a lot on the news media, which
4 is something typically you don't do in a
5 literature review. But again, given in
6 criminology, especially in the area of organized
7 crime and money laundering, there tends to be a
8 reliance on the news media simply because it
9 fills the void of the academic research.

10 So in this literature review that I
11 conducted, it's meant to provide a balance of
12 scholarly research, of reports that have been
13 written, the news media as well. And so I've
14 been able to hopefully coalesce all this
15 information into a literature review that is both
16 descriptive of money laundering in general,
17 conceptually, theoretically, also trying to apply
18 theories and concepts to Canada and B.C., but
19 with particular focus as well on the situation in
20 B.C. that has arisen over the last four or five
21 years, although the current issues, you know, go
22 back further than that.

23 And so -- so really this literature review,
24 as you mentioned at the very beginning, is not --
25 it's really to provide an overview of the issues,
26 and in some cases I did get more in depth on
27 issues like the so-called Vancouver model and,
28 you know, what some of the recent reports in the
29 news media have identified as the major issues
30 surrounding the problems that the Commission is
31 identifying, including the major -- you know, the
32 suspected or alleged offenders that have been
33 involved, the techniques they're using.

34 So part of the report does focus on the so-
35 called Vancouver model. And because there is not
36 a lot of information on that, a lot of that was
37 gleaned from the news media, from reports done by
38 Peter German, FINTRAC as well, FATF. So that
39 portion perhaps goes a little beyond what a
40 literature review is meant to do. But in trying
41 to get a grip on, you know, what the so-called
42 Vancouver model is, and it's a very unique kind
43 of laundering operation -- money laundering
44 operation that sort of headquarters in Richmond,
45 if I can put it that way. I tried to make an
46 effort to provide a greater understanding of not
47 just the literature but the issues that the

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1 Commission is facing as interpreted through the
2 literature.

3 So I went perhaps -- there's -- more
4 analytical than I would usually do in a
5 literature review. But at the same time I was
6 trying to make a contribution to better
7 understand the unique situation that British
8 Columbia has with respect to the issue of money
9 laundering and organized crime.

10 Q And you mentioned what I take to be the paucity
11 of purely academic writing about money laundering
12 activities specifically in B.C. Is it the case
13 that to some extent the counterbalance to that,
14 to obtain the information or the commentary that
15 you can means that this report has more by way of
16 reliance, for example, on news reports than
17 otherwise would be the case?

18 A Well, again, I -- I try to balance -- I mean, my
19 goal is to -- if I'm going to make a particular
20 point is try to triangulate my data. So that is
21 to get information from various sources. I very
22 much try to avoid making arguments and backing up
23 evidence based solely on one report or one type
24 of media, whether that's a report or an academic
25 paper or news media. So I'd like the literature
26 review to be seen as -- you know, as a balance of
27 information from various sources where I try to
28 corroborate sources, corroborate information
29 based on these various sources. So to some
30 extent, yes, there is a heavier reliance on news
31 media in this report than I generally would do.
32 But at the same time, there's, you know, again a
33 strong reliance on the report that Peter German
34 and his associates wrote, obviously because that
35 was focused on British Columbia, the B.C. -- the
36 report on money laundering through B.C.

37 And at the same time, there's a number of
38 reports at the federal level through FINTRAC,
39 Finance Canada, that look at Canada generally but
40 also have some specific information on B.C. And
41 of course the information on Canada generally is
42 obviously relevant to British Columbia as well.
43 So my goal was to be able to, like I said,
44 triangulate the data so I was able to take
45 information from different sources, compare and
46 contrast, and try to present a consensus based on
47 the different sources that are in the -- that

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1 I've documented in the review.

2 Q If I could ask you a question drawing on page 9
3 of the report, the literature review, and have a
4 look, please, if you have that at hand, the
5 second paragraph. And I'll just read it out,
6 about halfway through, or a few lines down, you
7 say:

8

9 Most scholarly literature reviews attempt to
10 maintain a high level of quality and
11 precision by ensuring only the most reliable
12 and rigorous sources are included, which
13 means the sources should be published and
14 peer reviewed. However, other sources such
15 as unpublished documents or reports (the
16 grey literature) as well as the news media
17 and non-fiction books may [also] be
18 included, especially to fill any voids in
19 the scholarly literature. Regardless of the
20 source, a literature review must ensure all
21 sources are subject to a critical analysis.
22 This is especially true of government, law
23 enforcement, or private industry reports or
24 press releases, which may be biased or
25 deliberately vague, as well as the news
26 media.

27

28 If you'd just help us understand, when you talk
29 about -- I guess that's guarding yourself against
30 the risk of something that is put out by whoever
31 it may be where you need to approach that with
32 critical eye. What are thinking about or
33 describing there, please?

34 A

35 Well, first and foremost, I mean, the issue of
36 money laundering, like crime in general,
37 organized crime specifically, is one that is
38 obviously not amenable or not conducive to the
39 kind of research, especially scientific research
40 we can do in other disciplines. Obviously by its
41 very nature, it's secretive. We're very much
42 reliance on data and information provided by law
43 enforcement and other government agencies, and it
44 has to be critically analyzed. You know, as I
45 mentioned, we tend to have to rely on the news
46 media when we're accessing public sources,
47 whether because there's a lack of scholarly
resources or a lack of access to police data as

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1 well. So in all -- any type of literature that
2 you analyze, you have to be able to critically
3 analyze the source of the information, the
4 veracity, the accuracy, which is often difficult
5 to do because you don't have that -- often you
6 don't have a benchmark against which to compare
7 the veracity or accuracy of that information.

8 So that -- you know, the literature review
9 is, I guess, the best attempt I have made to be
10 able to critically analyze the sources and the
11 information that's provided, certainly at some
12 point by excluding information that I felt simply
13 was not accurate or was not based on rigorous
14 methods as well.

15 But for me, the issue of money laundering --
16 again, because it is inherently secretive, as I
17 mentioned and because of the lack of academic
18 research -- certainly there was a reliance on the
19 news media. But as I mentioned, efforts were
20 made to be able to critically analyze the news
21 media, look at it holistically as well, to able
22 to determine and compare it to other sources,
23 whether it's Peter German's report or reports
24 from FINTRAC.

25 So I'm not sure if I'm answering your
26 question or not. But I think, again, the
27 important thing to remember here is that, you
28 know, this report that I wrote is based on public
29 sources and so there's going to be inherent
30 limitations of writing a report on money
31 laundering, organized crime, when you primarily
32 are relying on public sources. And so I think
33 that's, you know, a really important caveat that
34 one should keep in mind when reading this report.
35 And at the same time, you know, not to make too
36 many excuses, but this report was written during
37 rather extenuating circumstances, not necessarily
38 referring to COVID-19; more to try to home school
39 my oppositional nine-year-old. But...

40 So again, when you're reading this report, I
41 think there -- for those in industries or law
42 enforcement that have access to other sources of
43 data that aren't public, they may take issue with
44 some of the points I've raised or arguments.
45 There may be sources in here that some may feel
46 should be omitted, for example.

47 But again, it gets back to the point I made

1 earlier in that I very much try to avoid relying
2 on any one particular source to make an
3 overarching argument or analysis. And so again,
4 my goal in writing this review was to be able to
5 access as many sources as possible -- or as much
6 literature as possible from as many sources as
7 possible with the eye to basically trying to
8 corroborate data from different sources to reach
9 a consensus of the literature.

10 Q Thank you very much. Please turn up page 11.
11 Under the third segment of this or portion of the
12 document, you have a heading of "Conceptual
13 Overview."

14 A Yeah.

15 Q You go on in the start of that discussion to
16 comment about there being no reliable estimates
17 of the amount of revenue produced by illegal
18 activities in Canada, but you say little doubt
19 that narcotics trafficking and other organized
20 criminal conspiracies generate billions of
21 dollars of money annually. Then you have a
22 quotation from your book. The 2004 citation is
23 to your book, a review of the RCMP cases.

24 A Right, report, that book, yeah.

25 Q And so it is maybe in the obvious questions
26 category: Why cash?

27 A Well, cash, again, continues to be the accepted
28 mode of payment in the criminal underworld,
29 whether it's street level drug trafficking or
30 bookmaking or gambling, especially when you talk
31 about consensual crimes, so drug trafficking, you
32 know, bookmaking, people smuggling, prostitution.
33 Cash is the -- continues to be the accepted mode
34 of payment, and often is in small denominations.
35 So it's not unusual to have multi kilos of
36 cocaine or marijuana being purchased with \$20
37 bills, stacks of \$20 bills. Twenties and 50s
38 tend to be the dominant denomination within the
39 underground economy. And so because cash is
40 primarily used in the criminal economy, not to
41 mention the underground economy, it basically is
42 a challenge to be able to -- for the drug
43 trafficker or the criminal offender to use this
44 cash without attracting a large amount of
45 suspicion.

46 And so this is why the, quote, the so-called
47 money laundering has arisen as a particular

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1 tactical imperative of criminal entrepreneurs and
2 drug traffickers and organized crime, is that in
3 order to enjoy the fruits of their labour, they
4 need to be able to take that cash and try to
5 convert it into a form, an asset, that's less
6 suspicious, all the while trying to hide the
7 illegal source.

8 But again, we shouldn't get too caught up
9 about, you know, what constitutes money
10 laundering or not. I guess we'll talk about that
11 a little later. I mean, really what we are
12 concerned with is the ability of criminal
13 offenders to be able to continually use the
14 proceeds of their criminal activities, whether to
15 reinvest back into the criminal activities or to
16 be able to enjoy the fruits of their labour. And
17 again, while cash continues to be the source of
18 payment in the underground economy, increasingly
19 -- especially if you want to purchase, you know,
20 big ticket items, cash is obviously, in the
21 legitimate economy, looked at rather
22 suspiciously.

23 So again, the whole point of money
24 laundering to some extent traditionally is to
25 convert cash to a less suspicious asset in order
26 for the criminal offender to enjoy it.

27 Of course there's other types of crimes,
28 especially economic crimes, commercial crimes,
29 where cash is not produced and that money is
30 still being laundered. But what we've been
31 primarily concerned with is drug trafficking,
32 which continues to be primarily a cash-based
33 business.

34 Q I wonder as you sort of look forward, if two
35 different recent developments might cause you to
36 think differently about the role of cash in the
37 sense of printed currency bills versus other
38 means of transferring value, as that being
39 something that might change over time. I'm
40 thinking here about, first, virtual currencies,
41 Bitcoin and the like. Secondly -- which is a
42 very recent phenomenon and hard to measure how
43 big the impact will be -- but in the COVID era,
44 where people are often asked not to be passing
45 paper bills between each other but doing
46 everything with cards and other ways to pay for
47 things, do you see those kinds of trends as

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1 pointing in any particular direction with respect
2 to the importance of cash?

3 A Oh, absolutely. Certainly not just, you know,
4 cybercurrency like Bitcoin, but being able to do
5 any kind of -- use any kind of digital currency.
6 So certainly a lot of attention has been paid to
7 Bitcoin and cybercurrency, and we have seen --
8 there are cases where it's -- we haven't seen a
9 case where, you know -- at least we haven't seen
10 a significant amount of cases where digital
11 currencies like Bitcoin, cybercurrencies are
12 being used in drug transactions. There have been
13 some cases, but we still see it's largely a cash-
14 based business.

15 With that said, there are cases where
16 Bitcoin and other cybercurrencies have been used
17 to launder cash, the proceeds of crime, to
18 convert cash into Bitcoin.

19 We've also seen online a number of
20 platforms, including multiplayer games, that have
21 basically invented their own currency that are
22 used within the context of that game, but at the
23 same time do have value attached to it. So these
24 currencies are used to purchase, you know,
25 particular products within a game or allow to,
26 you know, advance to another level.

27 And there's a section of the literature
28 review that looks at one of these multiplayer
29 games called Second Life and how it's created its
30 own currency and the potential for that currency
31 to be used as a laundering mechanism as well.

32 So without a doubt, when you're talking
33 about non-cash alternatives, you can break it
34 down into economic crimes like stock market fraud
35 or insider trading or market manipulation, where
36 it really is done primarily digitally. All the
37 transactions are digital, and the frauds are
38 digital. The money is stolen from people -- for
39 example, the fraud is usually a wire transfer or
40 an account transfer. And so you have that issue
41 of proceeds of crime that are already in an
42 electronic format, whether that's a bank account
43 or, you know, a securities brokerage account.

44 And the second, as I mentioned, is the onset
45 of cybercurrencies like Bitcoin. And then the
46 third would be, as I mentioned, you know, these
47 virtual currencies online that are used as part

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1 of gaming as well.

2 So all of these are definitely issues to
3 keep your eye on as far as potential for
4 laundering money, and the challenges in trying to
5 detect the proceeds of crime, especially when
6 they're in electronic or digital format.

7 But certainly from my experience, even
8 looking at recent drug trafficking cases, cash
9 continues to be the currency of choice in drug
10 deals, whether again you're at a street level, a
11 five-, ten-, twenty-dollar transaction up to
12 multikilo where you're talking, you know,
13 millions of dollars. So cash is still a primary
14 form of currency in the underground economy.

15 Q Thank you. You mentioned in the course of one of
16 these recent answers the difficult question of
17 how to define or how to understand what money
18 laundering is, and with a view to trying to see
19 what your literature review has to say on that
20 question -- I'll welcome you to disagree with the
21 way I'm describing it if you see it differently.
22 But I sort of read your report as having a few
23 different ways of explaining or describing money
24 laundering as you understand it.

25 First of all, if I can look at page 11, the
26 third paragraph down begins: "To benefit from
27 drug trafficking and other profit-oriented
28 illegal activity..." Do you see that --

29 A Yes.

30 Q -- paragraph?

31 A Yeah. And then you say:

32
33 ...criminal offenders may engage in a series
34 of financial transactions designed to
35 convert cash into a less suspicious asset,
36 disguise the true origins and criminal
37 ownership of illicit proceeds, while
38 creating the perception of a legitimate
39 source.

40

41 And you say:

42

43 Such financial transactions are commonly
44 referred to as money laundering.

45

46 Q There's a first --

47 A [indiscernible]

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1 Q And then you go on -- this isn't contradicting or
2 giving a different view of it, but I think more
3 by way of elaboration about what you're
4 describing in the next paragraph:

5
6 ML [money laundering] is an operational
7 tactic employed by cash-intensive criminal
8 entrepreneurs and groups to maximize their
9 ability to use and enjoy the fruits of their
10 illegal activity without attracting
11 suspicion and/or government enforcement.
12

13 And you go on to talk about the concepts of money
14 -- the point being that money laundering isn't
15 part of what you would call the "revenue centre"
16 for the business but rather a "cost centre."
17 Could you please help us understand what you're
18 describing with that characterization?

19 A Sure. I mean, criminal organizations, you know,
20 are not that much different in many ways from
21 legitimate corporations. For example, you have
22 revenue and you have expenses. You have certain
23 expenses, certain, you know, line items that have
24 to support your revenue stream, whether that's,
25 you know, again product manufacturing,
26 warehousing, sales, accounting, you know, legal,
27 everything. And it's the same with criminal
28 organizations.

29 So when I look at money laundering, I look
30 at it within the context of other types of
31 tactical imperatives that criminal groups use or
32 criminal entrepreneurs use to be able to sustain
33 their criminal activities. Corruption is one of
34 those. We know that corruption like money
35 laundering doesn't produce revenue -- in fact
36 it's an expense -- but it's there to support the
37 revenue-generating activities.

38 Intelligence gathering. We know that the
39 outlaw biker gangs are active in gathering
40 intelligence on police and government employees,
41 and that is an expense.

42 So money laundering -- and there's a lot
43 more of these, you know. Criminal groups have to
44 obviously be involved in production and
45 distribution. So when I look at money
46 laundering, it's not there to produce revenue for
47 the criminal group or the criminal entrepreneur.

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1 It really should be seen as part of, as I
2 mentioned, a cost centre or as an expense, as a
3 tactic that's used to support the revenue stream.
4 And it's somewhat unique in that it's really very
5 specifically focused on the goal of allowing the
6 criminal groups to enjoy the benefits of their
7 revenue.

8 At the same time, money laundering can also
9 be integrated into the transfer of funds
10 internationally, you know, from a country where
11 drugs are sold back to the source country to be
12 able to pay for the drugs as well. And that is a
13 critical part actually of the whole Vancouver
14 model that we talk about.

15 So first and foremost, money laundering
16 is -- it's an expense. If you actually make
17 money off of laundering drug money, that's an
18 added benefit. But really, to avoid suspicion,
19 you actually would like, you know -- if you're,
20 you know, laundering it through a casino, for
21 example, and you're gambling some of the drug
22 money, you actually lose some of that money to
23 make it look legitimate. But it's not considered
24 a revenue-producing stream as in big drug sales
25 or gambling, things like that. It's there to
26 support the overall organization.

27 But it's unique, as I mentioned, that it's
28 really there to help the criminal offenders
29 actually enjoy the benefit of their revenue, to
30 be able to spend it without suspicion.

31 Q And at the bottom of page 11, I have a question
32 that comes out of that last paragraph. You say
33 that within the criminal milieu, ML has taken on
34 a life of its own, and you go on to say that's in
35 part because of increased efforts by governments,
36 law enforcement, private sector firms and
37 professionals who are trying to combat it.

38 Could you help us understand what you
39 describe there?

40 A Well, certainly the common narrative is that
41 we've seen money laundering become in many ways a
42 cottage industry. It's not only part and parcel
43 of the sort of tactics a group or an individual
44 may use to launder the proceeds of crime, but we
45 now see criminal entrepreneurs who basically are
46 consultants -- call them specialists or
47 professional money launderers, whatever term you

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1 want to use -- specialists that are there
2 basically to help other groups or help their own
3 criminal group launder the money. We first
4 really saw it with the Colombian cartels in the
5 '80s. I mean, they were producing so much
6 revenue, billions and billions of dollars in
7 cocaine revenue, that again was all in small
8 denominations -- that they had specialists, that
9 they had almost separate divisions that were
10 responsible for transporting cash and laundering
11 that cash.

12 And with reference to that paragraph,
13 certainly as law enforcement and government
14 legislation has focused on the proceeds of crime
15 as a way to combat organized crime and drug
16 trafficking, many of the criminal entrepreneurs,
17 criminal groups, have become more sophisticated
18 and more determined to be able to hide their
19 assets from law enforcement.

20 So 50 years ago, you know, before we had any
21 legislation in place on money laundering, you
22 know, the bad guys really didn't have to worry
23 about the police going after their assets because
24 generally speaking we didn't really have the laws
25 that allowed the state to forfeit the proceeds of
26 crime. But as soon as those laws were introduced
27 that gave the powers to police to seize and
28 forfeit the proceeds of crime, specialized
29 enforcement units, anti-money laundering
30 regulations, the role of the private sector in
31 anti-money laundering -- I mean, all of this has
32 put more pressure on the criminal groups and
33 entrepreneurs and money launderers to be even
34 more surreptitious, to be even more
35 sophisticated, to be even more attuned to the
36 need to be able to hide their illicit assets.

37 So really, money laundering now is about not
38 only trying to enjoy the fruits of your labour,
39 you know, without attracting suspicions from
40 banks or the real estate industry or auto
41 dealers, but obviously you want to be able to
42 hide that money from law enforcement, from the
43 government, so they're not forced to forfeit the
44 proceeds of crime.

45 So the argument is that as money laundering
46 legislation and enforcement, proceeds of crime
47 enforcement, has ramped up in recent years,

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1 that's put more pressure on the bad guys to
2 launder their proceeds of crime in order to
3 ensure that it's not seized by the state.

4 Q I'm on to now page 12 and looking at the heading
5 of "Definitions," I think you've already -- I've
6 referred you to a few passages in which there is
7 some explanation or definition of the concept of
8 money laundering. In this series of points under
9 the heading of definitions, you have a definition
10 from FINTRAC, one from Peter German's report,
11 also the *Criminal Code* description or definition
12 of money laundering. We see there the concept a
13 few times of legitimacy, the appearance of
14 legitimacy.

15 A Correct.

16 Q What do you mean by that?

17 A Well, it's effort to ensure that not only the
18 source of the funds are seen to be legitimate,
19 that instead of a source of funds being viewed as
20 drug trafficking, that they are viewed as
21 legitimately derived, whether from an investment
22 or a job or, you know, a loan. And it's also in
23 many ways to legitimize the criminal offender as
24 well because you want, again, not just the source
25 of the funds to appear legitimate but the
26 criminal offender to appear legitimate as well.
27 So I mean, that's -- you're not simply trying to
28 hide the proceeds of crime. You're trying to
29 legitimize it. So you're trying to create the
30 perception that the funds that have been derived
31 from criminal offences actually have been derived
32 from legitimate offences. And again, that is not
33 only to avoid suspicion, but it's also a means to
34 counter criminal forfeiture of the proceeds of
35 crime as well, or even civil forfeiture, if you
36 can be able to argue convincingly that the funds
37 that are subject to, say, a forfeiture order --
38 criminal forfeiture order if those funds are in
39 fact legitimate and the onus of proof on the
40 Crown to prove that they're illegitimate or
41 illegal, there's extra onus on the offender to
42 make sure that there is the guise of legitimacy
43 created around that source of funds.

44 So it's not -- I mean, it's an essential
45 part of money laundering theoretically.
46 Conceptually it is not just to hide the source
47 but also to create the guise of legitimacy as

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1 well.

2 Q And if I move down on page 12, you have a section
3 where you describe the objectives of money
4 laundering. You refer to your 2004 study of the
5 RCMP files -- and you refer to yourself in the
6 third person:

7
8 According to Schneider, "A comprehensive
9 money laundering operation satisfies three
10 essential objectives: (1) it converts the
11 bulk cash proceeds of crime to another, less
12 suspicious form, (2) it conceals the
13 criminal origins and ownership of the funds
14 and/or assets, and (3) it creates a
15 legitimate explanation or source for the
16 funds and/or assets."
17

18 And in relation to that third point, you say a
19 few sentences down: "The third objective, while
20 less frequently satisfied in most ML operations,
21 is no less important..." You go on to then
22 describe it as convincingly creating a legitimate
23 front or alibi. And so maybe you can help us
24 with your meaning or the thoughts behind using an
25 analogy to a criminal law alibi, or a cover, a
26 front.

27 A Yeah. The term "alibi" was actually a word that
28 Peter German used in one of his reports. But
29 again, I think it's important to keep in mind
30 that, you know, a lot of -- you know, when
31 criminal offenders disburse the proceeds of crime
32 into the legitimate economy, it doesn't always
33 satisfy these three objectives.

34 The one that may be most difficult, the one
35 objective to reach, is that creating the
36 legitimate explanation for the source of the cash
37 or asset.

38 But you know, again, this is conceptual.
39 But if you truly wanted to satisfy, you know, the
40 money laundering objective, the -- you know, the
41 really three goals that you're shooting for --
42 obviously your first goal is to be able to
43 convert all cash into a less suspicious asset.
44 You want to get rid of suspicious cash. You want
45 to -- and it's not just enough to conceal the
46 criminal origin because then you're still leaving
47 yourself vulnerable to having those criminal

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origins unconcealed, whether it's through a
criminal investigation or a suspicious
transaction report.

Truly what you want to do to not just avoid
suspicion but also to avoid any kind of
government interdiction of that cash is to create
that legitimate explanation. And it's
particularly important, again in sort of common
law countries, in the criminal courts in Canada,
where the onus of proof is on the Crown to prove
that the source of funds are actually criminal or
illegal in nature. And again, as I mentioned
before, the onus or the importance of creating
this legitimate explanation is not just to avoid
suspicion. It's also to avoid government
forfeiture or another interdiction through the
criminal courts.

Q It's really a way of sort of scrubbing off any
remnants of the fingerprints, isn't it, that
through deliberate steps or transactions, any
trace evidence that can link the person to the
criminal activity or link the money at least to
the asset, the wealth, to the criminal activity
is what the person is trying to get rid of?

A Well, yes. Yes and no. I mean, again,
concealing the criminal -- obviously you want to
conceal the criminal activity, and you can do
that -- you don't have to necessarily do that
through creating legitimacy. You can conceal
criminal activity or a criminal source through
what's called layering, and that is, you know,
transaction upon transaction upon transaction
through numerous financial instruments or
commercial sectors to try to basically obfuscate
any kind of paper trail between the asset or the
funds and the criminal source. So that is in
itself an important step in the process or an
important objective. But again, on top of that,
to really truly satisfy the process, it's not
good enough just to conceal it. You want to have
that legitimate source.

I mean, some examples of creating a
legitimate source -- I mean, the most common, you
know, is setting up a shell company or even a
real company that produces legitimate revenue.
You would like a company that in its normal line
of business produces cash, you know, like a bar

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1 or a restaurant, and you commingle your drug
2 proceeds with the cash from the legitimate and
3 then you deposit into a commercial bank account.
4 I mean, that's a typical example of creating
5 legitimacy. You're not -- you are concealing the
6 criminal sources, but more importantly you're
7 creating the guise of legitimacy. And there's
8 various techniques to use to create that
9 legitimacy. But certainly trying to claim the
10 proceeds of crime as legitimate revenue from a
11 legal business is certainly one of the most
12 predominant ways to try to create this facade of
13 legitimacy.

14 Q And in terms of the sort of outcome of the money
15 laundering enterprise and measuring the success
16 from the point of view of the perpetrator or
17 people doing it, I take it that the gold standard
18 -- you've got a quote here -- I'm looking at the
19 top of page 13 -- from McGill economist Tom
20 Naylor. At the top of page 13 you quote him,
21 writing: "Money is not truly laundered unless it
22 is made to appear sufficiently legitimate that it
23 can be used openly..."

24 A Exactly, yes. Yeah.

25 MR. MARTLAND: Mr. Commissioner, I think -- I don't
26 want to take so many breaks necessarily all the
27 time, but we've covered a bit of ground here, and
28 it may be to our advantage if we make an effort
29 to see -- the audio quality seems, in my
30 observation, good for Professor Schneider thus
31 far. Our hope had been also to have the video
32 feed. And so I wonder if we take a break, that
33 might give us a chance to try to see if there's a
34 way that we can continue, I presume with the same
35 audio, but add the video component to it.

36 THE COMMISSIONER: All right, we'll do that, Mr.
37 Martland. I think we'll take 15 minutes. I make
38 it 11:03 right now. So about 15 minutes from now
39 we'll resume. And again, I would ask everyone to
40 mute their microphone and turn off their video in
41 the interim. Thank you.

42 THE REGISTRAR: The hearing is now adjourned for a 15-
43 minute break until 11:18 a.m.

44
45 (WITNESS STOOD DOWN)

46
47 (PROCEEDINGS ADJOURNED)

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(PROCEEDINGS RECONVENED)

THE REGISTRAR: Thank you for waiting. The hearing
is now resumed. Please ensure you are muted
unless you are speaking.

STEPHEN SCHNEIDER, a witness,
recalled.

MR. MARTLAND: Thank you. I have an indication I
can't turn my own video on, so we've now done a
switcheroo. We have a visible witness. I expect
that that will be fixed up momentarily. There we
go.

Professor Schneider, I think we now have you
appearing as well as being heard.

A I believe so. Well, it was working five minutes
ago. Here we go. I think I can fix that. Once
I start it -- and they actually want me to go
back to audio only. There we go.

MR. MARTLAND: Well, that audio connection seemed a
bit like what we had earlier on.

A How is it now? Am I coming through clear now?

MR. MARTLAND: Yeah, it's okay. It was a bit better
on the phone setup, I think. But we've got you
visually, so that's a great help. That's good.
Good.

Okay, well, let's start out this way, and
then if we -- and I welcome others who know more
than I do to suggest that we should add the phone
in or do something different for the audio. But
otherwise I think I'll simply go ahead with my
questions. And thank you for your patience and
everyone's patience because no sooner did the
Commissioner predict that we would have little
glitches and hiccups as we got under way, then
that happened. And I think that's a given as we
all try to put this many participants online at
the same time to run these hearings. On the
other hand, I think we are all here and it looks
like we'll be able to do this.

EXAMINATION BY MR. MARTLAND, continuing:

Q So let me return, please, to page 13 of the
literature review, Exhibit 6. And you had
touched on layering but we haven't gotten into a

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1 description or discussion about the phases of
2 money laundering. And in this portion of your
3 report, Professor Schneider, you refer to -- you
4 describe there being five phases to money
5 laundering. And just to list them out, and
6 they're there under the heading of "3.3 Phases in
7 the Money Laundering Process." In order to
8 satisfy the objectives of money laundering, the
9 process entails five phases:

10
11 (i) placement, (ii) layering, (iii)
12 justification, (iv) integration, and (v)
13 extraction or repatriation
14

15 We'll return to this, but I take it it's fair to
16 say that this is one way to characterize it as
17 being five stages. Equally on other occasions
18 it's put as being three or even sometimes two or,
19 I imagine, four different phases to the money
20 laundering process?

21 A Yeah. There's no universally accepted
22 conceptualization of how many phases or steps
23 there are. I came up with a model years ago.
24 Others have come up with a model. I included the
25 OECD model as a graphic on the subsequent page.

26 So what I did here really was, I felt at
27 this point, all the models, including my previous
28 one, were deficient, and there was a few more
29 concepts that had been introduced by other
30 scholars. And so I basically looked at the
31 existing models and then built this one based on
32 the literature.

33 So a couple of points to remember, that
34 first of all, like I said, there's no universally
35 accepted model of the phases. Number two, you
36 can actually look at these as not necessarily
37 sequential phases but more a function, because in
38 many cases they don't always occur sequentially
39 or systematically like this.

40 And let me know if my audio is not coming
41 through, if you can't hear me.

42 So basically -- I'll go through this very
43 quickly, again with those two caveats of mine.

44 The first phase would be placement, and this
45 again is generally referring to cash placement.
46 So this is where illicit cash is introduced into
47 the legitimate economy. And generally the most

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1 common -- I'm being asked to wear a headset.

2 MR. MARTLAND: Thank you.

3 A Yes. Now I need to find the headset. Let me --

4 MR. MARTLAND: Yeah. No, and that's fine. I think
5 that might well boost the quality.

6 A Yeah. Well, let me see if I can find it.

7 MR. MARTLAND: If you want to turn off your video
8 feed --

9 A Yeah.

10 MR. MARTLAND: -- for a moment and look, that's fine,
11 or whatever you like. But yeah, we don't mind
12 waiting because that's helpful.

13 A Yeah. I'm going to do the absent-minded.

14 MR. MARTLAND: Yeah, great.

15 A Okay, I'm going to try something [indiscernible].
16 Okay, that was that. Can you actually hear me
17 now?

18 MR. MARTLAND: Yeah. I think that's pretty decent.

19 A Okay, that's better?

20 MR. MARTLAND: Oh yeah, that's good. We just need you
21 to direct airlines onto runways and we'll be set.
22 That's great. Good. No, with the mike close,
23 that seems to be improving the quality of things.
24 That's super.

25 A Okay. All right.

26 MR. MARTLAND: Good work. There we go.

27 A Okay. So --

28 MR. MARTLAND: And thank you for flagging that because
29 I think that is an improvement.

30 Q You were starting in to describing the five
31 phases that you described in the review. Why
32 don't you carry on with that.

33 A Okay. So first phase, placement. Again, this
34 usually refers to when the illegal cash, illicit
35 cash enters the legitimate economy. So this
36 whole process really is about cash entering the
37 legitimate economy. So this leads to some
38 [indiscernible] like not all monies laundered
39 [indiscernible] the economy and not all these
40 crimes [indiscernible] cash.

41 So placement is where the cash actually
42 enters the legitimate economy. It's considered
43 obviously the first stage. The most typical kind
44 of cash placement is simply making a cash deposit
45 into a bank account. That's certainly not
46 exclusive. Also you can purchase big ticket
47 items with cash. You can buy a car. There are

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1 situations where you could buy a car. There are
2 situations where people buy homes with cash. But
3 generally speaking, what you want to do is you
4 want to place the cash in the economy through a
5 deposit, whether a bank -- we've seen situations
6 where other quasi banking institutions, like
7 money servicing businesses and casinos have been
8 used in this manner. But generally speaking, the
9 vast majority of illicit cash that enters the
10 legitimate economy is through a bank deposit in
11 Canada [indiscernible].

12 MR. MARTLAND: If I can just interrupt you there. I've
13 just seen a note that some people are having
14 despite the headset some problems hearing well.
15 I don't know if pushing that mouthpiece even
16 close to your mouth is one possible solution or
17 if we should move back to the --

18 A Well, let me just --

19 MR. MARTLAND: -- first mike.

20 A Give me one more minute here.

21 MR. MARTLAND: Thanks, yeah.

22 A It may actually still be --

23 MR. MARTLAND: It might be off the computer. I didn't
24 actually personally detect is as being -- I think
25 under the mute button there's a popup window
26 depending on which version of the app you have
27 that then has select a microphone, select a
28 speaker.

29 A Right.

30 MR. MARTLAND: Maybe if you try toggling over to
31 something different there.

32 A Yeah. Okay, how's that?

33 MR. MARTLAND: That seems good. Yeah. I don't want
34 to overstate it or I'll curse it. But yes, why
35 don't you try that out.

36 A Is that better?

37 MR. MARTLAND: No, it seemed to drop off again. I'm
38 sorry?

39 A Can you hear me?

40 MR. MARTLAND: Okay. Yeah. I think our best course
41 is just if you can pretend you're in a very
42 echoey courtroom and we're asking you to speak
43 loudly. and we'll do our best to push on through
44 that.

45 A Okay. Can you actually hear me through the mike,
46 or is it coming through the computer?

47 MR. MARTLAND: I think it may be the computer, but I'm

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1 frankly guessing. When you go to mute and the
2 little button up, does it say computer versus
3 headset for the talk one, mike, select a
4 microphone?

5 A No. It says -- okay, I'm getting a slew of
6 emails from your tech people as well --

7 MR. MARTLAND: I know.

8 A -- so I'm trying to --

9 MR. MARTLAND: So am I and I've just turned off all --
10 and I'm trying to ignore them all. I know what
11 you mean.

12 A Yeah, I'm -- microphone. I'm on headphones.
13 Switch to phone. I'm just going to test this
14 out. Test, test, test.

15 MR. MARTLAND: It seems okay right now.

16 A I'm just going to plod on here.

17 MR. MARTLAND: Okay. Sorry to interrupt you. Please
18 --

19 A No, that's okay. That's all right. So layering
20 is the next phase. Layering is basically about
21 conducting numerous transactions to create that
22 distance between the asset that the cash
23 eventually turns into, whether it's an account or
24 a physical asset like a car or a house, and you
25 want to create distance between that and the
26 illegitimate source, the criminal source. And so
27 ideally what you want to do is you want to create
28 layers between the asset that is used
29 [indiscernible] the proceeds of crime and the
30 criminal source. And generally layering is
31 conducting as many transactions as possible, and
32 this could be something as simple as account
33 transfers to wire transfers. The most consummate
34 type of layering is where you do numerous
35 transactions over numerous kinds of financial or
36 commercial vehicles [indiscernible] different
37 account executives.

38 [indiscernible] is, you know, Peter German
39 calls [indiscernible] wash cycle [indiscernible]
40 --

41 THE COMMISSIONER: Professor Schneider and Mr.
42 Martland, I find a bit of the audio very uneven
43 and I expect others are experiencing it
44 similarly. I wonder if we ought to go back to
45 the telephone while having you on camera. Unless
46 I'm a minority of one, I expect others are
47 experiencing what I am.

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1 MR. MARTLAND: So Professor Schneider, before the
2 break you were by phone. And your setup with the
3 phone, that seemed to be a good audio feed. Was
4 that like headphones into a mobile or a landline,
5 or what was your --

6 A No, I was just on speakerphone on my cell.

7 MR. MARTLAND: Okay. I think if you were to -- if
8 you're content to reconnect to that phone line,
9 mute your computer audio, and I think that's
10 probably our best course here.

11 A Yeah, I'm dialing right now.

12 MR. MARTLAND: I appreciate that. Thanks. Here we
13 go. I'm not going to read it out online to help
14 you. I'm glad he's muted because we don't get
15 Jimi Hendrix at the Monterey Pop Festival that
16 way, the feedback loop.

17 A Okay. You're going to have to ask your tech
18 people to send me the password.

19 MR. MARTLAND: I'll do that. That's great. Mr.
20 Commissioner, I know all of this is a bit stop
21 and go, but I do think -- maybe I'm a bit of an
22 optimist, but I think we're moving in the right
23 direction. If we have Professor Schneider keep
24 this video feed but have it muted and then if we
25 take a five-minute break to then ensure that he's
26 connected to the phone for the audio component, I
27 think that's our best way to get the two things
28 working at once.

29 THE COMMISSIONER: Yes, I agree. I think we have to
30 get it so that people can hear. So let's take
31 five minutes.

32 MR. MARTLAND: Thank you. And I think they'll be
33 sending him the password. Thank you.

34 THE REGISTRAR: The hearing is adjourned for five
35 minutes until 11:38 a.m. Please mute yourself and
36 turn off your video.

37
38 (WITNESS STOOD DOWN)

39
40 (PROCEEDINGS ADJOURNED)

41 (PROCEEDINGS RECONVENED)

42
43 THE REGISTRAR: Thank you for waiting, and the hearing
44 is now resumed. Please ensure you are muted
45 unless you are speaking.
46
47

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Commission

EXAMINATION BY MR. MARTLAND, continuing:

Q Professor, thank you --

A Okay, how is the volume now?

Q It is -- I almost don't want to tell you it's okay right now. I don't want to curse it. We can see you and we can hear you. Those are two pretty good ingredients here.

A Yeah, well, seeing me may not be the best option, though. Anyway, so as far as the five phases are concerned, we talked about placement layering. Justification is similar to the legitimacy and justification is basically a phase or a function in which the offender tries to create a legitimate guise for the proceeds of crime, so they try to justify the revenue or the assets, so hence, the term "justification."

"Integration" refers to basically integrating your transactions within the legitimate economy, and so that they become literally embedded in the legitimate economy, to contribute to the legitimacy of the proceeds of crime.

And the final is what's called extraction/repatriation, which is basically getting the money back into the hands of the offender so they can enjoy it. So, again, there's no, again, universally accepted model. This one and this five-phased model is what I put together based on a synthesis of the literature, including some of the newer ideas. Justification was a fairly new idea. And also, you don't necessarily have to think of this as, again, a unilateral process and that different phases or different functions can occur at the same time. So, for example, you know, justification, integration layering are all often combined by conducting a number of transactions. Say that involves a loan-back technique from a shell company. You're both layering. You're justifying through getting this so-called legitimate revenue from a shell company, and you're doing a number of transactions, so you're integrating the economy.

So, I think the important point is to not necessarily look at this through a linear process, or even as phases, but look at these as

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1 each individual function within the laundering
2 process that satisfies the objective. Again,
3 with the key objective of obviously getting the
4 proceeds of crime back into the hands of the
5 offender, repatriate it back to the offender.

6 So, in many cases, we'll see some of these
7 functions overlap with one another and not
8 necessarily always occur in this order. So, for
9 example, you know, if you do a cash placement
10 into a bank account under the guise of a
11 legitimate revenue, say, a company you open, and
12 that satisfies both the cash placement and the
13 justification function.

14 So, but there you have it. That, again, is
15 what I view as sort of a synthesis of the most
16 up-to-date sort of conceptual thinking on the
17 phases or functions in the money laundering
18 process.

19 Q And in your report, the literature review, that
20 is, from pages 13 onwards, you've got a quite
21 fairly detailed discussion about these different
22 phases and about some of the -- including things
23 that people have written about different aspects
24 or different phases in the money laundering
25 technique. I don't propose to read all of that,
26 but this is part of what is before us all for our
27 benefit. I'd like to take you to -- maybe just
28 looking at page 16, you've got a comment in the
29 third paragraph just above this visual in the
30 literature review where you comment exactly as
31 you did earlier:

32
33 There is no universal agreement on the
34 number of phases or the specific substance
35 of any one phase...
36

37 And then you've got something from the OECD that
38 puts it as I think dividing this broadly into two
39 parts, dividing integration process into two
40 parts, you say?

41 A Right. Again, they -- you know, they -- they use
42 different terminology. The term "placement,"
43 "layering" is the same. Integration,
44 justification. And they break integration into
45 two parts, justification and investment.
46 "Investment" is the term they use and
47 "repatriation" is the term I use. But, again, I

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1 think the important thing to remember, regardless
2 of, you know, what name you apply to a certain
3 phase or function, is that, you know, like the
4 objectives of money laundering, to truly satisfy
5 a consummate money laundering process, you want
6 to be able to, you know, place the proceeds of
7 crime into the economy. You want to conduct a
8 number of transactions that create the distance
9 between the laundered asset and the source of the
10 funds. You want to be -- at the same time,
11 integrate your transactions within the legitimate
12 economy so they're truly embedded, buried in the
13 legitimate economy, which contributes to their
14 legitimization.

15 Justification, again, is as much a goal as
16 it is a function or a phase, because one of the
17 goals, as we mentioned, in money laundering, is
18 creating this air of legitimacy. And, you know,
19 ultimately it's about getting the money back into
20 the hands of the offender, to either enjoy the
21 fruits of his or her labour or to reinvest that
22 money back into further criminal activity.

23 Q You described developing five phases as a
24 description of the process here. Is the five-
25 phase description something that's really your
26 own analysis or is that something that you drew
27 from others -- if others put it that way; it's a
28 five-phase process?

29 A Well, it's based on the literature, so it's a
30 synthesis of the literature. Some -- again,
31 there's some newer concepts introduced in the
32 last few years that have not been integrated into
33 the older model. So, yes, mine is, again, a --
34 you know, my own creation of sorts, but always be
35 based on the literature. And, you know, this is,
36 you know, a systematic model sort of evolving
37 over the years, like a lot of different, you
38 know, concepts, an academia or a -- and so, yeah,
39 it's more or less it's based on the literature,
40 but I've really expanded it to make sure that
41 each of these functions are conceptually distinct
42 from one another. Because in some of the models,
43 they weren't distinct. People were using the
44 term "integration" to mean multiple things. And
45 so I tried to flesh it out, create a little
46 broader model, one where each of those phases are
47 quite distinct conceptually.

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1 Q And is it fair to say that the three-phase, the
2 placement layering integration, is that like a
3 commonplace way of describing phases of money
4 laundering?

5 A Yeah. Yeah, those -- those are some of the core
6 concepts, yeah.

7 Q Mm-hmm, mm-hmm. If we look at page 16 and
8 onwards, you've set out some critiques of the
9 conceptual models, as well as definitions of
10 "money laundering." I don't need you to go into
11 great detail, but do you want to touch on what
12 some of those critiques involve?

13 A Sure. Well, I guess, number one, it assumes that
14 the money laundering is occurring through the
15 legitimate economy, and not all money laundering
16 occurs through the legitimate economy. As I go
17 into detail later in the report, there are
18 underground fund or value transfer systems.
19 There is different ways that you can transfer
20 laundered money without going the legitimate
21 economy. Certainly the legitimate economy is the
22 ideal, but it's not something that is universally
23 acceptable when you're laundering cash. So,
24 again, the model assumes that you're laundering
25 it through legitimate economy.

26 Another critique is that assumes that the
27 form that the proceeds of crime take is cash and
28 the cash is being placed in the legitimate
29 economy. Again, not all crimes produce cash per
30 se. If you're looking at commercial crime, stock
31 market crime, you know, marketing, mass marketing
32 frauds, a whole range of crimes, the cash -- or
33 the proceeds of crime is not necessarily cash.

34 Now, with that said, so the problem, too, is
35 that say a stock market fraud, the proceeds of
36 crime is already in the system, so it's already
37 in the system as the fraud, and you basically
38 launder the money the same way that you, say,
39 defraud people through a mass marketing fraud.
40 So, in some cases, the illicit funds are already
41 in the legitimate system or already in the system
42 in a digital electronic format.

43 You know, again, this is like the objectives
44 of money laundering. In practicality and
45 reality, you know, most people laundering money
46 are not this consummate. They're not getting to
47 satisfy each and every one of these phases or

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1 functions. As I mentioned before, there's a
2 misconception that these phases operate in a sort
3 of unilateral sequential manner, and they don't
4 always do so, so in some cases I think they're
5 better referred to as functioning phases. Each
6 of those different functions is not necessarily
7 part of sort of a systematic process. And I'll
8 leave it at that, but it's still, again -- I
9 think, you know, a fair -- if you look at each of
10 these as a function as opposed to a phase, I
11 think they are -- still cover -- they're quite
12 applicable to most cash-based criminal offences,
13 like drug trafficking. But, again, not every
14 money launderer or someone dispersing cash is
15 going to use every single one of these functions.

16 Q And I think it's around page 18 or so that you
17 comment a little bit about, I suppose, the
18 spectrum of sophistication, the different levels
19 of how professionalized and how sophisticated or
20 complex the people -- the conduct may be at
21 different phases?

22 A Right. I mean, through my own research, and
23 other research as well, and drug intelligence
24 estimates, you know, there is, again, a wide
25 spectrum or grades of vergence in the
26 sophistication of money laundering from -- you
27 know, even some of the -- even some of the more
28 sophisticated money launderers still have to deal
29 with transferring cash and still like just to
30 pack cash into suitcases and transport that way.

31 So I think you need to avoid the mindset
32 that somehow big sophisticated criminal
33 transnational criminal groups, whether it's
34 the -- you know, the Hells Angels or the
35 Colombian or Mexican drug cartels, you know, use
36 these highly sophisticated systematic phases. In
37 fact, you know, one of the best ways to launder
38 money is just to pack up cash and smuggle it out
39 of the country. And so -- so, yeah, even the
40 most sophisticated criminal groups tend to try to
41 use what works best for them or what leaves the
42 least amount of paper trail, and cash smuggling
43 is often that. And we saw that with, you know,
44 the Mexican drug cartels, and we've seen it with
45 the Vancouver model to some extent, and with the
46 Colombian drug cartel.

47 So, even the most sophisticated criminal

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1 groups will tend to use functions that leave the
2 least amount of paper trail, especially moving
3 money internationally, which could be cash
4 smuggling. But, again, when I was working with
5 the RCMP and observing some of their undercover
6 operations, you know, you would have some street
7 level heroin dealers come in with, you know,
8 hockey bags full of cash, and -- and then the
9 RCMP would -- would launder it for them. And
10 for the same time, you see the same amount of
11 sophisticated, you know, big similar
12 organizations, you know, physically transporting
13 cash as well.

14 So you run the real gamut. You have some
15 that are quite rudimentary that don't satisfy all
16 the money laundering objectives, they don't
17 satisfy all the phases, and then you have the
18 more sophisticated ones which will get into very
19 sophisticated kind of money laundering. Your
20 transfer systems and setting up, you know,
21 corporate hierarchies in tax-saving countries.
22 But, again, the sophistication of the group
23 doesn't necessarily mean that they are not going
24 to resort to basic sort of handling of cash and
25 transferring of cash.

26 Q Just to pick up on something you just described
27 in painting a bit of a picture of the spectrum of
28 how sophisticated people may be. You made
29 reference -- I just want to avoid anyone taking a
30 snippet of suggesting the police are laundering,
31 the one doing the cash laundering. But what you
32 were describing there was an undercover sting
33 operation where the police are simply going to
34 the criminals and serving as the, I guess,
35 service provider in an undercover scenario
36 designed to see if they're engaged in a crime?

37 A Yeah, back in the '90s, the RCMP set up the
38 street level currency exchange businesses and put
39 the word out in the streets that they were
40 laundering money, and there was cash. I mean,
41 it's a good point brought, there was cash coming
42 in from the street level dealership. At the same
43 time, the Rizzuto family, which was a major --
44 the mafia family in Quebec and Canada, was also
45 had their lawyers bringing in cash. You know, if
46 they can -- if you can find a reliable source to
47 launder your cash, a third party professional

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1 money launderer, then they'll use that. But it
2 gets back to, again, at a point of, once again,
3 this is a cash-based industry, drug trafficking,
4 gambling, and ultimately you need to get that
5 cash into legitimate economy; even though there
6 are limited amounts of ways to launder
7 illegitimate economy. But -- I'm sorry, I'm
8 rambling on this one. But, yes, it was an
9 undercover operation that the RCMP set up years
10 ago to launder drug money. But we got a very
11 informative observational research to see that
12 the -- the types of ways that proceeds of crime
13 were being laundered. And, again, the real sort
14 of reliance on cash and the cash economy and the
15 real desire to get rid of that cash, whether
16 you're a street level trafficker or, you know,
17 the Rizzuto mafia family.

18 Q Right. So if I can move you, please, to page 19
19 of the report, and we're going to be moving
20 shortly into a discussion about predicate
21 offences, but before doing that, just above, do
22 you see in page 19, just above the subheading in
23 the middle of the page, reference to a 2015
24 report issued by Finance Canada which identified
25 -- and you write:

26
27 ...[it] identifies four criteria that can
28 help assess the extent to which the
29 disbursement of dirty money constitutes ML
30 and the relative threat posed by a particular
31 ML operation...

32
33 Do you want to describe a little bit about those
34 criteria and what the intent was of developing --
35 I'm not asking you to speak to the intention and
36 developing them, but how you make use of those in
37 your work?

38 A Well, this was essentially a threat assessment
39 model that was created by Finance Canada using
40 four criteria, and so they use it essentially to
41 assess whether a money laundering threat is high
42 intensity or low intensity using the four
43 metrics. And it's -- I placed it in this
44 particular section because it also speaks to some
45 of the metrics on how to measure the diversity of
46 sophistication within a particular criminal group
47 or entrepreneur or money laundering operation in

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1 particular, so -- and, again, the four criteria
2 they have is, you know, sophistication, that's
3 the extent to which the criminal groups or threat
4 actors have the knowledge skills and expertise to
5 launder the proceeds of crime. Again, not a lot
6 of criminal groups, entrepreneurs have that.
7 It's not just sophistication, it's the capability
8 to do it.

9 Again, when you look at, you know, the
10 Colombian cartels from the '80s and '90s, or some
11 of the Mexican drug cartels today, are even --
12 you know, the -- some of the criminal groups that
13 we've seen operating in Vancouver of late, they
14 have really nurtured a specific capability,
15 functional capability to launder money. And,
16 again, this is what I spoke to earlier in that
17 given the need to -- given more enforcement
18 attention, given the need to hide suspicious
19 assets from the private sector, which now is
20 deputized basically to identify proceeds of
21 crime, there's been a concerted effort to develop
22 this capability. And certainly one of the most
23 significant threats in the universe of money
24 laundering right now are criminal offenders or
25 groups that have emerged specifically to launder
26 money. And that you could argue is a foundation
27 of what happened in Vancouver through -- as we
28 saw from the criminal investigations and through
29 the Vancouver model.

30 Scope, again, this is not only the scope of
31 the amount of money being laundered, but the
32 scope to which the criminal offenders use a whole
33 range of different sectors. If you just, say,
34 deposit cash in a bank and just use a bank,
35 that's not particularly a significant scope.
36 But, again, the more sophisticated or more
37 consummate money laundering operations transcend
38 one particular sector, let alone one particular
39 type of financial transaction or a financial
40 aspect. And, again, the proceeds of crime refer
41 to the scope of the money that's being laundered.
42 So, number 3 is about the scope of the sectors
43 being used and number 4 is really the magnitude
44 or the scope or the amount of money being
45 laundered; again, the assumption being that the
46 more money that needs to be laundered, the more
47 sophisticated you're going to be, which is not

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1 always the case, as I mentioned earlier.

2 But this is -- was, again, a good threat
3 assessment model that Finance Canada developed to
4 try to basically model and assess inherent
5 threat, risk of threats of different criminal
6 actors in money laundering operations.

7 Q Thank you, and in the course of that answer, you
8 touched on the notion of individuals or
9 organizations whose sole purpose is the money
10 laundering as opposed to, I suppose, the main
11 task is the money laundering as opposed to off
12 the side of the desk or as an adjunct to other
13 things they're doing. Is that --

14 A [indiscernible].

15 Q Go ahead.

16 A Sorry.

17 Q I was going to ask, is that what -- we sometimes
18 hear a term "professional money launderers".
19 Does that describe that or describe something a
20 bit different?

21 A No, it describes that. I mean, you know, there's
22 been emergence of what's called the third party
23 money launderer. So, traditionally it was if
24 you're in a criminal group, then your function or
25 one of your functions was to launder money or to
26 transport cash. And now we're seeing the
27 emergence of groups in recent years that -- whose
28 sole purpose is to launder proceeds of crime or
29 transfer cash. One of the first was connected
30 actually to the Rizzuto family in Montreal,
31 called the Caruana-Cuntrera family, and they were
32 a wing of the Rizzuto family, and that was --
33 they were basically targeted through Project
34 Omerta, which is an RCMP Combined Forces Special
35 Enforcement Unit operation about -- geez, over 20
36 years ago now. But I would also say this is
37 characteristic of the subjects of E-Pirate and E-
38 Nationalize and it's the whole sort of Vancouver
39 model revolves around professional money
40 laundering. I don't want to -- I'm not sure if I
41 can mention names. I've mention names in my
42 literature review. But basically Silver
43 International, Silver Investments International,
44 is a money service business that seemed to be set
45 up solely to facilitate laundering money. And so
46 they were laundering money -- as for -- for
47 Mexican individuals connected to -- based on the

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1 literature -- connected to Mexican drug cartels,
2 to various organized crime groups.

3 So -- so my understanding, based on the
4 literature, is that when you look at the so-
5 called Vancouver model, it really revolves around
6 a group and an informal money service business
7 that was set up solely, almost exclusively to
8 launder money for their own purposes, but for
9 other groups as well.

10 Q And we will get into some of those questions,
11 because you've got some discussion of that in
12 your report. But, again, just to be clear,
13 that's -- I mean, maybe I can ask you right now.
14 When you describe that sort of activity on the
15 part of Silver International, or other -- I
16 assume you're not an undercover officer doing
17 that investigation here. What's the source of
18 that?

19 A Literature. Everything else -- I'll try to
20 differentiate, you know, between my own research
21 and my work with the RCMP and based on
22 literature, but --

23 Q Yeah.

24 A -- you know, too much -- any reference I make is
25 based on the literature in the literature review.

26 Q Yeah, that's helpful to know. Thank you. And so
27 I'll move next, please, on page 19 to the
28 discussion about predicate offences. You've got
29 the first heading there about Canada, and you
30 say:

31
32 In Canada, the prosecution of the criminal
33 offence of ML requires proof that the money
34 or assets in question are the proceeds of a
35 specific predicate offence (e.g., drug
36 trafficking, theft, fraud, extortion...

37
38 -- and so forth. Do you want to -- you've got
39 some reference to the 2020 U.S. Bureau of
40 International Narcotics and Law Enforcement
41 Affairs and their characterization. Do you want
42 to comment about the national level? And if it's
43 helpful to do so, as I look on to page 20, you
44 have this table that comes from a 2015 Finance
45 Canada report, I take it?

46 A Right, right, and what's interesting about that
47 is you'll notice that the -- the predicate

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1 offences that Finance Canada considers very high
2 a threat are primarily commercial or economic
3 crime offences, so capital markets fraud,
4 commercial trade fraud, mass marketing fraud --
5 Q Right.

6 A -- and mortgage fraud, and the argument here is
7 that -- is one that I made earlier, is that the
8 proceeds of crime are already embedded in the
9 legitimate economy more or less, and they're not
10 in a cash form, which is what makes them such a
11 high threat. Again, the argument always is, is
12 that the most difficult stage for the money
13 launderers is introducing cash into the
14 legitimate economy. That's where they're most
15 vulnerable.

16 Q Mm-hmm.

17 A And most of the regulations that have been put in
18 place, the anti-money laundering regulations that
19 private sector firms have to adhere to, really
20 revolve around the placement stage. Not
21 exclusively, mostly.

22 Q So things like the 10 -- the cash limit before
23 someone -- an institution might have to report a
24 suspicious transaction be an example of that?

25 A Exactly. Large cash transaction recording and
26 suspicious -- yes, suspicious transaction
27 recording. 10 -- obviously, the cash transaction
28 reporting requirements of the legislation revolve
29 around cash placement. So, in this case, what
30 you have is many of these offences don't produce
31 cash, they produce -- if it's mass marketing
32 fraud, you're basically asking your victim to
33 send in a cheque or to wire transfer or do an
34 account transfer or an Interac transfer. And so
35 that's why these type of commercial crime
36 offences are rated such a high threat, because
37 the proceeds of crime are in a non-cash form, and
38 in some cases they're in electronic form. And
39 like I mentioned, if it's a securities fraud,
40 it's often very difficult to delineate between
41 the predicate offence and the money laundering,
42 because the techniques are similar. When you are
43 trying to manipulate markets and manipulate a
44 trading account, in the same time you're layering
45 and you're integrating, you're justifying. So,
46 in a lot of those commercial crime predicate
47 offences, Finance Canada is seeing those to be

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1 particularly high, because they're non-cash.

2 Q Right.

3 A And that makes it more -- makes it easier to
4 integrate the proceeds of crime and launder it,
5 and it makes it more difficult to detect the
6 proceeds of crime as the -- into legitimate
7 economy. I mean, they're really -- again, if you
8 don't have the cash to start with, that makes the
9 laundering just so much easier and more
10 efficient.

11 Now, obviously drug trafficking is in there
12 because that --

13 Q I wondered, just because you're taking us into
14 that chart, and I --

15 MR. MARTLAND: I said I wouldn't do this, but I wonder
16 if our registrar might try to bring up the
17 Exhibit number 6, the literature review, and the
18 table that shows at page 20. That may be about
19 page 23 or 24 of the PDF version. I can't
20 remember quite how the pagination breaks.

21 A Page 20.

22 MR. MARTLAND: Oh, she's quick. Look at that.

23 A [Indiscernible].

24 Q Yes, you see that, and we may see if we can get a
25 big bigger view of it, but the middle of that,
26 the Table 1, it's entitled "The Money Laundering
27 Threat Ratings of Different Predicate Offences".
28 That's what you were just describing, Professor
29 Schneider?

30 A Right, right. Yeah, right.

31 Q Okay.

32 A And if your registrar wants to share, I can also
33 post my PDF online as well and control it, but
34 that's up to you. So if --

35 Q I think we're -- I think we'll let her do the
36 sharing, but let's carry on. If there's
37 something you want to see, though, don't be shy
38 to ask her to display that. I'm not quite sure
39 how all that works. I think our general rule is
40 she's the one sharing screens.

41 A Yeah. So can we --

42 Q So we see -- so you were -- you were commenting
43 on drug trafficking as in the list in the very
44 high threat rating, but then --

45 A Right.

46 Q -- what you described as being sort of commercial
47 crime-related activity, a lot of it showing up in

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1 that first highest category.

2 A Exactly, and so drugs, because, you know, there's
3 so much -- I mean, it's such a prolific industry
4 that produces so much cash. Tobacco smuggling,
5 the same. It's a very large underground industry
6 in this country, so it produces a large amount of
7 cash and tends to be laundered. And then you see
8 the third party money laundering as well, so --
9 but I won't get into detail there, but I just
10 thought it's a very salient point to make that,
11 you know, while you have drug trafficking and
12 gambling and tobacco smuggling, it's still a
13 cash-based business.

14 We have, you know, some would argue, many
15 criminologists would argue that commercial
16 crimes, economic crimes, produce far more
17 proceeds of crime than drug trafficking, and so
18 that -- whether it's securities fraud or mass
19 marketing fraud or whatever -- and, again, so
20 it's not only the volume of the predicate
21 offences and the volume of the proceeds of crime
22 that's generated from commercial criminal
23 offences, but it's also the fact that, again,
24 it's in a non-cash form and it's already
25 integrated into the system that make it a
26 particular high -- particularly high money
27 laundering threat.

28 Q Before I ask her to take it down, is there
29 anything else you wanted to comment on? I don't
30 plan to march through all of the more detailed
31 descriptions that you've got in the following
32 part of the report, but any particular things
33 you'd like to draw our attention to from that
34 table?

35 A Again, I would like to reiterate, you know, the
36 point I just made. You know, we talk about
37 proceeds of crime, we tend to focus on, you know,
38 organized crime, like drug trafficking,
39 prostitution and tobacco smuggling and people
40 smuggling and gambling, but even though I'm
41 loathe to try to estimate the scope of any kind
42 of crime, you know, certainly we do not pay
43 sufficient attention to the type of commercial
44 crimes that occur in society, the impact that has
45 on society and the amount of proceeds of crime
46 and money laundering that accompany these
47 economic crimes.

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1 It's getting a little off topic here, but
2 it's a continued source of frustration for I
3 think a lot of victims, especially when they get,
4 you know, defrauded and realize that there's not
5 even a hope of having that investigated. But
6 again, we focus a lot on drugs, but the amount of
7 commercial crime in this country, the amount of
8 resources that's dedicated to combatting it,
9 means that we have -- we can say that commercial
10 crime probably produces more proceeds of crime
11 than drug trafficking and a lot of these
12 organized crimes combined, in my opinion. And so
13 that is why these economic crimes are such a
14 threat to Canada, a money laundering threat
15 specifically.

16 Q Mm-hmm. Is that out of step with your take on
17 the public's perception about what money
18 laundering usually describes? I mean, there's
19 sort of a public cliché of -- in our country --
20 hockey bags, in other countries, duffle bags or
21 what have you, but sort of the Ozarks, the
22 Netflix series or something of the money hidden
23 under the floorboards and literally put through a
24 washing machine. You're describing something
25 quite different.

26 A No, you're right, we do have -- you know, again,
27 we have conceptions of crime as being, you know,
28 sort of street level B & E artists, a street
29 level drug dealer, and you know, these things,
30 and organized crime. Canada's never been very
31 good at addressing what a lot of criminologists
32 believe is [indiscernible], that amount of, you
33 know, commercial crimes, economic crimes, not
34 only committed by fraudsters, but committed by
35 legitimate, you know, corporations and, you know,
36 private businesspeople, and it just simply -- you
37 know, sometimes drug trafficking is sort of low-
38 hanging fruit for police. Economic crime
39 investigations, financial crime investigations,
40 can be very complex. They don't have the
41 expertise. They don't have the resources. You
42 know, and just look at how many insider trading
43 charges have been laid in the last few years or,
44 you know, market manipulation. It's just --
45 again, I'm going to go on a tangent here, but
46 it's -- I think my point is that you're right, we
47 can't -- when we think of serious crimes that

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1 have significant impacts on society, we just
2 can't think of drugs, we have to also look at
3 economic commercial crimes as well. And the same
4 with money laundering. We can't just think and
5 sort of be stereotypical sort of drug dealers
6 with bags of cash, we also have to think of more
7 sophisticated, you know, corporate entities that
8 are engaged in unethical and criminal activities
9 and, you know, fraudsters as well.

10 Q Thank you.

11 MR. MARTLAND: I don't think, Madam Registrar, that I
12 need that display anymore, but that was helpful,
13 and I think that worked pretty well, which was
14 nice to see. It's a relief.

15 Q Let me turn, please, to page 22 of the report,
16 and we then -- in your literature review, you
17 move out of speaking nationally, but rather, then
18 focusing on British Columbia, and you refer to
19 what Peter German wrote in his 2018 report, the
20 first of two reports, to the effect that, in his
21 view:

22
23 "... the most lucrative crimes in Vancouver
24 are related to illegal drug sales"
25 implying...

26
27 A "Implying".

28 Q Go ahead.

29 A I would certainly tend to agree with that. And,
30 again, you know, the difficulty in trying to
31 compare, you know, drug trafficking to, say,
32 corporate crime, or sex crimes, it's very
33 difficult to do. But, you know, B.C. is unique
34 in that it has its geographic location, close to
35 California, which meant it's been a major conduit
36 for cocaine coming in from Mexico through
37 California, obviously [indiscernible] Pacific
38 Rim, and so you're dealing with now drugs from
39 China through the Port of Vancouver. B.C. has
40 its own very vibrant domestic drug production.
41 Obviously, the marihuana industry that dates back
42 to the '80s. Vancouver is also a centre for
43 synthetic drug production as well. So you have
44 the consummates of all these factors. You've got
45 the Hells Angels there. You've got the Chinese
46 criminal groups. You have the largest addict
47 population per capita in the country. You know,

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1 all these factors sort of come together to
2 suggest that, you know, drugs would be the most
3 lucrative type of criminal activity in B.C.

4 But, again, I say that, you know, without
5 really, you know, being unable to do any kind of
6 regular assessment of the proceeds of crime. And
7 certainly tobacco smuggling as well -- you know
8 -- but, you know, again, B.C. is unique as well
9 now because of its relationship with China,
10 trading relationship as well. The Port of
11 Vancouver is, you know, one of the most
12 significant conduits for not just drugs, but
13 counterfeit goods, counterfeit cigarettes as
14 well, so -- so I would say that, you know, B.C.
15 is relatively unique in Canada in that aspect of
16 a geopolitical location and ties to California
17 and to China, and as well as just sort of home-
18 grown drug industries, that certainly I would
19 venture that, you know, drug trafficking is
20 probably the most significant predicate offence
21 as far as generating cash and proceeds of crime
22 and money laundering is concerned.

23 Q Okay. I'll move, please, to page 23. You have a
24 heading about the "International Sources of the
25 Proceeds of Crime in Canada". And could you tell
26 us a little bit about international placement,
27 International Sources of the Proceeds of Crime in
28 Canada"?

29 A Well, you know, Canada has long been accused of
30 being a very attractive destination for proceeds
31 of crime generally than elsewhere, and that's
32 particularly with respect historically to what we
33 call the Cosa Nostra in the United States. The
34 mafia families, the New York mafia families,
35 Buffalo mafia families had significant sales
36 throughout Ontario and Quebec. The Rizzuto
37 family used to be a wing of the Bonanno family
38 till they became their own family. Ontario was
39 under the thumb of the Stefano Magaddino in
40 Buffalo for years. And so much of the money
41 laundering being done in Canada was tied to the
42 proceeds of crime coming from the U.S., or the
43 American mafia families would set up criminal
44 operations in Canada and produce revenue here,
45 launder it here, and send it back to the U.S.
46 So, historically, Canada's relationship with the
47 mafia families in the U.S. made it particularly

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attractive to money laundering.

And as we move through the years, the intervening years as well, what you've seen is Canada has also seen -- our financial system is seen as quite sophisticated, quite stable. We have a stable protocol -- you know, a political economic system, so that is attractive to proceeds of crime. Our banks are -- have always been seen as very attractive vehicles for international money laundering. The fact that our -- we have a centralized banking system where, you know, six banks basically dominate the industry, is very attractive. The fact that they have international correspondent banks and the fact that Canadian banks had a very strong presence in the Caribbean where a number of very strong secrecy laws were enacted, that contributes to their attractiveness.

And Canada has also become a transit country for drugs as well, so we're now not just a destination country for cocaine, we're also now a transit country, especially since Mexican drug cartels have sort of taken over from the Colombian drug cartels. So when you are transiting cocaine through Canada, you're also transiting the cash through Canada as well. And people are probably surprised to know the sort of infiltration that some of the Mexican drug cartels have made into Canada, not only for selling cocaine, but also for laundering money here as well. So there's a number of reasons, again, that Canada has been a particularly attractive destination for proceeds of crime internationally.

Q At page 24 of the report, at the very bottom of that page, you have "Case Study", and this is the first of many case studies that you have included in your literature review. By no means will I be covering all or even most of them, but maybe if you can just help us understand, without getting into the details of this one necessarily, what are -- what are these case studies, how have you used them in the course of preparing the literature review?

A Well, the case studies are generally there to provide some illustrations of, you know, the descriptive and, you know, conceptual elements as

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1 well, so I -- it's a technique I've used in
2 different kinds of researching reports I've
3 written for the government, and so throughout are
4 a number of cases. Whether these are cases
5 provided to me by police, cases I've documented
6 in my research, cases from the news media --
7 FINTRAC has been a very good source of cases.
8 So the cases come from a number of different
9 sources. But, again, they're there to try to be
10 illustrative of some of the points and concepts
11 that are being made throughout the reports,
12 and -- but this case study is a fairly recent one
13 and it's fairly --

14 Q Yeah.

15 A -- you know, I mean, it's self-explanatory. But
16 it shows, again, how Canada was being used by
17 some of the eastern European criminal groups and
18 how these criminal groups used various different
19 ways to get their money into Canada, through
20 banks and the shell companies and so on and so
21 forth.

22 Q Yeah, so let me just pick up on the comment you
23 made about a number of the case studies on your
24 own research. And as I look through them, I
25 think a whole bunch of them trace their lineage
26 to the 2004 review of RCMP police files that you
27 did. Is that a fair comment?

28 A That's a fair comment, yes. Again, because the
29 literature review was based on public sources, I
30 was not able to use any cases that I may be aware
31 of that are ongoing. I couldn't obviously go to
32 the RCMP and ask them to provide me with cases,
33 so -- so there's a limited -- there's a limited
34 number of sources that provide sufficient detail
35 on money laundering cases, and -- but I was able,
36 other than my studies, to rely -- again, like I
37 said, FINTRAC had some positive reports that have
38 a lot of details and cases which are relied on.
39 The news media, as well. And some of these cases
40 may be seen as being dated, as well. My study
41 came out in 2004. Most of the cases were from
42 '96 to about 2002. Having wrote a book on, you
43 know, the history of organized crime in Canada,
44 that old saying, "The more things change, the
45 more they stay the same," is applicable to money
46 laundering as well. A lot of the techniques that
47 were used, you know, in the '80s, '90s and early

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1 2000s are still being used today. If it worked
2 before, it still works in many cases, so -- so
3 some of the cases may seem dated, but at the same
4 time, there were some very illustrative cases in
5 the '70s and '80s that are as applicable today.

6 Q And in terms of the RCMP file review that you did
7 leading to the book in 2004, I mean, it seems to
8 me the fact that you're citing a number of those
9 as examples now suggests that you think those are
10 really valuable ways to have insights on the real
11 world, things that are happening, the real world
12 techniques and such?

13 A Yeah, I -- exactly. The period in which the
14 case took place is less important than the
15 ability of the case to exemplify a particular
16 laundering technique or a point that was being
17 made, and what I really tried to do, of the
18 cases, from my 2004 study, was to identify those
19 that were not only representative of money
20 laundering today or a particular point I was
21 making, but that they were British Columbia
22 cases. And not every -- I couldn't find a B.C.
23 case or Vancouver case for every point I was
24 trying to make, but that was -- particular
25 emphasis was trying to use a case that took place
26 in Vancouver or B.C.

27 Q At page 26 of the literature review, you discuss
28 the movement of funds and what's described here
29 as capital flight and other sources of illicit
30 funds coming into Canada and into British
31 Columbia, in particular, from the People's
32 Republic of China. And maybe as a bit of a
33 preface to that, on page 26, just above, you have
34 -- you quote Peter German in his second report in
35 2019. Just to situate this, I'll read out what
36 you've quoted Dr. German as saying in the 2019
37 report:

38
39 "Large amounts of unsourced foreign money
40 flow through Vancouver daily. Most of it is
41 presumably legitimate in origin. Much of it
42 may not be. Due to Vancouver's orientation
43 to the burgeoning markets of Asia, China
44 figures prominently in this flow of money.
45 But money also flows north from Mexico and
46 Latin America, and west from Europe and the
47 Middle East. Allied to much of the dirty

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1 money and that which seeks to avoid currency
2 controls are OC groups."
3

4 So, with that as the predicate, do you want to
5 describe this header, the -- what you've
6 described here as capital flight -- in particular
7 from the PRC, People's Republic of China?

8 A Well, this is something that is fairly new in --
9 in the context of money laundering. I became
10 fairly tuned to this idea of calculating capital
11 flight when I was in the process of writing this
12 book on looking at different types of crimes and
13 unethical behaviour by the big banks, and
14 realizing how many large corporate groups and
15 professionals out there that facilitate capital
16 flight. You just have to read the Panama papers
17 to look at how huge tax evasion and capital
18 flight is throughout the world today. Certainly
19 the greatest source of capital flight today would
20 -- again, based on the literature, would be
21 China. And, again, this is unique, because in
22 many cases the -- the source of the funds is
23 legitimate. These are individuals that produce
24 -- you know, perhaps a legitimate businessperson
25 in China -- that want to get that money out of
26 the country. And of course, as documented in
27 literature, there's a limit to how much money you
28 can transfer out of China.

29 So the source of the funds is legitimate,
30 but there is an illegal transaction occurring in
31 that the money is being speared out of China
32 illegally. It's not adhering to the currency
33 limits that the Chinese government has
34 stipulated, so -- so to me this was an important
35 issue, for a number of reasons, primarily
36 because, based on my understanding of the
37 literature, that capital flight was part of this
38 whole Vancouver model in that the -- the
39 professional money launderers in this case, that
40 were based out of Richmond, were basically
41 operating what's called informal value transfer
42 systems, getting cash -- not physically the cash,
43 but the value that an individual -- the Chinese
44 national wants to transfer to Canada. And then
45 that money was provided to him or her through
46 drug proceeds, so --

47 So the capital flight, in and of itself, is

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1 a problem in B.C. There's also the argument made
2 that it's invested into real estate as well,
3 which led to inflated prices. But it was all
4 tied up into the so-called Vancouver model in
5 that -- for a number of reasons, but one of which
6 was that the individuals that were laundering the
7 drug proceeds were also facilitating the capital
8 flight, these informal money service businesses
9 or professional money launderers, or whatever you
10 want to call them.

11 It's important, as well, because B.C.,
12 Vancouver in particular, is obviously the central
13 destination for much of the capital flight. I
14 would say Australia, United States and B.C. It's
15 the sheer volume of cash that's apparently
16 leaving China illicitly, billions, if not
17 trillions of dollars over a particular period of
18 time.

19 So, capital flight is significant from China
20 for B.C. and money laundering for a whole host of
21 reasons, but not least of which is that it's
22 inextricably part of the so-called Vancouver
23 model and contributed to investments in the real
24 estate market and was being intermingled with
25 drug proceeds of crime and -- and also
26 exemplifies the use of informal value transfer
27 systems, which is one of these underground money
28 laundering systems that has been around for
29 centuries as a transfer system, a value transfer
30 system that is being increasingly used for
31 laundering the proceeds of crime, as well.

32 Q And can you comment about the -- is there a
33 challenge in separating out the money laundering
34 component of that? In other words, to the extent
35 that there's money moving from China or other
36 countries to Canada, how does one separate out
37 what portion or which money within the mix of all
38 of the money ties to criminality as opposed to
39 families relocating or wealth being moved across
40 borders, for whatever reasons?

41 A Yeah, that's a good -- it's a good point, and I
42 probably don't have a very good answer for that.
43 The one thing that I did fail to mention as well
44 is that certainly some of the cash in China, the
45 source is criminal in that it's government
46 corruption, financial crimes, as well. So it's
47 not just legitimate funds that are being

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1 illicitly speared out of the country, there's
2 also illegal funds as well.

3 Again, I think as far as money laundering is
4 concerned, you know, in Canada, I'm not sure if
5 these funds would constitute the proceeds of
6 crime, because if it's a legitimate source in
7 China and if it's being transferred out
8 illegally, that's considered a proceeds of crime,
9 therefore it's being laundered. But, again, I
10 think this is where we need to get away from this
11 sort of definition of whether something
12 constitutes money laundering or not. I mean, the
13 question is the extent to which, you know, (a)
14 the capital flight from China is contributing to
15 further crime in B.C., such as drug trafficking,
16 is it contributing to the use of these informal
17 value transfer systems and [indiscernible] the
18 systems, which also are used for drug
19 trafficking, transferring drug cash.

20 So, in and of itself, capital flight can be
21 seen as a problem in B.C. as it's invested in the
22 legitimate economy and inflating housing prices.
23 It's a problem certainly if the capital or the
24 cash being transferred is, from a predicate
25 standpoint, corruption or drug trafficking. But,
26 again, it's particularly pertinent, I think,
27 because it's parcel and parcel of the whole
28 Vancouver model and it's a significant part of
29 the informal value transfer system, which really
30 emerged as a key part of laundering the proceeds
31 of crime. And not just laundering the proceeds
32 of crime, but getting the proceeds back into
33 financing more drug purchases, illegal drug
34 purchases. So I'm probably not articulating that
35 particularly well. But, again, capital flight
36 is, from what I see of the literature, a critical
37 part of the Vancouver model that has made it so
38 significant and unique in many cases.

39 Q And I guess, as I think about that whole set of
40 things that you're describing, it seems to me
41 very difficult for all of the separation between
42 -- it's one thing to say here's someone convicted
43 of a corruption or an offence in China or there's
44 some other proof on the scales to tie him to
45 criminality, and then say that's -- there's an
46 easy example of proceeds of crime, and if that's
47 then moving across borders into Canada and into

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1 the real estate or some other market, that seems
2 an easier proposition, but is it a murkier
3 proposition to call that money laundering or the
4 proceeds of crime, or it's simply money moving
5 here? Perhaps contrary to local restrictions
6 over currency control, or currency movement, but
7 not -- it's a question of proof not tied to
8 criminal activity?

9 A That's a very good point, and for me, as far as
10 British Columbia is concerned, it's less about
11 semantics of whether it constitutes money
12 laundering and more about that it bolstered and
13 contributed to money laundering of the drug
14 proceeds, for example. And it was money
15 bolstered by professional money launderers.

16 So, capital flight, again, may not
17 necessarily be laundered, by strict definition of
18 the term, if there was no criminal predicate
19 offence, but the capital flight fed into a
20 broader system that not only supposedly increased
21 inflation in the housing market, but more
22 importantly, became an integral part of the whole
23 money laundering system that has become known as
24 the Vancouver model.

25 And so it really -- the whole point after a
26 while was that drug money and capital flight were
27 called comingles, and transferred using the
28 informal value transfer systems and laundered
29 using casinos and real estate. So -- so, in and
30 of itself, you know, you can argue that the
31 capital flight is being laundered, or not being
32 laundered, based on semantics of a sort. But
33 from my understanding of the literature is that
34 it became an integral part of a broader system
35 that supported money laundering, that supported a
36 professional money laundering system, and also
37 bolstered drug trafficking.

38 Q In terms of literature that you rely on to
39 discuss some of this -- I'm looking at pages 27
40 and 28, Peter German's second report in
41 particular -- one of the authors is Naheem, and I
42 think you've quoted her or his paper at some
43 level in discussing this; is that fair?

44 A To some extent. It's brief.

45 Q Yeah.

46 A And, but again, there are, again, not a lot of
47 scholarly literature on, you know, these specific

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1 issues of capital flight into B.C. and how they
2 feed into the money laundering system. You know,
3 again, what I was trying to do is identify some
4 rigorous peer-reviewed articles that try to, you
5 know, corroborate or contradict the sort of
6 popular narrative that came out of the literature
7 in Canada, including news media and Peter
8 German's report. And certainly there is no
9 shortage of reports and studies that looked at
10 illicit money flows from China, including those
11 that come from financial crimes, and so that was
12 the intent of including articles from Naheem, and
13 from Cheng, as well --

14 Q Mm-hmm.

15 A -- that you can look at and acknowledge, you
16 know, the very large scope of financial crimes in
17 China, and obviously a great deal of government
18 corruption in China, as well, and that money
19 often is laundered internationally.

20 Q I'll move ahead, please, to page 29, under the
21 heading of "Criminal Organizations Posing a High
22 Money Laundering Threat to B.C." You write under
23 that heading:

24
25 Widespread and sophisticated money laundering
26 is often associated with transnational
27 organized crime.

28
29 You've mentioned B.C. being the:

30
31 ... home to two of the country's most
32 significant... threats: English-Canadian one-
33 percenter motorcycle gangs and Chinese
34 organized crime.

35
36 You write that:

37
38 Mexican drug cartels have also recently
39 emerged as a significant drug trafficking and
40 ML threat in B.C.

41
42 And you've touched on some of this already, so I
43 think the next few pages discussing Chinese
44 organized crime, is there anything specific you'd
45 like to add to your comments you've already made
46 on that?

47 A You know, again, probably the two most

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1 significant organized crime threats in B.C. would
2 be the one-percenter motorcycle club, the Hells
3 Angels in particular, and also, you know, Chinese
4 organized crime, to use a very vague sort of
5 term. I mean, the Hells Angels are a very
6 specific organization. And you refer to Chinese
7 organized crime, you're really referring to a
8 very sort of a loose network of a lot of
9 different smaller groups, professionals, triads.
10 The term "big circle boys" was used in some of
11 the articles, the media articles. The term is
12 sort of antiquated now. "Big circle boys" refers
13 to, again, some ex-Red Army guards that came over
14 that were released from [indiscernible], you
15 know, cultural re-education camp in Hong Kong.
16 They came to Vancouver and Toronto, and they sort
17 of really personified the kind of network
18 approach to organized crime that a lot of
19 different groups -- we always think of organized
20 crime as this hierarchy of organizations, but in
21 fact, it's more of a networked kind of a
22 honeycomb cell structure, and the -- in the Big
23 Circle Boys, these ex-military men really
24 expanded that in Canada. They moved away from a
25 tightknit organizational, you know, hierarchical
26 loop to a very loose network of cells and
27 individuals that may be, you know, professional
28 criminals, they could be professional
29 businesspeople, they could launder a triad and
30 use the resources of a triad. You know, and they
31 would have cells everywhere and they would come
32 together for one time and then to stand and then
33 come together for another, and they'd use
34 different people in different concepts.

35 So it's really what is referred to as the
36 networked approach. And my point there is that
37 they tend to fly under the radar, you know, drive
38 Harley-Davidson motorcycles and there's a big,
39 you know, sort of patch on their back. But I
40 always argue that this loose network probably
41 poses a greater threat than the Hells Angels,
42 because it's a much more sophisticated
43 operational structure, the networked approach.
44 And, again, you saw that very much in, you know,
45 the recent years of money laundering. It was,
46 you know, these core professional money
47 launderers that had a network of criminal

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1 alliances. And, again, not just within the
2 Chinese community. I certainly, you know, want
3 to get away from any kind of insinuation that
4 crime is based on, you know, race or
5 racialization, and the Chinese -- the
6 professional money launderers worked with anyone
7 that was willing to provide cash.

8 A little off topic here. This section is
9 not the strongest section in the report, simply
10 because it doesn't have a sufficient amount of
11 information, in my opinion, on sort of a history
12 or overview of money laundering done by these
13 different groups. So there's an inference here
14 that Chinese organized crime, the Hells Angels,
15 now some of the Mexican cartels, are constituting
16 some of the biggest drug trafficking organized
17 crime threats to B.C., and by extension, they
18 would also pose a significant money laundering
19 threat, as well. That's an inference in there
20 you may not want to draw, but this is a section
21 that's indicative of relying exclusively on
22 public sources --

23 Q Mm-hmm.

24 A -- not always getting a sufficient amount of
25 information to be able to justify the argument.
26 But, you know, again -- no, I'll leave it at
27 that.

28 Q Okay, and so on -- and on the Mexican drug
29 cartels, at page 35 you quote then RCMP
30 Superintendent Cal Chrustie. I think, in turn,
31 he's being quoted in a *Vancouver Sun* report in
32 2016 to the effect -- and just to give you the
33 reference here, I'm on page 35, second paragraph.
34 And the quote attributed to him by the newspaper:

35
36 "We know that transnational organized crime
37 networks in Canada have criminal business
38 relationships with Mexican cartels..."
39

40 Is that -- you go on to then quote from a book
41 called *Hunting El Chapo* in which a former U.S.
42 drug enforcement administration agent talks about
43 the Sinaloa cartel and the volume of business
44 that seemed rather staggering is described in
45 that book, engaging Canada.

46 A Right, and certainly that would be one of the
47 more emergent threats to B.C. and -- and has in

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1 it the mergence of Mexican drug cartels. I mean,
2 and this has long been known that, you know,
3 cocaine fetches a much higher price in Canada
4 than it does in the U.S. Even though we're a
5 much smaller country, the profit potential is
6 actually a lot greater in Canada for the Mexican
7 cartels. So they actually saw Canada -- the
8 Sinaloa cartel, which was headed by El Chapo for
9 years, really saw Canada as a great marketplace
10 to traffic cocaine.

11 And, again, B.C. is particularly vulnerable
12 because with the Colombian cartels, they would
13 use planes or motherships to transport the
14 cocaine to Canada. With Mexico now, now that
15 Mexico is the major conduit for cocaine in North
16 America, it's mostly through land transport. So
17 it'll come through the United States, and then
18 either into British Columbia or to the east
19 coast, to Quebec, something that has a direct --
20 you know, an easy highway transport link. And so
21 B.C. has been particularly vulnerable to cocaine
22 coming in from Mexico. And the argument, as
23 well, is that, again, the amount of cash produced
24 by cocaine sales in Vancouver and Lower Mainland
25 and B.C. and Canada generally is probably a lot
26 greater than lot of people anticipated. And a
27 lot of it doesn't necessarily get laundered in
28 Canada. Again, their goal is to get the cash out
29 as quickly as possible back to the United States
30 and back to Mexico or to Colombia.

31 But certainly if you look back historically,
32 the Colombian cartel [indiscernible] had cell
33 managers and cells in Canada that were involved
34 in money laundering, and -- but with the Sinaloa
35 cartel and Mexican drug cartels, it seems less
36 about laundering the money in Canada than
37 basically getting some quick sales and bundling
38 up that cash and getting it back to Mexico as
39 quickly as possible. So I don't have a lot of
40 information on the extent to which the Mexican
41 drug cartels are laundering money in Canada.

42 And the same with the Hells Angels. You
43 know, the best I can come up with was we know
44 that a lot of their members and associates invest
45 in businesses. But that doesn't necessarily mean
46 they're investing proceeds of crime. Even with
47 the Chinese criminal groups -- the case I relied

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on I think was a French case so -- so this section, again, the point was to try to identify three of the most high-level high-intensity threats to B.C. and make an inference that, you know, these -- because of the amount of drug trafficking they do in the province, they're also laundering the money there, which may not necessarily be the case.

Q Thank you. I'm going to move, please, to page 36. The heading is -- it's in section 6 -- "The Nature and Characteristics of Money Laundering". You say:

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

And just by way of a bit of a preview of the parts that follow, or description, you say the section is divided first, common ML methods and techniques, broken down where you can, by the five phases of the ML process, economic sectors that are being used, the professionals being used, and then discussing ML in the informal or underground economy. And so why don't we work our way through that? I'm just checking, we've got around 45 minutes remaining, and unless I have someone unmuting to say otherwise, I'd suggest we carry on till 1:30. Does that sound okay with you, Professor Schneider?

A That's fine, Brock, yeah.

Q Great, okay. And so let's have a look, please, over to page 37. And as an example of one of the case studies from your 2004 report based on the RCMP file review, the heading there -- maybe you -- maybe without me trying to fill the blanks, why don't you tell us a bit about what the discussion is and then what that particular case study speaks about?

A Well, maybe, Brock, what I'll do is just give a really broad overview of this section --

Q That sounds fine.

A -- because really the crux of the report -- and we're not going to -- perhaps we can just talk about the common money laundering methods or techniques today and the rest later. So, I've

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1 broken it down into four sections that try to
2 highlight some of the dominant characteristics of
3 money laundering. So, certainly the first
4 dominant characteristics are the type of methods
5 and techniques used. So, regardless of the
6 sector, there's some techniques that are specific
7 to a sector. Obviously, you know, money
8 laundering through a casino is going to be fairly
9 unique. But at the same time, there's methods
10 and techniques that are explicitly used to
11 launder money that are almost universal to,
12 regardless of what sector use, whether that's
13 used with nominees, with front accounts, with
14 smurfs and structuring. So, to understand money
15 laundering, one needs to understand the different
16 kind of methods and techniques that are commonly
17 used, and what I've done is try to break those
18 down by the different phases, you know, what kind
19 of techniques are used in the placement phase,
20 what kind of techniques are used in layering, and
21 so on and so forth.

22 So, in the -- in the very first section, I
23 try to give an overview of some very common
24 universal methods and techniques, and then when I
25 get into the subsequent section, which is looking
26 at different economic sectors, then I talk about
27 some of the techniques that are specific to those
28 sectors.

29 So, once I talk about the money laundering
30 techniques and -- methods and techniques, then I
31 look at how the proceeds of crime are laundered
32 through different economic sectors, trying to
33 focus on those that we perceive to be the
34 dominant destinations for the proceeds of crime,
35 whether it's banking or real estate, casinos, the
36 motor vehicle industry, insurance. So there I
37 discuss, you know, why are these sectors
38 particularly vulnerable, you know, which ones are
39 predominantly used, what kind of particular
40 products and transactions are used in these
41 sectors, what kind of laundering techniques and
42 methods are used. So in that section it's really
43 trying to identify which sectors are the most
44 vulnerable, why are they vulnerable, what are the
45 money laundering methods that are used in those
46 sectors, and as importantly, what are the
47 legitimate transactions and assets and products

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1 that are used to launder money in those sectors.
2 The next section looks at different
3 professionals. Obviously, there's been a lot of
4 controversy surrounding the involvement of
5 lawyers, wittingly and unwittingly in the launder
6 of money, and also whether or not they should be
7 included in the money laundering regulations.
8 But certainly in my research, and a lot of the
9 research conducted in money laundering, is that
10 professionals, like lawyers, are certainly seen
11 as a great asset in laundering money to the
12 legitimate economy, wittingly or unwittingly.

13 And then the final section is, again,
14 looking at money laundering in the informal or
15 underground of criminal economy. And, again, you
16 can say that, you know, maybe 80 percent of the
17 proceeds of crime is laundered through the
18 legitimate economy simply because you want to
19 legitimize proceeds of crime and simply
20 legitimate economy, commercial financial sectors
21 have the tools and the products and the expertise
22 in a transaction that are conducive to money
23 laundering. But we've seen in recent years, you
24 know, the growth of specific types of criminal
25 and underground methods that are either
26 explicitly used to launder money, like corruption
27 and internal conspiracies, or are centuries old
28 systems, like these informal value transfer
29 systems, that are very conducive to money
30 laundering. So, informal value transfer systems,
31 by its very nature, operate in the informal
32 economy and have become very attractive to money
33 launderers, and again, is a so-called critical
34 component of the so-called Vancouver model.

35 But if you like, I can -- if we have enough
36 time today -- is talk a bit about some of the
37 common money laundering methods and techniques
38 and perhaps get into the other latter three
39 sectors, sections.

40 Q Yeah, I think -- I think let's carry on in that
41 vein. And so I take it that might take us into
42 the discussion of placement that starts on page
43 37. But whether you want to track the report or
44 simply speak on the subject the way you've
45 outlined, I'm fine with either.

46 A Sure. I mean, again, money laundering methods
47 and techniques again refer to specific types of

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1 transactions or strategies or operations that are
2 explicitly about laundering money. So, and this
3 -- the contrast is to, you know, legitimate
4 transactions like -- like, you know, making a
5 cash deposit into a bank account or buying a
6 property or, you know, transferring account or
7 doing a wire transfer, these are all legitimate
8 transactions that are abused for money
9 laundering. In contrast to that, there are
10 specific types of methods and techniques that are
11 used explicitly to launder money.

12 So, "method" is basically a broad type of
13 strategy to launder money, and then "technique"
14 is a term used sort of a different way that you
15 can launder money within that broad umbrella of
16 that method. If that makes any sense.

17 Q Okay, mm-hmm.

18 A You know, again, when I'm talking about specific
19 money laundering methods, I have cash deposits
20 there. Now, that obviously is not an explicit
21 money laundering method. I include that there in
22 the placement simply because it's the most
23 predominant way to get the proceeds of crime into
24 the legitimate economy, and so I wanted to be
25 sort of up front.

26 So, depositing cash proceeds of crime into a
27 bank account in particular, but also, you know,
28 setting up an account at a casino or a money
29 server business, or a brokerage account, or any
30 kind of quasi financial institution. But
31 certainly in Canada, the vast majority of this
32 gravitates towards the big six banks. The money
33 launderers tend to gravitate towards the big
34 banks, as well. And you want to get your cash
35 into the system, then -- then account deposits,
36 so setting up a savings or a chequing account or
37 a commercial account and depositing the cash is
38 the -- really the most predominant sort of
39 placement method out there.

40 Structuring and smurfing is very common.
41 I'm not going to go into detail on all these, but
42 again, structuring --

43 Q But what -- but those are two that you have
44 mentioned before, and I think most of us who have
45 done some reading about this now know about
46 smurfing and structuring, but why don't you
47 please define what they are so we're clear about

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1 it?

2 A Sure. Structuring is simply, again, the act of
3 dividing or parcelling a large financial
4 transaction into a smaller transaction, to avoid
5 suspicion, and also to avoid reporting
6 requirements. So, in Canada, if you're a
7 reporting entity to FINTRAC, you have to report
8 any cash transaction over \$10,000, so structuring
9 is basically trying to structure your
10 transactions so they come under that threshold.
11 And, again, so -- and smurfing is simply where
12 you involve a lot of different people doing those
13 -- those small cash deposits or small cash
14 transactions. So smurfing and structuring go
15 hand in hand. You don't necessarily need
16 smurfing. You, as the individual, can make, you
17 know, 10 deposits of \$9,500. But when you have a
18 lot of cash in a big criminal organization, you
19 tend to need a number of people to be able to do
20 the structure or structure a transaction, so --
21 so the term that came up years ago was
22 "smurfing". If you're an individual that's hired
23 or used to structure deposits or structure
24 transactions, they refer to that as a smurf or
25 smurfing. But that's -- you know, it's very
26 common now since Canada introduced legislation
27 that requires financial entities and others to
28 report cash transactions. So, presumably, again,
29 I can't -- I can only say this -- and it's only
30 not based on evidence that, you know, generally
31 we see structuring increase whenever there's
32 legislation or laws introduced that have a cash
33 reporting threshold.

34 Right below that is "Cash Smuggling".
35 Again, which is, again, a very predominant
36 technique, and we see this a lot, not just with
37 drug money, but again, specific to B.C., a lot of
38 the capital flight -- not a lot, but certainly a
39 proportion of the capital flight is being
40 smuggled out of China in cash, and that's
41 smuggled into Canada. So I think I discuss later
42 on in the report some findings from the Canada
43 Border Service Agency that document the amount of
44 cash that's coming through the Vancouver Airport,
45 most of it from China.

46 But again, as I mentioned earlier,
47 notwithstanding the very sophisticated means we

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1 have to move proceeds of crime around
2 internationally, cash smuggling is still a
3 predominant technique used, primarily because it
4 leaves really no paper trail, if you're
5 successful. And the same routes you smuggle
6 drugs into the country, you use to smuggle the
7 cash out, if you're a drug trafficking
8 organization. So, cash smuggling is still a
9 significant issue to move money around, whether
10 you want to call that money laundering or not,
11 but it's -- you know, it's integral that you get
12 the cash from your destination country where the
13 drugs are sold back to the source country where
14 the drugs are being purchased. And cash
15 smuggling is, again, something that's still used
16 predominantly. And the whole capital flight from
17 China has an extra wrinkle for B.C., because of
18 the large amounts of cash supposedly coming into
19 Canada being smuggled out of China into B.C.
20 through the Vancouver Airport and other -- other
21 entry points in the Lower Mainland.

22 So that's some of the techniques used with
23 placement. Cash deposits, structuring and
24 smurfing, cash smuggling. And cash smuggling can
25 also be used for laundering money so you can move
26 cash around different countries. So, as far as
27 layering, integration and justification is
28 concerned, again, these techniques, I've lumped
29 together because there's significant overlap
30 between these three sorts of techniques used.
31 You know, when you conduct a number of
32 transactions, or layering, you're also
33 integrating them into the economy. At the same
34 time, you're trying to justify the legitimacy of
35 the proceeds of crime.

36 So, some common ways to layer, integrate,
37 most of these have to do with layering. The
38 first is what's called refining, and that's
39 simply exchanging cash, small denominations of
40 cash into larger denominations. But that's
41 really your next step after the cash placement.

42 If you're -- if you want to be able to hang
43 on to currency, the cash currency itself, and not
44 have it enter the system, what you do is you want
45 to be able to convert small denominations, 20s
46 and 50s, into larger denominations, which at some
47 point where it's 500,000 dollar bills -- and now

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1 those have been discontinued -- basically they
2 set on \$100 bills. And, again, this is germane
3 to the Vancouver model to B.C., because we saw,
4 based on the literature, what the literature
5 says, the news media in particular, that much of
6 the drug money being laundered through casinos
7 and being lent out to private mortgages were
8 small denominations, \$20 bills. And so there's
9 certain instances where, as part of this
10 laundering operation, they were converting \$20
11 bills into \$100 bills, through banks, through
12 money service businesses, and even through
13 casinos, according to some news media reports.

14 So, refining is important because you want
15 to take a large, hefty, voluminous, very heavy
16 stack of \$20 bills and you want to convert that
17 into a larger denomination, primarily because
18 it's less -- it's easier to transport and
19 generally less conspicuous. And there's a
20 general affinity for drug dealers to be able to
21 purchase drugs and \$100 bills and not \$20 bills.
22 I mean, it's just a matter of moving that money
23 around. If you've ever seen a million dollars in
24 \$20 bills, it's quite voluminous.

25 Nominees, beneficial ownership, if you want
26 to go to page 40, again, this is nominees is
27 something that is, you know, almost universal to
28 any sector. It's a very typical layering
29 technique to separate the criminal offender and
30 the source of funds from the laundered asset and
31 it's basically putting the asset into someone
32 else's name, having someone conduct transactions
33 on your behalf. But it's very commonly used in
34 the purchase of real estate, so putting -- if you
35 purchase real estate over the process of time,
36 putting that real estate or real property in the
37 name of a nominee, often a family member or a
38 friend. But this is something that's very common
39 through all laundering operations. It was very
40 predominant in the cases I looked at in my study,
41 and it's certainly -- again, like I said, it's
42 something that is common throughout different
43 sectors as well.

44 And so this is -- and it's easy to do. It's
45 relatively easy to put an asset in the name of
46 your wife or your mother or brother-in-law. So
47 it's an easy fairly relatively unsophisticated

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1 technique, but it works because, again, in a
2 country like Canada where the onus or proof is on
3 the Crown to prove that, you know, a particular
4 asset is the proceeds of crime. If you have it
5 in the name of your mother or father, it's often
6 difficult to prove that the asset belonged to the
7 criminal offender. So it's very common because
8 it works. It works as far as layering is
9 concerned and it's also fairly easy to use. It's
10 a fairly simple process.

11 Q Can I just interrupt to ask, when you talk about
12 the onus of proof, does that contrast as one
13 example with what we've referred to something
14 called the unexplained wealth order in the UK and
15 a few other jurisdictions, or making of use of it
16 effectively reverses the burden of proof if
17 they're suspicious of holdings or assets, that
18 the person may be required to prove that they're
19 not criminal in their origin?

20 A Right. Yes, in certain countries they will have
21 that in place through several procedures. But,
22 again, in a criminal court where most of the
23 proceeds of crime is forfeited, the criminal
24 offender or their nominee does not have to prove
25 necessarily the source of their funds is
26 legitimate, you know. Regardless of the ways to
27 get around -- the legal ways to get around and
28 try to confiscate property from a nominee, it's a
29 very common technique used and it's something
30 that is, again, as I mentioned, very universal to
31 a lot of different sectors.

32 I'll just touch on a couple more of these
33 layering techniques. A loan-back is basically an
34 effective technique where it uses a number -- a
35 method that uses a number of techniques, as well.
36 So loan-back is basically you provide the
37 proceeds of crime to a nominee or to a shell
38 company and then they repatriate the money back
39 to you through a loan or basically a fake loan.
40 So it can be, you know, providing the proceeds of
41 crime to your brother-in-law who lends -- you
42 know, who says he's lent you the money back, and
43 you claim that as a loan, so you now have a
44 legitimate source -- a seemingly legitimate
45 source of revenue. You said to your brother-in-
46 law, "I'll loan that to you."

47 It's also very typical amongst shell

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1 companies, so you set up a labyrinth of shell
2 companies, and all these shell companies loan
3 money to one another, and that helps
4 [indiscernible] the paper trail in terms of
5 layering. It also helps get money back
6 internationally. It helps transfer money
7 internationally, so -- so let's say you set up a
8 shell company in a tax haven country. You wire
9 -- the proceeds of crime are somehow deposited in
10 a bank account, and then that shell company lends
11 money back to another shell company in Canada,
12 which the criminal offender owns. And if it's a
13 financial tax haven country, it's very difficult
14 to find out the source of the funds. So, loan-
15 back is, again, another technique that can be
16 used between individuals or between companies,
17 but it's, again, a technique or a method that's
18 used for both layering and also repatriating the
19 proceeds of crime back, and also justification,
20 because you can now claim it's a legitimate
21 source that someone is lending money.

22 Again, offshore financial haven countries
23 have always been an issue with respect to capital
24 flight or money laundering, and they are still
25 quite predominant in a lot of, you know,
26 sophisticated international money laundering
27 operations. Going through some of the more
28 sophisticated stock market frauds and mass
29 marketing frauds that FINTRAC has documented,
30 they've looked at how financial haven countries
31 are really abused, used and abused for money
32 laundering. And, again, they're attractive,
33 obviously, for their secrecy laws and
34 confidentiality, but also because once you're
35 able to start transferring money internationally,
36 then that makes it even more difficult for law
37 enforcement to follow that money, as well. I
38 mean, I just scratched the surface of, you know,
39 financial havens.

40 Q That's good, this is very useful, so carry on.

41 A Okay. So down -- if you want to go down to page
42 43, this is "Justification,
43 Extraction/Repatriation." Again, the methods
44 that I include in here tend to satisfy all three
45 of these phases or functions, or -- or the two
46 phases or functions. Extraction/repatriation is
47 one phase.

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1 So, claiming the proceeds as legitimate
2 revenue or a loan. I'll talk about legitimate
3 revenue. Again, a very common money laundering
4 method, and again, very common to set up a shell
5 company, or a real company, one that's cash-
6 based, and intermingle the proceeds of crime with
7 the legitimate revenue and then basically deposit
8 that in a bank account. And, again, you would
9 like a company that produces cash in its normal
10 line of business. In some cases, you know, the
11 offenders will set up a shell company that does
12 not business whatsoever, and the cash -- the
13 proceeds of crime -- the cash-proceeds of crime
14 will simply be deposited in a bank account under
15 the guise of that shell company. And it's very
16 common -- it's a very common method to use and it
17 really is -- it can be both in the placement
18 stage, if it's cash proceeds of crime, and it
19 also satisfies the repatriation in that once you
20 -- and justification, as well, because once you
21 have deposited the cash proceeds of crime as a
22 legitimate revenue, then you can now claim a
23 legitimate source, and once the cash is in a bank
24 account, then you have easy access to the cash.
25 So, claiming the proceeds of crime as legitimate
26 revenue is a fairly common technique, common
27 method that satisfies a number of goals and
28 objectives and the phases.

29 Under-invoicing, again, this is a method
30 that can be used with informal value transfer
31 systems, trade-based money laundering. It can be
32 used with big ticket items, and basically the
33 premises under-invoices, let's say you're going
34 to buy a car, you've got \$100,000, you're going
35 to buy a, you know, Lamborghini or Ferrari, but
36 once you spend \$100,000, that is going to attract
37 attention to the authorities because it shows you
38 have a large amount of money. So, typically what
39 you want to do is to be able to work with a
40 conspiring seller, whether it's a car or a house,
41 and have them agree to basically claiming the
42 value of the property as much less than it really
43 is. And so you pay let's say -- let's say a
44 \$100,000 car, the car dealer sells it for
45 \$50,000, so you've got the bill of sale is for
46 \$50,000, that's recorded as \$50,000, so that
47 underestimates the revenue or the amount of cash

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1 or revenue that this individual has. And at the
2 same time, you pay the other \$50,000 under the
3 table, so the seller basically receives all the
4 cash, the -- sorry -- the vendor receives all the
5 cash owing, while the person selling the car --
6 or, sorry, buying the car -- sorry, getting away
7 here. In Nova Scotia, it's almost -- well, after
8 five o'clock. The person who sells the car or
9 the house now can claim that they only have
10 \$50,000 and not the \$100,000.

11 Q Mm-hmm.

12 A And this can be used with cars, with property,
13 and it's also used as far as what's called trade-
14 based money laundering as well, an informal value
15 transfer system, which we perhaps talk about when
16 we come to that section, as well.

17 Q Yeah, we can --

18 A But under-invoice - under-invoicing is typically
19 a method that is conducive to something as small
20 as selling a car, buying a car to launder money,
21 to something very sophisticated, which is
22 international commercial trade-based money
23 laundering.

24 Q Right, and then that sort of example of under-
25 invoicing, and maybe all of these cases, it's not
26 that there's -- it's not describing a fictional
27 transaction. In your example, there's a car that
28 the person drove off at the end of the thing.
29 But the sham part of it is the paperwork. The
30 paperwork records a much lower value, to then
31 allow the person to engage in money laundering
32 through that? There's other incidental benefits
33 such as the taxation, other implications, I take
34 it, that are maybe side benefits?

35 A Right. I mean, the last -- if you're a drug
36 dealer, the last thing you want to be doing is --
37 you know, the less money you spend, the less --
38 suspicion is going to be voluminous. Suspicion
39 is going to be [indiscernible] the less
40 attraction you're going to have to yourself. So,
41 at the same time, you can turn around and sell
42 that property for its real value and then claim
43 that as legitimate revenue. So it works on both
44 ends. So if you have a house, again, you --
45 that's worth 2 million, you pay a million for it,
46 you pay another million under the table, you turn
47 around and sell it for 2 million on the

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legitimate market, you now have \$2 million in
legitimate revenue. So it works both to reduce
the amount of money you're spending, but you
don't draw attention to yourself at the same
time. You're now able to generate a seemingly
legitimate source of revenue by selling it for
its real value.

Q Mm-hmm. So I think that takes us up to the
transition into talking about particular sectors
of the economy that are used in money laundering.

A Right. I think maybe this is something you want
to leave for another day. This is really a
pretty significant part of the report, and I have
about 10 after 5:00, so 10 after 1:00, your time.

Q Yes.

A But suffice to say, again, the argument is, is
that it's the legitimate economic sectors, the
legitimate commercial and financial sectors that
are most attractive to money laundering as
opposed to the informal underground economy. For
a number of reasons. Simply, you know, you want
to legitimize your money, so you -- you know,
that's the way to do that is through legitimate
economy. The legitimate economy, as well, has a
whole range of sectors and products and assets
and transactions and professionals that can
facilitate this. And so traditionally we think
of money laundering as occurring through
legitimate economy as opposed to the informal
economy. And, again, we see movement, more and
more use of informal economy to launder money,
but you're never fully going to be able to move
away from the legitimate economy to launder the
money, simply because of just the sheer volume of
opportunities you have for money laundering
within the commercial and financial sectors.

Q Mm-hmm.

A This section, again, is focused by different
economic sectors, from banks to casinos to I
think real estate and -- so we can get into each
sector in a little more detail subsequently.

Q So maybe just to give us the overview about what
that section does look like, and I'm just going
to do that by actually going back to your table
of contents. So under the economic sectors, you
talk about -- under separate headings
effectively. I'll just run through these fairly

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1 quickly. Deposit institutions, real estate,
2 casinos, motor vehicles, money service
3 businesses, securities, capital markets,
4 criminally influenced companies, precious metals
5 and gems, the internet, other virtual medias and
6 cryptocurrencies. And then not following
7 directly under the sectors discussion, you have
8 the topic headers of professionals and
9 occupations used for ML, and then the separate
10 section of "Criminal Methods and Techniques".
11 A Yeah, so what I tried to include there are the
12 sectors that appear to be the most vulnerable to
13 money laundering and the most frequently used.
14 Whether it's based on just studied I've done or
15 other studies or reports by law enforcement or
16 government. I've also tried to, this section,
17 cater it to B.C. as well. Typically, I -- you
18 know, casinos in Canada have never been, far as
19 my research is concerned and these cases are
20 concerned, a predominant way to launder money.
21 Quite frankly, because you're limited in how you
22 can launder through casinos, and it's a
23 relatively easy thing to do is to stop money
24 laundering in casinos, if you're really focused
25 on that. But obviously, for B.C. -- obviously,
26 for British Columbia, according to literature,
27 casinos are a major laundering vehicle.

28 Motor vehicles, as well. Peter German talks
29 about that a lot. But motor vehicles have always
30 been a destination for proceeds of crime.
31 Securities market, as well. Criminally-
32 influenced companies where bad guys incorporate
33 or take over a company. Precious metals and gems
34 are very much a very popular destination of
35 proceeds of crime. And that includes the
36 internet and other virtual media, cryptocurrency.
37 It's not so much that they're that predominant
38 now, but certainly they represent sort of an
39 emerging threat for money laundering.

40 Q And so just to at least -- as we sort of look
41 over and look ahead to the discussion that we'll
42 follow in getting into the specifics of these
43 sectors, but maybe I can just orient this by
44 going to page 44. As you introduce the new
45 section of the report you write:

46
47 Money laundering objectives and phases are

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1 more likely achieved when the legitimate
2 economy is used (compared to the underground
3 economy).
4

5 You go on to give two reasons for that. Do you
6 want to comment a little bit about why the
7 objectives of money laundering are more likely to
8 be successful or achieved if the method is one
9 engaging in using the legitimate economy?

10 A Well, I guess in a nutshell, just back to what I
11 said before, and that's, you know, one of your
12 most crucial goals in money laundering is to
13 create the guise of legitimacy, and so what
14 better way to do that than to the legitimate
15 economy. If you are transferring funds through
16 [indiscernible] or an informal value transfer
17 system, you know right away that's going to raise
18 red flags because although those are very -- you
19 know, a lot of people use those legitimately, and
20 they are underground. And so, again, it's really
21 all about, you know, two predominant reasons why
22 the legitimate economy used, is (a) because it
23 contributes to the crucial money laundering
24 objective of justification or creating a guise of
25 legitimacy. And the second is simply the vast
26 array of industries, assets, services,
27 transactions professionals, you know, that are
28 conducive to facilitate money laundering and
29 satisfy [indiscernible].

30 Q And before getting into the specifics of these
31 sectors, you have some discussion, 44 and on to
32 45, in particular, the 2015 Finance Canada report
33 that made an effort to identify and rank
34 commercial and financial sectors exposed to both
35 money laundering and terrorist financing, giving
36 an assessment of 27 economic sectors and
37 financial products in Canada. And then I see at
38 the bottom of page 44, you list off the different
39 criteria that were -- that the experts were asked
40 to look at and inherent characteristics, the
41 nature of the products and services, the nature
42 of the business relationship, the geographic
43 reach, and then the nature of the delivery
44 channels?

45 A Right, and that was -- what Finance Canada
46 produced there was quite interesting as far as
47 the very high vulnerability rating. Obviously,

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1 domestic banks are in there.

2 MR. MARTLAND: I wonder, again, because I think it's a
3 useful way for us all to track along, I might ask
4 Madam Registrar if we could please have, from
5 Exhibit 6, the Literature Review, page 45, in the
6 middle of the page, displayed. That might be
7 quite useful for us all to have that table in
8 front of us.

9 Q Just as you answer this question, so if you can
10 just --

11 A So that would be page 45.

12 Q 45 of your literature review, yeah, there it is.

13 A So what's interesting here, again, I said
14 domestic banks, there's not a lot of dispute over
15 that. Express trusts are, you know, trusts that
16 the fact that they had such a very high
17 vulnerability rating is interesting, as well, and
18 then exposes -- and this is borne out by the
19 research I've done as well is that, you know,
20 these trusts that are set up, you know, are very
21 vulnerable; again, especially if they're set up
22 through the legal process, having a lawyer set up
23 a legal trust account.

24 Money service businesses, both national and
25 smaller ones, obviously they're in the business
26 of taking cash. Whether you're a currency
27 exchange company, whether you're a transfer, you
28 know, an international funds transfer system,
29 they're less regulated than banks. They offer --
30 they provide -- they give you a cashier cheque.
31 They're easier to corrupt. Certainly there's --
32 I've come across a number of cases where bad guys
33 have incorporated their own money service
34 businesses and operated them legitimately while
35 laundering money. And corporations, the reason
36 that Finance Canada lists corporations is the
37 beneficial ownership, and that corporations in
38 Canada do not have to reveal beneficial owners.
39 And so this is what -- it gets back to before
40 when I talked about the importance of nominees
41 and beneficial ownership. So they rank
42 corporations, regardless of what kind of business
43 they're in, as a high threat because of the
44 beneficial ownership capacity of the corporation.
45 Sorry. I think what they're alluding to here is
46 when offenders actually set up their own
47 corporations or companies and use that to hide

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ownership, as well, hide criminal ownership. But if you look at the footnote, basically their underlying rationale for including this generic entity of corporations is that the vulnerability of corporations relate to the ability of these entities to use the concealed beneficial ownership, therefore facilitating the described conversion of illicit proceeds.

And then the others are, again, lower threats. You know, they're still high. You know, brick and mortar casinos, credit unions, *caisses populaires*, precious metals and stones. But certainly those ones that are considered the highest or the most vulnerable -- I mean, again, domestic banks are not a surprise, or express trusts. Certainly money services have always been very vulnerable. And, again, you know, corporations, especially if the corporate laws are used and abused, you know, by the bad guys to launder money specifically.

Q Good, okay.

A And the point you made before about there's a section in my literature review on criminally influenced companies, as well, which is a very common laundering method to expropriate a company or found a company and then use that to launder money.

MR. MARTLAND: Okay. I don't think, Madam Registrar, we need to display the document more. Thank you.

Q Professor Schneider, it's -- our hearings are set to go until 1:30, so another eight or nine minutes, if you are content for me to keep my foot on the gas for that last little bit of time, I wouldn't mind covering a few further things before we break for the day.

A Sure. I can't guarantee I'll actually be articulating any better, but we'll try.

Q Well, don't worry about that. So I'd like to start with page 47, and under the heading of "Deposit Institutions" you write there deposit institutions defined here to include banks, credit unions, *caisses populaires* are the most -- sorry -- are used more often to launder the proceeds of crime than any other single sector of the economy, and you go on to talk about why deposit institutions are conducive to satisfying the aims of the money laundering process. Do you

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1 want to give us that in a nutshell?

2 A Certainly. Well, again, as I mentioned before,
3 the chartered banks, the big six, big five, big
4 six charter banks in particular, are -- attract
5 money launderers, just like they attract, you
6 know, legitimate users. They dominate the
7 financial service sector. They dominate the
8 deposit institution sector. So the big banks in
9 particular, in Canada, within the context of
10 Canada, that's one of the first points you need
11 to make. But obviously deposit institutions
12 provide a vast array of financial services that
13 are highly conducive to money laundering. They
14 offer numerous products, numerous services, both
15 domestic and international. I mean, really banks
16 and deposit institutions are one-stop shopping
17 for money laundering. You can -- you can launder
18 your money exclusively through banks without ever
19 to use any other sector.

20 That said, banks are also critical because
21 they are kind of a centrifuge for numerous other
22 laundering vehicles, as well. So they're used
23 not only for the placement phase, they're used
24 for layering, integration, justification,
25 repatriation. So they're used for all those
26 phases. They can satisfy -- you know, they
27 provide services that can satisfy any number of
28 those phases. They service, you know, a central
29 core of a vast money laundering operation that
30 always uses different sectors, techniques in
31 different sectors. Banks are obviously valued
32 because the ability to use electronic fund
33 transfers, which are a very popular way to
34 launder money, and also to receive proceeds of
35 crime from, say, fraud victims. You know, and
36 again, the electronic fund transfers can be sent
37 internationally, and so that is always very
38 attractive.

39 So, you know, deposit institutions are, you
40 know, predominant in Canadian money laundering
41 because they're predominant in banking in
42 general, because they allow for the bad guys to
43 convert the cash proceeds of the crime into an
44 alternative aspect. They are really the central
45 conduit through which cash is placed in the
46 legitimate economy. There are numerous product
47 service transactions you can use. Canadian banks

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1 have correspondence banks and correspondence
2 branches -- correspondence banks and branches
3 throughout the world. And, again, they form the
4 core of a very -- a multi-sectoral approach to
5 money laundering, as well, so --
6 Q And so you -- go ahead.
7 A No, I was just going to say --
8 Q Yeah.
9 A -- when you look at the study I did in 2004, the
10 deposit institutions were represented in close to
11 77 percent of all the cases.
12 Q Mm-hmm, yeah.
13 A You know, so it speaks to, again, their
14 popularity as a laundering vehicle.
15 Q And in your literature review, you summarize and
16 describe a number of the deposit institution
17 services and products, so in italics about page
18 49 and on, we see the "Savings/Chequing
19 Accounts," not surprisingly. Monetary
20 instruments, electronic fund transfers, which you
21 were just speaking about, and on to page 51,
22 "Account Transfers," "Safety Deposit Boxes."
23 Page 52, on to the "Use of Multiple Banking
24 Services and Transactions," the sum or even a
25 culmination. Go ahead.
26 A Well, I was just going to say, people can see
27 that by graphing, but just the whole list of
28 services and products you listed --
29 Q Yes.
30 A -- is an indication of why banks and deposit
31 institutions are so popular, because they offer
32 so many different services that are so conducive
33 to money laundering.
34 Q Yes.
35 A Even something like mortgages, which you wouldn't
36 think would be, you know, that conducive, is
37 something that is quite prevalent with respect to
38 even through real estate. So really it's that,
39 you know, that sheer diversity of service with
40 the products that you can obtain through a bank
41 or deposit institution that makes them so
42 popular.
43 Q Yeah, and then when you get into your discussion,
44 page 52, of "ML Methods and Techniques that are
45 Specific to Deposit Institutions," not that
46 they're restricted to deposit institutions, but
47 they certainly seem to recur in this -- in

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1 relation to deposit institutions. You talk about
2 the use of nominees. On page 53, "Establishing
3 Commercial Accounts and Depositing Illicit Funds
4 in the Name of Companies". Do you want to tell
5 us a little bit about that last item I mentioned?
6 Establishing commercial accounts and depositing
7 illicit funds in the name of companies is a
8 particular method or technique in relation to
9 deposit institutions.

10 A Yeah. Again, there are obviously techniques or
11 money laundering methods that are universal that
12 are equally applicable to banks. So, you know,
13 nominees setting up accounts in the name of
14 nominees, account transfers, you know, electronic
15 fund transfers. But definitely a method that's
16 commonly used, again, is to be able to establish
17 a commercial bank account and then deposit the
18 proceeds of crime into that account. And, again,
19 that satisfies, you know, two of the most crucial
20 functions of money laundering. You're placing
21 the cash into the legitimate system, and once
22 it's in the system, you can -- you know, you have
23 just a whole range of techniques and transactions
24 to launder money. And also, when doing it as
25 revenue from a commercial business, you're also
26 able to satisfy the justification function, which
27 is basically claiming the proceeds of crime as
28 legitimate revenue. And once it's a legitimate
29 revenue, then obviously it's -- you've been able
30 to justify it and able to repatriate or maybe
31 just withdraw the cash and use it, so -- so very
32 -- you know, through my research and other
33 reports and studies I've read, definitely a very
34 common approach to money laundering is to set up
35 a company, buy into a company, either a
36 legitimate or shell company, and to truly
37 maximize the benefit of creating a criminally
38 influenced company is setting up that commercial
39 bank account, and then using that bank account to
40 place the proceeds of cash [indiscernible] to be
41 able to justify it, to legitimize it, and then
42 get the money back into your hands so it can
43 actually be used.

44 Q Good, and then just to round out the discussion
45 under this heading, you've got the last item
46 there of "Avoiding Contact with Bank Personnel."
47 So, for example, using an ATM or going -- doing a

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1 night deposit at a bank of cash as opposed to the
2 sort of face to face interaction with a clerk or
3 teller.

4 A Right, right. This came out in the study I did,
5 and in a lot of the cases they -- and this tended
6 to be individuals probably less sophisticated,
7 maybe street level drug traffickers, but not
8 exclusively. But certainly by avoiding contact
9 with tellers, for example, you know, you're able
10 to avoid raising suspicion, especially if you're
11 the nervous type, especially if you feel that,
12 you know, your appearance or demeanour may
13 attract suspicion. Using ATMS is -- it's common
14 -- a common structuring technique, and when you
15 use the ATMs, you're using not just multiple AMS
16 from the same bank, you're using ATMs from
17 different banks. That way you can structure. So
18 I'll say ATMs a fairly common way to get the cash
19 proceeds of crime into a bank, using structuring,
20 avoiding any, you know, unnecessary suspicion
21 that may be cast upon you as you're entering and
22 talking to a teller. So that was a fairly common
23 method that was used in the research I conducted.

24
25 (WITNESS STOOD DOWN)
26

27 MR. MARTLAND: Good, I think that's a useful place for
28 us to break for the day. And for the benefit of,
29 I hope, maybe for the relief -- or to the relief
30 of participants, I will be speeding up as I work
31 my way through questions about particular
32 sectors. We have the benefit of your report and
33 I expect we'll be able to have that put on the
34 website as an exhibit, too, for people who want
35 the higher level of detail. We have a number of
36 participants who have questions, as well, and
37 that will begin tomorrow, but I guess midday or
38 so, with participants asking their questions. So
39 we're very grateful for everyone's help today,
40 and Professor Schneider, thank you. I know it's
41 much later there than here, and we're grateful
42 for you putting in all of this. We'll be
43 reconvening tomorrow. And in fact, I'm advised
44 that the report is already up on the website, the
45 literature review. We'll be reconvening, Mr.
46 Commissioner, subject to anything else, at 9:30
47 tomorrow.

86

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1 THE COMMISSIONER: Thank you, Mr. Martland. 9:30,
2 tomorrow morning, we will resume, literally and
3 figuratively.
4

5 (PROCEEDINGS ADJOURNED TO MAY 26, 2020, AT
6 9:30 A.M.)
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