

**From:** [Jen Viau](#)  
**To:** [Minister, AG AG:EX](#)  
**Cc:** [Fyfe, Richard J JAG:EX](#); [Richter, Connie JAG:EX](#); [Nanninga, Tanera AG:EX](#); [Jim D. Lightbody](#); [Bud Smith \(bsmith@urbansystems.ca\)](#) ([bsmith@urbansystems.ca](#))  
**Subject:** BCLC - AML Q3 F17/18 Report to Attorney General of BC  
**Date:** Tuesday, January 30, 2018 7:07:16 PM  
**Attachments:** [2018.01.30 - a - Letter to Minister Eby re AML Q3 Report for Fiscal 17-18.pdf](#)  
[2018.01.30 - b - Attachment to Letter - AML Q3 F17-18 Report to Attorney General of BC.pdf](#)

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Dear Minister Eby,

On behalf of Bud Smith, Chair of BCLC's Board of Directors, please see attached.

Kind regards,

**Jen Viau**

Executive Coordinator  
President's Office, BCLC

2940 Virtual Way, Vancouver B.C. V5M 0A6  
T 604 228 3102

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Last year, more than \$1 billion generated by BCLC gambling activities went back into health care, education and community groups across B.C.



Think Green, keep it on the screen! Please only print if necessary

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January 30, 2018

Ministry of the Attorney General  
PO Box 9044, Stn Prov Govt  
Victoria, BC V8W 9E2

Attention: David Eby  
Attorney General

Dear Minister Eby:

**Re: Anti-Money Laundering (AML) Quarterly Report for the third quarter of  
Fiscal Year 2017/2018**

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I am writing to you as Board Chair of BCLC and in regard to your supplemental mandate of letter of November 28, 2017. I am pleased to provide to you the Anti-Money Laundering (AML) Quarterly Report for the third quarter of Fiscal Year 2017/2018.

From its outset, the AML framework at BCLC has been premised upon the federal legislative requirements set out in the *Proceeds of Crime Money Laundering & Terrorist Financing Act*, as well as formal written guidance provided specifically to the casino sector by both the Financial Action Task Force (FATF - the international governing body responsible for anti-money laundering requirements) and FINTRAC. The legislative requirements and the guidance create a risk-based approach to anti-money laundering and anti-terrorist financing controls (AML/ATF) which involves assessing potential risks and then targeting resources and efforts on preventing, detecting and responding to the highest identified risks. The norm for AML/ATF regimes is to work from a risk-based framework.

The MNP review completed for GPEB in 2016 includes recommendations that suggest moves away from a risk-based framework in casinos to a more prescriptive approach. One of those suggestions was to place a hard limit on the acceptance of cash (banknotes) at casinos that would apply to all transactions and all individuals irrespective of risk. MNP made no recommendation as to the amount of the limit. In light of this proposed shift to a more prescriptive approach, BCLC wanted to be prepared to offer advice on this approach should it be asked. BCLC has conducted analysis to determine a cash buy-in limit that will provide for a prescriptive level of control while still being operationally sound. BCLC, based on its analysis, believes that if a hard limit on cash buy-ins is desired, the limit should not be set at a threshold below \$25,000.

While BCLC and its Board of Directors believes that this prescriptive cash limit may be workable and can be implemented relatively quickly, our analysis does not suggest the move would be completely free of adverse impacts. BCLC believes its current risk-based approach, as mandated by FINTRAC and the FATF, provides the most effective AML/ATF controls.

I would also like to take this opportunity to advise you that BCLC has had open communications with Mr. Peter German and his team over the last few months as Mr. German has conducted his review, including his joint interview of the Chair and President & CEO. BCLC has provided open and unfettered access to any records



74 West Seymour Street  
Kamloops, BC V2C 1E2

T 250.828.5500  
F 250.828.5631

2940 Virtual Way  
Vancouver, BC V5M 0A6

T 604.215.0649  
F 604.225.6424  
bclc.com

and materials Mr. German has requested. We have accomplished this by creating a secure record transfer protocol specifically for Mr. German and his team that allows access to anything needed while ensuring a very high level of security and protection for personal and other sensitive information. We look forward to Mr. German's final report and are preparing to take the action necessary to implement any recommendations falling within our purview or direction given to us by government.

Yours truly,

s.22

Bud Smith  
Chair, BCLC Board of Directors

cc: Mr. Richard Fyfe, QC  
Jim Lightbody, President & CEO, BCLC

Enclosure(s) x 1

# QUARTERLY REPORT TO THE ATTORNEY GENERAL OF BRITISH COLUMBIA

Pursuant to the Amended Supplemental Mandate Letter dated November 28, 2017

## REPORT FOR THE THIRD QUARTER FISCAL YEAR 2017/2018

BCLC PROVIDES THIS REPORT in accordance with Direction #3 set out in the Supplemental Mandate Letter:

### German Recommendations

1. On December 18, 2017, BCLC completed the work necessary, save and except completion of consultations with GPEB, to implement German recommendation #1 expanding player source of funds declarations to all casino transactions of \$10,000 or more. Consultations with GPEB continued through the end of the quarter with implementation planned for January 2018.

### Anti-Money Laundering/Anti-Terrorist Financing Program Normal Course Processes and Controls Changes

(BCLC presented items 3, 4, and 6 to the Attorney General at a briefing on October 23, 2017, and are updated here.)

2. On October 27, 2017, BCLC's Chief Compliance Officer met with FinTRAC senior management to consult on planned enhancements to BCLC's anti-money laundering regime. FinTRAC's input and guidance was received and informed planned changes.
3. To increase diligence and accountability with respect to anti-money obligations on the part of service providers, on October 27, 2017, BCLC's CEO wrote to the Gaming Policy and Enforcement Branch asking them to modify the terms of registration of all gaming service providers who offer table games requiring service providers to formally designate a Chief Compliance Officer who: 1) reports directly to the president, CEO, Board of Directors or beneficial owner of the service provider as the case may be; 2) holds credentials or has considerable experience related to Canadian anti-money laundering laws; and, 3) is granted, as evidence by company policy, unfettered authority to give operational direction related to money laundering concerns. This change is consistent with long standing terms of registration in at least one other large Canadian jurisdiction. This would focus compliance obligations for this critical function at the highest levels and create a much clearer line of responsibility within service provider organizations. Additionally, this change would give regulatory weight and force to similar contractual provisions in the new casino operating services agreement.

GPEB has responded advising that, in its view, this is not an appropriate term of registration and as such has declined BCLC's request.

4. s.15

s.15

the last quarter of 2017/2018.

This work will be complete in

5. On December 4, 2017, BCLC increased the controls on bank drafts. For a casino service provider to accept a bank draft, the draft must, in addition to the name of the payee, now include the name of the financial institution issuing the bank draft, the name of the payor, as well as the account number and name of the account holder from which the funds were drawn. To the extent a bank draft does not include this information on its face, a receipt from the issuing financial institution showing the required information must be presented to the casino along with the bank draft at the time of the casino transaction and the

required information must be recorded.

6. On December 14, 2017, BCLC implemented an upgrade to one of the systems supporting its anti-money laundering regime. s.15  
s.15
7. BCLC has implemented additional transaction tracking and monitoring processes related to bank drafts. On s.15
8. GPEB reported that bank drafts have been accepted at casinos where there are anomalies on the face of the bank draft giving rise to money laundering concerns. GPEB expressed concerns including: the name of the payee being left blank, the draft being made out to a person other than the player negotiating the draft at the casino, and illegible payee names. In response to these concerns, BCLC initiated a review which included a physical inspection of every bank draft and certified cheque accepted by the seven major casinos in the lower mainland for the January 2015 to November 2017 period. The review was conducted over a 20 day period from November 6-26, 2017. A total of 7,436 drafts and certified cheques were individually pulled from records and then reviewed and inspected. No anomalies were detected on or in relation to any of the bank drafts. BCLC has asked GPEB for copies of the bank drafts noted in their reports so that BCLC can take further investigative and corrective action and is awaiting a response from GPEB.
9. BCLC has analyzed the impacts of moving to a prescribed daily limit on cash buy-ins for table games products, per player, per gaming site. Based upon its research, BCLC is prepared to offer advice on the implementation and other implications associated with the imposition of a prescribed limit.

## INFORMATION NOTE

British Columbia Lottery Corporation

Date: February 5, 2018

# Cooper AML Story RE: ML Network and Drug/Gun Trafficking

### KEY FACTS:

On February 2, 2018, Postmedia published an article as part of reporter Sam Cooper's series on allegations of money laundering and related illegal activities in and around B.C. casinos. <http://vancouversun.com/news/national/huge-b-c-money-laundering-investigation-pivots-to-drugs-and-guns>

The story focuses on the alleged Paul Jin network, and connections to Metro Vancouver's underground illegal activities, including fentanyl labs, gun sales and dial-a-dope gangs. The article outlines how in December 2015, an arm of the RCMP's E-Pirate money-laundering investigation, code-named "Prophet," grew from extensive surveillance of the many alleged employees of E-Pirate's primary target, Paul King Jin.

Cooper explains that he pieced together the story of Prophet through extensive investigation of B.C. property, lending and legal documents, including two major civil forfeiture claims, and interviews with law enforcement sources not authorized to be identified on the record. Cooper did not request information from BCLC with respect to this story.

The article reports "B.C. government records obtained by Postmedia illustrate how closely Jin and his associates had been watched in Richmond from mid-2014 through 2017":

*"Our main target at River Rock had been extremely active of late and has actually been on the property several times making deliveries of cash himself!" says an October 2014 email from B.C. Lottery Corp. to the B.C. police anti-gang unit, the Combined Forces Special Enforcement Unit. "Their main vehicle is a white SUV that parks on River Road avoiding our licence-plate recognition system most times. Last week, Jin dropped two loads of a half million per load to the same guy and a few smaller loads of 200-300 K each, so hour (sic) is a busy boy."*

### BCLC response:

- BCLC first identified concerns related to Jin and possible illegal activity, including money laundering, in 2012. BCLC conveyed its concerns to GPEB and police at the time. BCLC banned Jin from all B.C. casinos starting in 2012.
- Through 2013 and into 2014, BCLC continued to monitor persons it believed were associated to Jin and reported any suspected illegal activity to GPEB and police. Where there were grounds to believe a player was involved in illegal activity, BCLC banned those players from B.C. casinos.
- In 2014, BCLC met in-person with the Combined Forces Special Enforcement Unit to request formally that it investigate Jin's continuing activity around casinos, and his associates.
- BCLC's role and authority in the anti-money laundering regime is limited to monitoring for and reporting incidents of suspected illegal activity to GPEB and police, as well as identifying those individuals involved.
- BCLC is not a law-enforcement agency and has no law enforcement or investigative powers.
- GPEB's role in the anti-money laundering regime is to investigate incidents of illegal activity related to gambling reported to it by BCLC, casino operators and others.
- The role of police in the anti-money laundering regime is to investigate money laundering and terrorist financing offences and to recommend charges to Crown Counsel for prosecution.

The article reports details of BCLC sharing intelligence with police in 2014 regarding Jin's gambling activity and connection to underground loans.

*"A June 2014 email from B.C. Lottery Corp. to the anti-gang unit regarding a top-10 list of cash lenders working around Lower Mainland casinos — 'with the majority devoted to River Rock patrons' — said Jin, the top 'cash facilitator,' was 'extremely active and has numerous people working for him.'"*

*"But Jin wasn't involved only in recruiting whale gamblers in China and lending them cash to use at River Rock. A November 2016 B.C. Supreme Court ruling, which permitted the Canada Revenue Agency to get E-Pirate evidence, says Jin and several associates were allegedly connected to probable offences involving narcotics importation and trafficking, as well as operating illegal casinos, evading taxes and conspiring to launder money. So far, money-laundering charges have been laid against Silver International, an alleged illegal Richmond money services business named in the B.C. Supreme Court ruling, and two people. The E-Pirate probe is nearing completion and more charges are expected, a source with knowledge of the investigation said."*

**BCLC response:**

- BCLC provided extensive information to police and GPEB about Jin and his associates from 2012 through 2017. However, BCLC is not a law-enforcement agency and accordingly was not provided updates on the status of the E-Pirate investigation (in which it was the original complainant) and was not made aware of the spin-off Prophet investigation until it was recently made public.
- At no time during the investigation did the RCMP or GPEB tell BCLC that there were individuals or businesses with whom it should cease transacting due to money-laundering or other criminal activity or concerns.
- BCLC will immediately ban a player from all casinos in B.C. when told by police or GPEB that they are involved in, or associated with, criminal activities, including money laundering.

The article concludes with the following update on the overarching E-Pirate investigation:

*"The majority of evidence collected in E-Pirate comes from 13 searches executed in properties across Richmond in October 2015 and April 2016. A B.C. Supreme Court judgment, which permitted Canada Revenue Agency to obtain E-Pirate evidence, says police established reasonable grounds that offences were committed by defendants including Paul King Pao Jin, his wife Xiaoqi Wei, Hoy Pan Chen and Silver International Investments Ltd. E-Pirate raids seized \$2 million in cash from Silver International and \$4 million in cash from the home of 'one of the individual respondents,' the ruling says, adding, 'his declared income is modest.' So far, only Silver International, Cai Xuan Qin and Jian Jun Zhu have been charged in E-Pirate."*

*"Two lawyers, listed as acting for Jin and his wife Xiaoqi Wei in legal filings regarding Canada Revenue Agency's criminal investigation of E-Pirate evidence, did not respond to Postmedia's request for comment. Civil court filings say that Wei is Jin's wife, and that she is involved in real estate lending disputes with borrowers including a number of students. Court records show that Hoy Pan Chen was charged for trafficking in a controlled substance in a previous B.C. case involving several other suspects charged with importing and exporting drugs... None of the allegations in the investigations has been proven in court."*

**BCLC Response:**

- BCLC understands this matter remains part of an on-going investigation.

## INFORMATION NOTE

British Columbia Lottery Corporation

Date: February 15, 2018 Update

# Cooper AML Story RE: ML Network and Drug/Gun Trafficking

### KEY FACTS:

On February 2, 2018, Postmedia published an article as part of reporter Sam Cooper's series on allegations of money laundering and related illegal activities in and around B.C. casinos. <http://vancouversun.com/news/national/huge-b-c-money-laundering-investigation-pivots-to-drugs-and-guns>

The story focuses on the alleged Paul Jin network, and connections to Metro Vancouver's underground illegal activities, including fentanyl labs, gun sales and dial-a-dope gangs. The article outlines how in December 2015, an arm of the RCMP's E-Pirate money-laundering investigation, code-named "Prophet," grew from extensive surveillance of the many alleged employees of E-Pirate's primary target, Paul King Jin.

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### BCLC Background:

- BCLC first identified concerns related to Jin and possible illegal activity, including money laundering, in 2012. BCLC conveyed its concerns to GPEB and police at the time. BCLC banned Jin from all B.C. casinos starting in 2012.
- Through 2013 and into 2014, BCLC continued to monitor persons it believed were associated to Jin and reported any suspected illegal activity to GPEB and police. Where there were grounds to believe a player was involved in illegal activity, BCLC banned those players from B.C. casinos.
- In June 2014, BCLC and Great Canadian Gaming Corporation (GCGC) security management met in-person at River Rock Casino with members of the Combined Forces Special Enforcement Unit (CFSEU) to request again that it investigate Jin's continuing activity around casinos, and his associates, who were allegedly loaning cash to casino patrons. BCLC was concerned their source of funds may be from illegal activity and wanted to stop any potential flow of proceeds of crime into the hands of casino patrons for use in casinos.
- In July 2014, BCLC compiled information on 10 suspected cash facilitators, including Jin (all of whom BCLC had barred from BC casinos), and formally provided this information to CFSEU via secure file transfer protocol.
- In November 2014, BCLC met with CFSEU at E Division headquarters to discuss concerns over lack of police activity in the matter.

- In February 2015, BCLC security management met with RCMP (FSOC) to lodge another formal complaint regarding Jin.
- In March 2015, BCLC security met with Real Time Crime Centre at RCMP E Division headquarters with the purpose of establishing a working group for assistance in identifying if criminal organizations may be targeting casino sites.
- In April 2015, the FSOC “E-Pirate” project was underway.
- In May 2015, FSOC advised the project may not continue and requested BCLC to assist with putting a presentation together on the social and economic impacts of money laundering. Following this presentation, FSOC investigators advised that E-Pirate was going to continue to be resourced, and would proceed.
- In May 2015, BCLC decided to deal with an abnormal liability of \$5,000 chips at River Rock (casino chips issued versus in the facility) and planned a “chip swap” to recall these chips and replace with new versions (a normal procedure in the casino industry). BCLC advised GPEB of the operational plan which included providing two weeks of notice to patrons of the plan to replace these chips, and interviewing and denying any patrons bringing in large quantities of chips with no record of play.
- In September 2015, the night before the chip swap was to occur, GPEB advised BCLC to suspend the operation due to an investigation.
- In January 2016, BCLC implemented the chip swap with GPEB approval.

The article reports details of BCLC sharing intelligence with police in 2014 regarding Jin’s gambling activity and connection to underground loans.

*“A June 2014 email from B.C. Lottery Corp. to the anti-gang unit regarding a top-10 list of cash lenders working around Lower Mainland casinos — ‘with the majority devoted to River Rock patrons’ — said Jin, the top ‘cash facilitator,’ was ‘extremely active and has numerous people working for him.’*

*“But Jin wasn’t involved only in recruiting whale gamblers in China and lending them cash to use at River Rock. A November 2016 B.C. Supreme Court ruling, which permitted the Canada Revenue Agency to get E-Pirate evidence, says Jin and several associates were allegedly connected to probable offences involving narcotics importation and trafficking, as well as operating illegal casinos, evading taxes and conspiring to launder money. So far, money-laundering charges have been laid against Silver International, an alleged illegal Richmond money services business named in the B.C. Supreme Court ruling, and two people. The E-Pirate probe is nearing completion and more charges are expected, a source with knowledge of the investigation said.”*

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*International and \$4 million in cash from the home of 'one of the individual respondents,' the ruling says, adding, 'his declared income is modest.' So far, only Silver International, Cai Xuan Qin and Jian Jun Zhu have been charged in E-Pirate.*

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**BCLC Background:**

- BCLC understands this matter remains part of an on-going investigation.

Program Area Contact:

Laura Piva-Babcock

T: 250-828-5576

March 19, 2018

Hon. David Eby, Q.C.  
Attorney General of British Columbia  
Parliament Buildings,  
Victoria, B.C.

Dear Minister:

Re: Independent Review of Alleged Money Laundering in Lower Mainland Casinos

The Terms of Reference for the captioned review invite me to provide recommendations in advance of the final report due on March 31, 2018. As you will recall, I provided two Interim Recommendations on November 29, 2017. I am advised that both have been implemented and are proceeding satisfactorily. In advance of my final report, I am now providing one additional Interim Recommendation for your consideration.

I recommend that the Province of British Columbia make representations to the House of Commons Standing Committee on Finance with respect to a public consultation underway regarding amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*.

In furtherance of this Interim Recommendation, I am enclosing a brief note that provides background.

I trust the foregoing and the attached meets with your approval and am available to answer any questions which may arise.

Respectfully,

Peter M. German, QC, PhD

# **An Independent Review of Money Laundering in Lower Mainland Casinos conducted for the Attorney General of British Columbia**

## **INTERIM RECOMMENDATION**

1. I recommend that the Province of British Columbia make representations to the House of Commons Standing Committee on Finance with respect to the ongoing public consultation regarding amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (POCMLTFA)*.

## **ISSUE**

2. On February 7, 2018, the Minister of Finance released a public consultation paper with respect to the *POCMLTFA*. Parliamentary Committee hearings on the statute are taking place this month in Ottawa.

## **BACKGROUND**

3. Since 1989, Canada's *Criminal Code* has contained the offence of laundering, as well as possession of the proceeds of crime. In 1993, Parliament enacted a federal statute which required financial institutions to keep records of certain transactions. That legislation was replaced in 2000 by the *POCMLTFA*, which has been amended many times since.

4. The *POCMLTFA* moved Canada from a recording to a reporting regime and created Canada's financial intelligence unit, FinTRAC. The legislation was a response to international commitments made by Canada. Although the *Criminal Code* falls under the purview of the Attorney General of Canada, the Minister of Finance is accountable for the *POCMLTFA*.

5. Approximately 100,000 businesses and financial institutions are now required to report Large Cash Transaction Reports (LCTRs) and Suspicious Transaction Reports (STRs) to FinTRAC. Some industries have additional reporting requirements. In this regard, casinos must also report Cash Disbursement Reports (CDRs).

6. FinTRAC performs audits on reporting entities and does so every two years at B.C.'s casinos. It has the power to impose Administrative Monetary Penalties (AMP). The largest

penalty every imposed with respect to casinos was meted out to BCLC in 2010. BCLC appealed the AMP to the Federal Court. The case was resolved in 2016, in what is best described as a draw. By this time, FinTRAC was satisfied with the quality of BCLC reporting. In addition, its entire AMP structure had been called into question because of unrelated cases which questioned the lack of objective criteria being used to determine the quantum of a penalty.

7. FinTRAC analyzes the millions of reports which it receives annually and will either proactively disclose intelligence gleaned from these reports to the police and other agencies or will respond to requests from information from the same entities. At present, police agencies appear content with the level of co-operation which they receive from FinTRAC. The following hyperlink provides a summary of FinTRAC's most recent annual report: <http://www.fintrac-canafe.gc.ca/publications/ar/2017/1-eng.asp> .

8. Nevertheless, FinTRAC is an outlier among the world's FIUs, as law enforcement is not permitted to work within its offices. This is largely due to privacy and *Charter* concerns. By contract, Fincen, the FIU in the United States, is staffed by law enforcement and other specialists. 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.

9. FinTRAC is headquartered in downtown Ottawa, however has a regional office in Vancouver, on West Georgia Street. During this Review, I met with the senior executive of FinTRAC in Ottawa and twice with the Regional Director in Vancouver and members of his staff. All persons contacted were most cooperative.

10. The House of Commons' Standing Committee on Finance is currently conducting a Parliamentary Review of the *POCMLTFA*. The review is in anticipation of numerous potential amendments to the statute, which will allow Canada to respond adequately to a Financial Action Task Force (FATF) audit of Canada's legislation. The consultation document is comprehensive and found at <https://www.fin.gc.ca/activty/consult/amlatfr-rpcfat-eng.asp> . In the following section, I review some of the proposals which impact on B.C. and have arisen during my Review.

11. It is also beneficial to review the latest FATF 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 FATF review can be found at <http://www.fatf->

[gafi.org/media/fatf/documents/reports/mer4/MER-Canada-2016.pdf](http://gafi.org/media/fatf/documents/reports/mer4/MER-Canada-2016.pdf) . There are numerous references to casinos in the FATF report.<sup>1</sup>

12. I will not comment on the issues of beneficial ownership and whistleblowers, of which the Minister is already very familiar and are covered in some depth in the consultation document (Ch. 1 – Corporate Transparency, Ch. 4 – Whistleblowers).

## CONSULTATION PAPER PROPOSALS

### The Legal Profession

13. The consultation paper makes the following statement:

“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 PCMLTFA.”

14. Without question, the absence of reporting by lawyers is a significant gap in Canada 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 which can withstand a *Charter* challenge and requires the reporting of monies held in lawyer trust accounts.

15. 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.

## HIGH RISK SECTORS

16. The consultation paper lists several businesses and persons to which the legislation could be extended, through amendments to the *POCMLTFA*. It is something akin to ‘whack a

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<sup>1</sup> See also the following contemporaneous *Globe and Mail* article: <https://www.theglobeandmail.com/report-on-business/canada-given-lukewarm-grade-on-anti-money-laundering-efforts/article31892936/>

mole', as FinTRAC attempts to close gaps with vulnerable sectors that do not currently report. Of interest are the following:

#### **Par-mutuel or horse racing sector**

17. GPEB currently regulates this industry. 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 occurring.

#### **Auto dealers**

18. 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.

19. Luxury items are of interest because there is no tracking by government of cash purchases. They are not reportable transactions to FinTRAC.

20. 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.

21. 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.

22. An incredibly large number of 'curbers', 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.<sup>2</sup>

#### **Company service providers**

23. This high-risk sector is relevant to the issue of beneficial ownership.

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<sup>2</sup> This is not to say that there is not regulation of car dealers. In fact, the Vehicle Sales Authority of B.C. has been created under the authority of the *Motor Dealer Act*, to act as a regulator with a mandate for consumer protection. It oversees registered dealers.

## **Mortgage insurers, land registries and title insurance companies**

### **Non-federally regulated mortgage lenders**

24. 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 in those directions.

25. 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.

26. 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."

27. On October 1, 2017, Post Media reported that whale gamblers were also involved in the purchase of real estate. Citing cross-reference research which it had conducted between filings in civil actions, land title documents and BCLC records obtained through FOI 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 M house near Point Grey Country Club. It also alleged that loans from an unregistered MSB had been used to fund real estate development, and make mortgage payments. Large short-term loans were allegedly secured to real property.

28. 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. The AGBC has indicated an interest in pursuing the issue of criminality in the real estate sector now that the current review of money laundering in casinos is near completion.

### **INFORMATION EXCHANGE**

29. As indicated above, 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.

## **RESOURCES**

30. 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**

31. 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 STRs and LCTRs 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 for these industries, than \$10,000.

## **MONEY SERVICE BUSINESSES**

32. MSBs 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 MSBs licensed by the province. Licensing is common in the United States.

33. The volatility of the MSB industry has been apparent in the United States with many financial institutions ending their relationship with MSBs as part of a de-risking process to avoid the anti-money laundering hurdles which MSBs can pose.

34. Many MSBs 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.

35. Needless to say, illegal MSBs do not submit LCTs or STRs to FinTRAC. According to the RCMP, “Their intent is to hide the identity of the remitter, evade banking laws and circumvent suspicious currency transaction reporting”. We know that the largest money laundering / casino file to date in Canada revolves around an illegal MSB.

36. When asked what FinTRAC does when it becomes aware of an unregistered MSBs, we were advised that it is a serious offence under the *POCMLTFA*. Any cases would be reported to the police. In B.C., however, the RCMP has received very few reports of unregistered MSBs. I was advised that the RCMP “is reactive to both intelligence and other sources of information which pertain to MSB’s 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.”<sup>3</sup>

## SUMMARY

37. The Standing Committee’s hearings into the *POCMLTFA* 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 which we face in this Province.

**Respectfully submitted,**

**Peter German, QC, PhD**

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<sup>3</sup> RCMP memo dated Jan. 30, 2018.

**BCLC  
BRIEFING DOCUMENT**

**Date Prepared:** March 28, 2018

**Prepared By:** Jim Lightbody

**Phone Number:** 604-225-6412

**Contact:** Jim Lightbody  
President and CEO  
BCLC

**Email:** [jdlightbody@bclc.com](mailto:jdlightbody@bclc.com)

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**TITLE:** Postmedia AML Story re: HLT Advisory Report and Potential Revenue Impacts

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**PURPOSE:**

(X) FOR INFORMATION

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**TITLE:** Postmedia AML Story re: HLT Advisory Report and Potential Revenue Impacts

**ISSUE:** Postmedia AML Story re: HLT Advisory Report and Potential Revenue Impacts

**KEY FACTS:**

On March 16, 2018, Postmedia published a story as part of reporter Sam Cooper's series on allegations of money laundering and related illegal activities in B.C. casinos: <http://vancouver.sun.com/news/national/embargoed-until-330-am-friday-confidential-report-anti-money-laundering-measures-will-significantly-reduce-bclc-casino-revenue>

BCLC commissioned HLT to analyze the possible impacts of a \$10,000 cash buy-in limit at B.C. casinos shortly after the Province appointed Dr. Peter German to conduct an independent review of anti-money laundering policies and practices in B.C. casinos. Restricting cash buy-in amounts in B.C. casinos was a recommendation from the MNP Review. BCLC wanted to advise government as it prepared for its Service Plan, due on February 20, 2018 to the Ministry. BCLC typically makes assumptions in its financial projections and, at the time, believed the potential initiative had a likelihood of occurring. HLT provided its report to BCLC on October 11, 2018, which BCLC used to inform financial forecasts in its 2018-2021 Service Plan.

Capping cash buy-ins could serve as one additional prescriptive control for money-laundering risks, and addresses perceptions of money laundering associated with the use of cash. It is fair to assume that controls placed on the acceptance of cash may reduce the volume of play and therefore revenue generated by BCLC for the Province of B.C.

BCLC commissioned the analysis before, and without prior knowledge of, Dr. German's interim recommendations. Since that time, BCLC implemented Dr. German's first interim recommendation through enhanced procedures requiring that all cash and bank draft / certified cheque buy-ins for \$10,000 or more, in one or more transactions within a 24-hour period, have an original receipt of the transaction that shows the financial institution, branch number and account number.

While this measure differs from the hypothetical \$10,000 cash cap on table game cash buy-ins analyzed by HLT, this control can help to prevent the use of proceeds of crime at casinos.

**The article had an inaccurate headline: "\$88 Million in Casino Revenue Tied to Suspicious Cash Deals"**

**BCLC Background:**

- BCLC commissioned the analysis of a potential \$10,000 cash cap to inform financial forecasts in its 2018-2021 Service Plan.

- This headline is untrue. The analysis looked at Large Cash Transactions – cash transactions of \$10,000 or more – not at transactions that were suspicious or concerning.

**The article outlines the report, commissioned by BCLC, estimates a potential drop in casino revenues**

*“If all chip purchases with over \$10,000 in cash were banned, and all the high-stakes gamblers accustomed to making transactions at this level responded by not gambling again in B.C., the province would lose about \$584 million in chip ‘buy-ins’ annually, according to HLT’s estimates. That reduction would translate into a loss of \$87.7 million in net revenue for B.C.’s casinos. B.C. Lottery Corp.’s share would drop by \$47 million each year. And the casinos, which keep 44 per cent of revenue, would lose \$38.5 million in commissions.*

*“HLT calculated that if all of these high-rollers continued to come to B.C. casinos, but could only spend \$9,999 a day in cash buy-ins, annual cash-buy-ins would drop by \$230 million. And total revenue taken in by B.C. casinos would drop by \$34.5 million. B.C. Lottery Corp. would lose \$18.6 million, and the casinos would lose \$15.2 million per year.”*

**BCLC Background:**

- In total, HLT estimated that between \$34.6 and \$87.7 million of net win could be lost if cash buy-ins were restricted to amounts less than \$10,000. This loss of net win would affect revenue to government (through BCLC) with a reduction in net income of between \$18.6 and \$47.2 million. This equates to 1.4 to 3.6 per cent of BCLC’s budgeted net income for fiscal year 2018/19.
- HLT estimated that Service Providers could lose between <sup>s.17,s.21</sup> million in commissions.
- BCLC reports on net win, which is revenue after prizes. Net income to government is net win, less commission payable by BCLC to Service Providers and BCLC operating costs.
- HLT’s analysis utilized the commission structure contained in BCLC’s former Operational Services Agreement (OSA) with Service Providers: 40 per cent for table games, plus three per cent for Facility Development Commission (FDC) and 2 per cent for Accelerated Facility Development Commission (AFDC) programs, less one per cent table game supplies, thus totaling 44 per cent.
- Patron Gaming Fund (PGF) accounts support BCLC’s cash alternative program, thereby reducing the risk of unsourced cash entering B.C. casinos.
- PGF accounts allow customers to buy in with more than \$10,000 by allowing for the transfer of money between their casino account and their approved Canadian bank account. This eliminates the requirement and risk associated with carrying large amounts of cash into a casino, and is one measure to prevent the use of un-sourced cash or proceeds of crime in casinos.

- If a cash buy-in of \$10,000 or more occurs with funds withdrawn from a PGF account, BCLC files a Large Cash transaction report with FINTRAC.

**The article cites concerns around money-laundering activity through PGF accounts:**

*"The report notes that high-stakes gamblers also use B.C. Lottery Corp. patron gaming fund accounts, which are funded with bank drafts. These accounts can receive hundreds of millions in deposits annually from bank drafts but, as Postmedia has reported, B.C.'s gaming enforcement branch is concerned that many of the drafts could have suspicious origins. Eby acknowledged that a crack down on bank drafts could lead to further B.C. casino revenue reductions that were not considered in HLT's analysis.*

*"Eby said he is aware of allegations that some VIP gamblers may have been funding their patron gaming fund accounts with black market bank drafts. Police investigations in B.C. have shown that suspects connected to loan sharking and transnational money laundering in B.C. casinos have been found in possession of suspicious bank drafts."*

**BCLC Background:**

- Patron Gaming Fund (PGF) accounts allow customers to transfer money (over \$10,000) between their casino account and their approved Canadian bank account, eliminating the need to bring cash into a casino. Account holders can link their casino accounts with up to two approved Canadian bank accounts, allowing direct transfers from a bank account.
- Players can deposit funds to a PGF account using: a bank draft; a certified cheque; a Canadian casino cheque; a wire transfer; an Electronic Fund Transfer (international and domestic); a debit transaction; an Internet banking transfer from an authorized account; cash or chips from a verified win at the same casino that opened the PGF account; cash sourced from a credit-card kiosk that has been paid at the facility's cash cage; and sourced cash deposited to a patron's own PGF, with a same-day receipt from a recognized financial institution.
- Funds deposited into PGF accounts are legal tender confirmed as sourced cash.
- BCLC monitors play activity and PGF account activity and investigates unusual activity – by requesting proof of source of funds.
- If there is any indication that a patron is using a PGF account to deposit bank drafts into a PGF account in an effort to receive a cheque back without an expected level of play, the PGF account is flagged immediately for review/action by BCLC's anti-money laundering unit. If, upon review, BCLC confirmed that the patron was misusing a PGF account, BCLC would immediately require the Service Provider to close the account and the player would be placed on cash conditions. Depending on the circumstances, any further incidents could lead to BCLC barring a patron from all B.C. gambling facilities.

- The BCLC AML unit also receives daily reports in relation to bank drafts brought in, and cheques going out, on a 30-day rolling view to identify unusual/suspicious activity. As part of its anti-money laundering oversight, BCLC has the authority to require the closure of any PGF account.
- Upon hearing the concern from GPEB regarding bank drafts, BCLC reviewed more than 7,000 bank drafts covering a three-year period (2015-2017) and could find no anomalies related to the drafts.
- BCLC has been in communication with police and GPEB in relation to bank drafts. Police have not flagged any players or bank draft transactions for BCLC to watch for, or be concerned about. If either the police or GPEB advised BCLC of concerns about a player using “black market” bank drafts or bank drafts that were in any way suspicious, BCLC would ban that player from all B.C. casinos.

### **Additional BCLC Background:**

BCLC’s AML program is subject to frequent review and continuous improvement, and in the last year BCLC has developed and made several changes, including implementation of Dr. German’s interim recommendation regarding source of funds procedures. Other enhancements were shared with GPEB and the Ministry in October 2017 and include:

- Conducting an in-depth risk assessment of money service businesses (MSBs) and subsequently requiring Service Providers to cease acceptance of MSB receipts as proof of source of funds (made effective March 15, 2018);
- Updating rules around chip ownership, making it clear that BCLC owns all casino chips and may refuse to accept or redeem chips that are brought in if the source is not validated;
- Transitioning the tracking of buy-in denominations from a paper process to an electronic process more readily accessible to data analysis. This enhanced tracking strengthens a Service Provider’s ability to deter “refining” (changing smaller denomination bills into larger ones) of bills at the cash cage, which mitigates the chances of potential money laundering occurring within B.C. gaming facilities;
- Mandating that cash be returned to players in original buy-in denominations;
- Implementing an on-going bank draft and cheque monitoring and analysis process to look for unusual or suspicious transactions;
- Formally asking GPEB to increase the governance of compliance functions at Service Providers by requiring all Service Providers have a compliance officer with requisite expertise who reports directly to their President, CEO, Board or beneficial owner (prior to them signing the new OSA, which requires this); and
- Hiring one additional intelligence analyst and one additional AML investigator.

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s.14

**From:** [Scott, Douglas S AG:EX](#)  
**To:** [Fyfe, Richard J JAG:EX](#)  
**Subject:** Current Decks  
**Date:** Tuesday, April 10, 2018 7:58:41 AM  
**Attachments:** [2018-04-10 Powerpoint for P and A Without Mitigation Detail.pptx](#)  
[2018-04-10 Powerpoint for P and A.pptx](#)

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Hi Richard – before going to MO if there is someone to review for typos etc... if not I think it is fairly clean.

*Doug*

Douglas S. Scott  
Associate Deputy Minister  
Ministry of Attorney General  
Government of British Columbia

**From:** [Fyfe, Richard J JAG:EX](#)  
**To:** [Richter, Connie JAG:EX](#)  
**Subject:** Fwd: Current Decks  
**Date:** Tuesday, April 10, 2018 8:03:56 AM  
**Attachments:** [2018-04-10 Powerpoint for P and A Without Mitigation Detail.pptx](#)  
[ATT00001.htm](#)  
[2018-04-10 Powerpoint for P and A.pptx](#)  
[ATT00002.htm](#)

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Richard J.M. Fyfe QC  
Deputy Attorney General  
Ministry of Attorney General

Phone: (250) 356-0149  
Fax: (250) 387-6224

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Begin forwarded message:

**From:** "Scott, Douglas S AG:EX" <[Douglas.S.Scott@gov.bc.ca](mailto:Douglas.S.Scott@gov.bc.ca)>  
**Date:** April 10, 2018 at 7:58:37 AM PDT  
**To:** "Fyfe, Richard J JAG:EX" <[Richard.Fyfe@gov.bc.ca](mailto:Richard.Fyfe@gov.bc.ca)>  
**Subject:** Current Decks

Hi Richard – before gong to MO if there is someone to review for typos etc... if not I think it is fairly clean.

*Doug*

Douglas S. Scott  
Associate Deputy Minister  
Ministry of Attorney General  
Government of British Columbia

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s.14;s.13

Page 031

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**From:** [Scott, Douglas S AG:EX](#)  
**To:** [MacMillan, Elizabeth PREM:EX](#); [Wanamaker, Lori FIN:EX](#)  
**Cc:** [Wright, Don J. PREM:EX](#); [Fyfe, Richard J JAG:EX](#)  
**Subject:** RE: s.12 briefing for PJH  
**Date:** Wednesday, April 11, 2018 7:31:05 AM  
**Attachments:** [P&A Appendix A.docx](#)  
[2018-04-11 Powerpoint for P and A.pptx](#)

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Hi Elisabeth,

Attached is expected to be the final draft in for Minister approval. I expect confirmation early this morning.

Let me know if you have any questions or comments.

Cheers,

Doug

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**From:** MacMillan, Elizabeth PREM:EX  
**Sent:** Wednesday, April 11, 2018 6:46 AM  
**To:** Wanamaker, Lori FIN:EX <[Lori.Wanamaker@gov.bc.ca](mailto:Lori.Wanamaker@gov.bc.ca)>; Scott, Douglas S AG:EX <[Douglas.S.Scott@gov.bc.ca](mailto:Douglas.S.Scott@gov.bc.ca)>  
**Cc:** Wright, Don J. PREM:EX <[Don.J.Wright@gov.bc.ca](mailto:Don.J.Wright@gov.bc.ca)>  
**Subject:** s.12 briefing for PJH

Thanks for your vm yesterday Scott re: latest info on MED's office arranging a briefing for Premier & others in PO today. Standing-by for the time. I understand the final materials are still in flux and an ETA on their provision for distribution is still unknown.

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**From:** MacMillan, Elizabeth PREM:EX  
**Sent:** Tuesday, April 10, 2018 7:30 AM  
**To:** Scott, Douglas S AG:EX  
**Cc:** Wanamaker, Lori FIN:EX  
**Subject:** RE: s.12 ppt

Thanks – I'm interested in the plan for briefing Premier, Don and Geoff before P&A. If a briefing is being arranged, I'd like to attend and if a briefing is not being arranged then I'd like to get together with you and whomever you recommend before 3pm Wednesday to gain a better understanding of the materials.

---

**From:** Scott, Douglas S AG:EX  
**Sent:** Monday, April 9, 2018 7:31 PM  
**To:** MacMillan, Elizabeth PREM:EX

**Cc:** Wanamaker, Lori FIN:EX

**Subject:** Re: s.12 ppt

Hi Elizabeth During a meeting w MDE he requested a briefing he arranged w SG, MOF and PO - the intent is for before Thurs and I expect our MO was to arrange. I will check to see if that has been done.

On Apr 9, 2018, at 7:26 PM, MacMillan, Elizabeth PREM:EX <[Elizabeth.MacMillan@gov.bc.ca](mailto:Elizabeth.MacMillan@gov.bc.ca)> wrote:

Hi Doug and Lori – please can you advise if a briefing of the Premier &/or Geoff on the materials has or will be scheduled before Thursday?

Thanks

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Page 080 to/à Page 084

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Page 085 to/à Page 168

Withheld pursuant to/removed as

s.14

**From:** Minister, AG AG:EX  
**Subject:** s.22

s.22

FW: Possible Money

Laundering by Foreign Currency Exchange Dealers

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**From:** s.22  
**Sent:** Friday, September 28, 2018 5:37 PM  
**To:** Minister, AG AG:EX  
**Subject:** Possible Money Laundering by Foreign Currency Exchange Dealers

Dear Honourable David Eby

I know that FINTRAC is responsible for enforcing the money laundering law, and I should report any suspicious activity to them. But you, as the Attorney General of BC ,are actively looking for ways to stop this criminal activity in BC. You recently annnounced that you want to review the Luxury car sectors and Real Estate in addition to the BC Casinos regarding the money laundering activities.I would like to grab your attention to another sector where money laundering might be practiced.

Money services businesses such as Foreign Exchange dealers are in BC and all over Canada. They do transfer funds to Canada and make money by exchanging foreign currencies for tourists , visitors and even residents of Canada. There are many of this type of business across BC . Some

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Dear <sup>s.22</sup>

Thank you for your email of September 28, 2018, regarding information you feel may be useful in assisting with our government's review of allegations of money laundering in the real estate, financial and other vulnerable sectors.

As you know, Dr. Peter German is leading one component of that work, with a focus on identifying the scale and scope of verifiable illicit activity in the real estate market.

The other component of our government's review in this area is being led by Ms. Maureen Maloney, as chair of the Expert Panel on Money Laundering in Real Estate. The panel is looking at gaps in compliance and enforcement of existing laws, consumer protection, financial services regulations, regulation of real estate professionals, and jurisdictional gaps between British Columbia and the federal government.

s.22

Thank you, again, for your interest in participating in the work our government has underway to shut down avenues for money laundering.

Yours truly,

David Eby, QC  
Attorney General

554624