

## Event Information/Speaking Notes

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<b>Event:</b>	House of Commons Standing Committee on Finance
<b>When:</b>	Tuesday, Mar. 27, 2018 3:30 – 5:30 p.m. EDT (12:30 – 2:30 p.m. PDT)
<b>Where:</b>	Room 415, 180 Wellington St. (entrance at 197 Sparks St.), Ottawa
<b>Contact:</b>	David Gagnon, Clerk of the Standing Committee on Finance / <sup>s.22</sup>
<b>Length:</b>	30 mins (TBC)
<b>Key Participants:</b>	TBC
<b>Speaking Backdrop:</b>	Meeting room
<b>Audience Description:</b>	Committee members: <ul style="list-style-type: none"><li>• Hon. Wayne Easter (chair)</li><li>• Hon. Pierre Pollièvre (vice-chair)</li><li>• Hon. Peter Julian (vice-chair)</li><li>• Dan Albas, MP</li><li>• Greg Fergus, MP</li><li>• Raj Grewal, MP</li><li>• Kamal Khera, MP</li><li>• Tom Kmiec, MP</li><li>• Joël Lightbound, MP</li><li>• Michael V. McLeod, MP</li><li>• Jennifer O’Connell, MP</li><li>• Francesco Sorbara, MP</li></ul>

**Media invited**      Closed to media. Minister may be scrummed following conclusion of meeting.

**Agenda:**

3:30 p.m.	Opening remarks from Minister Eby
4:00 p.m.	Q&A/discussion
5:30 p.m.	Meeting concludes

## Speaking Notes

for

Attorney General David Eby

House of Commons Standing Committee on Finance

Tuesday, Mar. 27, 2018

Event runs 3:30 – 5:30 p.m. EDT

Minister speaks at ~3:30 p.m., followed by a QA

## **Introduction**

- Good afternoon, everyone.
- Thank you for the opportunity to be here today.
- I would like to acknowledge that we are on the territory of the Algonquin Anishnaabeg [pronunciation] People (confirm).
- I'm pleased to be here to represent Premier John Horgan and the government of British Columbia.
- As elected officials, we all carry the responsibility and the privilege of serving the people of our province and our country.
- This can involve challenging, complex issues that cross many agencies, levels of government and provincial and territorial lines.

- That's why it's crucial for us to work together, and to have discussions like the one underway today.
- I'm glad to see that the federal government is considering amendments to Proceeds of Crime (Money Laundering) and Terrorist Financing Act in order to eradicate crime and better protect Canadians.
- As you know, this has been a serious issue in British Columbia, and I'm here today to share what we've learned so far in our ongoing efforts to crack down on money laundering in B.C.

### **Actions to Date**

- For context, let me start at the beginning of our government's leadership under Premier Horgan.

- Upon my appointment as Attorney General, I was briefed on what appeared to be a serious issue of money laundering and suspicious cash transactions in some Lower Mainland casinos.
- Despite the fact that I had been the critic on this file for a number of years, and had often raised concerns about money laundering and the size and volume of large cash transactions passing through B.C. casinos, I quickly understood that the issue went far deeper than I had imagined.
- We are seeing serious, credible allegations that B.C. casinos are being used to launder large amounts of money suspected of being the proceeds of crime.
- It was, and remains imperative that we disclose the true scope of the problem to the public.

- To investigate the issue in depth, I appointed an expert to conduct an independent and thorough review of B.C.'s anti-money-laundering policies and practices in the gambling industry.
- That expert, Peter German, is a former deputy commissioner of both the RCMP and Correctional Service Canada, and the author of Canada's leading anti-money-laundering law textbook.
- Dr. German's final report is expected very soon—at the end of this month—and it will give our government the insight we need to take deliberate and effective action against money laundering in our province.
- Given the urgency, I asked Dr. German to provide me with interim recommendations as they became available, to ensure immediate action.

- In December, our government received two such recommendations and I quickly directed the BC Lottery Corporation and the Gaming Policy and Enforcement Branch to implement them as soon as possible.
- First, Gaming Service Providers (GSPs) must complete a Source of Funds Declaration for cash deposits or bearer monetary instruments of \$10,000 or more, which includes at minimum the customer's identification and the source of their funds.
- This will place a greater emphasis on the importance of accurately recording the source of funds and a declaration to its truth by the customer.
- On Jan. 10, 2018, BCLC implemented this recommendation by expanding the types of transactions to which source of funds declarations apply and requiring service providers to record more detailed



information about the source of customers' funds.

- If a customer does not provide the information required, provides information that is clearly suspicious, or fails to sign the source of funds declaration, the service provider must refuse the transaction and BCLC will undertake an investigation.
- As the second interim recommendation received, government regulators must be seen on-site at large, high-volume facilities on the Lower Mainland and available to the GSPs.
- Work is underway to ensure this enhanced presence is available, allowing for an increased vigilance in casinos.
- While these measures are a good beginning, there is more that must be done.

- We must make it as difficult as possible for organized crime to operate.
- The ramifications of unchecked money laundering are wide, and they are dire.
- Gang activity and violence has affected, and even claimed, innocent lives in my province.
- These are fights over the proceeds of crime.

### **Ties to Real Estate [check with FIN]**

- In many parts of the country, but particularly in B.C., hard-working people are concerned about the out-of-control real estate prices,
- and many are asking about just where the money is coming from to make such expensive purchases.
- The possible ties between money laundering and real estate are alarming.

- Our Finance Minister, Carole James, has been very active in opening up dialogue to find out what information the federal government needs from B.C.,
- so that we can ensure that people are not evading taxes through our real estate market.
- In our Budget 2018 we introduced a number of measures about information sharing.

### **Dr. German Report and Commentary**

- Dr. German's most recent recommendation was that I attend this committee meeting and share B.C.'s perspective on amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*.
- Dr. German has provided me with what I believe to be sound and timely advice and

commentary that I would like to share with you today.

- To be effective in combatting money laundering, inter-agency communications is key.
- Dr. German has met with the senior executive of FinTRAC in Ottawa and twice with the Regional Director in Vancouver and members of his staff. All were cooperative.
- He encourages the review of the latest Financial Action Task Force mutual evaluation of Canada's legislation, which points to various deficiencies in Canada's existing scheme.
- In the past, it has almost always been through this form of international peer pressure that substantive changes have been made to Canada's various criminal and other federal

legislation related to proceeds of crime, money laundering and corruption.

- The Financial Action Task Force is available online, and it contains numerous references to casinos.
- At present, police agencies appear content with the level of co-operation they receive from FinTRAC.
- Nevertheless, FinTRAC is an outlier among the world's financial intelligence units, as law enforcement is not permitted to work within its offices.
- I understand that this is largely due to privacy and Charter concerns.
- Fincen, the FIU in the United States, is staffed by law enforcement and other specialists by contract.

- To a certain extent, Canadian police and FinTRAC work with blinders on, not knowing who has or needs what information until a proactive disclosure or a request for information is made.
- Dr. German has the following comments on the specific proposals contained in the review of Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime.
- The consultation paper makes the following statement regarding the **legal profession**:

“We would seek to engage Canada's law societies and bar associations to work with the Government to find solutions. Furthermore, it is the Department's intention to develop constitutionally compliant legislative and regulatory provisions that would subject legal counsel and legal firms to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*.”

- Without question, the absence of reporting by lawyers is a significant gap in Canada's regulatory approach and is a significant impediment to police investigations involving the movement of money through real estate and other financial sectors.
- Canada is an outlier here as well.
- Other common law jurisdictions, including the United Kingdom, have robust provisions in place which require financial reporting by lawyers.
- Quite frankly, consultation has occurred for years.
- There is a real need for legislation that can withstand a Charter challenge and requires the reporting of monies held in lawyer trust accounts.

- The irony is that in British Columbia, most personal real estate transactions are handled by notaries, who do report to FinTRAC.
- It is hard to rationalize why their handling of money should be treated differently than that of lawyers.
- Moving on to **high risk sectors**, the consultation paper lists several types of businesses and people to which the legislation could be extended, through amendments to the Act.
- It is something akin to ‘whack-a-mole’, as FinTRAC attempts to close gaps with vulnerable sectors that do not currently report.
- Horse racing, auto dealers, company service providers, as well as mortgage insurers and lenders are of particular interest here.



- I will address each of them in turn.
- Our Gaming Policy and Enforcement Branch regulates **horse racing** in British Columbia.
- I am not aware that B.C. has ever examined the prevalence of money laundering in the horse racing sector.
- Reporting requirements would certainly shed light on what is or may be occurring.
- For **auto dealers**, it is well documented that the criminal lifestyle is often attracted to expensive consumer goods; such as luxury cars and pleasure craft.
- Due to their high value, these items are also excellent places in which illegal cash can be reintroduced to the legitimate economy during the integration phase of the laundering process.

- Luxury items are of interest because there is no tracking by government of cash purchases.
- They are not reportable transactions to FinTRAC.
- Vancouver has been described as the number one super car city in North America.
- Also, auto dealers in Greater Vancouver are among the highest new and used luxury car dealers in Canada, by sales volume.
- In essence, an individual can walk into a luxury auto dealership and purchase a high-end vehicle with \$400,000 cash.
- The only obstacle will be dealership policies.
- An incredibly large number of ‘curbers’, or unregulated intermediaries, are believed to be operating in B.C. and a vigorous awareness campaign is underway to alert British

Columbians of the dangers inherent in dealing with curbers.

- The fact that these are all cash-based activities make them extremely vulnerable to the introduction of dirty money.
- The high-risk sector of **company service providers** is relevant to the issue of beneficial ownership.
- Finally, the consultation paper addresses **mortgage insurers, land registries and title insurance companies**, as well as **non-federally regulated mortgage lenders**.
- These two sectors are relevant to real estate transactions.
- As with other sectors, if there are gaps in who must report, those who seek to launder money will gravitate towards those gaps.

- The real estate industry is of concern, as it is estimated that one third of British Columbia's GDP revolves around real estate.
- It has been said that, "everything in B.C. comes back to real estate."
- It has also been suggested that you can see a "rat move through all of it," meaning the real estate market, mortgages, insurance, and so forth.
- On September 29, 2017, a newspaper reported that an RCMP Inspector familiar with money laundering in relation to casinos had expressed the belief that VIP gamblers, funded by an illegal money service business "own many luxury properties in the Lower Mainland."
- According to the officer,  
    "We are finding now not only one layer of nominees, but two, three and four. And

some of these nominees live in China, and they are either related to you, or they don't know they are owners. So for many of the properties, we just had to walk away.”

- On October 1, 2017, Postmedia reported that whale gamblers were also involved in the purchase of real estate.
- Citing cross-reference research that it had conducted between filings in civil actions, land title documents and BC Lottery Corporation records obtained through Freedom of Information Act requests,
- it noted that in 2014, one high roller, who obtained \$645,000 in small bills through a drop off outside a casino, owns a \$14 million house near Point Grey Country Club.
- The article also alleged that loans from an unregistered money service business had

been used to fund real estate development, and make mortgage payments.

- Large short-term loans were allegedly secured to real property.
- As a side note, I would like to credit Postmedia's Sam Cooper for pursuing the money laundering story and increasing public awareness of the issue.
- He is a tenacious and diligent reporter, and as you may be aware, will soon be moving to Ottawa as part of the Global News National Online Investigative team.
- I expect he will continue his tenacious journalism from right here in the nation's capital, including covering Vancouver Model of money laundering in real estate and casinos.

- However, he is not the only reporter who has brought forward disturbing allegations.
- Recent reporting by Kathy Tomlinson of the Globe and Mail has shed light on the extent of the problem in B.C. real estate and the ripple effects felt throughout the economy.
- Her excellent reporting helped underscore my interest in further pursuing the issue of criminality in the real estate sector, now that the current review of money laundering in casinos is nearing completion.
- Next, Dr. German has shared some comments about **information exchange**.
- As I indicated earlier, law enforcement officials do not work within FinTRAC, due to privacy concerns.

- Any opportunity to broaden the use of the intelligence housed within FinTRAC would be a benefit.
- Unless that intelligence is used by law enforcement and other agencies, FinTRAC is simply a collector of information.
- Regarding **resources**: most leads provided by FinTRAC disclosures are sent to police.
- Unless police have adequate resources to deal with these leads, nothing will occur.
- In 2012, the RCMP eliminated its national Proceeds of Crime and Commercial Crime Sections, in favour of a new task force orientation to investigations.
- Although indications are that the RCMP is now rebuilding its financial crime expertise, the gap in federal policing in this important area between 2012 and 2017 displaced



responsibility for ‘white collar’ crime to provincial and municipal police,

- who generally did not have the resources or expertise to take on these complex files.
- **Geographic targeting orders** may be an asset if a high-risk sector is only high risk in one or more parts of the country.
- As Canada’s luxury car capital, a geographic targeting order could require the submission of suspicious transaction reports and large cash transaction reports by motor vehicle dealers in Greater Vancouver, but not in other parts of the country.
- The problem, however, with these orders may be displacement, with local buyers travelling to Alberta and beyond to buy a car.

- The better avenue may be to provide a higher reporting threshold higher than \$10,000 for these industries.
- **Money service businesses** have become a fixture of the urban Canadian financial system.
- Their primary purpose is to transmit funds electronically to distant locations.
- Some cater to a particular clientele or ethnicity.
- All must be registered with FinTRAC.
- Only in the Province of Quebec are money service businesses licensed by the province.
- Licensing is common in the United States.
- The volatility of the money service business industry has been apparent in the United

States with many financial institutions ending their relationship with these businesses,

- as part of a de-risking process to avoid the anti-money laundering hurdles that money service businesses can pose.
- Many money service businesses are unregistered and exist as a fixture within the underground economy.
- They tend to be the modern embodiment of underground banking and serve to move money around the world without the need for actual transmission.
- In place of electronic transfer, they rely on a settling of accounts at both ends of a transaction, or “app to app,” as it is sometimes called.
- Needless to say, illegal money service businesses do not submit large cash

transaction reports or suspicious transaction reports to FinTRAC.

- When asked what FinTRAC does when it becomes aware of an unregistered money service businesses, we were advised that it is a serious offence under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*.
- Any cases would be reported to the police.
- In B.C., however, the RCMP has received very few reports of unregistered money service businesses.
- Dr. German was advised that the RCMP “is reactive to both intelligence and other sources of information which pertain to money service businesses and their complicity and facilitation of criminal activities, vis a vis, money laundering. Once received, the

enforcement response is driven by an intelligence assessment, triage and capacity.”

- In summary, the Standing Committee’s hearings into the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* is an important step in the process of enriching the statutory framework within that statute.
- British Columbia’s perspective on various pressing issues, will allow the committee to better understand the unique challenges that we face in this Province.

## **Budget 2018/HLT Report**

- I know there is more to come on this issue.
- Our government has taken steps to prepare, and I would urge other governments to do the same.

- Regardless of how Dr. German recommends that B.C. move forward, there will be a fiscal impact of getting the proceeds of organized crime out of casinos.
- B.C is so determined to end this illegal activity that we have already budgeted for reforms in Budget 2018.
- Earlier this month, we released a report commissioned by our BC Lotteries Corporation that evaluates the revenue impact of one option to fight money-laundering in B.C.'s casinos.
- The report, prepared by HLT Advisory Inc., looked at the impact on revenue if a restriction on cash buy-ins over \$10,000 was implemented at casinos.
- This analysis enabled the BC Lottery Corporation to project that gambling revenue

to government in fiscal year 2019 maybe reduced by approximately \$30 million.

- This possible reduction is one of the assumptions made in the 2018 Budget released last month.
- A cash restriction is one of the options available to Dr. German to recommend, and there are many others.
- Restoring B.C.'s international reputation is a cost our government is prepared to pay and has budgeted for.
- I am proud that our government is moving forward to enhance public confidence in our gambling facilities by ensuring that high standards are enforced and that criminals are kept out of casinos.
- It is essential to our ability to enforce the law...

- And it is central to solidifying our reputation in Canada and beyond as a place that does not take a lax approach to criminal activity.
- British Columbia, our fellow provinces and territories, and the federal government must have the courage to stand by our principles
- It's both hypocritical and self-defeating for any government to spend public money fighting gang crime on one hand, while pocketing the proceeds of gang crime at casinos with the other hand.

## **Conclusion**

- To close, I want to once again underscore the importance of tackling money laundering.
- Frankly, I haven't been convinced that the federal government has been fully aware of the extent of this problem.



- And while in many cases, the existing processes have been followed, there have been major gaps exploited by organized crime, without adequate government accountability to the public.
- This isn't just about bad guys making a profit on our watch,
- This is about abusing an outrageous real estate market to evade taxes, which hurts regular Canadians.
- This is about allowing drug traffickers to profit from dealing fentanyl, which has proved deadly to so many.
- This is about innocent people getting shot in gang violence fought over the proceeds of crime.

- For the health and safety of the people we serve,
- I hope this message is heard by this committee, and by all of your colleagues—of all parties—who are serving Canadians in parliament.
- As decision-makers, it is our duty to take the necessary actions to eradicate this criminal activity, and to keep the public informed of our efforts.
- Through agencies like FinTRAC, Revenue Canada, and the federal RCMP, the Government of Canada has a major role to play in combating money laundering.
- British Columbia is more than ready to share information and align our efforts.
- Thank you for listening so attentively.

- I'd be happy to take any questions you may have.

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