

NATHANSONCENTRE

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ORGANIZED CRIME AND CORRUPTION

MONEY LAUNDERING IN CANADA: AN ANALYSIS OF RCMP CASES



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Money Laundering in Canada:
An Analysis of RCMP Cases

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Stephen Schneider
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FOREWORD

The international community has decided that a focus on money laundering is an efficient strategy in the policing of organized crime and more recently terrorism. To this end, countries are encouraged to harmonize their policies and legislation and to some extent their policing strategies. Often this is done with little empirical knowledge of the extent of money laundering cases that exist in their jurisdictions, and certainly with no clear notion of the total amount of money that is laundered. While we can do nothing *verifiable* in terms of determining the size of the actual money laundering economy, we can determine with some effort the nature of our police cases that have a significant money laundering component—and that is what Stephen Schneider has accomplished in this study.

Our previous study *Tracing of Illicit Funds: Money Laundering in Canada* was prepared in 1990 while both Stephen and I worked for the Solicitor General Canada. The cases that appeared in that report had been identified to us by the police as having had a large financial component, but there were no actual money laundering cases since the Proceeds of Crime legislation had only just been passed into law. Since that time, the Canadian government has been busy passing an array of anti-money laundering legislation. In 1989, amendments to the *Criminal Code* made money laundering a criminal offence, and in 1991 legislation was passed requiring financial service providers to identify their clients and to keep uniform records for a prescribed period of time as well as maintaining records of large transactions (exceeding \$10,000). At that time ‘suspicious’ reports were to be referred to the police on a voluntary basis. That same year, the RCMP established its first three Integrated Proceeds of Crime units to combat money laundering and organized crime. These original three specialized units grew in number to thirteen.

During the 1990’s the pressure from the international community intensified—most specifically due to the momentum and influence of the Financial Action Task Force (FATF). The FATF outlined a series of ‘recommendations’ (that were later enhanced) that specified what the member countries ought to put in place in order to illustrate their commitment to the ‘war’ against money laundering. Canada was criticized for failing to have a mandatory reporting regime for suspicious transactions and for failing to have a central financial intelligence unit to which all such reports could be sent. Partly due to this pressure—and one supposes due also to a perceived need for the approved mechanisms—in 2000 Canada passed the *Proceeds of Crime (Money Laundering) Act*, that made it mandatory to report all transactions where there are “reasonable grounds” to suspect that they are related to money laundering, other prescribed transactions, and large cross-border movements of currency and monetary instruments. The legislation also established the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) to collect and analyze these financial transaction reports and to disclose pertinent information to the police and other competent authorities.

All of these changes have occurred within little over a decade. This report is therefore an attempt to see what the actual money laundering cases in Canada look like during this same period. While some of the very newest legislation will not be significantly captured among these cases, the fundamental approach that has come into being, beginning with the 1990 Proceeds of Crime legislation, and the commitment of governments and the law enforcement community to invest in money laundering cases, ought to be evident in the quality and quantity of the money laundering cases that have been produced.

Law enforcement strategies are not without consequences—good and bad. What is clear is that if law enforcement strategies target the proceeds of crime, criminals must seek to launder their ill-gained proceeds. If law enforcement becomes sophisticated in the tracing and the untangling of the laundering schemes, the truly ‘professional’ launderers will seek increasingly sophisticated schemes. Judgments must therefore be made as to whether the *detected* schemes are the work of the less sophisticated and perhaps less professional or less ‘organized’ among the criminal population. As has been seen with some other law enforcement strategies, the result may be the creation of monopolies controlled by the more sophisticated criminal operations and the putting out of business of the smaller ‘competition’. Of some additional concern is the attractiveness of criminal assets to governments as well as to the criminals. We see in some jurisdictions a near-substitution of the more traditional focus on the crime and the criminal to a focus on the criminal proceeds—this two may be a danger if the allure of the proceeds should too dramatically shift the enforcement balance.

This analysis of the RCMP money laundering cases should provide policy makers, law enforcement officials, as well as the international community, with essential information with which to better understand money laundering and money launderers—and the linkages between the legitimate and illegitimate economies. I congratulate Stephen on the completion of this project.

Margaret E. Beare, Ph.D.
Director, Nathanson Centre for the Study of
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I EXECUTIVE SUMMARY

The objective of this study is to analyze how the financial proceeds of criminal activity are ‘laundered’ through Canada’s legitimate economy. In particular, the research examines such salient issues as the sources of the criminal proceeds, how the illicit cash enters the legitimate economy, the commercial and financial sectors used to launder the proceeds of crime, the products, services, and expertise exploited within each of these sectors, and the techniques and guises expressly employed to facilitate the money laundering process.

Money laundering can be broadly defined as a process by which cash and other assets derived from illegal activity are disbursed for the purpose of concealing or disguising their criminal origin. A comprehensive money laundering operation satisfies three objectives: (1) it *converts* the cash proceeds of crime to another, less suspicious form, (2) it *conceals* the criminal origins and ownership of the funds and/or assets, and (3) it *creates* a legitimate explanation or source for the funds and/or assets.

The exclusive source of primary data for this study was Royal Canadian Mounted Police proceeds of crime (POC) case files. The final number of cases included in the sample totalled 149. A standardized, coded questionnaire was used to gather data directly from the case files for a quantitative and qualitative analysis.

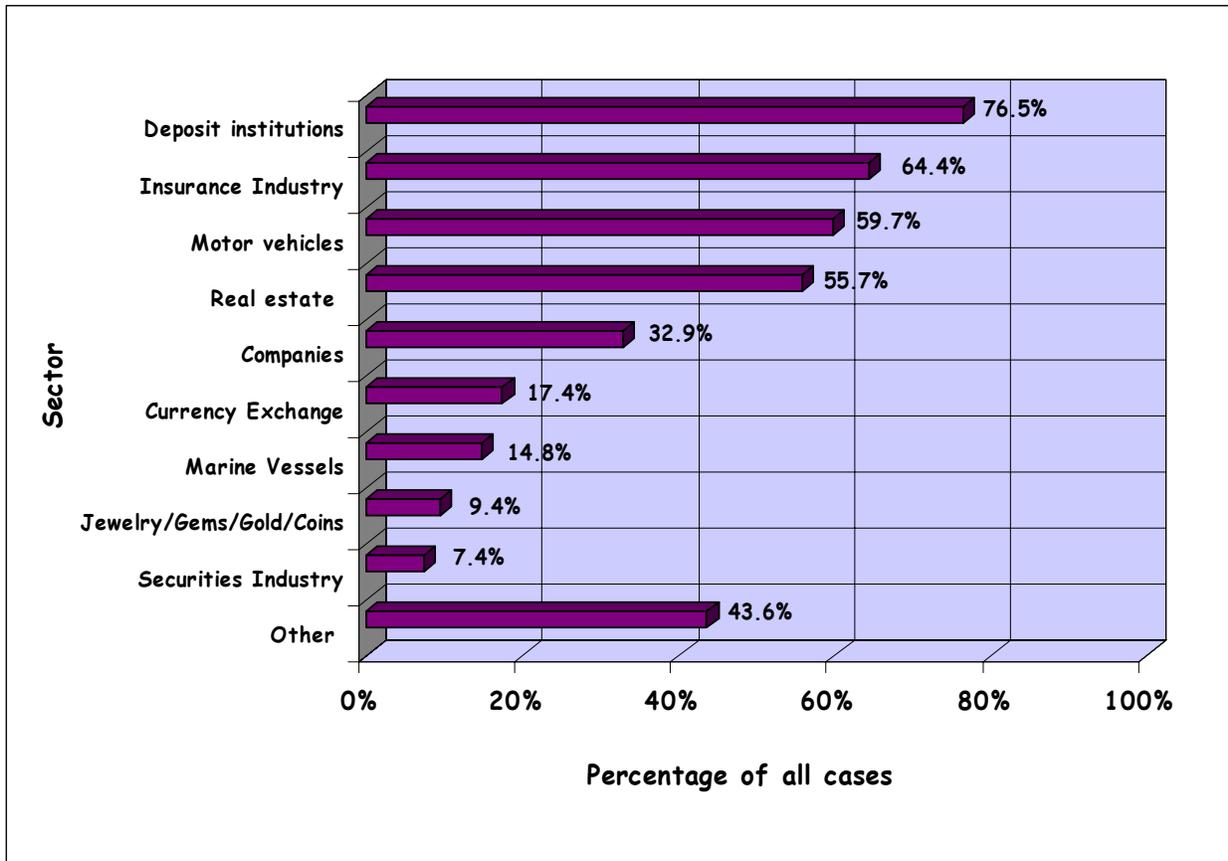
The research found that drug trafficking represents the single largest source of criminal proceeds investigated by the RCMP in Canada. Of the 149 cases included in the sample, 111 (72.4%) of the predicate offences involved some form of drug trafficking. Customs and excise offences – which mostly entail the smuggling and distribution of contraband cigarettes and liquor – accounted for 23 (15.4%) of the predicate offences. Theft and fraud accounted for 11 (7.4%) of the predicate offences.

Deposit institutions and real estate constitute the most significant sectors for laundering purposes when measured by frequency of use as well as the volume of criminal proceeds that enter the legitimate economy. Deposit institutions were used in 114 cases (76.5%) while real estate transactions were conducted in 83 cases (55.7%). The insurance sector was implicated in 96 cases (64%), however, in most, the offender did not explicitly seek it out as a laundering vehicle; instead insurance was purchased for big ticket assets (financed with the proceeds of crime). Motor vehicles were purchased or leased with the proceeds of crime in 89 cases (59.7%). In 49 cases (32.9%), companies were established or purchased by offenders to facilitate the laundering process. In 26 cases (17.4%), currency exchange or cheque cashing companies were used. (This figure includes at least 10 cases involving police-operated undercover currency exchange companies.) Securities transactions conducted with ill-gotten funds were identified in 11 cases (7.4%).

The research shows that in the course of a single money laundering operation, a number of different sectors will often be used. Moreover, when used for money laundering purposes, these sectors are not mutually exclusive, but critically interconnected: one sector of the economy, such as deposit

institutions, will frequently be used to access other sectors, such as real estate, and even other countries (through wire transfers).

Economic sectors and other assets used for money laundering in Canada



Domestically-incorporated banks were used to launder cash in more cases than all other types of deposit institutions combined. Of the 114 cases that involved a deposit institution, 100 (87.7%) included at least one transaction conducted at a domestically-chartered bank. Credit unions and *caisse populaires* were used in 32 of the 114 cases (28.1%), while trust companies and foreign-incorporated banks were each implicated in 17 cases (14.9%). Deposit institutions also constitute the most significant point of entry for criminal revenue into the legitimate economy: in 94 of the cases involving deposit institutions, the proceeds of crime entered as cash. The service used most frequently at a deposit institution for money laundering purposes was a savings or chequing account. Other commonly used products and services were bank drafts, mortgages, safety deposit boxes, and wire transfers.

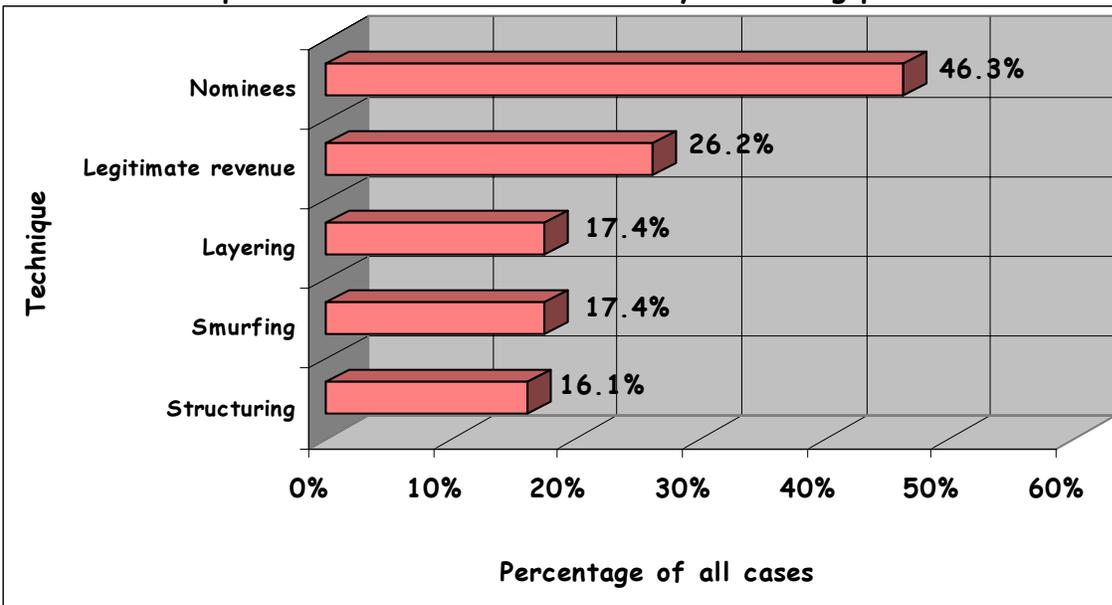
The proceeds of crime found their way into the real estate sector in the form of mortgages, cash, and monetary instruments. A mortgage was used in 65 of the 83 cases (73.5%) involving real estate, while in 64 cases (77.1%), cash generated directly from illegal activities was used to finance the purchase of real property. Cash was generally used for the deposit, down payment, or mortgage payments, although in some cases real property was wholly purchased with cash. In 60 of the 83

cases (72.3%) involving real estate, single-family residential properties were purchased, and in most of these instances, the accused lived in the home.

Police cases reveal that both operating and shell companies are established to facilitate the laundering process. Of those cases involving criminally-controlled companies, no one type of business predominated. Collectively, the companies operated (or purported to operate) various lines of commerce, including currency exchange, retail fish sales, masonry, paving, painting, auto wholesaling, auto leasing, lumber supplies, fitness clubs, courier services, gas stations, hotels, restaurants, and bars, to name just a few.

The techniques used to facilitate the laundering process generally involve attempts to hide the true ownership and source of criminal proceeds (through the use of nominees), avoid suspicion associated with large amounts of cash (by using “smurfs”), circumvent reporting requirements (by structuring transactions), or create the perception that the criminal funds were derived from legitimate sources (e.g., establishing companies and then claiming the proceeds of crime as legitimate revenue).

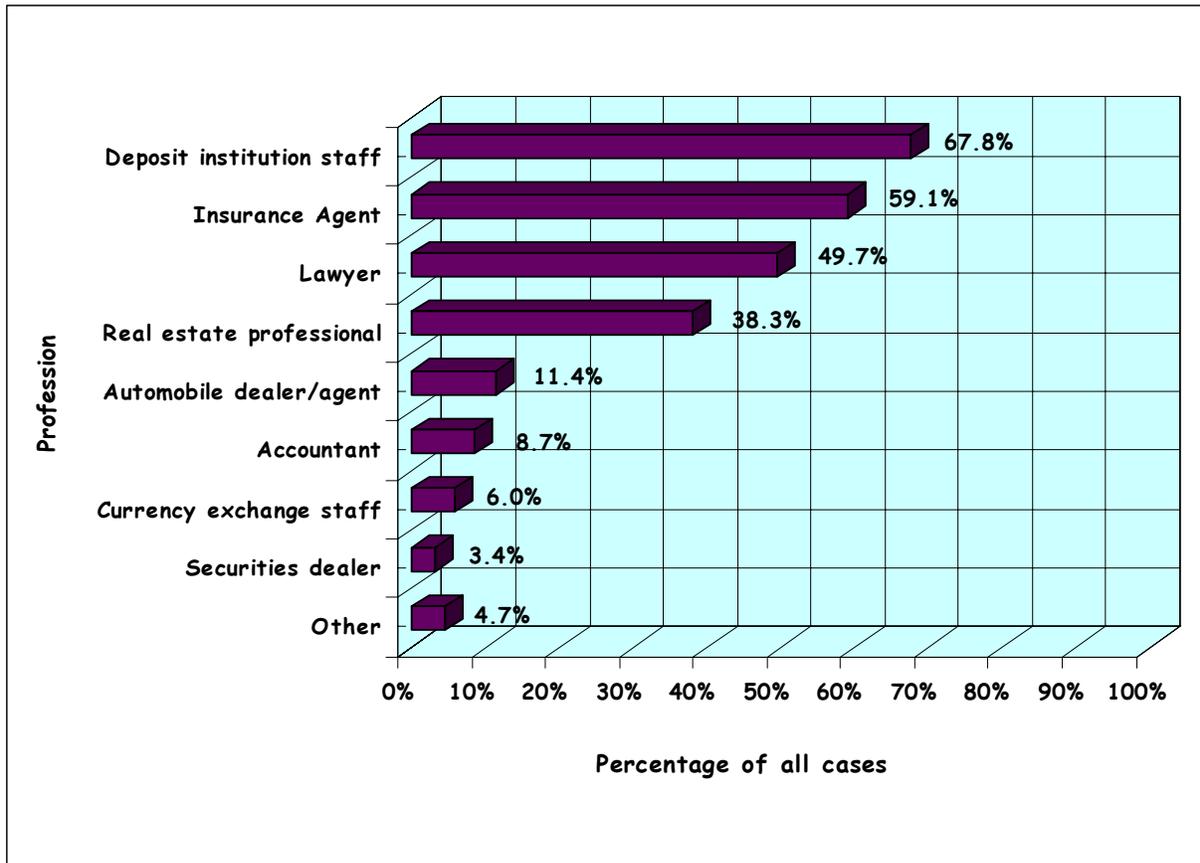
Common techniques used to facilitate the money laundering process



Because the vast majority of the POC cases examined in this study involved the use of at least one sector of the legitimate economy, it was inevitable that the accused or an accomplice came in contact with a professional working in one of these industries. Indeed, in 138 of the 149 cases (92.6%), the accused or an accomplice conducted a transaction with a company in the legitimate economy and as such, would have encountered a professional. The professionals that most frequently came into contact with the proceeds of crime were deposit institution staff, lawyers, insurance agents or brokers, and real estate professionals. In the majority of these cases, the professional appears to have been used unwittingly to facilitate the money laundering process, although, in some cases, the circumstances surrounding the transaction should have raised some suspicions. While lawyers were implicated in almost half of the proceeds of crime cases, the nature of the transactions they conducted suggest that they were not expressly sought out by offenders to facilitate money

laundering. Instead, most lawyers came into contact with illegally-generated funds because the transaction conducted by the offender – most notably, the purchase or sale of real estate – commonly requires the services of a lawyer.

Professionals that came into contact with the proceeds of crime



2 INTRODUCTION

While there are no reliable estimates of the amount of revenue produced by illegal activities in Canada, there is little doubt that narcotics trafficking and other organized criminal conspiracies generate billions of dollars annually. Cash is the universally accepted mode of payment in the underground economy and, as a result, criminal entrepreneurs – in particular drug traffickers – accumulate cumbersome amounts of currency, often in small denominations. A daunting task that confronts profitable criminal entrepreneurs is how to spend, invest, or transfer large amounts of cash, without attracting suspicion.

Money laundering is a tactical imperative employed by cash-intensive criminal entrepreneurs to maximize their ability to use and enjoy the fruits of their illegal activity without attracting suspicion and/or government interdiction. Within the criminal milieu, money laundering has taken on a life of its own and has become an integral component in the operations of criminal organizations, in part because of the dogged pursuit of illicit funds by law enforcement agencies.

Money laundering can be broadly defined as the process by which one converts or transfers cash or other assets generated from illegal activity in order to conceal or disguise their illegal origins. A comprehensive money laundering operation satisfies three essential objectives: (1) it *converts* the bulk cash proceeds of crime to another, less suspicious form, (2) it *conceals* the criminal origins and ownership of the funds and/or assets, and (3) it *creates* a legitimate explanation or source for the funds and/or assets. To realize the greatest benefit from money laundering, criminally-derived cash should not simply be converted to other, less suspicious assets; the illicit financing of the assets must also be hidden. The third objective, while less frequently satisfied in most money laundering operations, is no less important than the former two: the effectiveness of a laundering scheme will ultimately be judged by how convincingly it creates a legitimate front for illegally-acquired cash and assets. In short, “money is not truly laundered unless it is made to appear sufficiently legitimate that it can be used openly, precisely what the final stage of the cycle is designed to achieve.”¹ Moreover, one of the keys to satisfying the objectives of the laundering process is to conduct commercial and financial transactions that appear as legitimate as possible. The more successful a money laundering operation is in emulating the patterns of legitimate financial or commercial transactions, the less suspicion it will attract.

In order to satisfy the afore-mentioned objectives, the money laundering process generally entails four stages: placement, layering, integration, and repatriation. The initial *placement* stage is where the cash proceeds of crime physically enter the legitimate economy, which satisfies the first objective of the laundering process. Once the funds have been placed in the legitimate economy, a process of *layering* takes place. It is during this stage that much of the laundering activity takes place, as funds are circulated through various economic sectors, companies, and commercial or financial transactions in order to conceal the criminal source and ownership of the funds and obscure any audit trail. The penultimate step of the money laundering process is termed *integration* because

¹ Tom Naylor. 2002. *Wages of Crime. Black Markets, Illegal Finance, and the Underworld Economy*. Ithaca: Cornell University Press: p. 137.

“having been placed initially as cash and layered through a number of financial operations, the criminal proceeds are fully integrated into the financial system and can be used for any purpose.”² The final stage of the process involves *repatriating* the laundered funds into the hands of the criminal entrepreneur, ideally with a legitimate explanation as to their source, so that they can be used without attracting suspicion.

The placement stage is the most perilous for the launderer as it involves the physical movement of bulk cash, usually in small denominations. It is at this stage that the offender is most vulnerable to suspicion and detection and where the funds can most easily be tied to criminal sources. Once the funds are placed with the legitimate economy and converted from their original cash form, the opportunities for money laundering are increased exponentially: the funds can be transferred among, and hidden within dozens of financial intermediaries and commercial investments, domestically and internationally.

In many of the cases examined for this study, the expenditure of illegally-derived revenues was so lackadaisical and unimaginative that the money laundering objectives and processes laid out above were barely satisfied. In other cases, millions of dollars of criminal funds were proficiently cleansed through elaborate operations that involved numerous economic sectors, dozens of professionals, a myriad of illusory guises and techniques, and hundreds, if not thousands, of obfuscating transactions. In short, one should not be overly pre-occupied with the term ‘money laundering.’ For both analytical and law enforcement purposes, attention should be paid to how the proceeds of crime are disposed by the criminal element – with particular emphasis on how it enters and circulates within the legitimate economy – regardless of whether these transactions satisfy the definition of money laundering.

The over-riding goal of this study is to examine empirically how the proceeds from profit-oriented (organized) criminal activities are disbursed through the legitimate and underground economy in Canada. Particular emphasis has been placed on discerning the processes and techniques used to launder the proceeds of crime through the legitimate financial and commercial sectors in this country. Specifically, the objectives of the study are to identify, examine, and quantify:

- the types of illegal activity that generate the criminal revenue invested into the legitimate economy,
- how illicit funds enter the legitimate economy,
- the sectors of the economy into which criminal proceeds are placed,
- specific assets or services purchased with the criminal proceeds in each sector,
- transactions and processes used in each sector for money laundering purposes,
- specific guises and/or techniques employed to facilitate the money laundering process, and
- the linkages between different economic sectors, transactions, and techniques that are forged through money laundering operations.

² United Nations. Office on Drugs and Crime. Internet Web site. “The Money Laundering Cycle.” www.unodc.org/unodc/money_laundering_cycle.html (Accessed June 15 2003).

Immediately following this introduction, the study's design is described. The research findings are then presented, beginning with a quantitative overview of the sources of the criminal proceeds as well as the economic sectors that constitute the predominant destinations for these funds. Following this overview, the different sectors of the Canadian economy used to launder illicit funds are examined more closely, which includes an analysis of how the criminal revenues entered each sector, the assets or services purchased with illicit funds, as well as the specific transactions, processes, guises and techniques employed to facilitate the money laundering process within that particular sector. The findings and analyses include both a quantitative component (a statistical analysis of data gleaned from the case files) and a qualitative component (in-depth narratives of the money laundering operations). In most of the narratives, the names of the accused and other parties have been changed or omitted for privacy reasons.

3 RESEARCH DESIGN

3.1 Data Source and Sampling Method

The primary source of data for this study was RCMP proceeds of crime (POC) case files. To ensure a representative sample of POC files, one of the first steps of the research was to compile a sampling frame, which is the total number of case files from which the sample is chosen. The sampling frame was compiled by identifying POC files from the RCMP Management Information System (MIS), a database of cases investigated by the RCMP. The population of POC cases was refined through the application of criteria intended to maximize the relevancy and quality of the cases to be included in the final sample. The most important criterion for the inclusion of a case in the sampling frame was that the legal definition of “possession of the proceeds of crime”³ or “money laundering”⁴ must have been satisfied. To this end, the two initial criteria for the inclusion of cases in the sampling frame were as follows:

- ◆ the file was successfully closed between 1993 and 1998⁵ (i.e., the file was closed by the RCMP following the forfeiture of assets resulting from either a conviction or plea bargain), and
- ◆ at least one proceeds of crime seizure or restraint had been made or at least one possession of proceeds of crime or money laundering charge had been laid in this file.

Based upon the application of the above criteria to the sampling frame, the MIS database produced a total population of 371 POC cases.

An initial inquiry into the population of cases indicated that additional criteria would have to be applied to ensure that all qualifying cases contained sufficient information on how the proceeds of crime were disbursed by offenders. As such, the additional criteria used to screen out cases were as follows:

- ◆ the monetary value of the property that was the target of the seizure or restraint must be above \$10,000,
- ◆ the case could not simply involve a cash seizure. In other words, if a file was initiated by the seizure of cash by police, to qualify for inclusion in the sample, a proceeds of crime investigation must have subsequently been undertaken. (POC files initiated by cash seizures, but

³ *Criminal Code of Canada*, R.S., 1985, c. 42 (4th Supp.), s. 462.3; *Controlled Drugs and Substances Act*, R.S. 1996, c. 19, s. 8; *Customs Act*, R.S., 1985, c. 1 (2nd Supp.), s. 163.1; *Excise Act*, R.S. 1985, c. E-14, s. 126.1

⁴ *Criminal Code of Canada*, R.S., 1985, c. 42 (4th Supp.), s. 462.31; *Controlled Drugs and Substances Act*, R.S. 1996, c. 19, s. 9; *Customs Act*, R.S., 1985, c. 1 (2nd Supp.), 163.2; *Excise Act*, R.S. 1985, c. E-14, s. 126.2

⁵ While most POC cases examined for this study were concluded by 1998, some investigations were concluded in 2000.

where no subsequent investigation took place, generally have insufficient information on how the proceeds of crime are laundered), and

- ◆ the case must have involved more than 40 person-hours of investigative time.

The application of this additional criteria resulted in a final sample of 149 cases.

3.2 Data Collection Methods

A standardized coded questionnaire was prepared to collect data from the RCMP POC case files. Data from the eligible cases were initially collected by members of the Proceeds of Crime Sections who were part of the Expert Witness Program.⁶ The author of this study also conducted site visits among most of the POC Sections and Integrated Proceeds of Crime (IPOC) Units to collect original data and to check the accuracy and completeness of the questionnaires filled out by the police members. The data collection took place between January 2000 and May 2002.

The researchers were instructed to examine all relevant documents contained within the case files in order to identify as much information as possible on the predicate criminal conspiracy, how the criminal proceeds were disbursed by offenders, and any money laundering techniques used. This data generally came from documents prepared to obtain judicial authorization to execute certain police powers, such as an “Information to Obtain a Search Warrant,” an “Application for a Part VI Authorization” (electronic surveillance), or a “Restraint Order.” In order to obtain these powers from a judge or justice of the peace, police in Canada must include on an affidavit an extensive amount of detailed information on the accused and the alleged criminal conspiracy. In the context of a POC investigation, these documents provided invaluable data for an in-depth analysis of money laundering. Other police documents that proved useful for this study included court transcripts, investigative progress reports, court briefs, intelligence reports, and “statement of facts.” Documents obtained by police during an investigation and contained in the case files, such as banking statements, real estate contracts, and correspondence, also proved to be useful sources of primary data. Personal interviews were also conducted with police investigators and prosecutors to corroborate or elaborate on information contained in these documents or to provide any information that may have been absent from the case file.

Prior to the full-scale implementation of the survey, 12 questionnaires were sent to selective police members in the Expert Witness Program across the country for testing on pre-determined cases. Based on the test survey, the questionnaire was revised and then sent to all police members assigned to collect data. Included with the questionnaires was a cover letter, which explained the nature of the study and how the questionnaire should be completed. The questionnaire also had general instructions on the cover sheet, as well as specific instructions for each section, and in some sections, for each question.

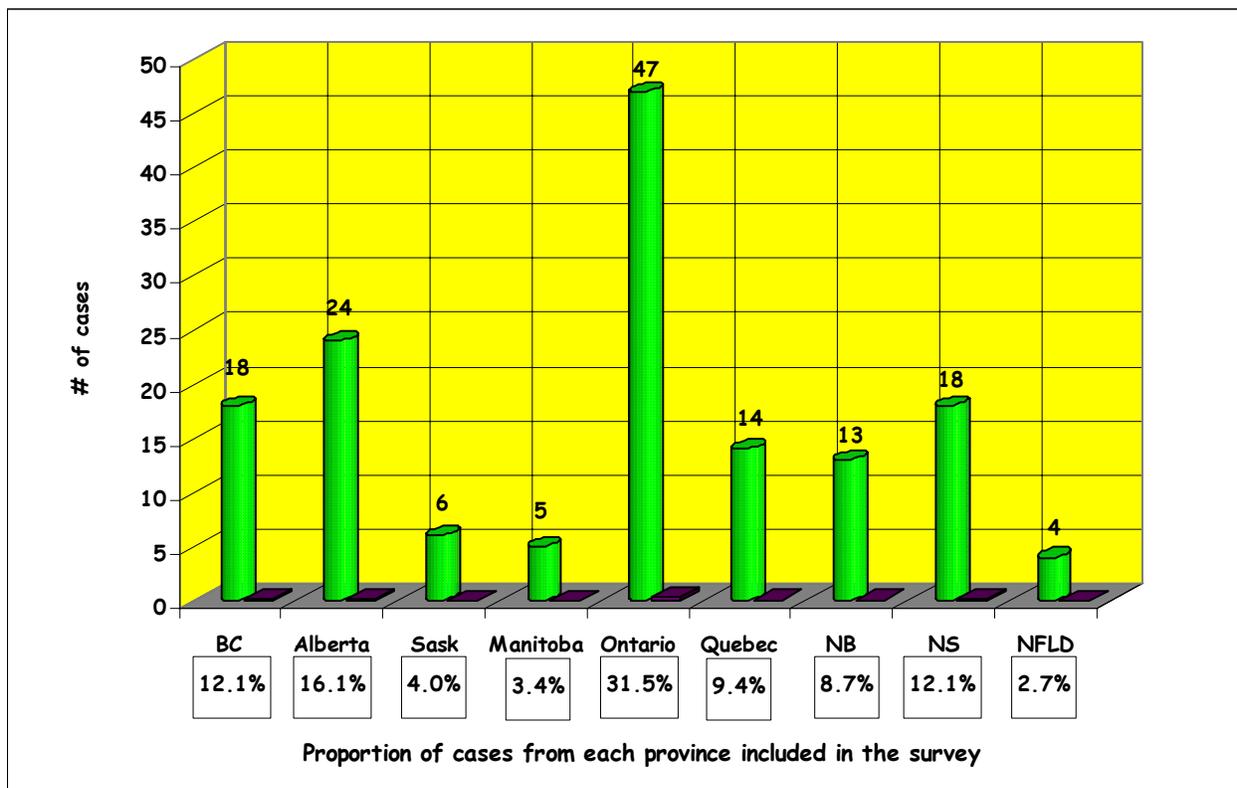
⁶ The Expert Witness Program includes members of the RCMP, as well as provincial and municipal police agencies assigned to the Integrated Proceeds of Crime Units, who are to be designated as experts in money laundering for court purposes.

A cut-off date for the return of completed questionnaires was imposed for six months following their initial distribution to police members (although questionnaires returned after this cut-off date were included in the study). The police members were instructed to return the completed questionnaires to the Proceeds of Crime Branch at RCMP Headquarters, where they were reviewed by designated personnel to ensure that sensitive information was not disclosed. All completed questionnaires and accompanying documentation were then reviewed by the author of this study for accuracy, completeness, and to ensure the case satisfied the afore-mentioned criteria for inclusion in the study. The author then conducted field research at most of the POC Sections and IPOC Units to corroborate the data that was collected and/or to collect any outstanding information.

3.3 Distribution of Cases Across the Country

This study is national in scope in that the final sample includes POC cases were drawn from every province (except Prince Edward Island) and from all of the major Proceeds of Crime Sections and IPOC Units within each province. In general, the sample of cases included in this study is representative of the distribution of POC cases investigated on an annual basis across the country. The one exception is Quebec, where the number of cases included in this survey is disproportionately underrepresented. Figure 1 shows how the proceeds of crime cases included in the study are distributed across the country.

Figure 1 - Distribution of survey cases across Canada



3.4 Data Analysis

The questionnaire solicited information for both a quantitative and qualitative analysis of the data, using close-ended and open-ended questions. The majority of the questions were closed-ended to facilitate a statistical analysis of the data. A number of open-ended questions were also asked to solicit information for an in-depth qualitative analysis of money laundering methods and techniques. For some open-ended questions, the answers were collated and coded for a quantitative analysis. Responses to the close- and open-ended questions were inputted into a spreadsheet (Microsoft Excel) and a statistical software package (SPSS) for analysis.

3.5 Limitations

Certain factors conspired to potentially limit the reliability of the data and the ability to extrapolate the research findings to the broader universe of money laundering in Canada. These limitations are the result of the inherently secretive nature of money laundering, the reliance on law enforcement cases as the primary source of data, and problems encountered in selecting a random sample.

The first limitation stems from money laundering itself, which by its very nature is meant to conceal assets from law enforcement. Due to the intrinsically secretive nature of money laundering (which in some cases was pursued with a high degree of sophistication and stealth), there is no guarantee that the POC investigation – let alone this study – was able to identify all of the assets and laundering vehicles associated with a particular criminal conspiracy. Police investigations cannot always identify the full range of laundering vehicles and techniques used by the offenders. This is especially true of the more sophisticated money laundering operations and those that successfully transferred the proceeds of crime and related assets off shore.

Another limitation is the exclusive reliance on police cases to examine money laundering. Commenting on a researcher's dependency on police data to study organized crime, Tremblay and Kedzier opined, "What documentary sources are pertinent for the analysis of the organization of crime? It is generally agreed that police statistics, while now standardized and fairly reliable, tell us more about the organizational qualities of the police than about crime as such."⁷ Indeed, the examples of money laundering included in this study are skewed toward those that have been identified and investigated by the RCMP POC Sections and the IPOC Units. As such, this study must be viewed as an analysis of money laundering as filtered through the enforcement priorities and capacities of the police, and the RCMP in particular.

Problems were also encountered in the execution of the sampling methodology used for this study. These methodological problems revolved around the quality and completeness of the information contained in the RCMP MIS database, which was used to identify the population from which the sample was chosen. In some of the relevant MIS data fields, it was later discovered that important information was missing or was entered erroneously. This problem was detrimental to efforts to

⁷ Pierre Tremblay and Richard Kedzier. 1986. "Analyzing the organization of crime in Montreal 1920 to 1980: A Canadian test case." in R. J. Kelly. (ed.) *Organized Crime: A Global Perspective*. Totowa, NJ: Rowman and Littlefield: p. 78.

draw a random sample, especially when the erroneous information was located in data fields used as part of the filtering criteria. It also became apparent as the study progressed that the inventory of POC cases contained in the MIS database was not in fact comprehensive. During the latter stages of the data collection, as this researcher conducted site visits among the RCMP POC Sections, a number of cases were discovered that fit the criteria for inclusion in the sample but were not in fact listed in the centralized database.

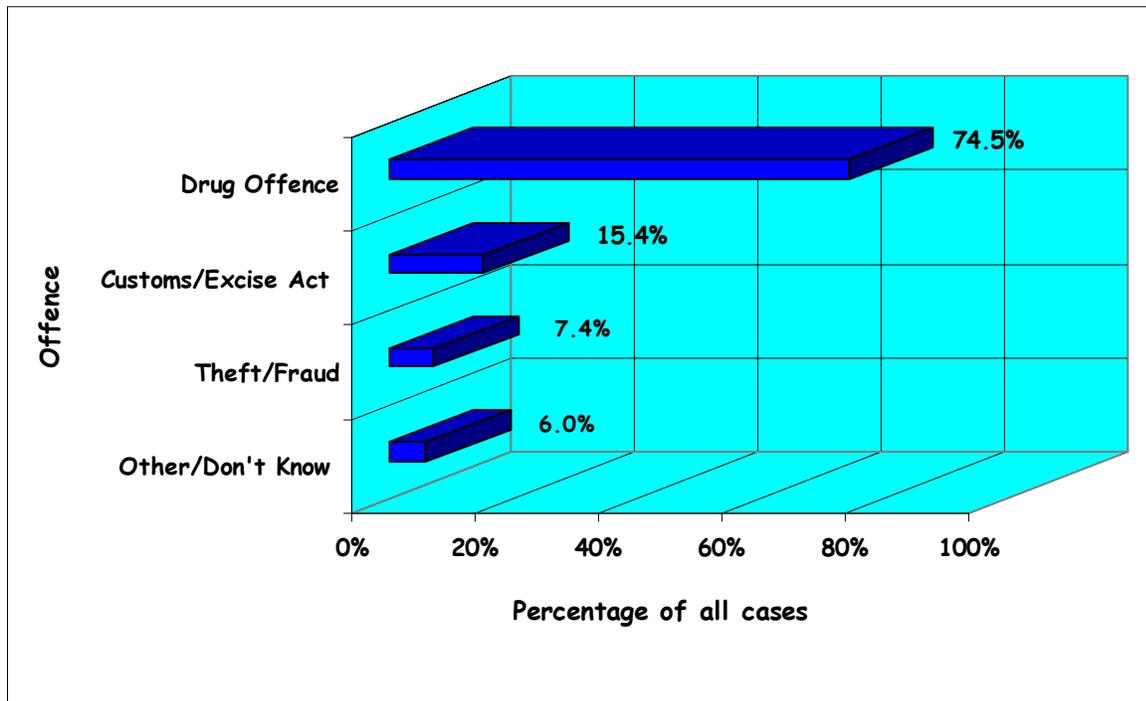
In summary, the limitations inherent in examining money laundering, combined with the problems encountered with the sampling methodology employed for this study, may adversely affect the reliability and universality of the research findings. With that said, however, the findings do parallel those of past studies into money laundering in Canada.⁸

⁸ Rod Stampler and Robert Fahlman. 1983. "The profits of organized crime: The illicit drug trade in Canada." *Bulletin on Narcotics*. 35(2), pp. 61-70; Gary Lamphier. 1986. "Dirty money, dirty deals." *Toronto Life*. January, p. 29; Bruce Bowie. 1988. *Money Laundering Techniques*. Ottawa: Royal Canadian Mounted Police, Drug Enforcement Directorate. (Unpublished); Margaret Beare and Stephen Schneider. 1990. *Tracing of Illicit Funds: Money Laundering in Canada*. Ottawa: Solicitor General Canada; Mario Possamai. 1992. *Money on the Run: Canada and How the World's Dirty Profits are Laundered*. Toronto: Viking; Department of Justice Canada and Solicitor General Canada. 1998. *Electronic Money Laundering: An Environmental Scan*. Ottawa: Solicitor General Canada.

4 OFFENCES GENERATING THE PROCEEDS OF CRIME

While there are a myriad of entrepreneurial criminal activities that produce substantial revenues, according to this survey, drug trafficking represents the single largest source of criminal proceeds in Canada. This finding is both a reflection of the prominence drug trafficking has assumed in the repertoire of most criminal groups, as well as the priority that the RCMP Proceeds of Crime Program has placed on anti-drug profiteering enforcement. As Figure 2 shows, 111 of the 149 POC cases (74.5%) involved a designated drug offence as the predicate criminal activity. Of these 111 cases, 60 (54%) involved cannabis, 59 (45%) involved cocaine, 9 (8.1%) involved heroin, and four (3.6%) involved synthetic drugs. The second most common predicate offence was committed against the *Customs Act* and/or the *Excise Act*, which primarily consists of the highly profitable trade in contraband tobacco and liquor smuggling and trafficking. The survey included 23 cases (15.4%) where the substantive offence was committed against either of these acts. Of these 23 cases, 20 involved cigarettes and 16 involved liquor. Offences involving theft or fraud accounted for 11 cases (7.4% of all predicate offences).⁹

Figure 2 - Offences that generated the proceeds of crime

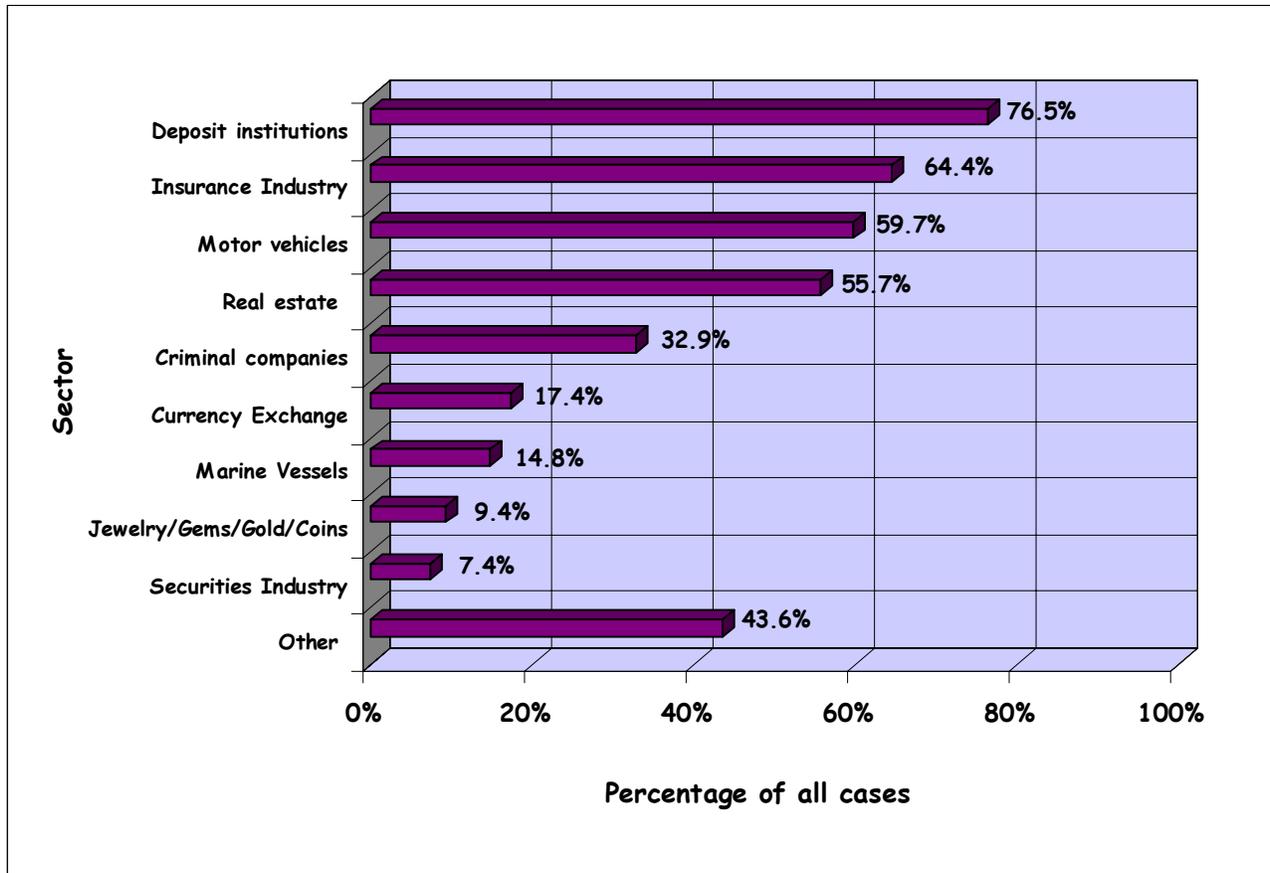


⁹ Theft or fraud offences are considered a lower priority for POC enforcement in Canada, which explains why, statistically, there are a relatively small number of cases where these offences constituted the source of the criminal proceeds.

5 SECTORS OF THE ECONOMY USED: AN OVERVIEW

The survey findings indicate that criminal proceeds find their way into a number of different economic sectors in Canada. Figure 3 identifies these sectors and the frequency with which each was the recipient of criminal proceeds, based on the survey.

Figure 3 - Economic sectors and other assets used for money laundering



As indicated in the above graph, deposit institutions, the insurance industry, motor vehicles, and real estate are the four most frequent destinations for the proceeds of crime in Canada. Deposit institutions are the single largest recipient, having been identified in 114 of the 149 POC cases (76.5%). While the insurance sector was implicated in almost 65 percent of all cases, in the vast majority, the offender did not explicitly seek out the insurance sector as a laundering vehicle. Instead, because motor vehicles, homes, companies, and marine vessels were purchased with the proceeds of crime, it was necessary to purchase insurance for these assets. In a smaller number of cases, the insurance sector was used as a financial service provider to launder the proceeds of crime. In these cases, mortgages, investment certificates, life insurance policies, and mutual funds were provided by or purchased from an insurance company or broker.

Motor vehicles were purchased or leased with the proceeds of crime in 89 cases (59.7%). Real property transactions were identified in 83 cases (55.7%). In 49 cases (32.9%), companies were established or purchased by an offender to facilitate the laundering process. Currency exchange companies and cheque cashing businesses were implicated in 26 of the cases (17.4%).¹⁰ The purchase or sale of securities was implicated in 11 cases (7.4%). Other assets purchased with the proceeds of crime were marine vessels (22 cases), jewellery, precious gems, or gold (13 cases), rare coins (one case), art work (three cases), and livestock, including race horses (six cases). Legalized gambling, in particular casinos and lotteries, were used to launder funds in five cases.

The police cases show that the proceeds of crime were expended in the legitimate economy, not only for personal consumption and laundering purposes, but also to purchase equipment necessary for the continuation of predicate criminal conspiracies, including marijuana cultivation equipment, weigh scales, slot machines, generators, mobile phones and pagers, boats, tractor-trailers, and computers, among others.

In 130 of the 149 cases (87.3%), it was the individual(s) accused of the substantive offence that originally placed the cash proceeds of crime into the legitimate economy. Nominees were involved in placing the proceeds in the legitimate economy in 53 cases (35.6%). Other individuals or entities that placed the criminal proceeds in the legitimate economy were a company (10.1%), a lawyer (10.1%), or another professional (4.0%).

In 122 of the 149 cases (81.9%), the currency of the cash criminal proceeds originally placed in the legitimate economy was Canadian, while American currency was initially used in 29 POC cases (19.5%). Other currency generated from criminal activity placed in the Canadian economy was the Belgium franc and the British pound.

¹⁰ This figure is skewed upward because included in the random sample were at least 10 cases involving undercover currency exchange companies set up by police.

6 DEPOSIT INSTITUTIONS

Deposit institutions¹¹ are used more frequently to launder the proceeds of crime than any other single sector of the Canadian economy. Because of their very nature, banks and similar financial service providers are highly conducive to satisfying the objectives of the laundering process. First, they can be used to convert the cash proceeds of crime into less suspicious assets – both tangible (e.g. cheques, bank drafts, money orders) and intangible (e.g., bank accounts, term deposits, guaranteed investment certificates, bonds, etc.). Second, banking services and instruments, such as cheques, wire transfers, bank drafts, and credit cards can be used to access other laundering vehicles, including real estate, motor vehicles, tax haven countries, etc. Third, money laundering techniques intended to conceal the criminal origins of the illicit funds can be used in tandem with banking services, such as registering accounts or purchasing monetary instruments in the names of nominees. Finally, deposit institutions can be used as part of a laundering scheme that creates the perception that the illicit funds were derived from legitimate purposes, primarily by establishing commercial accounts and depositing the proceeds of crime under the guise of legitimate business revenue.

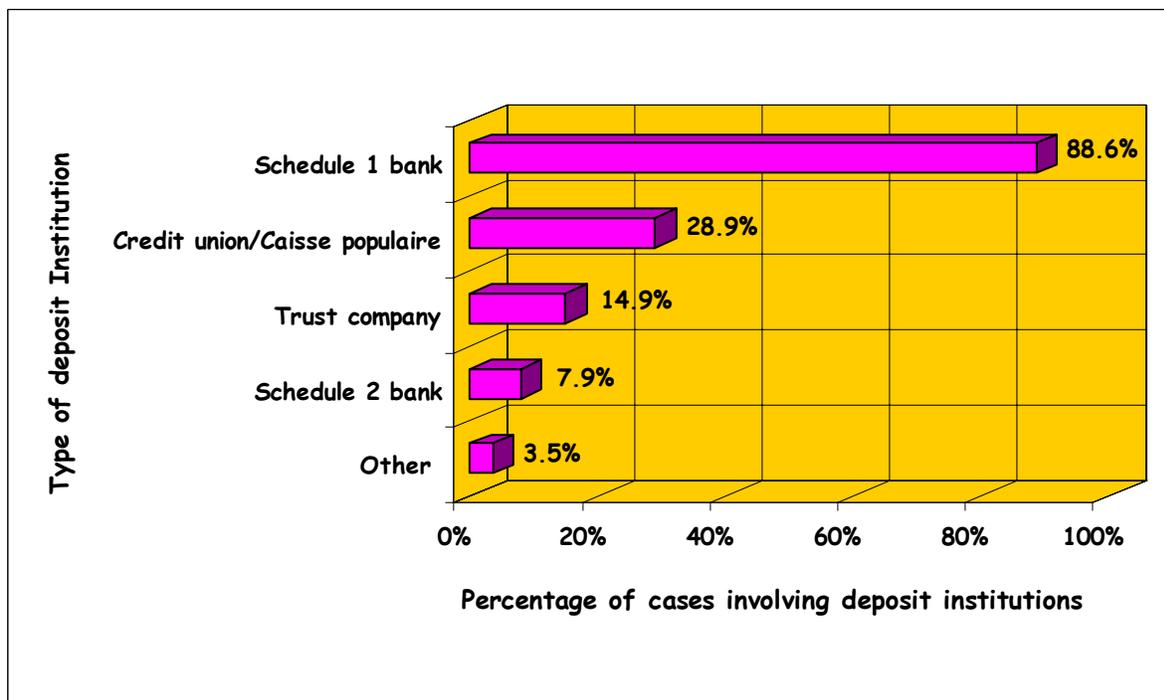
In short, deposit institutions not only serve as the ultimate destination of dirty money, they frequently constitutes an integral first link in a potentially long and complicated money laundering chain; in fact, this sector represents the single largest portal for cash moving from the underground economy into the legal economy. The conversion role played by deposit institutions is particularly important in the money laundering process as it helps criminal entrepreneurs avoid suspicion that may be aroused if large amounts of cash are used to purchase expensive assets or is transported across international borders.

6.1 Types of Deposit Institutions Used

While all types of deposit institutions are susceptible to money laundering, police cases indicate that chartered banks – in particular “Schedule 1” chartered banks – are used more frequently than all other types of deposit institutions combined. As Figure 4 shows, of the 114 cases that involved deposit institutions, 100 (87.7%) included at least one transaction conducted at a Schedule 1 chartered bank. Credit unions and *caisse populaires* were implicated in 32 cases (28.1%), while trust companies and “Schedule 2” chartered banks being used in 17 and nine cases respectively. Provincial government savings institutions were implicated in two cases.

¹¹ In this report, the definition of a deposit institution is taken from that of the Canadian Government’s Office of the Superintendent of Financial Institutions, and includes Schedule 1 and 2 chartered banks, trust companies, loan investment companies, and co-operative credit societies (credit unions and *caisse populaires*). “Schedule 1” banks are those that have been incorporated in Canada. “Schedule 2” banks are subsidiaries of foreign banks.

Figure 4 - Types of deposition institutions implicated in POC cases



Chartered banks in Canada – in particular the “big five” – dominate the financial services industry in this country and thus, like legitimate customers, criminal entrepreneurs tend to gravitate to these institutions. Chartered banks also offer an unparalleled range of services that are conducive to money laundering and have an international reputation for efficiency, fast clearing systems, and ensuring customer confidentiality. The extensive international network of Canadian bank branches facilitates the international transfer of funds, especially to the so-called “safe haven countries” of the Caribbean basin, where Canadian financial institutions are dominant.

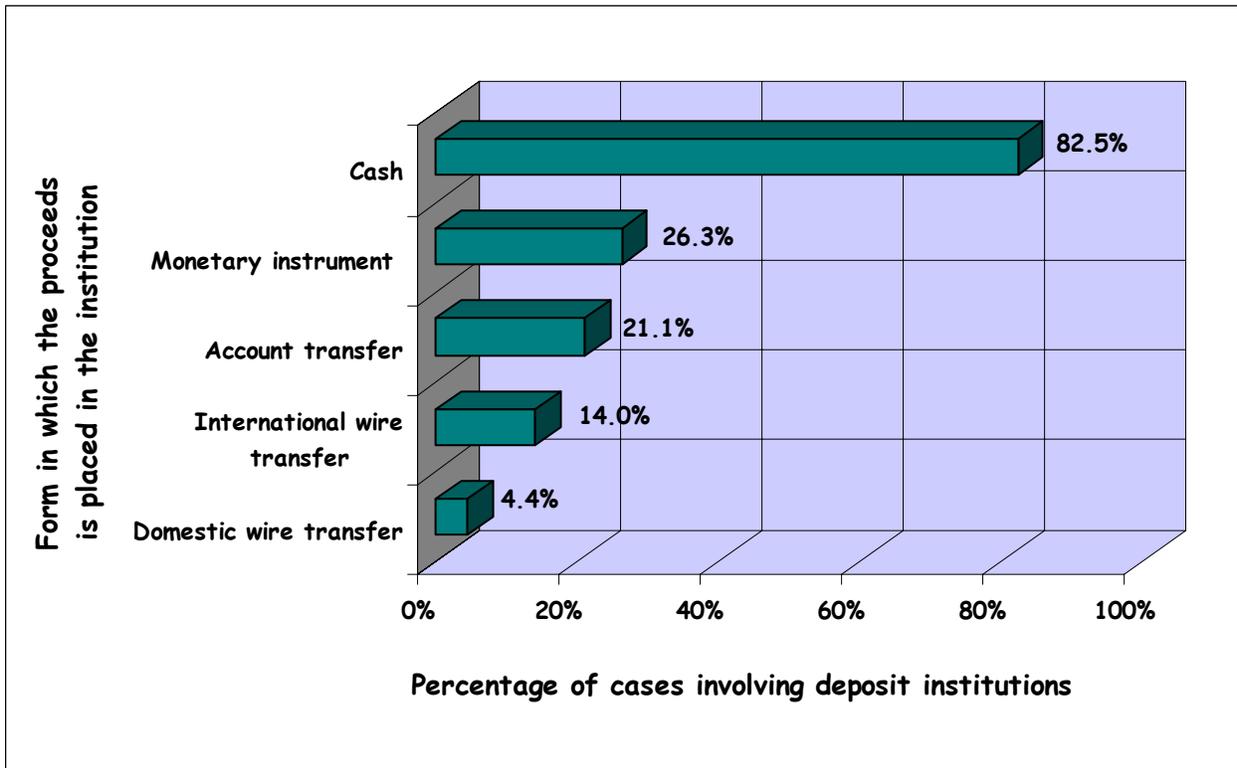
Past research¹² has speculated that as internal anti-money laundering controls tightened at the major Canadian chartered banks, there may be a greater movement of criminal proceeds to smaller institutions with less strict security measures. However, a comparison of these research findings with the results of past money laundering studies in Canada suggests that the anticipated exodus of illicit funds from chartered banks to other deposit institutions has not materialized. Schedule 1 chartered banks continue to be the preferred choice of criminal entrepreneurs over all other types of deposit institutions.

¹² Margaret Beare and Stephen Schneider. 1990. *Tracing of Illicit Funds: Money Laundering in Canada*. Ottawa: Solicitor General Canada, p. 17.

6.2 Form in which the Proceeds of Crime were placed in the Deposit Institution

As Figure 5 demonstrates, cash was the principal form in which the proceeds of crime entered deposit institutions: in 94 of the 114 cases (82.5%) involving deposit institutions, the criminal proceeds were introduced as cash. Combined with the frequency with which they are used to launder the proceeds of crime, this statistic indicates that Schedule 1 chartered banks continue to constitute the most foremost entry point for the proceeds of crime into the legitimate economy.

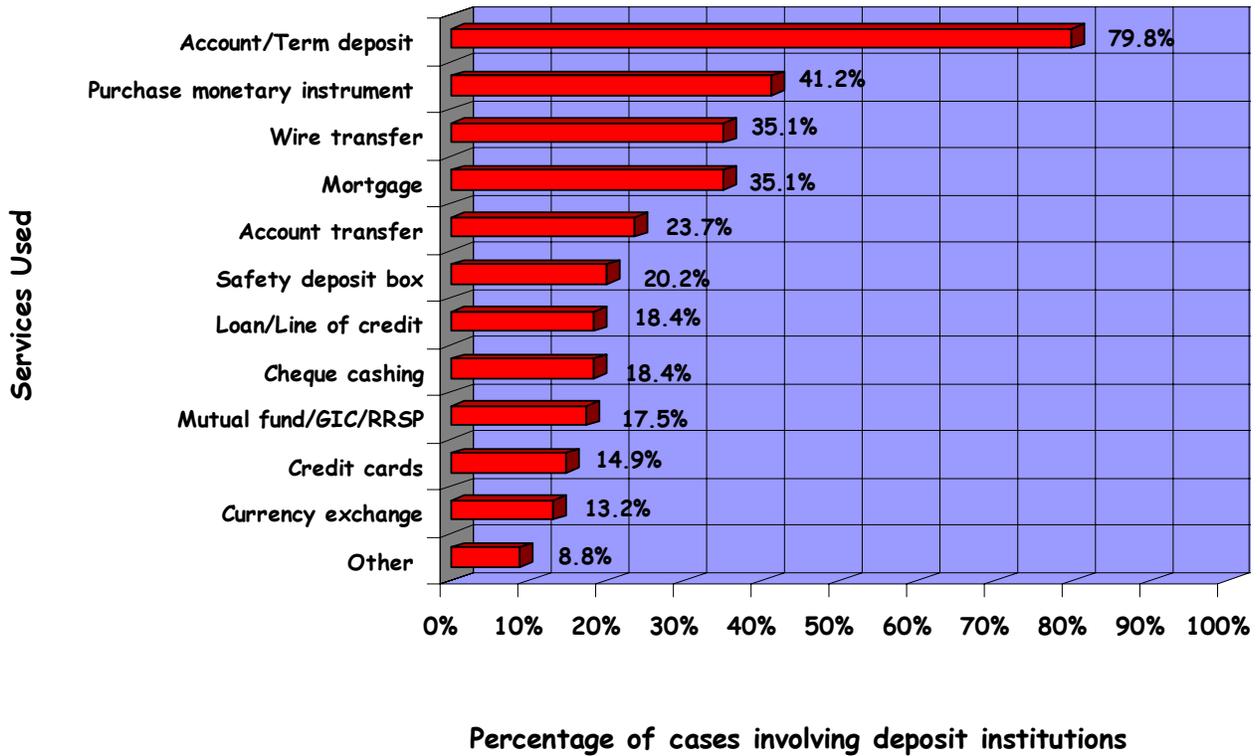
Figure 5 - Form in which the proceeds of crime entered the deposit institution



6.3 Services Used

A wide range of banking services is used to launder money. As shown in Figure 6, the most frequently used service is a regular savings or chequing account; of the 114 cases involving deposit institutions, a savings or chequing account or a term deposit was used in 91 (79.8%). Monetary instruments were a distant second; in 47 cases involving deposit institutions (41.2%), a monetary instrument (in particular, a bank draft) was purchased with criminal proceeds.

Figure 6 – Banking products and services purchased/used with criminal revenues



Savings/Chequing Accounts

Depositing the cash proceeds of crime into a bank account is frequently the first step in the money laundering process and is used to access other laundering vehicles within the deposit institution or other sectors. Bank accounts relieve the criminal entrepreneur of cumbersome amounts of cash, while allowing the funds to be spent, invested, or transferred electronically without attracting the level of suspicion associated with large volumes of cash. As such, a savings or chequing account represents the most common portal through which illegally-derived cash enters a deposit institution and, by extension, the legitimate economy.

During the search of a home of contraband tobacco distributor, police found a bankbook for a savings account with a current balance of \$41,000. The accused, along with his common-law wife, deposited the cash proceeds of their illegal business directly into this account.



Police in British Columbia were granted a warrant to seize approximately \$138,000 in a joint bank account that was registered in the name of a husband and wife who were implicated in a cocaine importation conspiracy.



A cocaine trafficker in Ontario set up a series of personal and commercial bank accounts in Canada and abroad. During their investigation, police discovered that the accused had signing authority for 32 bank accounts, including 11 foreign accounts. All 32 accounts were active, with large amounts of cash deposits, withdrawals, account transfers, and wire transfers taking place. From 1994 to 1997, the accused deposited more than \$2 million into his Canadian bank accounts.



Between 1978 and 1984, police estimated that members of a Canadian-based international drug trafficking group laundered more than (US)\$30 million through personal and commercial bank accounts, mostly in Quebec and Ontario. At one point, members of the crime group were moving so much money through a Montreal bank branch that the cash was stuffed into tote bags and loaded onto pickup trucks, which were then backed up to the bank's front doors. During these years, a common pattern emerged: once the cash was deposited, it would be quickly withdrawn in the form of bank drafts, wire transfers, or account transfers. Bank accounts were often registered in the name of companies, and to complicate detection, the funds were frequently transferred among numerous accounts.¹³

Monetary Instruments

Once the cash proceeds of crime are deposited into a bank account, the funds are frequently withdrawn in the form of a monetary instrument – in particular, a bank draft – which satisfies a premier money laundering objective: converting cumbersome amounts of cash into a less suspicious asset. In 47 cases involving deposit institutions, monetary instruments, such as bank drafts, money orders, certified cheques, or traveler's cheques, were purchased either directly with cash or with funds drawn from an account containing the proceeds of crime. The greatest advantage of a negotiable instrument as a laundering tool is it represents a more convenient and inconspicuous means to move large amounts of funds or to purchase assets.

¹³ John Demont. 1988. "A dangerous trail: Police pursue the profits from drug sales." *Maclean's*. October 31: p. 40.

A drug trafficker in Nova Scotia bought four bank drafts with cash, which he then used to help finance the purchase of more than 30 acres of property. A police search of a Halifax law office that represented the drug trafficker in his real estate transactions discovered a series of receipts – all dated November 11, 1998 – issued by the law firm to their client for deposits into the firm’s bank account. Police also found a bank deposit slip at the law office dated November 11 showing that four bank drafts from four different banks were deposited into the law firm’s bank account on behalf of this client. The drafts were in the amount of \$4,600, \$3,800, \$4,400, and \$4,700 respectively.



In the late 1980s, the proceeds from the sale of a Calgary home, originally purchased with revenue from contraband cigarette sales, were provided to the seller – a long-time cigarette smuggler – in the form of cash as well as four bank drafts, three in the value of \$25,000 and one worth \$35,000. The next day, the accused went to a local branch of his bank where he cashed one of the \$25,000 bank drafts, receiving 10 thousand dollar bills and 100 hundred dollar bills. He then went to another bank where he also had an account and cashed the \$35,000 bank draft.



During a proceeds of crime investigation, the RCMP suspected that a drug trafficker in Kingston, Ontario had registered title to a home he had purchased in the name of relatives to avoid seizure by police. A review of land registry documents indicated that on June 12, 1995 this property was purchased by the brother of the accused for \$145,000. No mortgage was registered against the property. On December 15, 1995, the property was transferred from the sole ownership of the brother to a joint ownership involving the drug trafficker and his two sisters. In separate police interviews with the siblings, it became apparent that the drug dealing brother was the true owner of the house, having paid for it without the need for mortgage financing. One of the sisters told police that her brother paid for the residence with a certified cheque, which was purchased at a local bank branch with cash (mostly twenty and fifty dollar bills). Another sister advised police that she went to a local bank branch with the same brother in order to obtain the certified cheque. She confirmed that the cheque was purchased with \$145,000 in cash.

Wire Transfers

Wire transfers were identified in 40 of the 114 cases (35.1%) involving deposit institutions. Of this total, 18 were sent domestically, while 22 were international. Wiring funds is tantamount to sending cash instantly to a different branch, a different bank, and even a different country. Indeed, one of the advantages of a wire transfer for money laundering purposes is that it is not confined within national borders; increasingly, they are used for the express purpose of spiriting illicit money outside the country of origin, whether for money laundering purposes or to purchase drugs or other contraband.

A cocaine importer opened accounts in a number of banks throughout Canada, into which large amounts of cash were deposited. The funds were then wired out of the country to pay for cocaine shipments.



The cash proceeds of an international drug trafficking operation were deposited in an account of a Panamanian branch of a Swiss bank. Funds from the Panamanian account, which were in the name of a principal of the drug trafficking group, were wired to the Toronto office of the same bank. A cheque was issued in the name of an operative in Toronto, who took it to another bank in the city where he opened a term deposit.



The operator of a prostitution house in France would deposit cash into a local bank account jointly controlled by his wife. The funds were then wire transferred to an account established at a *caisse populaire* in Quebec. In total, \$580,000 was deposited to the latter account through several wire transfers conducted over the course of seven months. The funds were eventually withdrawn to purchase and renovate a \$300,000 cottage in Ontario.

Account Transfers

In 27 of the cases involving deposit institutions, funds were transferred between accounts. In the context of a money laundering operation, transferring funds between different bank accounts is often used as part of the layering process: to hide the criminal source and ownership of the funds and to obscure any audit trail. In particular, police cases show that account transfers are used to funnel money into the accounts of nominees, to conceal the connection between the beneficial owner of the funds and their criminal origins, and to pay for supplies and other expenses associated with criminal activities.

A drug trafficker in Nova Scotia used her relatives as nominees to open bank accounts and to conduct numerous transactions. The father of the drug trafficker frequently deposited cash generated from drug sales into a personal bank account in the name of the trafficker. From there the funds would be transferred to accounts of other relatives, including the mother, sister, and 12-year old son of the accused.



Thirteen individuals involved in a British Columbia-based inter-provincial drug trafficking network (most of whom were family members related by blood or marriage) made numerous account transfers to one another among various banks, credit unions, and currency exchange companies. These transactions took place primarily in B.C., but also in other provinces. In addition, the 13 made deposits into accounts controlled by one another. According to the

RCMP, the primary purpose of the account transfers was to distribute profits and to pay for drug supplies and other expenses.

Safety Deposit Boxes

Safety deposit boxes were used in 23 of the 114 cases (20.2%) involving deposit institutions, primarily to store cash or precious gems, jewellery, or coins purchased with criminal revenue. In addition to providing a secure place to store valuables, for the purposes of money laundering the benefit of a safety deposit box is that it leaves a minimal paper trail, at least as far as the contents of the box are concerned.

During one police search of a safety deposit box that was rented jointly by a drug trafficker and his mother, police found \$25,000 in U.S. currency, all in one hundred dollar bills bound in \$10,000 bundles. The bills were all stamped with markings from either European currency exchange businesses or Panamanian banks.

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A marijuana trafficker used a safety deposit box at a Regina bank branch to hide the proceeds of his activities. A search of a safety deposit box uncovered \$55,320 in cash.

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Much of the cash revenue generated from the illegal sales of contraband cigarettes was placed in a safety deposit box or deposited into a savings account. On August 30, 1999, police discovered \$161,000 in cash in one safety deposit box.



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In a safety deposit box registered to the reputed leader of a Toronto-based drug trafficking group, police found jewellery, watches, and coins, which were appraised at more than \$300,000.

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An American who accumulated considerable assets from his involvement in marijuana trafficking pleaded guilty in a U.S. court and agreed to forfeit his ill-gotten property. Among these assets was a rare coin collection held in a safety deposit box located in a bank in Ottawa.

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A cocaine trafficker placed the majority of his cash proceeds in safety deposit boxes at three different banks in Vancouver. The deposit boxes were in his name as well as that of an

associate. The cash was a mixture of American and Canadian currency. The trafficker would add and remove the cash frequently, based on his cocaine sales and purchases. At one point, the total amount of Canadian cash held in two safety deposit boxes at one bank was \$407,175. A search of other safety deposit boxes rented by the drug trafficker also turned up a large amount of jewellery, including gold and diamond-encrusted watches, gold chains, gold and diamond bracelets, gold and diamond-studded earrings, and gold rings. (A police search of his home also turned up a gold-plated licence plate holder that read “Crime Pays.”)

### *Use of Multiple Banking Services and Transactions*

In many of the cases involving deposit institutions, a number of different services were used. The use of multiple services and transactions often follows the deposit of cash and is employed, in part, to further the layering process.

A Vancouver drug trafficker who specialized in heroin and cocaine deposited cash in a bank account. A Guaranteed Investment Certificate was also purchased and a safety deposit box was rented and then used to store cash.

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The cash proceeds of a drug trafficking business in Moncton, New Brunswick were regularly deposited into a bank account. Cheques were then drawn against the account to purchase a home, land, and a tractor-trailer. Mortgages were also received from two different banks. Mortgage payments were made directly from the account.

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A Manitoba-based cannabis importer used numerous banking services to launder his revenue. He set up a chequing account, rented a safety deposit box, received credit cards, and obtained a mortgage and a car loan. Revenue from his criminal activity was used to pay off his credit card debts, his mortgage, and the loan.

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Bank deposits were made in the name of a father on behalf of his son who was part of a cocaine trafficking group in New Brunswick. Loans were obtained by the suspect from the same bank and were repaid using illegal revenue. RSPs and GICs were also purchased from bank. Drug trafficking revenue was invested into a construction company and were also co-mingled with legitimate revenue from this company and deposited into a commercial bank account.

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A member of an Edmonton-based cocaine trafficking organization, named Freddie Pasquel, used a local trust company to launder his drug proceeds. This included opening chequing

accounts into which cash was deposited, purchasing money orders and GICs with cash, purchasing American currency, securing a mortgage, and wire transferring funds to Colombia. Pasquel made several calls to Canada from Colombia where he asked an associate to wire transfer funds to a bank in that country in the name of Pasquel's mother. In each call, Pasquel made at least one reference to a player with the Edmonton Oilers and police speculated that the number worn by this player was code for the amount of money to be wired. In one call, the player's number was 20, which police interpreted as \$20,000.



An investigation into the banking activity of two suspects involved in the inter-provincial smuggling of contraband cigarettes showed transfers from bank accounts in British Columbia to accounts in Toronto and Montreal. Police believed that the purpose of these transfers was to purchase cases of cigarettes, as Toronto and Montreal were the source of the contraband cigarettes and the dates of the transfers immediately preceded known contraband shipments. A review of the main suspect's banking records revealed that he purchased property in B.C. for \$480,000 with a \$250,000 mortgage from a local bank. The suspect's common-law spouse was the registered owner of another Vancouver home, which she allegedly purchased for \$325,000, financed in part through a mortgage of \$135,000. A review of the spouse's bank statements showed that \$122,000 in cash was deposited into the account. The balance was subsequently converted to a GIC, which was then depleted the day before the purchase of the wife's home. Police learned that the first property was sold and that the wife requested the proceeds be provided to her in one thousand dollar bills. The two accused also cashed a cheque from their lawyer for \$50,000 at a bank and in return received 50 one thousand dollar bills. They also purchased two bank drafts, one for \$20,000 and the other for \$30,000. The husband then went to yet another bank where he cashed the \$20,000 bank draft. Upon notification by the bank, police were able to pick up the trail of the husband at another bank branch where he cashed the \$30,000 draft.

#### **6.4 Money Laundering Techniques used with Deposit Institutions**

Money laundering operations involving deposit institutions will often employ certain techniques to minimize suspicion that may arise when large amounts of cash are deposited into accounts. Some of the more common techniques used in relation to deposit institutions are summarized below.

##### *Nominees*

In some cases, the accused opened accounts in the name of nominees – often relatives – and cash would then be deposited into these accounts. The use of nominees is meant to conceal any connection between the illegally-obtained funds and their criminal source.

Police were able to establish that the mother of two cocaine trafficking brothers helped to launder their criminal proceeds. She kept large amounts of cash – mostly American currency –

in a safe concealed in the basement of her Ottawa home. Bank accounts and safety deposit boxes containing funds derived from drug trafficking were also in her name and she even attempted to sell American cash to her friends for Canadian currency in return.



Maude Flaunders used her relatives as nominees for bank accounts and to conduct numerous transactions with funds generated from street-level drug sales in Saskatoon. Cash deposits were made by her father into his personal account and money were frequently transferred out of this account to other relatives, including Maude's mother and sister. Worried about the income tax implications of the funds on deposit in his account, the father eventually closed the account and purchased a \$15,000 term deposit in the name of Maude's 12-year old son. Maude also opened a bank account in the name of her son, from which mortgage payments were made. She applied to a local credit union for a \$31,000 loan to be used in the purchase of a home, however this application was turned down. Soon after the mortgage application was rejected, her parents successfully applied for a \$31,000 loan, stating in their application that the funds would be used to finance the purchase of the same property. During a bail hearing for Maude Flaunders, her father testified that although the loan was registered in his name, the property belonged to his daughter.



A Calgary-based cocaine trafficker had signing authority for 25 bank accounts, most of which were registered in the names of relatives. The accused favoured his mother and father-in-law as nominees because both were new immigrants that spoke little English and, as such, he could maintain power of attorney and sole signing authority over the accounts. Between July 10, 1995 and September 8, 1996, the accused wrote eight cheques payable to his mother totalling \$182,050, all of which were deposited into bank accounts in her name. A single cash deposit of \$162,182 was also made into an account registered in her name. Despite deposits of hundreds of thousands of dollars in the account of his mother, she applied for and received government social assistance. On November 20, 1996, the accused wrote three cheques payable to his father-in-law worth \$68,500 which were deposited to the latter's personal bank account. In a one-year period, the accused deposited almost \$1.4 million in a bank account registered in the name of his father-in-law. He also wrote several cheques to nominees from accounts registered in the names of other nominees. For example, a cheque for \$53,000 payable to his brother-in-law was drawn on an account registered in the name of the mother of the accused.

### *Smurfs*

A money laundering technique closely associated with the use of nominees is "smurfing," which involves spreading cash deposits across different accounts (and in some cases different branches or deposit institutions) by using a number of money couriers (who may also pose as nominee account holders). Smurfs are tasked with making a large number of transactions with small amounts of cash to avoid suspicion and the completion of large cash transaction reports by banking institutions (a money laundering technique referred to as "structuring").

A tobacco and liquor smuggler regularly used his 18-year old daughter, 21-year old son, and 20-year old daughter-in-law to deposit cash into accounts in their name at a local bank branch. The three were also asked to transfer funds between their accounts and to purchase U.S. currency.



A Quebec cocaine trafficker purchased farmland in that province, financed in part through a mortgage as well as funds drawn from an account into which the cash proceeds of his illegal activities were deposited. The cocaine trafficker also provided cash to friends and relatives to deposit into bank accounts registered in their names. After a few days sitting in their accounts, the funds would then be transferred into the trafficker's personal account. The friends and relatives would also purchase bank drafts with cash provided by the trafficker, which would then be delivered to the lawyer who represented the accused in the purchase of the farmland.



A cocaine wholesaler in Ontario used a number of friends and relatives, including some as young as 16, to make cash deposits into bank accounts. At least 14 accounts, spread across seven banks, were registered in the names of these nominees. Police were able to connect all of these accounts to the drug trafficker.

### *Establishing Accounts and Depositing Illicit Funds in the Name of Companies*

Criminal entrepreneurs will utilize certain fronts when opening accounts in which deposits of illicit funds are to be made or transactions conducted. One of the most popular is establishing a commercial account in the name of a shell or legitimate company. To avoid suspicion associated with depositing large amounts of cash in small denominations, the type of company used as a guise should typically generate a high volume of cash in small denominations, such as grocery stores, restaurants, nightclubs, movie theatres, or video arcades. (For more information on the use of criminally-controlled companies for money laundering purposes see Section 9.)

The profits from the illegal distribution of gaming equipment in Nova Scotia were also deposited into bank accounts in the name of the company.



A Canada Customs employee name Hank Tryin implicated in a cocaine importation conspiracy. He invested his cut into a retail grocery operation, the Tryin Save Convenience Store, which was run by family members. Police were able to prove that the various cash deposits made into a bank account in the name of the business – including a single cash deposit of \$17,000 – were largely made up of money provided to him by cocaine importers.



A tobacco smuggler invested his proceeds into multi-residential properties and then co-mingled the rental income with the revenue from his contraband sales in bank account deposits. All of the properties were registered in the name of nominees.

### *Avoiding Contact with Bank Personnel*

Through the use of automated teller machines or night deposits, cash can be deposited into an account without the depositor ever having to deal directly with bank personnel. The advantages of these surreptitious transactions are obvious: the launderer can by-pass any potential (face-to-face) scrutiny of bank officials and deposits can be made at a number of locations and into numerous accounts. In some cases, deposits were made to accounts by persons other than the account holder. In one case, described below, deposits were made into the account of a contraband liquor supplier by his customers to pay for shipments.

Two Canadian liquor smugglers based in British Columbia regularly crossed into the United States to purchase caseloads of booze from a bar located in Blaine, Washington. The smugglers would then arrange to have cash deposited into the Canadian bank accounts of the bar owner to pay for the contraband liquor. Once the balance reached \$20,000 to \$25,000, the bar owner would empty the account by writing a cheque, the proceeds of which would be deposited into his U.S. bank account. The bar owner maintained accounts at three different deposit institutions in Canada into which large cash deposits were made. From 1995 to 1998, approximately \$1,700,000 in Canadian cash (primarily fifty and hundred dollar denominations) was deposited into these accounts. One of the smugglers regularly made night deposits to avoid the scrutiny of tellers. He also used gloves to avoid fingerprints or had his wife make the deposits.

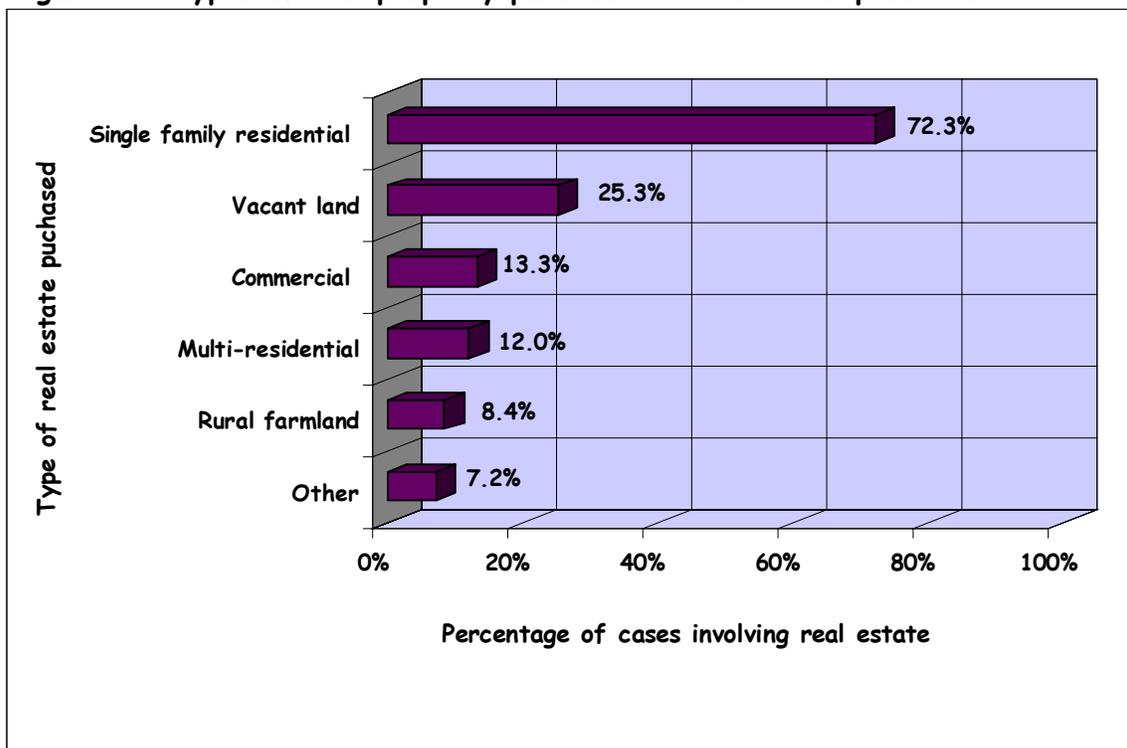
## 7 REAL ESTATE

Of the 149 cases examined, 83 (55.7%) involved the purchase of real estate with criminal funds. Real estate has many attributes that make it an attractive destination for the proceeds of crime. It provides a home in which the offender can live and work (homes and rural properties are often used for the cultivation of marijuana and the manufacture of synthetic drugs). The criminal proceeds can be funnelled to real property through the various real estate financing transactions, including deposits, down payments, mortgages, legal trust accounts, as well as construction and renovation payments. As a money laundering vehicle, a host of mechanisms commonly used with real property transactions can frustrate efforts to unearth the criminal source of funds, such as nominees, fake mortgages, and real estate lawyers. Real estate investments can also be used to create the perception of a legitimate revenue stream, with the proceeds of crime being deposited into bank accounts under the guise of rental income.

### 7.1 Types of Real Property Purchased with the Proceeds of Crime

Police cases show that the type of real estate most frequently purchased with the proceeds of crime is single-family residential property. As depicted Figure 7, of the 83 cases where criminal revenue was invested in the real estate market, 60 (72.3%) involved the purchase of one or more single-family residential properties.

Figure 7 - Types of real property purchased with criminal proceeds

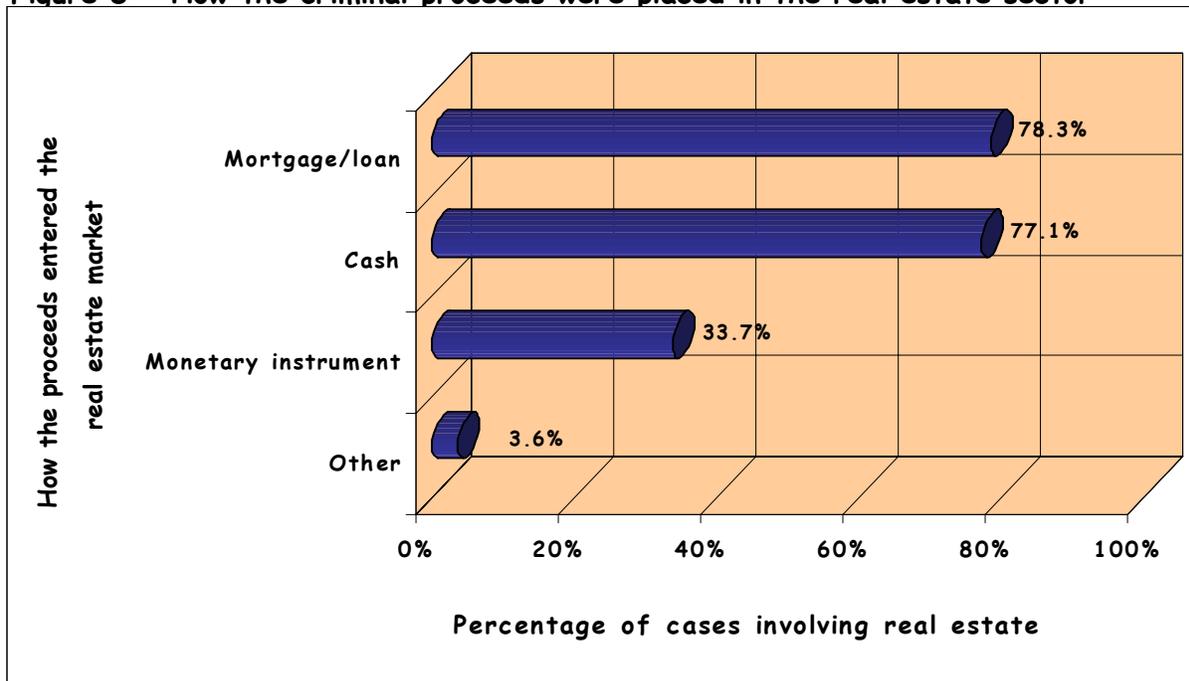


In the vast majority of these cases, the accused purchased a home in which to live. In numerous cases, homes and rural properties were also purchased explicitly for use as sites for marijuana cultivation, which in recent years, has emerged as a multi-billion dollar industry in Canada. In a nation-wide series of police raids targeting marijuana grow operations that took place in January and April of 2002, 417 people were arrested on 877 drug charges and police seized 116,329 marijuana plants, worth approximately (CDN) \$116.2 million. The vast majority of the sites raided were residential properties, most of them rented.<sup>14</sup> Marijuana grow operations have become so lucrative that new homes are being customized for unique requirements of this trade. The custom-made homes are often bare of standard appliances to allow more growing room and are equipped with high-capacity electrical outlets and powerful air conditioning units to deal with the high temperatures caused by heat lamps. Extensive venting systems have also been installed in some to dissipate tell-tale odours. In one home in Surrey, British Columbia, police found an underground bunker that had the capacity to accommodate hundreds of pot plants.<sup>15</sup>

## 7.2 Forms in which the Proceeds of Crime Enter the Real Estate Market

Criminal proceeds enter the real estate market in a limited number of forms. In 65 of the 83 cases involving real estate (78.3%), a mortgage was obtained, with the monthly payments made through illegally-derived funds. In 64 cases (77.1%), cash was used as a deposit, a down payment, or a mortgage payment. In a small number of cases, cash was exclusively used to finance the purchase of

**Figure 8 - How the criminal proceeds were placed in the real estate sector**



<sup>14</sup> Criminal Intelligence Service Canada. 2002. *Annual Report on Organized Crime in Canada, 2002*. Ottawa: CISC.

real property. In some police cases, the amount of personal funds used as financing was unusually large, especially when compared to typical real estate purchases where personal financing typically does not exceed 25 percent of the total purchase price. Monetary instruments, in particular cheques and bank drafts, were used as part of a real estate purchase in 28 cases (33.7%). Other forms in which the criminal proceeds entered the real estate market included account and wire transfers.

A drug trafficker purchased a home in the Ottawa region with \$17,000 in cash and a \$62,000 mortgage. Both the title to the property and the mortgage were registered in his name.



Revenue from illegal drug sales in Alberta was deposited into a bank account and cheques were drawn against the account to finance the purchase of a home. A mortgage was obtained from the same bank and payments were made against this mortgage from the account.



In November 1995, a condominium located in Montreal was purchased in the name of the Anne Lord, the wife of James Lord, a Quebec farmer who was involved in smuggling large quantities of liquor and cigarettes from the United States into Canada. The total purchase price of the condominium was \$110,000. Of this amount, \$45,000 was financed through a mortgage, with the remaining \$65,000 provided by the purchaser (including \$25,000 in cash). The Montreal law firm that represented Anne Lord in the purchase of the condo accepted various forms of payments of cash and monetary instruments from her. Records seized by police from the law office show that between June 9, 1993 and November 16, 1995, 29 deposits (in the form of cash, cheques, and postal money orders) totalling \$85,000 were made into the law firm's bank account on behalf of Anne Lord. In addition to \$8,000 in cash that was handed over to the law firm, monetary instruments provided by Anne Lord included cheques drawn on the couple's bank account, third party cheques, cheques payable to the couple drawn on one of their own accounts, and six postal money orders payable to the couple totalling \$5,000. With the exception of two, all of the money orders showed the sender as Anne Lord. The sender of the other two money orders was shown as Albert Godfrey, Anne Lord's brother. During an interview with police, Godfrey denied any knowledge of either money order and after reviewing a copy of one, he suggested that his forged signature was in his sister's handwriting. The condo was eventually forfeited as the proceeds of crime.



An investigation into Alvie Singer, who was arrested on November 18, 1997 after trying to smuggle 15 kilograms of cocaine into Canada, indicated that he purchased property located in British Columbia on January 5, 1996 for \$650,000. The property was registered in the name of a nominee and when the transaction was completed, title was transferred to Singer. At the time

<sup>15</sup> *Vancouver Sun*. "Brand-new homes used to grow pot, RCMP claim: Upscale Surrey houses are then sold to 'launder' cash." October 9 2002: p.A1; *Vancouver Sun*. "Surrey bunker used for growing pot: First one discovered in underground shelter." October 9 2002: p.A3.

of the original purchase, a mortgage was registered for \$200,000, leaving the remainder to be financed by the purchaser. Police were able to prove that Singer personally provided the remaining \$450,000, despite the fact that his only reported source of income between 1992 and 1997 was \$32,150 in social assistance.

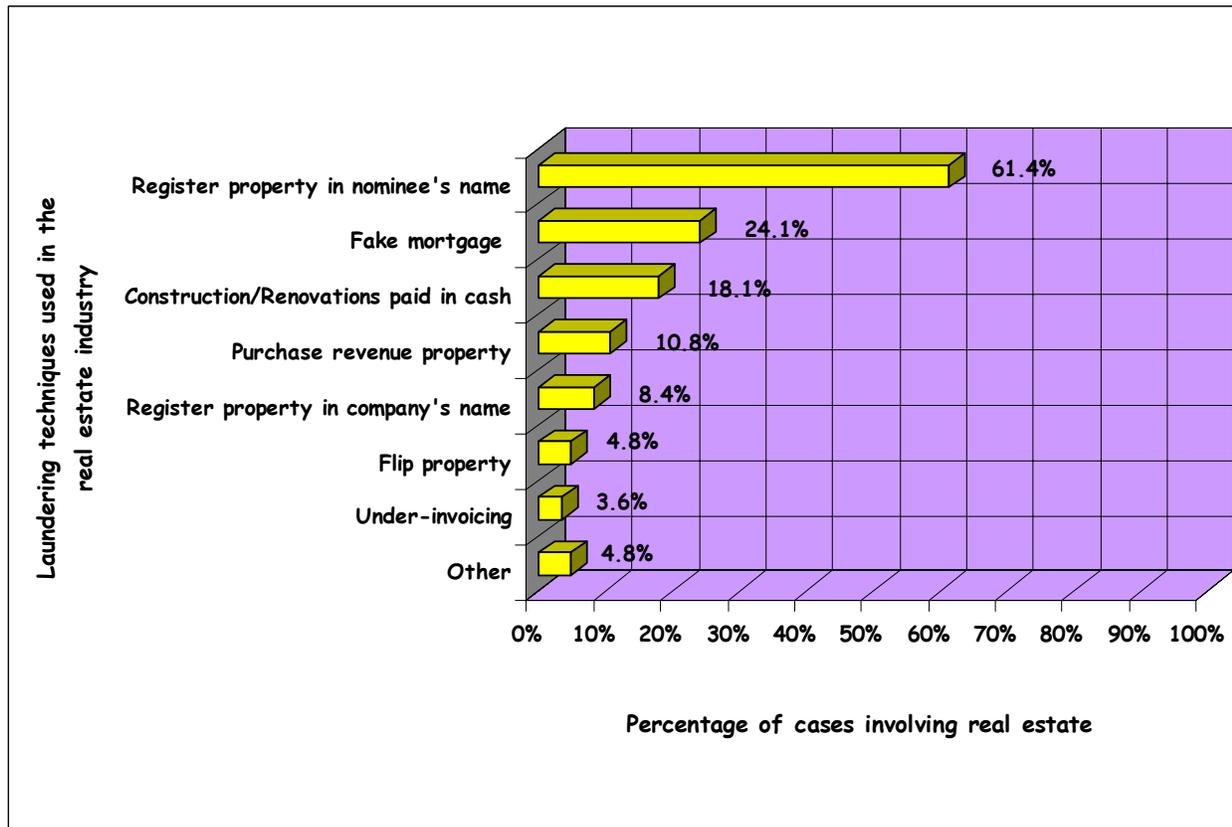


The Kings Country Land Registry Office in Nova Scotia showed that on October 5, 1995, property located in the Kentville area was purchased for \$250,000 by 23-year old Anna Carenina (the girlfriend and future wife of a career drug trafficker named Stephan Arkevitch). No mortgage was registered against this property at the time of the purchase and legal documents signed by Carenina indicated the \$250,000 purchase price would be paid in full on closing. On November 27, 1997, Stephan Arkevitch and his new wife bought a home in St. Petersburg, Florida for (US)\$650,000. The property was paid in full with cash, which police were able to tie directly to the proceeds from the sale of close to 2,000 pounds of hashish by Arkevitch during the summer of 1996. The property was bought from Curt Vronsky, the father of Mikhail Vronsky, one of the co-conspirators in the hashish importation plot. The \$900,000 was paid to the senior Vronsky in three instalments during the summer of 1997. Police were able to prove that the father was fully aware that Stephan Arkevitch was a career drug trafficker and that the funds paid for home were the proceeds of the hash shipment.

### **7.3 Techniques used to Facilitate Money Laundering through Real Estate**

Laundering money through real estate ranges from the simple to the sophisticated. At one end of the scale, the accused simply buys a home and registers the property in his or her name. At the other end of the spectrum are more sophisticated schemes, which include various techniques used expressly to satisfy the objectives of the laundering process. These techniques, and their frequency of use in proceeds of crime cases involving real estate, are summarized in Figure 9 and detailed on the following pages.

**Figure 9 - Techniques used to facilitate money laundering through real estate**



*Concealing Criminal Ownership: The Use of Nominees and Fronts*

The most prevalent technique used to facilitate the laundering process in the real estate market is to register the property and/or a mortgage in the name of a nominee, which is used to obscure the criminal ownership and source of financing for the property. In 51 of the 83 cases involving real estate (61.4%), nominee owners were used. Police cases show that real property and mortgages were often registered in the names of relatives, friends, business associates, lawyers, and shell or legitimate companies. While it is not unusual for a purchaser to register title to real estate in the name of a family member or a company, criminal entrepreneurs have taken advantage of this practice to satisfy a pre-eminent objective of money laundering: hiding ownership of assets financed through illegal activity.

A British Columbia drug trafficker confessed that he owned 21 homes throughout the province that were used as locations for marijuana grow operations. The houses, almost all of which were mortgaged, were rented out to individuals who were hired to oversee the grow operations in return for a percentage of the profits. Three of these properties were registered in the name

of the wife of the drug trafficker, while seven were registered to companies of which he was listed as a director. The proceeds of crime investigation could not find one property in B.C. that was directly registered in the name of the trafficker.



George Burden, who was convicted for his involvement importing multi-ton shipments of hashish into Canada, owned a number of homes in the Greater Vancouver area. This included his principal residence in Vancouver, which was registered in the name of a Bahamas-based company called Taipei Trading Corp. Police later determined that this company existed on paper only, and was used primarily to launder funds from the hashish importation conspiracy.<sup>16</sup>



Olden Cotter, who produced methamphetamines from his home in Manitoba, legally transferred title to this home to Frederick Flynn, who had provided some construction work for Cotter. The transfer of ownership occurred only days after police executed a search warrant at the home, which led investigators to believe that the transaction was conducted to conceal the true ownership of the property and to avoid its forfeiture as the proceeds of crime. Flynn admitted to police that he had only known Cotter for a couple of months prior to the title transfer. Police were ultimately successful in proving that the purpose of this title transfer was to conceal the true ownership of the property.



On December 19, 1998, Jordan Himel, a street-level cocaine trafficker in Quebec was arrested and charged with multiple counts of various drug trafficking offences. Among the evidence seized by police from Thierault's home was \$132,505.25 in Canadian currency and \$22,800 in counterfeit currency. The police investigation discovered that title to this home was transferred to Daniel Berger and David Robinson on December 23, 1997 for \$155,000. However, there was substantial evidence that Himel was the beneficial owner of the home: he was the sole occupant of the home, all utilities for the home were registered in his name, and the mortgage payments were made from his bank account.

## *Mortgages*

While many criminal entrepreneurs certainly have no shortage of cash to invest in real property, the police cases show that mortgages are nonetheless obtained, either to avoid suspicion associated with large personal financing or because the purchaser genuinely requires credit. There is also some evidence that criminal entrepreneurs seek out a mortgage to limit their equity in a home, which in turn minimizes their personal financial loss if the property is forfeited to the Government. In some cases, the mortgage (as well as title to the property) was registered in the

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<sup>16</sup> *Vancouver Sun*. "Lawyer acquitted of money-laundering: Judge accepts Vancouver man's testimony he didn't know client's \$8 million came from drugs." April 18, 1997: p. B3.

name of a nominee. In other cases, a criminal entrepreneur personally financed a mortgage for a property that he controlled, but was registered in another's name. This laundering technique hides the true criminal ownership of the property, while providing the nominee with a seemingly legitimate source of funds to purchase the home. Alternatively, the source of mortgage financing is listed as a nominee, such as a family member or a business associate (in these cases, the mortgage was a fake and the funds were ultimately traced to the accused). Police cases show that mortgages will also be financed by a criminally-controlled company incorporated in Canada or off-shore. In total, the survey identified 20 cases that involved fake mortgages.

Police identified at least 12 homes in Vancouver owned by members of a major international drug trafficking group. Of the 12 homes, two were registered in the names of active members of the criminal group, two were registered in the names of numbered companies controlled by certain members, and seven were registered in the names of wives, daughters, or associates of the group. Of these seven properties, three had private mortgages financed by members or associates of this crime group. These three mortgages were provided on top of existing mortgages, registered by reputable financial institutions at the time the properties were purchased. The three properties were purchased for a total of \$1,250,685.15. The total value of the mortgage financing provided by banking institutions at the original time of purchase was \$700,000. The total value of the additional private mortgages purportedly financed by members or associates of the crime group was \$370,500.



A Canadian proceeds of crime investigation into Frederick Tatum, a convicted New York City cocaine trafficker and ex-professional boxer, found that a sizeable portion of his cash revenue was physically transferred to Canada where it was used to finance the purchase of more than 40 properties in the Greater Toronto Area over a nine-year period. In six real estate transactions, the total cost of the properties was \$1,385,969 and of this total, \$950,693 was allegedly financed by various family members. In addition to personal equity financing, family members or their companies were listed as the source of mortgage financing for homes, also registered in the names of Tatum's parents or siblings. For example, on November 12, 1995, title to one home was transferred to Moe Tatum (Frederick's father) for \$129,500 and on the same day, a mortgage was registered against the home. The source of the mortgage financing was Marge Tatum, Frederick's mother. On November 30, 1995, title to another property was transferred to Lucy MacPherson (Frederick's sister) for \$186,500. Four mortgages were registered against this property in July 1998, March 1999, May 2000, and September 2001. The last mortgage was registered for \$187,000 in the favour of Tom Donnoly Investments Ltd., a company whose president was Lisa Tatum (Frederick's sister). On September 9, 1995, another home was purchased in the name of Marge Tatum for \$185,000. On October 22, 1995, a mortgage was registered against this property for \$65,000. The source of this financing was Moe Tatum. Police were able to prove that all of the above homes and personal mortgage financing were funded through revenues generated by Frederick Tatum's drug trafficking activities. Most of the homes were forfeited to the Crown as the proceeds of crime.



Joseph Davies, in conjunction with other co-conspirators, was involved in the importation of kilos of marijuana from Jamaica into Canada via the United States. Davies was arrested and eventually convicted of drug importation and trafficking offences as well as proceeds of crime offences. Between 1992 and 1995, Davies acquired a number of assets, including several bank accounts in the Toronto area, a 30-foot Sea Ray powerboat, a 75-foot sailboat in Florida, a villa in Jamaica, and a house in Toronto. Police also believed that Davies's parents assisted their son in his money laundering by registering, in their name, second mortgages on properties owned by Davies. In one report, the lead RCMP investigator for this file recorded his suspicions, noting "I believe these mortgages are mortgages of convenience and have been registered to prevent any possible asset seizure by law enforcement and this belief was substantiated on the 27th day of October, 1996, when [the father of Joseph Davies] provided a cautioned statement indicating that there was no exchange of funds. [The father] has also granted a second mortgage in the amount of \$22,000 to Steven Lowe, who is [Joseph] Davies's silent partner." Police also discovered that an associate of Davies was in the process of registering a (CDN)\$150,000 mortgage against Davies's villa in Jamaica, although it was not known by police whether this mortgage was legitimate or used to hide Davies's equity in the property.

### 7.3.1 *Purchase of Income-Generating Property*

Another technique used to further the laundering process in the real estate market is to purchase income-generating property, co-mingle the legitimate rental income with criminal revenue, and then deposit both in a bank account under the guise of rental income. This technique, which was identified in nine cases, is used to create a seemingly legitimate revenue source for a criminal entrepreneur.

A cigarette and liquor smuggler in Eastern Ontario would deposit his cash revenue into a local bank account. Over a five-year period, the funds were used to purchase four apartment buildings, financed in part through mortgages secured from the same bank. The revenue from the rental properties was combined with the profits from the sale of contraband and deposited into the bank account.



A financial statement of a cocaine trafficker seized by police from his British Columbia home indicated that he had owned a number of properties when he lived in the United States. Most of these properties were registered in the name of T.J. Properties Ltd., which was described as being in the business of purchasing and renovating rental properties. Police seized documents showing that four houses and two apartment buildings were owned by T.J. Properties Ltd. Most of these properties were heavily mortgaged. The trafficker heard to boast that he had owned 15 houses since the age of 21 without ever having a real job.



Between 1994 and 1998, Seamus Skinner headed a New Brunswick-based smuggling operation that transported approximately \$40 million worth of contraband cigarettes and liquor from the U.S. into Canada. Skinner invested \$225,000 of his profits in a housing development in Springfield, New Brunswick. The funds were funnelled through his sister and five others who served as nominee investors. In statements to police, all six confessed that Skinner gave them cash to purchase bank drafts, which would then be turned over to a real estate lawyer to invest in the housing development.



On June 22, 1999, Michel Meunier, a 42-year old resident of Montebello, Quebec, pleaded guilty to two proceeds of crime offences. Meunier was one of 15 people arrested by the RCMP in April 1999 following an 11-month investigation targeting cocaine traffickers in Eastern Ontario and Western Quebec. Meunier was sentenced to six months jail and ordered to forfeit two income-generating properties in Montebello: the Hotel du Manoir Montebello, an old school that Meunier had converted in a 40-unit hotel complete with a private penthouse, and a 40-unit apartment building called La Residence Montebello. Meunier admitted that both properties were financed primarily through the proceeds of the sale of drugs. As a result of a police search conducted at the hotel, documents prepared by two accountants working for Meunier were found. These documents indicated that the total renovations to the hotel cost \$408,892. Upon completion of his prison sentence, Meunier was once again arrested on drug charges. On November 19, 2003, police found Meunier's dead body slumped behind the wheel of his idling truck in the parking lot of a boat repair business in Valleyfield, Quebec. Beside him, also dead, was Marc Emond, who had just finished serving a three-year sentence for discharging a firearm during a robbery. Police speculated that the murders were drug-related.<sup>17</sup>

### *"Flipping" Real Property*

In some cases, the accused or a nominee will purchase real estate with criminal revenue and then quickly sell it, thereby claiming a legitimate source of revenue. The survey of police cases identified four cases involving this technique of real estate "flipping." In a few of these cases, the sale was in fact bogus in that the property was sold to a nominee, which allows the offender to claim legitimate revenue while maintaining ultimate control over the property. Another money laundering technique used in conjunction with real estate flipping is to pay for the construction and/or renovation of a home with the (cash) proceeds of crime. The property is then sold at an increased value. The added benefit of this technique is that it takes advantage of the sizeable underground, cash-based home renovation industry. Cash is paid under the table to contractors, thereby benefiting both parties: the criminal entrepreneur profits because he has acquired an asset, while relieving himself of cumbersome cash and the contractor benefits through the undeclared income he receives.

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<sup>17</sup> *Montreal Gazette*. "Drug kingpin slain." November 19 2003: p. A1; *Ottawa Citizen*. "Aylmer resident dies in shooting: One of two slayings linked to organized crime or drugs." November 20 2003: p. B.3.

On April 7, 1998, a convicted drug trafficker purchased farmland in Ontario, which included a one-time cash payment of \$320,000 and a mortgage for \$210,000. On September 29, 1999, the trafficker sold the property for \$610,000.



An American loan shark working in Las Vegas wire transferred funds to a bank in Calgary and subsequently used the money to purchase a home for \$295,000. The funds from his usurious trade also financed substantial renovations to the home. Upon completion of the renovations, the home was sold for \$420,000.



A cocaine importer purchased real estate in Kitchner, Ontario and financed repairs to the property with cash. According to the RCMP's Report to Crown Counsel, "his intent was to sell the property at a profit, therefore showing gain on paper."

### *Under-invoicing*

As a laundering technique, under-invoicing involves a property seller agreeing to a purchase price below the actual value of a property and then accepting the difference under the table. This technique requires the collusion of the seller, including the completion of legal documents that list the price of the real estate as less for what it was actually sold. This fraud also helps the money launderer to conceal the true amount that was spent (the less money official records shows a criminal has spent, the easier it is to hide illegally-derived and non-reported revenue). For example, an individual purchases property with a true value of \$2 million for a stated purchase price of \$1 million. The difference between the true price and the purchase price is then secretly given to the accomplice vendor. After holding the property for a period of time, and perhaps investing a further \$1 million in improvements, the property is sold for its new real value of \$3 million. The launderer is quite willing to pay the taxes on his "windfall" profit because it furthers its legitimate pretensions.<sup>18</sup>

A drug trafficker in Halifax purchased a home as a dwelling for himself and his wife. Rental properties and vacant land for future development were also purchased for under their fair market value. He then paid cash "under the table" for the difference. Mortgages were obtained and then quickly repaid with the proceeds of crime.

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<sup>18</sup> Bruce Bowie. 1988. *Money Laundering Techniques*. Ottawa: Royal Canadian Mounted Police, Drug Enforcement Directorate. (Unpublished): p. 6.

## 8 CURRENCY EXCHANGE COMPANIES

Of the 149 POC cases, 26 (17.4%) involved the use of a currency exchange company (and to a lesser extent, a cheque cashing company). This total includes at least 10 cases in which an offender used the services of a police-operated undercover currency exchange in Montreal or Vancouver.<sup>19</sup>

Currency exchange companies are popular laundering vehicles because, like deposit institutions, they offer services that are highly desired by money launderers: exchanging currency and converting small denominations of cash into larger, less suspicious denominations or negotiable instruments. They are also popular because, relative to banks, currency exchange and cheque cashing companies are less regulated than banking institutions and generally apply less scrutiny to large cash or suspicious transactions.

Currency exchange businesses are most frequently used during the first stage of the money laundering process: converting large and conspicuous amounts of cash into less suspicious denominations or alternative currencies. As such, currency exchange businesses constitute a significant portal for the entry of the illicit cash into the legitimate economy, and by extension represent an important player in the efforts to combat money laundering.

Recognizing the attractions of these businesses for money laundering, the Proceeds of Crime Sections in Montreal and Vancouver established their own retail currency businesses as part of an undercover operation targeting drug dealers and their illegal finances. In a report to Crown Counsel, the Vancouver IPOC Unit outlined some potential indications that an individual is laundering the proceeds of crime through a currency exchange business. The report advises that suspicions should be raised if a customer:

- trades just under the (CDN)\$10,000 threshold,
- demonstrates a knowledge of relevant money laundering laws and displays a conscious effort to circumvent these laws,
- brings in money in a suspicious manner (e.g., all small bills, money carried in brown paper bag or other unorthodox packaging),
- brings in cash that has a strange smell (if U.S. dollars, it may smell like marijuana; if Canadian currency, it may smell like mothballs),
- arrives with several packets of money, each in pre-counted amounts, but only trades one bundle (the others are being saved to be exchanged elsewhere),

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<sup>19</sup> For more information on these undercover operations see: *Vancouver Sun*. "Following the money trail: New law and sting operation help RCMP seize drug profits." September 6 1994: p. A4; *Montreal Gazette*. "RCMP traces cash in huge money-laundering case." October 16 1994: p. A1; *Edmonton Journal*. "Mounties' sting store laundered drug money." January 25 1996: p. A1; *Montreal Gazette*. "Police sting operation bags 120 for drugs, money-laundering." January 25 1996: p. A.12; *Vancouver Province*. "Police spring trap in massive drug sting." January 25 1996: p. A5; *Vancouver Sun*. "Illegal money-laundering sting jeopardizes massive drug busts." February 6 1998: p. B1; *Ottawa Citizen*. "Government defies court order to open files on 'illegal' drug sting." June 13 1998; *Ottawa Citizen*. "RCMP sting sparks call for inquiry. Opposition demands details on undercover drug operation." June 12, 1998.

- asks if it is possible to exchange larger - sometimes much larger - amounts of cash in the future,
- conducts multiple transactions, sometimes over the course of one day, or requests to conduct several smaller transactions in lieu of one large transaction,
- says he is conducting the transaction for an unnamed third person,
- acts suspiciously (e.g., looks nervous, watches the door, won't carry on a conversation),
- questions whether the staff of the currency exchange are police,
- admits that the cash is the proceeds of crime, either directly (e.g., "This is dope money.") or indirectly (e.g., "I'm going to Jamaica for 24 hours.),
- admits or even brags about his/her involvement in criminal activity,
- demonstrates a comprehensive knowledge about currency exchange rates, or attempts to obtain a better rate of exchange, and/or
- talks about converting currency as a regular line of business.

In 21 of the 26 cases (81%) involving a currency exchange or cheque cashing business, the proceeds of crime were introduced as cash. In two cases, the funds entered the currency exchange business as a wire transfer. It was unknown how the proceeds were provided in the final two cases. With little surprise, the most frequent transaction performed was the conversion of currency: in 20 of the 26 cases (73.7%), the client requested that cash be exchanged from one currency to another. Other services used with the proceeds of crime included wire transfers (5 cases), denomination exchange (2 cases), purchasing a monetary instrument (2 cases), cashing a cheque, and (attempting) to purchase gold coins (1 case). Of the 26 cases where currency was exchanged, 11 involved the conversion of Canadian to American dollars, five involved converting American to Canadian dollars, one involved converting Mexican pesos to Canadian dollars, and one involved converting Filipino pesos to American dollars. In eight cases, there was no information available on the currency exchanged. Converting Canadian to American currency is the most frequent transaction as drug sales in Canada are in Canadian currency, while American cash is required to purchase drugs on the international market.

A marijuana trafficker in Vancouver regularly visited a currency exchange to convert Canadian to American currency. Between February 6, 1995 and March 24, 1996, the accused conducted 16 different transactions, converting \$455,400 in Canadian currency to American funds.



On July 23, 1993, a search warrant was executed at the office of a courier company in Montreal, which police believed was established as part of an international cocaine trafficking and money laundering conspiracy. The role of the courier companies was to transfer American funds abroad to purchase cocaine. Much of the funds transferred internationally were the revenue of local cocaine sales and because this revenue was in Canadian currency, it was necessary that the cash be exchanged to American funds before it was sent out of the country. Between October 22, 1992 and March 29, 1995, four individuals linked to this criminal operation

conducted approximately 170 separate transactions at a currency exchange business in Montreal, converting approximately \$3.4 million in Canadian dollars to American currency. The smallest amount of Canadian cash converted in one transaction was \$145, while the single largest transaction was \$85,635. Police also seized more than two thousand receipts from banks in Montreal documenting purchases of U.S. money orders or American cash by individuals associated with this group.

Police cases also show that in recent years, there has been an increase in the conversion of American to Canadian currency. This increase is primarily the result of the sale of Canadian-grown cannabis in the United States, the proceeds of which are often smuggled back into Canada.

In December 1992, Joel David Williams began converting large sums of U.S. dollars to Canadian currency at a Vancouver currency exchange business. Over the next six months, Williams, as well as two associates, visited the currency exchange business on more than a dozen occasions, converting a total of (US) \$278,953 into (CDN) \$445,590. By his fifth visit, Williams admitted that the cash was from the sale of high-grade British Columbia marijuana in the United States. In general, Williams entered the store with American twenty-dollar bills and usually left with Canadian one thousand-dollar bills. Williams volunteered to one employee why he favoured currency exchange companies in his laundering activities: the volume of twenty-dollar bills was hard to explain to banks and he “had to be extremely careful when dealing with them.” Williams stated that he preferred one thousand dollar bills because “they are easier to carry.” The American currency was often brought into the store in a very suspicious manner and, on many occasions, Williams was unsure of the amount of money in his possession. The following summarizes some of the numerous visits made by Williams to the currency exchange business and the manner in which the large amounts of cash were presented to staff.

| <b>Date</b>  | <b>US currency exchanged</b> | <b>How the cash was brought into the currency exchange office</b> |
|--------------|------------------------------|-------------------------------------------------------------------|
| 92-12-08     | \$22,860                     | Pockets of his pants and coat                                     |
| 92-12-16     | \$6,587                      | Pockets of his pants and coat                                     |
| 92-12-19     | \$23,550                     | Plastic bag wrapped with duct tape                                |
| 93-01-07     | \$14,450                     | Five bundles of cash in one envelope                              |
| 93-01-09     | \$14,810                     | A bag, from which he pulled another wool bag containing cash      |
| 93-01-11     | \$19,230                     | ??                                                                |
| 93-01-16     | \$14,900                     | ??                                                                |
| 93-01-17     | \$57,300                     | Black leather gym bag                                             |
| 93-01-30     | \$18,860                     | Wallet and coat pocket                                            |
| 93-02-20     | \$17,976                     | ??                                                                |
| 93-03-01     | \$46,200                     | ??                                                                |
| 93-03-21     | \$13,400                     | Two bundles of cash from his pant pockets                         |
| 93-03-28     | \$8,845                      | ??                                                                |
| 93-03-30     | \$9,210                      | ??                                                                |
| <b>Total</b> | <b>\$288,178</b>             |                                                                   |

Some criminal groups have employed “smurfs” to transport small amounts of cash to currency exchange businesses.

On October 10, 1997, Richard Ellis attended a money exchange kiosk at the Halifax Airport and attempted to exchange \$3,900 in U.S. currency. The employees at the kiosk alertly contacted the RCMP as they suspected the individual might be related to a money laundering ring operating in the Halifax area. A RCMP member attended the kiosk and spoke with Ellis, who provided a variety of reasons on how he came to be in possession of the money. He initially said the cash was from friends in New York who were contributing to a movie he was making. He then changed his story, declaring the money came from his winnings at a casino in Bangor, Maine. Throughout his interview with police, Ellis became more and more evasive and nervous and began to sweat profusely. Even after a specially trained drug-detection dog indicated the presence of cocaine on the cash, Ellis continued to deny that the money had any criminal connections. Despite these admonitions, Ellis advised police that he did not want to go any further and was prepared to relinquish the money. Although police advised him of other options, Ellis insisted on giving up the cash. The RCMP officer then had Ellis sign a Relinquishment of Claim form. On the form, Ellis wrote “the money was given to me as an investment for a video in New York ... They can keep their stinking money.” No other attempts were made by Ellis or anyone else to recover the cash.

Police cases indicate that money launderers are also using other types of unregulated financial service providers to exchange currency. In particular, cheque cashing operations have become popular destinations for those looking to avoid the scrutiny of banks.

Ted Lowe was an American citizen who sold cocaine in Alberta. When Lowe first started trafficking in Canada he had no need to exchange funds as he had left a large amount of cash in the United States in safety deposit boxes. As this reserve of American currency was depleted, however, he sought out a cheque cashing operation in Calgary that also bought and sold foreign currency. Lowe would drop off a satchel containing Canadian currency and two or three day later pick up American cash. Each transaction was between (US) \$80,000 and \$100,000. Love paid a five percent premium to the company for this service.

Currency exchange businesses are also attractive to money launderers because they increasingly offer other products and services conducive to money laundering other than currency exchange. These alternative services include wire transfers and bank drafts, among others.

In helping to pay for a new home, a drug trafficker used a \$35,890 bank draft that was issued from a foreign exchange company. The property was then registered under the name of the wife of the trafficker. Police later proved that this property was purchased with the revenue from local cocaine sales.



A long-time marijuana importer approached a branch of a national currency exchange firm in Montreal to facilitate the purchase of (US)\$1 million worth of gold coins. After contacting police, officials with the currency exchange company agreed to have the funds transferred from the suspect's Swiss bank account to the Toronto bank account of the company. Once the money was deposited into the Toronto account, police seized the funds.

Finally, one of the most effective ways to use a currency exchange business to launder money is for a criminal entrepreneur to incorporate one.

An investigation into a currency exchange company eventually led to the seizure of more than 85 kilos of heroin. The drug trafficking group that was targeted owned and operated currency exchange companies in Turkey, Austria, England, Finland, the U.S., and Canada. Cash from drug sales in Canada were taken to a Toronto-based currency exchange business called Muhammon Financial Exchange. A fax would then be forwarded to a corresponding currency exchange business in Turkey, England, or the U.S. and the money would be paid out at that end in that country's currency. Every month, the different international offices would reconcile the amounts owed to one another through bank drafts and wire transfers. The principals of the currency exchange company also used several bank branches in Canada to make cash deposits in accounts registered in the name of the company, commingling the proceeds of drug trafficking with legitimate revenue from the currency exchange businesses. These funds would then be wired to corresponding bank accounts of currency exchanges in other countries.



Gary Hendin, a St. Catherines-based lawyer was eventually convicted and disbarred for his role in laundering an estimated (CDN) \$12 million in drug money for an Ontario-based criminal syndicate, during the late 1970s and early 1980s. Hendin was particularly adroit at establishing shell companies to expedite his laundering activities. One company that became a central conduit through which large amounts of cash would be laundered was M&M Currency Exchange. By establishing bank accounts in the name of this business, Hendin maintained an almost impenetrable pretence for his numerous and sizable deposits of cash, much of which was small denominations of Canadian currency generated directly from drug trafficking. The nature of the currency exchange business, combined with Hendin's upstanding reputation, ensured these large cash deposits would avoid scrutiny. In addition, utilizing a currency exchange company afforded Hendin the opportunity to purchase large amounts of American cash under a seemingly justifiable visage. (The American cash purchased through banks were eventually used to purchase drugs on the foreign market.) During 1979 and 1980, Hendin purchased close to \$9 million in American currency from one bank in Buffalo. The majority of the Canadian cash used to purchase these funds were drawn from an account in the name of M & M Currency Exchange at a Canadian bank branch in St. Catherines, Ontario.<sup>20</sup>

<sup>20</sup> Margaret Beare and Stephen Schneider. 1990. *Tracing of Illicit Funds: Money Laundering in Canada*. Ottawa: Solicitor General Canada: pp. 317-318.

## 9 CRIMINALLY-CONTROLLED COMPANIES

Of the 149 POC cases examined, 49 (32.9%) involved criminally-controlled companies. The establishment and operation of companies by organized crime is not a recent development. Beginning in the nineteenth century, Sicilian mafiosis became dominant in the production and distribution of artichokes, olive oil, wine grapes, and other necessities of Italian life. In the United States, enterprising loan sharks, such as Charles Luciano and Frank Costello, became silent partners in companies owned by recalcitrant debtors.<sup>21</sup> During the 1930s, and for decades after, members of criminal groups in North America maintained considerable financial interests in the transportation industry, a natural outgrowth of their involvement in trucking during Prohibition. Indeed, the era of Prohibition provided the foundation for an unprecedented involvement of organized crime in numerous legitimate industries, including those involved in the production of spirits, transportation, entertainment, hotels, restaurants, bars, and legalized gaming. Bars, restaurants, and retail stores have long been popular investments for crime groups due to their utility as headquarters, meeting places, ‘booze cans,’ gambling halls, and to launder the proceeds of their illegal activities. Beginning in the 1940s, organized crime figures from across the United States had a controlling interest in many of the Las Vegas casinos. The Cotroni crime family of Montreal managed to operate the only meat-storage facility, as well as 500 vending machines, on the site of the 1967 Montreal World Exposition.<sup>22</sup> In the late 1980s, then-U.S. Attorney Rudolph Giuliani convinced a federal judge that New York City’s Fulton Fish Market – which supplied much of the seafood in the metropolitan area – was so dominated by organized crime that it was said to operate as a “sovereign entity” where “the laws of economic power and physical force, not the laws of New York City, prevail.”<sup>23</sup> Investigative journalists William Marsden and Julian Sher claim that the assets of the Hell’s Angels in the Greater Vancouver area alone include two cellular phone stores, restaurants, clothing stores, apartment buildings, supermarkets, construction and waste-disposal firms, motorcycle dealerships, and a large transportation company that works for the movie industry.<sup>24</sup>

While companies have historically been established by criminal entrepreneurs for a number of reasons, a primary concern is to facilitate money laundering. Police cases have shown that individuals associated with criminal organizations have long been involved in establishing, purchasing, or investing in companies for the purposes of money laundering.<sup>25</sup> There are essentially four inter-related reasons to establish and/or control a company for money laundering purposes.

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<sup>21</sup> Richard Hammer. 1975. *Playboy's Illustrated History of Organized Crime*. Philadelphia, Pa: Courage Books.

<sup>22</sup> Peter Edwards. 1990. *Blood Brothers: How Canada's Most Powerful Mafia Family Runs its Business*. Toronto: Key Porter Books.

<sup>23</sup> *New York Times*. “Racketeering held to persist at New York’s fish market.” August 9, 1990: p. B12.

<sup>24</sup> Julian Sher and William Marsden. 2003. *The Road to Hell: How the Biker Gangs Conquered Canada*. Toronto: Knopf Canada.

<sup>25</sup> For example see: Royal Commission on Customs and Excise (Canada). 1928. *Interim Reports (Nos. 1 to 10)*. Ottawa: F.A. Acland; Quebec Police Commission. 1977. *Report of the Commission of Inquiry on Organized Crime and Recommendations: Organized Crime and the World of Business*. Quebec: Quebec Police Commission; Shana Alexander. 1988. *The Pizza Connection: Lawyers, Money, Drugs, Mafia*. London, UK: Weidenfeld and Nicolson; Howard Abadinsky.

First, criminally-controlled companies accomplish the objective of converting the cash proceeds of crime into an alternative asset. This is most apparent when criminal entrepreneurs invest in operating businesses with hard assets.

Second, companies provide an effective guise to legitimize both the proceeds of crime and individuals associated with the illicit funds. Through the use of shell or legitimate companies, the third objective of money laundering is satisfied – creating the perception that the illicit funds have been generated from a legitimate source. Once a company is established, commercial accounts can be created at financial institutions. Especially attractive to money launderers are businesses that customarily handle a high volume of cash transactions, such as retail stores, restaurants, bars, video arcades, gas stations, food markets, etc. The proceeds of crime can then be deposited into bank accounts as legitimate revenue, either alone or commingled with revenue legitimately produced by the business. Companies also offer criminal entrepreneurs a seemingly legitimate source of employment in the community, which in turn helps cultivate an image of respectability.

Third, companies facilitate access to other laundering vehicles and techniques. As a medium between a criminal organization and other laundering vehicles, companies are very flexible and can be tailored to a launderer's specific needs. For example, criminal organizations laundering money through real estate can incorporate real estate sales agencies, mortgage-brokerage firms, and development or construction companies to facilitate access to real property. A wide range of legitimate and/or bogus business transactions can be used to further the laundering process, such as lending money between criminally-controlled firms, paying out fictitious expenses or salaries, disguising the transfer of illicit funds as payment for goods or services, and offering public shares in a company originally financed with criminal funds.

Finally, criminally-controlled companies can be quite effective in concealing criminal ownership of other assets. Title to real estate, bank accounts, and other assets can be registered in the name of numbered companies and nominees can pose as owners, directors, officers, or shareholders. Companies in Canada can be incorporated as subsidiaries of corporations based in tax haven countries with strict secrecy and disclosure laws, thereby greatly inhibiting police investigations into the ownership of the Canadian-based assets.

In short, criminally-controlled companies have the potential to satisfy the three prime objectives of money laundering: they aid in the conversion of illicit cash to another asset, they can effectively hide the true source of illegally-derived funds, and they can create the perception that income has been generated from a legitimate source.

Of the 49 cases identified in this study that involved criminally-controlled companies, no one type of business predominated. The companies operated (or purported to operate) various lines of business, including currency exchange, importing/exporting, retail fish sales, masonry, paving, painting, auto wholesaling, auto financing, lumber supplies, courier services, marine craft sales, office supplies, restaurants, bars, hotels, marinas, real property development, retail tire sales, construction, pool halls, pinball arcades, car washes, tanning salons, and fitness clubs. Numerous other businesses were

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2000. *Organized Crime*. New York, NY: Wadsworth Publishing; Antonio Nicaso and Lee Lamothe. 2000. *Bloodlines: The Rise and Fall of Mafia's Royal Family*. Toronto: Harper Collins.

established as numbered or holding companies with no declared line of business. In some cases, the company's business was strategically chosen to maximize the appearance of legitimacy and normalcy, which, in turn would help shroud its criminal intentions. For example,

- ◆ restaurants were established to provide a locale for the sale of drugs and as a guise under which the cash proceeds of these sales could be deposited into bank accounts,
- ◆ a currency exchange company was established by a drug trafficking group to convert Canadian to American cash, which was then transferred internationally to purchase drugs,
- ◆ an organized auto theft ring incorporated companies that specialized in auto wholesaling, which facilitated the sale of stolen cars to automobile dealerships,
- ◆ an auto importation company was established by cocaine traffickers in Canada to legitimize their need to purchase American funds (which in fact was used to purchase cocaine). In addition, cocaine would be exported from the U.S. to Canada concealed in cars "sold" by an American auto export company, which in fact was operated by the U.S.-based cocaine supplier.

Criminal entrepreneurs use both operating and shell companies for money laundering purposes. Shell companies are legally incorporated and registered, but have no real business apart from money laundering (or other criminal activity). Criminal enterprises will also utilize real businesses to launder illicit money. These businesses differ from shell companies in that they are operational, offering industrial, wholesale, or retail goods or services. Despite these differences, there is a fine line between a shell and legitimate company; while the latter may provide legitimate goods and services, it is often propped up by injections of criminal revenue.

Once a shell or legitimate company is established, a number of other techniques can be used to further the laundering process. The primary objective of establishing companies is to claim the proceeds of crime as legitimate revenue, which is then deposited into commercial bank accounts. Other laundering techniques used in conjunction with criminally-controlled companies that were identified in this study, as well as other research,<sup>26</sup> are summarized below.

**Using nominees as owners or directors** – To maximize the air of legitimacy, and to distance a company from its criminal connections, nominees are often used as company owners and directors.

**Establishing multiple companies** – In some cases, a number of companies were established, many of which were connected through a complex hierarchy of ownership. This helped to conceal criminal ownership and facilitate the transfer of illicit funds between companies, while muddying any paper trail. Alternatively, efforts were made to ensure that there was no evidence of a common ownership of different companies. This allowed the companies to conduct business with each other, using fraudulent transactions (such as fake loans, purchase of supplies or services, invoicing, etc.) to

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<sup>26</sup> Margaret Beare and Stephen Schneider. 1990. *Tracing of Illicit Funds: Money Laundering in Canada*. Ottawa: Solicitor General Canada; Bruce Bowie. 1988. *Money Laundering Techniques*. Ottawa: Royal Canadian Mounted Police, Drug Enforcement Directorate. (Unpublished); British Columbia. Ministry of the Attorney General. 1980. *Business of Crime; An Evaluation of the American R.I.C.O. Statute from a Canadian Perspective*. Victoria: Ministry of the Attorney General.

transfer illicit funds between companies (and, in some cases, allowing the funds to be sent internationally). One technique is to have an off-shore corporation order goods from its foreign subsidiary in Canada and then send the payment to the bank account of the Canadian subsidiary. Both companies are owned by the criminal enterprise and the “payment” for goods is actually a repatriation of illicit money previously spirited out of the country. Because this laundering technique requires false invoices, the off-shore company and its Canadian subsidiary will have conflicting records, but since they are in different legal jurisdictions, a comparison is difficult to make.<sup>27</sup> Paying fictitious business expenses can also be used as a cover to pay for drug supplies.

**Purchasing a company already owned by the criminal enterprise** – Another laundering technique is for a criminal enterprise to “purchase” a company it already owns. This method is most commonly used to repatriate criminal proceeds that were previously sent to a tax haven country from Canada. That is, criminal proceeds can be sent to Canada under the guise of payment for the purchase of a Canadian company by a foreign company. The Canadian company may be purchased at an artificially inflated price to maximize the amount of money returned to Canada.

**Establishing companies in tax haven countries** – Tax haven countries play a key role in international money laundering operations. Their strict corporate secrecy laws can effectively conceal the true ownership of illicit money and other assets. These countries are also characterized by their lax corporation laws and the minimal capital requirements for new companies. Nominees can easily be registered as owners and directors and, in some countries, lists of names of individuals who will pose as such can be readily purchased.

**Flipping Companies** – One of the most effective means to ensure that illicit funds are laundered under the guise of revenue from a company is to sell the business. Once the company has been sold, the criminal has a seemingly legitimate source of capital. The added benefit of selling a company through which illicit money circulates is that it will ostensibly exhibit significant cash flow and, as such, it will look like an attractive investment and realize a high selling price.

**Paying out fictitious salaries** – In addition to claiming the proceeds of crime as legitimate business revenue, criminally-controlled companies also help legitimize participants in a criminal conspiracy by providing them with purportedly legitimate salaries. In some cases identified in this study, salary cheques were signed back to the company by the “employee” as part of the laundering operation.

A cocaine trafficker in Victoria, B.C. started a dry wall business with money from cocaine sales. The criminal proceeds would also be co-mingled with the income from dry walling and deposited into bank accounts. Due to the ongoing investments of drug revenues into the company, its value was artificially inflated. The constant cash flow also meant that this company was able to under bid competitors on commercial construction tenders.



<sup>27</sup> Bruce Bowie. 1988. *Money Laundering Techniques*. Ottawa: Royal Canadian Mounted Police, Drug Enforcement Directorate. (Unpublished), p.6.

Jozef Teodor, an Ontario cocaine trafficker, operated two businesses – Marlow Imports and Kurtz Lumber – both of which were based in Scarborough. Marlow Imports was a sole proprietorship that imported high-end used vehicles for resale in Canada. Most of the vehicles that were imported were supplied by a wholesaler in Los Angeles, who was also Teodor's cocaine supplier. When a shipment of cocaine was purchased, a car was also provided and both were transported to Canada. Teodor used the import business to rationalize his need for American cash (stating to banks that American wholesalers would not accept cheques drawn on Canadian banks) and to legitimize the cash deposits being made to the company's bank account (which he stated were the proceeds from the private sale of the vehicles in Canada). By the end of the police investigation, Teodor was in the process of obtaining commercial lines of credit at a local bank, which would have allowed him to transfer funds into a U.S. line of credit account and then wire the money south to his "lumber supplier" in the United States. Kurtz Lumber was a partnership Teodor began in Toronto in 1996 with his father-in-law and an associate in the cocaine distribution operation. This company did in fact operate as a legitimate lumber distribution business, however, according to a forensic audit conducted by police, it was not financially viable in its own right. The seed money for the business came from cocaine trafficking and its operations were kept afloat through ongoing injections of drug money.



Arthur Clarkson and Darren Minehead of Ontario were key players in an auto theft ring. Their role was to take possession of stolen automobiles from Quebec for re-sale in Ontario. In doing so, they would alter the vehicle identification numbers then register them in Ontario under the name of Rama Used Cars. Both Clarkson and Minehead were associated with auto-related companies, including Paradise Auto Sales and DM Leasing and the stolen cars would often be re-sold under the auspices of the former. At least 25 vehicles were sold to Cradle Auto Sales in Toronto, which was owned by Charlie Minehead, the uncle of Darren. Clarkson and Darren Minehead would take the proceed of these illegal auto sales – usually bank drafts – to banks and deposit the funds into accounts in the name of companies they created. On two separate occasions, Clarkson and Darren Minehead cashed bank drafts for \$115,000 and a number of cheques totalling \$170,000 at one branch of a Canadian bank. The cheques, which were issued by a Guelph Jeep Eagle dealership and made payable to Rama Used Cars, were the proceeds from the sale of six stolen Jeep Odysseys by Clarkson and Darren Minehead. A certified cheque for \$125,000 payable to DM Leasing from another Jeep dealership for the purchase of four stolen Jeep Odysseys was also cashed at this bank branch.



A convicted cocaine trafficker living in Regina had been involved in the restaurant business since the early 1980's and, during the period he was under investigation, police discovered he was the owner, operator, and/or financier of at least seven restaurants in the Regina area. The investigation uncovered that these restaurants were used as a front for cocaine trafficking and to launder the proceeds. Although it was clear that the accused had ultimate control over these restaurants, he was not registered as the official owner of any of them. Instead, ownership was placed in the names of nominees, including his wife, a niece, his mother, his father-in-law, sisters, brothers-in-law, as well as business associates (two of which were convicted of narcotics trafficking offences that occurred at his restaurants). Commercial bank accounts were opened for each restaurant and cocaine revenue was deposited into the accounts under the

guise of legitimate sales from the restaurants. Fictitious business expenses were also paid to individuals, including cocaine suppliers.



Bernard George was arrested and ultimately convicted on drug trafficking offences after police discovered that he operated five marijuana grow operations in the Greater Toronto Area. Among his numerous laundering methods, George set up consulting companies in Canada and abroad. Cash generated from the marijuana sales would be converted to bank drafts or money orders and then mailed or couriered to a tax haven country, where the funds would be deposited into bank accounts. The bank drafts were made out to consulting firms located in India, however no services were ever rendered; all the companies involved in both countries were controlled by George and carried out no legitimate business of any kind. To expedite this money laundering technique, George created fictitious invoices that would be sent from a shell company in Canada to another in India for the imaginary purchase of products and services. In some instances, a second fictitious invoice would be forwarded to a shell company registered in the tax haven country. The funds would be deposited in one account with a portion returned to India to settle the invoice. The remainder would be converted to American dollars and ultimately deposited to bank accounts of shell companies registered in the tax haven country. This particular laundering scheme was completed when the funds issued to pay the consulting services were wired back to a Canadian bank account in the name of the consulting business.



Proceeds from a cocaine trafficking operation in Manitoba were invested into a legitimate construction company, which used nominees as directors and owners. Cash generated from cocaine sales was also deposited into a bank account under the guise of legitimate revenue from this company. Police were able to establish that the company had a limited number of contracts and, according to Revenue Canada records, between 1988 and 1991 the company was losing money, while in 1992 – its last year of operation – the company had only \$15,000 in reported income. The company's defence to money laundering charges was that much of its work was performed on a cash basis, and therefore it was simply guilty of tax evasion. Drug trafficking revenue was also laundered through this company by issuing pay cheques to various employees (nominees who did not work for the company), who would in turn endorse the cheque back to the company.



A multi-kilo cocaine importer named Alex Burgess used the services of a health food restaurant, called the Korova Milk Bar, to launder his illegal revenue. With the help of the restaurant manager, cash generated from drug sales was co-mingled with the revenue from the restaurant and deposited into a bank account. These funds were applied to the purchase of a home registered in the name of the manager of the franchise, but which in fact was beneficially owned by Burgess.



Melvin Herman, a cocaine trafficker, confessed to police that he operated a number of businesses in Ontario, including more than 40 gas stations and several gyms. Legitimate revenue from the gas

stations would often be co-mingled with the criminal proceeds and deposited into bank accounts. Herman also told police that he carried three cell phones and two pagers. One cellular phone number and one pager were utilized for his legitimate business while the others were used exclusively for his drug trafficking activities. Of the 14 companies in which Herman was named as a director, 12 used the offices of two lawyers as the corporate address. Many of the service stations controlled by Herman were owned by a holding company, for which Herman or a nominee was the sole director.



The Canadian-based Caruana-Cuntrera crime group set up and operated dozens of companies spread throughout numerous countries, including Canada, Venezuela, Switzerland, Thailand, Italy, and the Netherland Antilles. In the Greater Toronto area alone, 18 companies associated with this criminal organization were identified by police. These businesses included import-export companies, fitness clubs, restaurants, night clubs, supermarkets, auto leasing and sales companies, a tanning parlour, a car cleaning company, a pool hall, a decorating company, a real estate firm, a travel agency, a meat packing company, a record distribution company, and a hotel management business. Numerous holding and numbered companies – with no stated lines of business – were also identified. One of these companies reported annual revenues of under \$10,000, yet police were able to identify cash deposits and withdrawals from its corporate bank account that ran into millions of dollars annually. Companies established by the Caruana-Cuntrera group can be divided into two categories. The first category was made up companies used as fronts for international shipments of drugs. The RCMP in Montreal first became alerted to the Caruana-Cuntrera organization in 1984 when the British Customs and Excise agency discovered a 250- kilo hashish shipment concealed in furniture sent by Shalimar Enterprises of Kashmir, India. British Customs took control over the shipment and then delivered it to its ultimate destination, a warehouse in London rented by a company called Elongate Ltd., where two Canadian nationals were arrested. Police found that this pair was tasked with re-labelling cargo filled with hashish to be re-shipped to a Montreal-based import-export company. The second category consisted of companies established expressly for money laundering purposes. Many of these businesses were numbered companies based in Ontario and Venezuela and existed only on paper. The various shell and operating companies were also used to create an air of legitimacy for family members, which included providing business revenues and salaries. For example, police seized a payroll register for Much More Entertainment, which showed that Guissepe Cuntrera and his son each had a base salary of \$30,600 for 1998. As part of documents filed in court, the RCMP speculated that Guissepe Cuntrera regularly bankrupted his businesses when scrutiny was applied by banks, taxation officials, or creditors. Once a business went bankrupt, Cuntrera would arrange for a new company to buy out the assets of the failed business at a reduced cost. Bankruptcy was also used by the businesses to void intentionally-accrued debt. “Flipping” companies through fraudulent bankruptcies allowed the organization to continue to pump illicit funds through a procession of businesses. In short, companies were bankrupted, not because of a lack of funds or business but as part of an obfuscating layering process intended to legitimize the group’s drug revenues.<sup>28</sup>

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<sup>28</sup> Antonio Nicaso and Lee Lamothe. 2000. *Bloodlines: The Rise and Fall of Mafia’s Royal Family*. Toronto: HarperCollins; John Demont. 1988. “A dangerous trail: Police pursue the profits from drug sales.” *Maclean’s*. October 31: p. 40; *The Toronto Star*. “The bust that almost wasn’t. Two-year probe of Caruanas cost \$8.8 million.” May 4, 2000.

## 10 INSURANCE

Of the 149 proceeds of crime cases examined for this study, the insurance industry was implicated in 96 (64.4%). However, an important caveat should be applied to this statistic and, by extension, the use of the insurance industry to launder the proceeds of crime. Unlike those sectors of the economy that predominate as money laundering vehicles – such as deposit institutions or real estate – in most of the police cases, the insurance sector was not expressly sought out by criminals to launder their illicit revenues. Instead, insurance policies were purchased because big ticket items that require coverage – such as cars, homes, marine vessels, and businesses – were acquired (with the proceeds of crime). As such, in most cases, the insurance sector was somewhat tangential to the actual money laundering objectives and processes.

However, the police cases also show that traditional services offered by the insurance industry – such as life insurance policies – have also been used expressly to launder the proceeds of crime. According to a 1998 report entitled *Money Laundering Typologies*, the Financial Action Task Force (FATF) describes how single premium insurance bonds are purchased from insurance companies and then redeemed prior to their full term at a discount. The balance of the bond is paid to the launderer in the form of a “sanitized” cheque from the insurance company, thereby creating a seemingly legitimate source for the funds.

A Manitoba drug trafficker purchased a life insurance policy with a value of \$78,000. The policy was purchased through an agent of a large Canadian life insurance company using a cashier's cheque. The client made it known that the funds used to finance the policy were the proceeds of drug trafficking. Knowing this, the agent charged a higher commission. Three months following this transaction, the drug dealer cashed in his policy for its full value.



In 1997, John Huffam was arrested for cocaine trafficking (for which he was later convicted) and a proceeds of crime investigation was undertaken. During a search of his home, police seized monthly statements issued by a life insurance company pertaining to a life insurance policy registered in the name of Huffam. Police also uncovered monthly statements from another major insurance company pertaining to another life insurance policy, also registered in his name. Police found that he had been contributing to this life insurance policy since 1980, and by 1995, it had a cash value of \$80,042.04.

In a smaller number of cases, the insurance sector was used much like a bank: cash is deposited into accounts or term deposits; investments – such as RRSPs and mutual funds – are purchased; and mortgage financing is received. As the barriers that separate the different financial sectors continue to tumble in Canada, insurance companies are increasingly providing the type of banking services favoured by money launderers.

A \$70,000 mortgage was obtained from a major Canadian life insurance company to finance a home for a multi-kilo drug trafficker. In the course of their investigation, police also found that the drug trafficker had almost \$115,000 invested in short term investments through the same company. The investments were facilitated by a co-conspirator working within the insurance company who siphoned the funds through another unwitting account to avoid suspicion.



In 1995, an insurance broker in Alberta accepted large amounts of cash from known criminals, which were then invested under his own name. He would issue his clients a life insurance policy document, which could be redeemed whenever they wanted, for a fee. In one instance, the broker took \$30,000 in (\$100 bills) that were purportedly generated from local cocaine sales. The insurance broker then filled out a "Whole Life Policy" with a specified cash surrender value of \$25,000 plus interest. The broker stated that he could put the policy in any name and would even hide its existence if need be. He then offered to funnel the cash through the bank account of another company he operated so as not to attract suspicion.

## 11 SECURITIES

The securities market represents one sector of the economy that has long been victimized by organized crime and the Canadian capital markets have not escaped the attention of criminal syndicates.<sup>29</sup> In the initial stages, organized crime groups were involved in the rudimentary theft of stock certificates. During the 1950s, Hamilton's Papalia family used intimidation tactics to extort money and insider information from securities brokers.<sup>30</sup> From the 1950s to the early 1970s, crime groups in Canada masterminded schemes to steal millions of dollars worth of securities certificates.<sup>31</sup> The capital markets are also susceptible to manipulation and fraud by criminal organizations. William Obront, a highly trusted "financial advisor" with Montreal's Cotroni crime family, was eventually charged with more than 400 counts of fraudulently manipulating share prices over a 15-year period. The use of the capital markets by the Cotroni crime family of Montreal was so widespread during the 1960s and 1970s that a 1977 report of the Quebec Police Commission examining organized crime in the private sector dedicated an entire chapter to the securities industry.<sup>32</sup> More recently, police began an investigation that examined the potential role of outlaw motorcycle gang members in manipulating the price of BioChem's stock. These allegations were intensified after four bombs exploded at the company's Laval headquarters.<sup>33</sup> The Ontario Securities Commission (OSC) has gone so far as to make public declarations that criminal groups are laundering funds, manipulating prices, and conducting insider trades through the country's junior markets.<sup>34</sup> In 1999, the OSC called for a formal partnership between itself and the RCMP in part to crack down on "a disturbing growth in crime in the securities industry, crimes to which a very large degree have been committed by organized syndication."<sup>35</sup>

In addition to traditional stock market fraud, criminal entrepreneurs are interested in the securities industry for money laundering purposes. As part of this study, the securities market was identified as being used as a money laundering medium in 11 of the 149 cases (7.4%). Of these cases, stocks and

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<sup>29</sup> British Columbia. Coordinated Law Enforcement Unit. 1974. *Initial report on organized crime in British Columbia*. Victoria, B.C.: Coordinated Law Enforcement Unit, Ministry of the Attorney-General; *Vancouver Sun*. "Money laundering probed: Police focus on head of VSE Firm." January 27, 1993: p. A6; *Montreal Gazette*. "Brokers, traders warned to beware of money laundering." May 9, 1993: p. D1.

<sup>30</sup> Alan Phillips. 1963. "Organized crime's grip on Ontario." *MacLean's*. September 21: p. 58.

<sup>31</sup> Alan Phillips. 1963. "The inner workings of the crime cartel." *MacLean's*. October 5; Peter Edwards. 1990. *Blood Brothers: How Canada's Most Powerful Mafia Family Runs Its Business*. Toronto: Key Porter Books: p. 72; R. Walter. 1971. "Organized crime." *Canadian Securities Magazine*. May: pp. 1-6.

<sup>32</sup> Quebec Police Commission Inquiry on Organized Crime. 1977. *Organized Crime and the World of Business*. Montreal: Government of Quebec: p. 148.

<sup>33</sup> *Financial Post Daily*. "Caller says BioChem animal rights target: but expert suggests Tuesday's bombings were too sophisticated for Animal Liberation Front." November 28, 1997: p. 4.

<sup>34</sup> *National Post*. "Dirty funds haunt small exchanges." November 13, 2002.

<sup>35</sup> *Globe and Mail*. "OSC warns of rising securities crimes: Calls for full-time RCMP fraud squad policing markets. October 27, 1999.

bonds were purchased through securities brokerage firms, deposit institutions, and insurance companies. In general, there are two ways that criminal funds can be laundered through the securities market. The first and most common technique is to purchase stocks and bonds with criminal proceeds, which satisfies the premier objective of the laundering process: converting cash into an alternative asset. Transacting in securities incorporates an added attraction to the launderer in that the alternative asset is highly liquid.

A search warrant executed against a suspected cocaine trafficker in London, Ontario netted one pound of cocaine as well as cash totalling \$265,000. During the course of the proceeds investigation, it was uncovered that the accused walked into brokerage firm with a gym bag of cash and invested \$25,000 in stocks. No questions were asked by the firm in relation to this suspicious transaction.



A RCMP investigation discovered that Carol Lewis, a long time opium wholesaler, transferred funds derived from his illegal operations to a partner at a Kamloops law firm. Police discovered that Lewis used the services of the lawyer to handle his financial investments, including the purchase of strip bonds and RSPs.



Noel Elyot was a principal member of an Ontario-based organization that trafficked in cocaine and marijuana. The police investigation showed that revenues from this drug trafficking operation were laundered through various banks, companies, stock market investments, and real estate. Along with \$110,200 in cash, police seized the following documents from Elyot's truck:

- an account statement from a brokerage firm for the period ending April 30, 1999. The account was registered in the name of a numbered company that was eventually traced to Elyot. The Canadian dollar account showed a net value of \$8,035.94.
- a receipt from another brokerage firm for an account also registered in the name of the numbered company in the amount of \$9,500.
- a mutual fund account statement dated August 2, 1999, addressed to the numbered company, showing a balance of \$4,224.17.



On December 17, 2001, Lance Boyle was arrested at the Winnipeg Airport in possession of \$115,050 in Canadian cash. The next day, members of Winnipeg Integrated Proceeds of Crime and RCMP Drug Section executed a search warrant at a home owned by Boyle and an associate identified as Willie Van Houghton. During this search, approximately \$19,870 in Canadian currency, \$9,045 in U.S. currency, \$25,000 worth of anabolic steroids, and two pounds of cannabis were seized. By the end of the investigation, a total of 89 drug and proceeds of crime charges were laid against 20 individuals involved in this drug trafficking

network. A forensic audit conducted as part of the investigation estimated that between 1996 and 2000, Boyle had unexplained income of approximately \$775,000. The proceeds of crime investigation into Boyle and Van Houghton revealed that both were active investors in the stock market and had amassed impressive portfolios, although neither had declared any income over the past several years. Police were able to connect 15 investment accounts, located at various banks and brokerage firms, to Boyle, and while some were registered in the name of relatives, he was authorized to trade through all of them. Police ultimately proved that the funds in accounts registered in the names of Boyle's mother and brother were derived from criminal activity. In addition, Van Houghton managed a company called Investing Networks Ltd., which police described as operating in a manner similar to a mutual fund. Through the course of their investigation, the RCMP determined that Boyle and Van Houghton had established accounts at 10 brokerage firms in Canada, including some of the largest in the country. Shortly after the arrest of Boyle and Van Houghton, money and securities were transferred among a number of brokerage accounts, in the name of the two accused, as well as relatives and other nominees. Accounts were also registered in the names of shell companies established by Boyle. One such company was BSE Investments, which opened an account with a major brokerage firm on June 25, 2000. From that day until June 30, four deposits totalling \$67,500 were made into this account. In addition, \$17,000 was transferred from Boyle's account at another brokerage firm to that of BSE Investments. Following Boyle's arrest, there was a dizzying movement of funds from bank and investment accounts he directly or indirectly controlled. Shares in a public company called Edusoft Inc., were transferred from BSE Investments' account to the account of Boyle's brother. An additional \$27,000 was withdrawn from the brother's investment account and transferred to his bank account. The funds were then moved to the mother's account at another bank and subsequently transferred to her account at Investing Networks Ltd. She also opened an account at another investment firm with a deposit of \$17,000. The source of these funds was two cheques, which were drawn from two investment accounts in the name of Lance Boyle (one of which was opened after he was arrested). The mother also wrote a \$25,000 cheque to Investing Networks Ltd. from a bank account in her own name, which was deposited into an another account at the same bank in the name of Investing Networks. The \$25,000 cheque was preceded by a deposit of \$25,000 on the same day from a bank account in the name of Boyle's brother. The source of the funds appears to be a \$25,000 cheque drawn from the brother's brokerage account, a month earlier. The funds in this account were from the sale of Edusoft shares, which were transferred to the brother from BSE Investments' account.



A junior lawyer with a Calgary law firm incorporated numerous shell companies in Canada and off-shore on behalf of a client who was involved in a large-scale drug importation conspiracy. One shell company incorporated by the lawyer was used to channel more than \$6 million of funds provided by members of the criminal organization to other assets. On one occasion, the lawyer issued a \$7,000 cheque from this shell company to a Vancouver brokerage firm to purchase stock.

Instead of purchasing securities, a criminal enterprise may take the opposite route to launder their illicit proceeds: offering shares in a public company previously injected with criminal proceeds, which allows a criminal organization the opportunity to raise capital and thus a seemingly legitimate source of funds. Under this method, a private company is incorporated or an existing one is bought by a criminal organization. The company may not carry out any legitimate business but can appear to be highly profitable through the injections of the proceeds of crime, which are made to appear as the legitimate revenue of the company. Shares are then issued to the public, preferably through a reputable stock exchange and in conjunction with a respectable under-writer. The actual laundering occurs after shares are purchased by the public and the “capital financing” is received by the original criminal owners of the company.

In May 1998, the FBI raided the U.S. headquarters of YBM Magnex Inc., a public company listed on the Toronto Stock Exchange. The raid was part of an investigation alleging that the company was used by Russian organized crime as a money laundering vehicle. Following the raid, all trading in YBM shares was halted, eventually leading to the company’s collapse. Before the trading was halted, more than \$100 million was raised from Canadian investors and the firm had a capitalization of close to \$900 million.

YBM was formed in 1991 by its parent company, Arigon Co. Ltd. One of YBM's original shareholders and a director of Arigon was Semyon Mogilevich, reported to be a leading Russian organized crime figure. Arigon was established in the Channel Islands in 1990 and was Mogilevich’s original conduit for laundering money, according to a 1995 British criminal intelligence report.<sup>36</sup> The same report describes Mogilevich as “one of the world's top criminals” and that he used YBM “...purely to legitimize the criminal organization by the floating on the stock exchange of a corporation which consists of U.K. and U.S.A. companies whose existing assets and stock have been artificially inflated by the proceeds of crime.”<sup>37</sup> Arigon also reportedly had ties to Sergei Mikhailov, a former KGB agent and a suspected leader of the Solntsevo Gang, which is reputed to be one of the most powerful crime groups in Moscow, involved in drug trafficking, extortion, smuggling, auto theft, and prostitution.

A private forensic investigation into YBM claimed that its six original investors, including Mogilevich, were all members of the Solntsevo group. A few months later, Arigon established a subsidiary in Moscow known as Arbat International Ltd., which was also used as a laundering vehicle for Mogilevich and Mikhailov, according to the 1995 British intelligence report. In 1991, Arigon bought another Hungarian manufacturing company for \$1.8-million. This company was renamed Magnex and started producing industrial magnets from a plant in Budapest. According to court documents, the factory was set up in part with stolen equipment, and also sold embargoed items such as weapons and enriched uranium to customers in Pakistan and the Middle East.<sup>38</sup>

On May 16, 1991, law enforcement authorities in Britain raided the London offices and homes of Mogilevich's lawyers and his former girlfriend and seized 100 files relating to Arigon, alleging

<sup>36</sup> *New York Times News Service*. “Russian mobsters get rich by duping North American Investors.” July 27 1999.

<sup>37</sup> As cited in Margaret Beare. 2000. “Russian (East European) organized crime around the globe.” Paper presented at the *Transnational Crime Conference* convened by the Australian Institute of Criminology in association with the Australian Federal Police and Australian Customs Service. Canberra, Australia, March 9-10.

<sup>38</sup> *Globe and Mail*. “Russian mob set up YBM office with stolen goods, sold weapons. Court documents also cite money laundering.” December 21, 1999.

(US)\$50 million in proceeds of crime passed through the Arigon accounts at the Royal Bank of Scotland over a three-year period. More than 10 years later, private forensic investigators found approximately \$2-million in cash at the Budapest factory, which YBM officials explained was for salaries.<sup>39</sup> The forensic investigation raised serious questions about the firms with which YBM supposedly did business. In Britain, for example, "all companies [are] in the Channel Islands and Isle of Man; many are shells, some are shells within shells; no way to know to this point who real buyer is," according to a briefing note prepared by the investigators. In the U.S., the private investigators checked out two supposed magnet buyers and instead "found offices of an attorney. No sign of [either firm.]"<sup>40</sup>

By the early 1990s, Mogilevich and Mikhailov began to expand into North America. In 1993, an associate of Mogilevich contacted Joseph Bogatin, a Russian academic who lived in the U.S. and specialized in magnet technology. In February 1994, Bogatin left his employer and formed YBM Magnex Inc. in Hatboro, Pennsylvania. YBM then merged with Arigon. In April 1996, Bogatin created Pratecs Technologies Inc., a company incorporated in Alberta and listed on the Alberta Exchange. In October 1996, Pratecs formally acquired YBM Magnex, and changed its name to YBM Magnex International Ltd. By that time, Mogilevich and five of his associates owned just under one-third of YBM's outstanding shares. In 1996, YBM moved onto the Toronto Stock Exchange, and on November 20, 1997, the Ontario Securities Commission (OSC) approved a \$53-million equity issue at \$16.50 a share.

Documents unsealed in court suggested that since at least the late 1980s Mogilevich had set up dozens of companies world wide to launder money. He directed illegal revenues through YBM-related bank accounts in Philadelphia to his co-conspirators and misled investors and regulators about nearly every aspect of YBM's operations. Police allege that he and the others destroyed records of money transfers, set up dozens of shell companies they claimed were YBM customers and sold products that knew either didn't work or didn't exist. By December 1998, the company was in receivership and in 1999, YBM officers pleaded guilty to conspiracy charges in U.S. Federal Court, admitting the company was conceived as a vehicle for fraud and money laundering. The company eventually went bankrupt. According to court documents filed by U.S. Government attorneys, Mogilevitch intentionally used Canadian stock exchanges to orchestrate his laundering activity because he felt Canada has lax regulations. "One of the concepts behind the [money-laundering] plan, and the formulation of the plans to take [YBM] and make it a public company and to initiate trading, was to initiate trading on the exchanges in Canada" because they believed that the regulations were more lenient, according to Assistant U.S. Attorney Suzanne Ercole.<sup>41</sup>

In their indictment of Mogilevich, U.S. Attorneys estimated that he pocketed more than (US)\$12 million (U.S.) through the sale of 2.1 million shares held in an account at First Marathon Securities between mid-1996 and early 1997. The proceeds were then transferred to an overseas bank account he controlled. The indictment also alleges that Mogilevich personally made another \$6 million from bonuses and other compensation from YBM, including sales commissions.<sup>42</sup>

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<sup>39</sup> *Globe and Mail*. "Russian mob set up YBM office with stolen goods, sold weapons. Court documents also cite money laundering. December 21, 1999.

<sup>40</sup> *National Post*. "YBM was urged to consider liquidation - then raised \$100-million - warned of 'lack of inventory,' possible 'cooked books'." December 10, 1999.

<sup>41</sup> *Globe and Mail*. "Mob boss picked Canadian exchanges for YBM scam. Court told Russian selected Canada for alleged money-laundering plan because he thought markets had lax rules." June 8, 1999.

<sup>42</sup> *Globe and Mail*. "YBM officers pocketed millions, U.S. says." April 26, 2003.

## 12 MOTOR VEHICLES

In 89 of the 149 police cases, cars and other motor vehicles were purchased with the proceeds of crime. Cars are generally bought for personal use by the offender, although in some cases they are also used as part of the criminal conspiracy to transport drugs or other contraband. In many cases, cash was used to make the purchase, while monetary instruments, such as bank drafts or personal cheques were also prevalent. In some cases, instead of purchasing a car, a lease would be negotiated, which helps avoid possible suspicions associated with large cash transactions and also limits the amount of equity an offender has in a vehicle in the event that it is seized by police.

The police cases identified three money laundering techniques used in conjunction with the purchase of motor vehicles. The first involves registering ownership and insurance of a motor vehicle in the name of nominees. The second is purchasing a car with cash and then quickly re-selling it, obtaining a cheque or bank draft for payment. The third is under-invoicing, whereby a money launderer reaches an agreement with the seller of a motor vehicle to officially record the purchase price below the actual value. Then seller then accepts the difference under the table. Police cases show that this technique is used in both private sales and through automobile dealerships and requires the collusion of the seller, including the completion of sales invoices and ownership transfer documents that list the price of the car as less than for what it was actually sold.

Nick Garland, a convicted drug trafficker, paid cash for a new 1994 Harley Davidson motorcycle, valued at more than \$12,000. In addition, he bought a new car and arranged to have it paid off through a 24-month lease. Upon picking up his car, he pre-paid the total amount of the lease.



A drug trafficker purchased a 1997 Honda for \$16,000 from a used car dealership in the Toronto region. He paid \$11,000 in cash, with the balance covered by a trade-in. The sales contract listed the official purchaser as an individual other than the accused. However, during the search of the dealership, police found a post-it note stuck to the original sales agreement indicating that the drug trafficker was the actual owner of the car. In his report on the case, the lead investigator noted that there was no legitimate reason why the dealership would officially and unofficially list the owners of the car as different people.



A street-level drug trafficker in British Columbia purchased a car from a dealership, which issued two receipts; one that low-balled the price of the car (the difference was paid under the table) and the other listing the actual cost to the trafficker. Other dealerships sold cars to the trafficker for a large amount of cash without any questions.



Dean Zimmerman was a major player in a group that imported cocaine to Canada through the mail from Colombia. On October 13 1995, Zimmerman purchased a 1989 Cadillac Fleetwood from a dealership in Laval, Quebec. Zimmerman traded a 1987 Cadillac and paid an additional \$12,257.65 in cash, which included twelve \$1,000 bills. On March 15, 1996, Zimmerman leased a 1995 Nissan Pathfinder from a dealership in Lachute, Quebec. He put down approximately \$6,200 in cash and financed the balance of \$36,372 through a vehicle leasing company. The co-signer of the lease agreement was an associate in the cocaine importation conspiracy.



In the course of an investigation into Francois Savard, a long-time drug trafficker in Quebec, police discovered that 21 motor vehicles had been registered in Savard's name over a period of five years. Savard used a number of laundering techniques in conjunction with his numerous purchases and sales of motor vehicles. One technique was to avoid transferring ownership of an automobile upon purchase, which required a cash deal to be struck with the seller. Savard also registered cars and their insurance policies in the names of nominees, including friends, family members, and business associates. For example, on November 5, 1997, police interviewed the owner of a Plymouth Chrysler dealership regarding the purchase of a 1996 Dodge Caravan by Savard. Documentation was provided to police indicating that he purchased the vehicle on December 7, 1997 for \$29,206.65. A payment of \$10,000 in cash was made by Savard at the time of purchase, with the balance of \$19,206.65 being financed by the Chrysler Credit Corporation. Six months after the purchase, Savard traded in the van. The balance owed at the time of trade-in was \$8,607.29, which Savard paid with cash. At one point, local police noted that Savard was driving around town in three different vintage cars. One of the cars was registered to another known drug dealer, although Savard appeared to be the only person who drove the vehicle. The individual who sold the cars to Savard stated that he received \$1,000 for each, although police later obtained an estimate from an insurance broker who specializes in vintage cases that placed the retail value of two of the vehicles at \$10,500 and \$9,800 respectively. This technique of under-valuing vehicles was used extensively by Savard. On October 23, 1996, he purchased a 1994 Ford Ranger in a private transaction. A voluntary written statement obtained from the seller claimed that he was paid \$11,500 in \$20 bills. The red book value for the car at the time of the sale was approximately \$19,000. On May 11, 1995, Savard purchased a 1992 Chevrolet Chevette in a private sale. Although the Motor Vehicle Branch information indicated that the purchase price was \$1,000, police obtained a written statement from the seller that he had sold the vehicle to Venerante Savard (Francois's mother) for \$8,000. The vehicle registration was transferred from Francois to his mother on December 15 1995 as a gift, however, the vehicle was insured in the name of Francois Savard. On the insurance forms, Francois reported the purchase price of the car at \$3,500.

## 13 GAMES OF CHANCE

Police cases show that legalized gambling – including casinos, lotteries, and race tracks – has been used for money laundering purposes.

### 13.1 Casinos

Money laundering through a casino entails purchasing chips with the cash proceeds of crime and then eventually cashing in the chips for larger denominations of cash or a cashier's cheque. An added benefit is that the proceeds of crime can be claimed as legitimate casino winnings.

A cocaine trafficker attempted to launder the proceeds of his illegal activity through a casino. After providing \$7,000 in cash to his son as well as \$20,000 in cash to a friend, both were advised to go a casino, purchase chips, play a few games, and then cash out, requesting a cheque for the amount of the chips. This laundering scheme would have been successful had it not been for the friend who, unbeknownst to the accused, had a serious gambling problem and lost the entire \$20,000 at the craps table.

Some casinos have taken steps to combat money laundering by prohibiting certain cash transactions that could lend themselves to money laundering, such as cash-for-cash exchanges involving small denomination bills for larger denomination bills in amounts over \$2,500.

### 13.2 Lottery Tickets

Criminal entrepreneurs will also purchase winning lottery tickets from the real winners (before the ticket is cashed) and then claim the prize, which provides them with a seemingly legitimate source of funds. To entice the sale of the winning ticket, the real winner may be offered cash that exceeds the value of the prize. Police have speculated that organized crime groups have bribed employees of government-run lottery agencies and retail outlets that sell the tickets to expedite these covert transactions. These types of conspiracies are attractive to real lottery winners, as they do not have to pay taxes on the cash surreptitiously provided to them.

Individuals involved in laundering the proceeds of a massive hashish importation operation purchased a number of winning lottery tickets as a means to claim a legitimate source of revenue. During the course of an investigation into a Calgary-based lawyer who was alleged to have been involved in the money laundering conspiracy, police discovered that when in Toronto to attend a wedding, the lawyer cashed \$215,000 worth of winning lottery tickets. In total, there were over 70 winning lottery tickets cashed by the lawyer, the average prize valued at below \$5,000. The cheques issued by the lottery corporation were recovered during a police search of the lawyer's Calgary home.



In one proceeds of crime investigation into a Newfoundland drug dealer, police interviewed the owner of a car dealership located in that province. The purpose of the interview was to inquire into the sale of a 1998 Chrysler Intrepid to the accused on June 15, 1999. The original contract indicated a purchase price of \$35,246.81. Police were able to establish that the vehicle was originally won in a lottery operated by a local charity. When interviewed by police, the lottery winner stated that she had sold the winning ticket to the accused for \$37,000 in cash, most of which was given to her in \$20 bills contained in plastic bags. Police determined that following this transaction, the accused proceeded to the car dealership, winning ticket in hand, to claim the prize.

### 13.3 Horse Racing

Horse racing has come under scrutiny over allegations that criminal groups are using the sport to launder money. There are essentially three ways to launder funds through horse racing (or similar pari-mutuel wagering). The first is for a drug trafficker or other professional criminal to purchase a race horse with the proceeds of crime. Arrangements can be made to purchase the horses with large amounts of cash and the winnings can be claimed as legitimate revenue.

A Toronto cocaine trafficker purchased seven harness race horses for more than \$180,000, the cost per horse ranging from \$14,000 to \$41,000. Although two of the horses were reasonably successful on the racing circuit, the trafficker lost close to \$160,000 from this investment. Despite these losses, he realized other benefits from this venture. Two of the trainers he hired were subsequently used as nominee owners for his restaurant operations and payments made to these trainers from the trafficker's business accounts were sometimes noted as restaurant expenses. (One of the trainers was permanently suspended from harness racing in Ontario, as some of the horses he trained tested positive for cocaine.)

A second method that can be used to launder money through race tracks is simply to convert large amounts of small denominations generated from criminal activities into larger bills that have been waged through pari-mutuel betting. Alternatively, large bills can be exchanged for smaller ones. While suspicions would be raised if a bettor simply requested to exchange currency with a clerk, one case that police investigated in New York indicates that this method can be facilitated through corrupt pari-mutuel clerks, who are paid a fee for such transactions. In the fall of 2000, New York State Police officers went through the cash boxes of scores of betting clerks at the Belmont Park Race Track as part of an investigation into allegations that individuals with links to organized crime have been colluding with pari-mutuel clerks to launder money. The clerks were believed to be exchanging large, easily traceable bills for dozens of smaller, less, traceable bills.<sup>43</sup>

<sup>43</sup> *New York Times News Service*. "Police search the cash boxes of betting clerks for evidence of money laundering." September 29, 2000.

The third way to use race tracks for laundering purposes is to place large bets using small denominations of cash, which can then be parlayed into larger denominations or even cashier's cheques that are paid out to a winning bettor. Even if the bettor wins only as much as is waged, dirty cash is converted and the winnings can be claimed as legitimate. Of course, the bettor does not win on every race, but the losses would simply be counted as a necessary expense. Accusations have also surfaced in Britain that criminals have attempted to bribe jockeys or trainers to throw races. One jockey in the U.K., claimed that as many as one in 10 jockeys had been corrupted by criminal syndicates operating in Britain to facilitate money laundering by rigging horse races. Inside information on horses that are deliberately held back or drugged enables criminals to launder money by betting on those horses likely to finish first or to be placed as a runner-up. The informant jockey admitted to involvement in race-fixing himself, and said that, before one race, his life had been threatened by a gangster who told him not to finish in the first six. The jockey ensured his horse was held back.<sup>44</sup>

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<sup>44</sup> *The [London] Times*. "Cleaning up filthy lucre – money laundering – investigation." March 30 2000; *The [London] Times*. "Racing: Concern over money laundering." October 24, 1999.

## 14 JEWELLERY, PRECIOUS GEMS, GOLD, & COINS

Of the 149 proceeds of crime cases examined, 14 involved the purchase of jewellery, precious gems, gold, or rare coins. These assets satisfy one of the essential prerequisites of money laundering: converting a cumbersome amount of cash to less suspicious, high value commodities. Especially appealing to money launderers is the physical compactness and portability of jewellery, gems, and rare coins, all of which can be easily concealed and transported. Jewellery, precious gems, gold, and coins are also generally unencumbered by government regulation, are readily bought and sold through retail outlets, can be transported internationally, and are easily converted back into cash almost anywhere in the world. They can also potentially provide a means to conceal criminal ownership; little identification is required when transacting in these types of assets and nominees can be used to obscure any links with the beneficial owner. Jewellery and coins are also purchased for private consumption, satisfying the personal tastes of the criminal entrepreneur.

A police search of the home of a cocaine trafficker detected more than 60 separate pieces of jewellery, including gold and diamond-encrusted watches, gold chains, gold and diamond bracelets, gold tie clips, gold and diamond-studded ear rings, and gold rings. The estimated value of the jewellery was \$50,000. A search of safety deposit boxes rented by the accused also turned up jewellery.



During a search of the home of the leader of a major international drug trafficking group, police discovered jewellery with a retail value estimated at more than \$300,000. Another search conducted on a safety deposit box police also found jewellery and coins, which were later appraised at \$314,592.



An American citizen accumulated several assets from his involvement in marijuana trafficking over the years. He pleaded guilty to drug charges in the U.S. and agreed to forfeit his assets, including a rare coin collection held in a safety deposit box located in a bank in Mississauga, Ontario.

## **15 ART**

Like jewellery or precious gems, art work is also a potentially attractive money laundering vehicle because it facilitates the conversion of a large amount cash into an alternative asset, can be resold to claim legitimate revenue, and can be transported internationally with relatively few restrictions. This study identified one case in which the proceeds of crime were suspected of being used to purchase works of art.

A police investigation into a tobacco smuggler unturned that he was involved in art dealing, although it could not be determined whether this was to launder money or just a personal interest (or both). In 1997, a gold wholesaler wired (US)\$46,000 to a joint account held by the accused in Miami. According to the owner of wholesaler, the accused had left a painting with him to sell on consignment, which was eventually sold for (US)\$47,500.

## **16 LIVESTOCK**

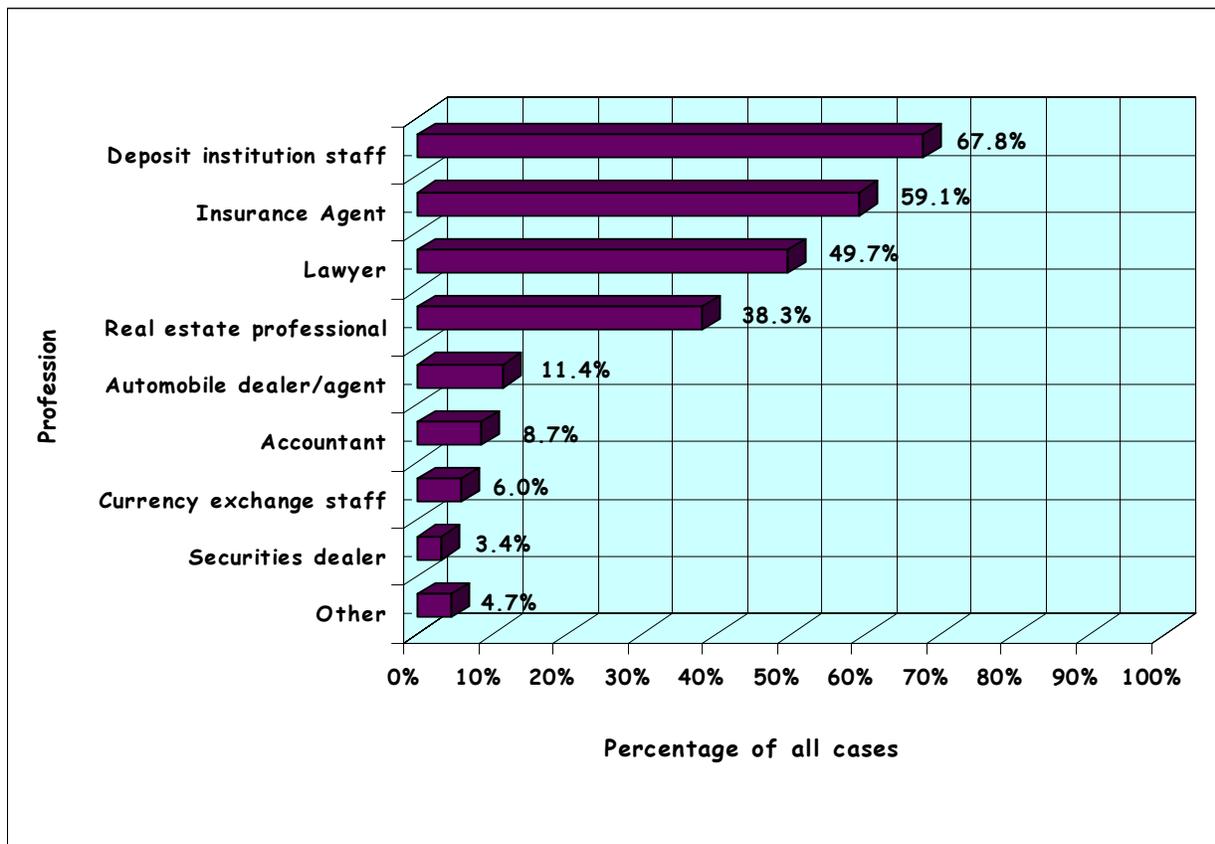
In six money laundering cases – five of which took place in Alberta – drug traffickers purchased cattle with the proceeds of crime.

Michael and Thomas Kaneable, two brothers who lived in Red Deer, Alberta, were part of a group that used a sailboat to smuggle hundreds of kilograms of cocaine from South America to Europe. Some of their proceeds were used to lease substantial tracts of land in Alberta. In addition, 76 heads of cattle were purchased by the brothers in the name of friends, who lived on the land and cared for the cattle. American cash was provided by Michael to his friends, who exchanged it for Canadian currency to purchase the cattle.

## 17 PROFESSIONALS

Because most of the cases in this survey involved the use of at least one sector of the legitimate economy to launder money, it was inevitable that the accused or an accomplice came in contact with a professional. As Figure 9 shows, the professionals that were predominately used to facilitate the laundering process, according to the survey of police cases, are deposit institution staff (101 cases), insurance agents or brokers (88 cases), lawyers (74 cases), real estate professionals (57 cases), automobile dealership staff (17 cases),<sup>45</sup> accountants (13 cases), currency exchange staff (7 cases), and securities dealers and portfolio managers (5 cases). The “Other” category includes travel agents, notaries, and real property managers.

**Figure 9 - Professionals that came into contact with the proceeds of crime**



<sup>45</sup> The number of cases where automobile dealerships came into contact with the proceeds of crime is most likely underestimated. The RCMP case files often had little information as to where cars were purchased.

As indicated above, the range of professionals that come into contact with those laundering the proceeds of crime is as diverse as the sectors of the legitimate economy used to this end. As the following case demonstrates, when more than one laundering vehicle is used, a number of professionals will come in contact with the proceeds of crime.

A common law couple used a variety of methods to launder revenue from cocaine trafficking, including deposit institutions, real estate, and the purchase of vehicles. Deposit institution staff facilitated numerous transactions and even advised nominees for the couple on how to conduct transactions that ostensibly would reduce any suspicion. A mortgage broker and a lawyer were used to help purchase and finance real property. The couple also relied on the advice of an accountant on how to invest funds with as little suspicion as possible. A car was also purchased through a dealership with cash.

In general, the professionals that come into contact with the proceeds of crime can be separated into two broad categories. This first group includes those with specific skills and expertise who can provide a criminal entrepreneur with specialized services, advice, and access to industry insiders. Within this category, lawyers and accountants are the most sought-after professionals, with financial advisors, insurance agents, and mortgage-brokers also being favoured. The second category includes front-line staff of retail businesses that come into contact with criminal entrepreneurs in the course of their day-to-day money laundering activity, including bank tellers, real estate agents, automobile sales people, currency exchange staff, and jewellery dealers, among others.

In the majority of the cases examined, the professionals were innocently implicated; that is, they appear to have no knowledge of the source of the funds, nor were there any overt circumstances surrounding the money, the client, or the nature of the transaction that would have raised suspicions. However, in a smaller number of cases the transaction was clearly suspicious, such as the use of large amounts of cash to purchase big ticket items; using multiple bank drafts from different banks to personally finance the purchase of a home; requests that lawyers purchase assets on behalf of a client through cheques issued from legal trust accounts; and the incorporation of numerous companies that carried out no legitimate businesses, yet have significant amounts of cash deposited into corresponding bank accounts. In most of the cases involving suspicious transactions no reports were made to police, indicating that the professional was either uneducated on suspicious transactions or was wilfully blind to the suspicious circumstances.

Details involving the role of professionals working in the financial services sector, real estate, automobile dealerships, currency exchange companies, and the securities industry have been explored in sections dealing with each of these sectors. This section explores the role of two professional groups that come into contact with the proceeds of crime but which have not been separately addressed in this report thus far: lawyers and accountants.

## 17.1 Lawyers

In general, the services provided by lawyers that were used for money laundering purposes were part of a series of commercial and financial transactions conducted by criminal entrepreneurs. More specifically, lawyers came into contact with the proceeds of crime mainly through their role in facilitating a real property transaction by an individual engaged in drug trafficking or an accomplice of the offender. In conducting these transactions, lawyers physically handled the cash proceeds of crime or monetary instruments provided by an offender or nominee, deposited these funds into bank accounts in-trust for clients, and issued cheques on behalf of clients for the purchase of real estate. To a lesser extent, lawyers were also used by offenders or their nominees to incorporate companies and purchase securities.

In the majority of police cases involving lawyers, they appear to have been unaware of the criminal source of funds provided by an offender. However, the research also identified cases where a lawyer should have become suspicious of the circumstances surrounding a particular transaction, such as the use of a large amount of cash in small denominations to purchase real estate. Moreover, some lawyers appeared to offer services that were tailored expressly to satisfy the objectives of money laundering. This included converting substantial amounts of cash into less suspicious assets, concealing the criminal ownership of assets, incorporating numerous companies that carried out no commercial activities, fabricating or falsifying financial or legal documents, and transferring funds between bank accounts or between multiple trust account files established on behalf of client and/or companies beneficially controlled by the client for no apparent commercial reason or financial gain.

In most cases, a lawyer was not consciously sought out by an offender in an attempt to facilitate money laundering, nor was there an explicit attempt by the offender to utilize legal services as a means to satisfy the objectives of money laundering. Instead, most lawyers came into contact with the proceeds of crime because the transaction conducted by the offender – most notably the purchase or sale of real property – commonly requires the services of a lawyer. In those cases where a lawyer appears to have been cognizant of the criminal source of funds, their services were often explicitly sought out and, in some cases, repeatedly used by offenders to launder their illegal revenue. This was most apparent with large-scale organized criminal conspiracies where police cases suggest the services of a lawyer are often essential because the greater the quantity of cash generated by the criminal enterprise, the greater the need for increased sophistication in the laundering scheme. In turn, this increased sophistication often requires the expertise and use of lawyers to navigate the proceeds of crime through complex legal, financial, and commercial dealings.

In short, the nature of the involvement of lawyers in money laundering will be dictated by the complexity and sophistication of the laundering operation itself. In rudimentary schemes, such as those simply involving the purchase of a home, a lawyer is not sought out by the money launderer, but instead is involved due to the necessity to involve legal professionals in real property transactions. In these cases, only a limited range of services are offered by the lawyer and they are not necessarily in a position to detect a suspicious transaction or client. In larger, more complex laundering schemes, there appears to be a concerted effort by criminal offenders to seek out and involve lawyers. In these cases, lawyers are more actively involved in providing a range of services specifically tailored to money laundering and often appear to be in a position where there is a greater chance that they are cognizant of the criminal source of the funds.

## *Facilitating Real Estate Transactions*

The relatively high proportion of cases where lawyers were exposed to the proceeds of crime is mostly the result of the popularity of real estate as a money laundering vehicle, combined with the necessary role of lawyers in real estate transactions. The services provided to those clients investing illegal revenues into real estate were typical of what a lawyer offers to any client in a real property transaction: conducting lien searches, obtaining property tax information, calculating property tax payments for the buyer and seller, obtaining information on insurance requirements, preparing title transfer and mortgage documents, registering the transfer of title, and receiving and disbursing funds through the law firm's bank account as part of the real estate deal (including deposits, down payments, "cash-to-close," and mortgage financing).

A B.C. man used the proceeds from the sale of cocaine, marijuana, and steroids to purchase several homes throughout British Columbia. The trafficker would regularly provide cash to his lawyer who would deposit the funds into his law firm's bank account in amounts averaging \$4,000 to \$5,000. When the balance of the account reached a certain level, the funds would be applied to the purchase of property (mostly homes used as marijuana grow-ops).



A New York-based drug trafficker would have American currency generated from drug sales smuggled into Canada by his brother. The money would then be handed over to other family members living in Toronto who would take the cash to their real estate lawyer's office who in turn would represent family members in the purchase of property. A ledger seized by police from the law office showed that large amounts of cash were received on several occasions from family members, in particular the mother of the drug trafficker. Some typical cash transactions involving the mother and recorded in the law firm's ledger are summarized below:

- May 17, 1992 – (US)\$46,432.64 in cash received
- March 25, 1993 – (US)\$48,250.00 received (the ledger notes that the funds were provided in the following denominations: \$18,200 in 100-dollar bills; \$9,000 in 50-dollar bills and \$21,040 in 20-dollar bills and one 10-dollar bill)
- March 27, 1993 – \$61,124.70 (including \$48,000 in American currency) received
- September 1, 1995 – (US)\$13,000 cash received
- September 3, 1995 – \$19,695.77 (including \$12,000 in American currency) received.

## *Incorporating Companies*

The police cases show that lawyers are used in numerous capacities to facilitate laundering schemes involving criminally-controlled companies. First, they are used to incorporate a company, which will include completing all the necessary paperwork, filing the appropriate incorporation and taxation documents with government regulatory bodies, and setting up bank accounts. Second, a lawyer may act as a director, officer, trustee, and, in some cases, the owner or a shareholder of the company. Third, if the company operates a legitimate business, the lawyer may manage its ongoing legal, administrative, and financial affairs. Fourth, lawyers have been involved in fabricating accounting and legal documentation. Fifth, a law office may be used as the corporate address for a company controlled by a criminal entrepreneur. Sixth, lawyers have been used in some cases to deposit the cash proceeds of crime into bank accounts, including legal trust accounts, under the guise of legitimate revenue derived from a company.

During one proceeds of crime investigation into three Alberta-based cocaine and marijuana traffickers – Mark Steyne, Pitt Crawley, and George Osborne – police identified three lawyers who helped the accused establish and operate companies, which were eventually proven to be nothing more than money laundering vehicles. Documents seized by the RCMP indicated that Becky Sharp acted as legal counsel on behalf of Steyne in the incorporation and preparation of annual returns for Vanity Fair Investments Inc., a public company in which Steyne and Crawley each held 50 percent voting shares. The corporate address listed for this company was Sharp's law office. Documents seized by police from the law office of Sharp also showed that she represented Steyne in the purchase of real estate, the title of which was registered in the name of Vanity Fair Investments Inc. Among the documents seized by police were letters from Sharp, addressed to the Vanity Fair Investments, which included certificates of incorporation, bank statements for commercial accounts, and documents showing that Steyne and Crawley were directors and shareholders of the company. Another lawyer acted on behalf of Steyne and companies he controlled, providing such services as incorporating numbered companies, conducting real estate transactions, purchasing a car wash, and preparing lease agreements between Steyne and the tenants of a home that was used for a marijuana grow operation. Finally, documents seized by police indicated that Majah Dobbin, a partner in a local law firm, acted on behalf of Crawley and Osborne in the incorporation of three other Alberta companies.



A police investigation into Joseph Yossarian, a Quebec liquor smuggler, revealed that he invested money into and eventually purchased a company for which lawyer Pierre Clevingier was the founder, president, director, and sole shareholder. Clevingier was also the comptroller for the company and was listed as a shareholder of three other numbered companies, which police traced to Yossarian. Yet another company, registered in the name of Yossarian's sister, was used as a front for Joseph's investment into a housing development. This company was incorporated by lawyer Robert Heller, who had established other shell companies registered in the name of the sister and used by her brother to launder money. Heller was also involved in transactions relating to companies that he set up for the benefit of Yossarian, including issuing and transferring shares in these companies and lending money between the different companies. Yossarian invested \$18,000 in another housing development in Montreal through a

company established by Quebec real estate lawyer Albert Tappman. Records seized by police during a search of Tappman's law office established that he had received cash and cheques from Yossarian, including a deposit of \$95,000 (\$35,000 of which was cash), which he deposited for Yossarian in trust. Police also found copies of two cheques, in the amount of \$110,000 and \$40,000, drawn on Tappman's bank account, and made payable to the order of a company he created on behalf of Yossarian. Tappman used a numbered company, for which another lawyer was the director and founder, as the intermediary through which Yossarian and others invested in housing developments.



Public documents seized as part of a police investigation into an international drug trafficking group based in Ontario showed that a Toronto lawyer incorporated 17 different businesses that were eventually traced to members of the crime group. Upon further investigation, police discovered that the office of the law firm was listed as the corporate address for many of the companies. The lawyer was also a director of two of the businesses he helped establish. During their investigation, police learned that two members of this crime group were to go to their lawyer's office "to sign for the new companies." Records obtained from the Ontario Ministry of Consumers and Corporate Relations show that a week later, two limited companies were incorporated listing both as directors.

### *Legal Trust Accounts*

One of the powers that lawyers have at their disposal – and which is regularly abused for money laundering purposes – is to hold money or assets “in trust” for clients. This enables lawyers to conduct transactions and administer the assets of a client. As the police cases show, criminal revenues are placed in a law firm's bank account, in trust for an offender, a nominee, or a company associated with the offender. In the majority of the police cases, these transactions were used as part of a lawyer's duties in collecting and disbursing payments for real property on behalf of a client. Regardless, the significance of a legal trust account in the context of a money laundering operation should not be under-stated: it can be used as part of the initial first step in converting the cash proceeds of crime into other less suspicious assets, it can serve to help hide criminal ownership of funds or other assets, and it can be used as an essential link between different money laundering vehicles and techniques, such as real estate, criminally-controlled companies, nominees, and the deposit and transfer of illegal revenues. In short, a legal trust account can be used in the three main stages (placement, layering, and integration) of the money laundering process.

An Ontario-based drug trafficker admitted to police that he purposely used legal trust accounts to help block access to information about the true ownership of the funds in the account. He confessed that he would provide cash to his lawyer, who would then deposit the funds into the law firm's trust account. Every few days, the lawyer would withdraw the money from the trust account and deposit the funds into the various bank accounts controlled by the drug trafficker. This was often done by issuing cheques against the trust account, which would be payable to a company associated with trafficker. Most cheques were in the amount of \$2,000 to avoid

suspicion. The small deposits and withdrawals, combined with the use of cheques issued from his lawyer's trust account, helped to circumvent cash or suspicious transaction declarations at financial institutions.



While an Alberta-based drug trafficker used numerous law firms to facilitate his money laundering activity, he appeared to have preferred one firm over all the others. On numerous occasions, a partner in this preferred law firm accepted cash from the drug trafficker, which was then deposited by the lawyer for his client, in trust. According to deposit slips seized by police, between August 19, 1999 and October 1, 2000 a total of \$265,500 in cash was deposited by the lawyer in trust for this client. The funds would then be withdrawn to purchase assets, including real estate and cars. The drug trafficker often used shell and active companies to facilitate his money laundering activities. Documents seized by the RCMP showed that on November 9, 1999, the lawyer witnessed the incorporation a company, of which the drug trafficker was a director. Along with the brother of the lawyer, the drug trafficker was also listed as a director of another company and police later identified cash deposits of \$118,000 into the legal trust account on behalf of this company. The deposit slips were signed by the lawyer. Funds were also transferred between the various trust account files the lawyer established for this client and his companies. In one transaction under the lawyer's signature, \$83,000 was transferred from this client's trust account file to the latter company he incorporated on behalf of this client.

### *Handing Cash*

In some of the police cases, a lawyer (or a delegate within a law firm) physically handled cash directly generated from criminal activities. In most of these cases, the cash was provided to a lawyer in the context of a real estate transaction and these funds were deposited in trust for the client. However, in other cases, there was no real estate transaction involved and, in fact, there was no rational explanation why the client was providing large amounts of cash to his or her lawyer.

Larry Darlington, a contraband liquor smuggler, purchased property in New Brunswick on October 9, 1994. The legal documents showed that the property was officially transferred from "father to son for natural love and affection" for \$2. Representing both parties in this transaction was Louis Windemere, Barrister and Solicitor. Police eventually learned that the property was actually purchased for \$83,976.94, with cash, which was delivered by the father to a real estate lawyer in a brown paper bag. A police search of the law office uncovered a bank deposit slip dated October 12, 1994 indicating that \$84,000 in cash was deposited into the account of "Louis Windemere, In Trust." The deposit slip shows that the cash was deposited in various denominations, including two-dollar bills, five-dollar bills, 10-dollar bills, 20-dollar bills, 50-dollar bills, 100-dollar bills, 500-dollar bills, and 1,000-dollar bills. On the deposit slip there is a handwritten notation that reads: "DARLINGTON 84,000." This property was forfeited to the Crown as the proceeds of crime.



During his trial on proceeds of crime charges, lawyer Basil Rolfe acknowledged that he had received more than \$8 million – including large amounts of cash – from George Burden and others involved in a hashish importation conspiracy. A police investigation identified numerous cash deposits by Rolfe into a trust account for shell companies he had incorporated for Burden and his associates. These deposits were often less than \$10,000 and consisted mostly of 20-dollar bills. Deposits made by Rolfe were often followed by immediate withdrawals, account transfers, or wire transfers to other bank accounts in Canada or overseas. Rolfe testified in court that he had received a paper bag containing \$25,000 in 20-dollar bills from Burden as a down payment on house in Vancouver, which he turned over to the real estate agent representing the vendors of the home. The real estate agent stated in court that Rolfe asked if the remainder of the sale could be paid in cash. Rolfe testified that he could not remember saying that, but if he did, he was only joking. The lawyer also received plenty of cash gifts from Burden, including \$7,000 as a birthday present, a wedding gift of \$12,000, and a Christmas gift of \$5,000. In the same case, another law firm was identified as accepting cash from Burden. A copy of a trust ledger for the law firm Bolton, Muldoon located among documents seized from Burden’s home shows that between July 27 and December 24, 1992, more than \$83,000 in cash was deposited into the law firm’s trust account on behalf of Burden.<sup>46</sup>



On October 2, 2000, Joseph Kay was convicted in Edmonton for drug trafficking and received an 18-month sentence. The proceeds of crime investigation showed that Kay had amassed considerable assets over the years, despite the fact that he had no legitimate source of income. Kay laundered his drug profits through banks, companies he established, legal trust accounts, and real estate. Real estate purchases would often be financed in part through funds from legal trust accounts sated with deposits of cash directly generated from drug sales. Kay used different lawyers and law firms to facilitate his laundering activity, including Frank Castle of Castle and Company, Barristers and Solicitors, and Lester Amerika of Amerika and Kafka, Barristers and Solicitors (and formerly with Castle and Company). The services provided by the lawyers to Kay included facilitating the purchase of real estate, setting up and maintaining shell and active companies, and accepting large sums of cash from Kay. Castle personally made many of the cash deposits in trust for Kay. Police seized a number of deposit slips, dating between 1995 and 1998, revealing cash deposits into the law firm’s trust account on behalf of Kay totalling \$285,000. All of the deposit slips included the signature or initials of either Frank Castle or Lester Amerika. Below is a sample of bank deposits made by the lawyers during a period that lasted less than two months.

April 9, 1995 – \$18,000 in cash, all in 100-dollar bills, is deposited on behalf of Kay in his lawyer’s trust account. The depositor’s initials are “FC.”

April 28, 1995 – \$52,000 in cash, all in 100-dollar bills, is deposited on behalf of Kay in his lawyer’s trust account. The depositor’s initials are “FC.”

<sup>46</sup> *Vancouver Sun*. “Lawyer acquitted of money-laundering: Judge accepts Vancouver man’s testimony he didn’t know client’s \$8 million came from drugs.” April 18, 1997: p. B3.

May 2, 1995 – \$37,000 in cash, all in 100-dollar bills, is deposited on behalf of Kay in his lawyer's trust account. The depositor's initials were "FC."

May 21, 1995 – \$55,000 in cash is deposited on behalf of Kay in his lawyer's trust account. The cash deposited included 516 fifty-dollar bills and 292 one hundred-dollar bills. The following handwritten notations were included on the deposit slip: "(file 5792) Joseph Kay." The depositor's initials were "FC."

June 18, 1995 – \$29,000 in cash is deposited on behalf of Kay in his lawyer's trust account. The cash deposit included 700 twenty-dollar bills, 100 fifty-dollar bills, and 100 hundred-dollar bills.

June 25, 1995 – \$70,000 in cash is deposited on behalf of Kay in his lawyer's trust account. The deposit slip shows that the cash was deposited in the following denominations: "980 x \$20," "508 x \$50," "250 x \$100." The depositor's initials were "FC."

June 26, 1995 – \$25,556.36 in cash is deposited on behalf of Kay in his lawyer's trust account. The depositor's initials were "LA."

Kay admitted he used lawyers to launder his drug profits and described how he once visited his lawyer with a suitcase containing \$140,000 in cash, which the lawyer subsequently deposited for Kay in trust. In another phone conversation, Kay was heard to say that his lawyer accepted a suitcase with \$60,000 in cash, which was also deposited into the trust account. These funds were then used to purchase a Porsche automobile for Kay. In one phone conversation, Kay directs an accomplice to deposit \$34,000 in cash into Kay's lawyer's trust account.

## 17.2 Accountants

Like a legitimate company, criminal entrepreneurs must keep track of their revenue and expenses, as well as assets and liabilities. Ideally, this job is best carried out by someone possessing accounting or bookkeeping skills. Although criminal organizations parallel legitimate businesses in many ways, they are unique in that few companies conduct business entirely in cash. A principal job of an accountant working for a successful criminal enterprise is to keep track of the volumes of cash generated and spent. In those police cases where accountants were implicated in laundering money, they were used to provide accounting services for both the personal and company-related finances of criminal entrepreneurs.

The need for accountants by large-scale criminal operations was made vivid during a trial of Hells Angels' members and associates in Quebec. Stephane Sirois, a former member of the Rockers – a biker gang affiliated with the Nomads Chapter of the Hells Angels – agreed to become a police informant and gather evidence against his biker colleagues by wearing a hidden microphone. Sirois testified in court that the Nomads purchased as much as 1,000 kilograms of cocaine at a time, which would then be distributed to members of the Nomads and other Hells Angels' chapters for wholesale

distribution. The drug revenues were collected by couriers who carried bags of cash to nondescript apartments where they would be counted. By the end of their investigation, police had seized \$5.5 million in cash from safes located at various apartments. Police also confiscated accounting spreadsheets showing that in one eight-month period in 2000, the Nomads made \$92 million from the sale of cocaine. In one recording secretly taped by Sirois, he is heard asking another Rocker named Jean-Guy Bourgoin if he knows of a good accountant. Bourgoin replies with the name of Georges Therrien in Laval. “He’s one hell of a good guy,” according to Bourgoin. “He worked 25 years for the government. And he was Rizzuto’s accountant – he’s always worked for that Italian clique. You give him cold cash – ‘Here, wash this for me’ – and he will play with your money.” Bourgoin was most likely referring to Vito Rizzuto, described by police as the head of Montreal’s Mafia.<sup>47</sup>

In at least two cases identified through this survey, accountants were directly involved in both the substantive offences as well as the laundering of the proceeds of these offences.

An investigation into Philip Dickens revealed that he had long been active in the multi-kilo trafficking of cannabis, cocaine, and anabolic steroids. Dickens was the beneficial owner of more than 20 homes and numerous businesses, many of which were owned by holding companies for which Dickens was listed as the sole director. Documents seized by police as part of the investigation included correspondence between Dickens and two chartered accountants, much of which was in regards to work performed by the accountants for Dickens and businesses he controlled. These two chartered accountants were Abel Magwitch and Estalla Havisham. Some examples of the correspondence are summarized below. All companies listed below were controlled by Dickens, including Great Expectations Holdings Ltd., which was the registered owner of a number of other companies.

| <b>Date</b> | <b>Correspondence</b>                                                                                         | <b>Accountant</b> |
|-------------|---------------------------------------------------------------------------------------------------------------|-------------------|
| 94.08.22    | Letter from Dickens including a cheque for \$500 payable to Magwitch                                          | Magwitch          |
| 94.09.14    | Letter from Dickens including a cheque for \$1,000 payable to Magwitch with the memo “for accounting”         | Magwitch          |
| 95.01.21    | Balance sheet of Hummer Appliance Rebuilders                                                                  | Magwitch          |
| 95.03.22    | Cheque for \$3,000 payable to Magwitch with the memo “accounting”                                             | Magwitch          |
| 95.04.09    | Letter from Revenue Canada to Magwitch regarding Dickens’ s income tax returns for 1989 and 1991              | Magwitch          |
| 96.01.25    | Financial statement as of 92.07.31 for Hummer Appliance Rebuilders                                            | Magwitch          |
| 96.02.11    | Letter from Dickens including a cheque for \$1,000 payable to Magwitch on Hummer Appliance Rebuilders account | Magwitch          |
| 96.06.12    | Statement prepared by Magwitch regarding the purchase by Dickens of four properties                           | Magwitch          |
| 97.03.11    | Letter to a drug trafficking associate of Dickens regarding his                                               | Magwitch          |

<sup>47</sup> *Montreal Gazette*. “Hells bought cocaine in bulk.” July 18, 2002: p.A4; *Globe and Mail*. “Judges win new rules after failed biker trial.” August 12, 2002.

|          |                                                                                                                                                         |          |
|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
|          | 1994 income tax returns                                                                                                                                 |          |
| 97.03.19 | Letter to Magwitch from Dickens's lawyer regarding a mortgage held by C.D. Golf and Tennis Ltd. on a property owned by Great Expectations Holdings Ltd. | Magwitch |
| 97.06.02 | Revenue Canada notice of assessment regarding Dickens's wife sent to Magwitch                                                                           | Magwitch |
| 98.02.31 | Financial statement of Graduate Developments Ltd.                                                                                                       | Havisham |
| 98.04.14 | Letter from Reid to a drug trafficking associate of Dickens regarding personal income taxes                                                             | Magwitch |
| 98.06.03 | Financial statement for Great Expectations Holdings Ltd.                                                                                                | Havisham |
| 98.08.19 | Balance sheet of Great Expectations Holdings Ltd.                                                                                                       | Havisham |
| 99.01.24 | Facsimile transmitted to a registered director of Graduate Developments Ltd. from Havisham                                                              | Havisham |
| 99.03.17 | Letter from Dickens's lawyer to Havisham regarding money held in trust for Great Expectations Holdings Ltd.                                             | Havisham |
| 99.05.29 | Financial statement as of 97.04.30 for Great Expectations Holdings Ltd prepared by Havisham                                                             | Havisham |
| 99.10.08 | Letter from an employee working for Havisham regarding a mortgage owed by Great Expectations Holdings Ltd.                                              | Havisham |

The lead police investigator working on this file noted that both accountants had prepared comprehensive financial statements on companies owned by Dickens. Based on this review, the investigator concluded, "It was my belief that in order to prepare those reports, it would be necessary for each accounting firm to be provided by Dickens a thorough disclosure of his financial transactions."



A chartered accountant in Montreal, who was involved in the shipment of contraband cigarettes to Atlantic Canada, opened a bank account in that province and had a co-accused in Newfoundland make deposits for him into the account. He advised his accomplice to keep all cash deposits under \$10,000 to avoid suspicion. The accountant would then transfer the money from his Newfoundland bank account to a branch of the same bank in Montreal. Using his accounting skills, the accused kept a detailed net worth based on his criminal activities, which police were able to use as evidence when restraining his bank accounts.



On July 7, 1996, the RCMP Proceeds of Crime Section charged John Churley, Drew Lynch, and Pierre Brady with multiple counts of money laundering, possession of the proceeds of crime, and fraud. All three were eventually convicted of these charges. Also charged with proceeds of crime offences were lawyers Bruce Townsend of Turks and Caicos, Fred Stephens of Toronto, and John Carkner of Sarnia. These charges were eventually dropped due to a court ruling in Canada regarding the legality of certain police sting operations.

Churley, a paralegal, and Lynch, an accountant, laundered money for tobacco smuggling and drug trafficking clients in Canada through shell companies they incorporated in Manitoba and an tax haven country in the Caribbean. In particular, the pair laundered hundreds of thousand of dollars on behalf of Pierre Brady, a self-employed tobacco broker who generated much of his

revenue illegally by supplying Native Indians in Canada with U.S. manufactured tobacco that was smuggled north of the border. Churley and Lynch also agreed to launder approximately (US) \$250,000 in drug profits.

Through the auspices of Townsend-Whitfield & Associates, a law firm located in the Caribbean country, Townsend, Churley, and Lynch incorporated Burlington Management Services Ltd. and Burlington Trading Corporation Ltd. on behalf of alleged drug traffickers. They also incorporated Elm Creek Trading Company for James Brady. In one conversation between Lynch and Churley on February 6, 1995, Lynch mentioned that Brady brought him a deposit slip for (US)\$300,000. Lynch also stated that he had planned to use the bank transit number for the law firm of Townsend-Whitfield & Associates to move Brady's money.

During a March 12, 1995 meeting between Churley and the alleged drug traffickers in the Caribbean, Churley described in detail how to launder the proceeds of drug trafficking, punctuating his presentation with elaborate flow charts that showed how dirty money could be funnelled through numerous corporations. At the meeting, one of the alleged traffickers provided Churley with (US)\$14,000 to open eight corporations in Canada. At this time, Churley also indicated that he would have an Ontario-based lawyer (Carkner) and accountant (Lynch) assist in the laundering scheme. He informed the alleged traffickers that his two Canadian operatives were told the funds provided to them were from illegal tobacco sales.

Evidence presented in court substantiated the active and knowing participation of the accountant in the money laundering operation. Lynch was particularly involved in expediting the incorporation of shell companies and non-profit (religious) organizations, smurfing, converting cash to bank drafts, and sending funds to the Caribbean.

### **17.3 Suspicious Transaction Referrals**

While police cases indicate that some professionals have either been knowingly involved in money laundering or, at the very least, conveniently blind to the suspicious circumstances surrounding a transaction, there are also cases where professionals have alerted police to suspicious circumstances. This survey identified six cases that involved a tip from the private sector, including disclosures from banks, a currency exchange company, and an automobile dealership.

On October 12, 1993, a drug trafficker purchased a truck from a dealership in Timmins, Ontario with \$32,000 in cash. The car dealership deemed this cash sale to be suspicious and reported it to police. An investigation was conducted and the new truck owner eventually confessed that the funds were from sale of illicit drugs. The truck and approximately \$2,800 in cash was forfeited as the proceeds of crime.



A distributor of contraband cigarettes and liquor in Eastern Ontario deposited his cash profits in a local bank account. On one occasion he made arrangements with the bank to withdraw \$28,000 in cash. The bank manager contacted the RCMP and, following the cash withdrawal, the funds were seized, and the individual was arrested.



A bank branch in Calgary forwarded to the RCMP details on a transaction that they deemed suspicious. A customer, who they described as 6'2", with dark hair and complexion, heavy set, wearing dark sunglasses and an expensive watch, deposited \$20,000 in cash, consisting of 100 twenty-dollar bills, to an account that was located at another bank branch. The customer stated that he did not have any identification and that the source of cash was from his job. Staff at the bank branch requested that he complete a source of funds declaration, which he refused. Police later confirmed that the individual was part of a local cocaine trafficking organization.

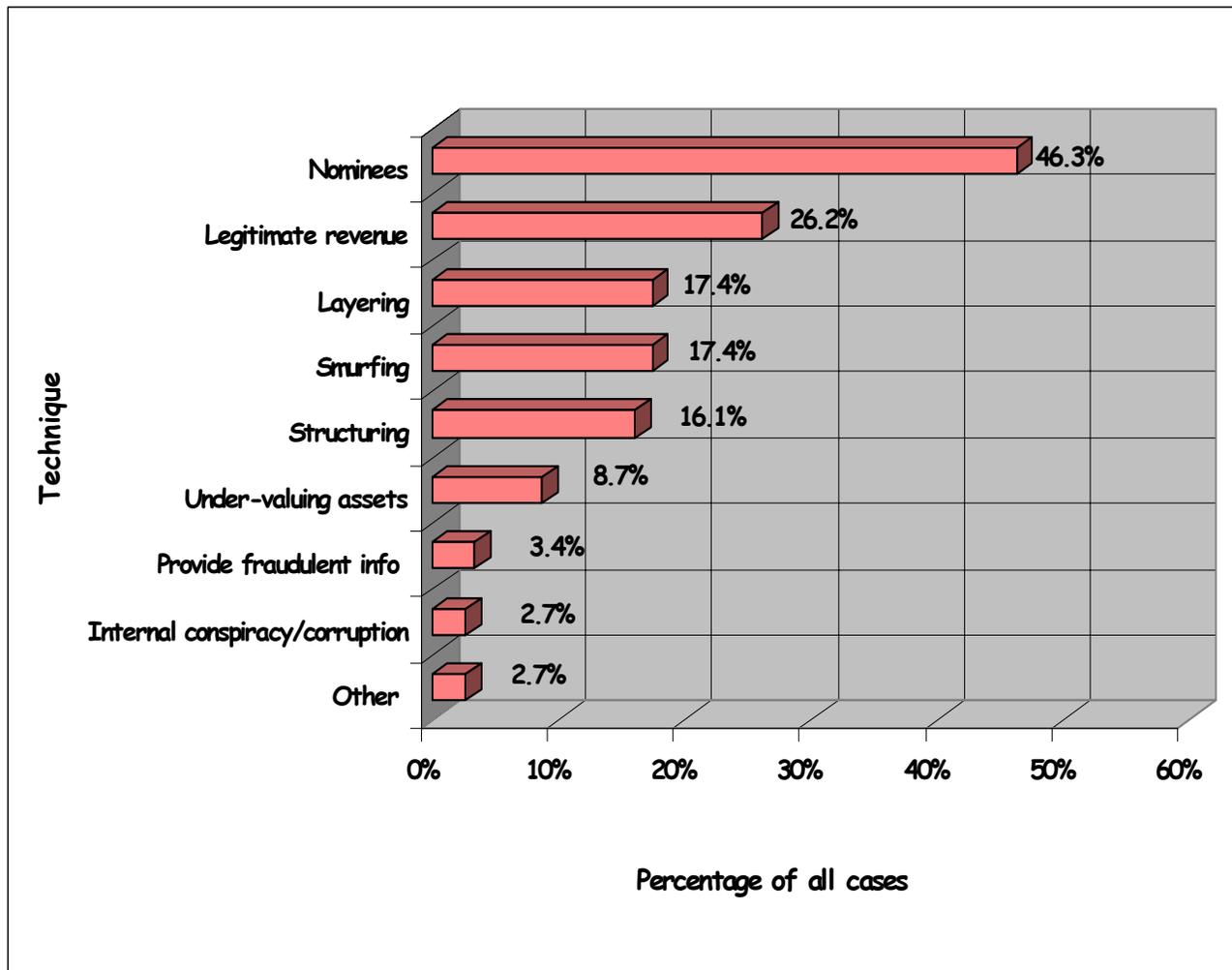


On September 3, 1998, a currency exchange company operating a retail kiosk at the Calgary Airport was asked to exchange \$3,900 in U.S. currency. The employees at the kiosk contacted the RCMP as they suspected the individual might be related to a money laundering ring that had been operating at the airport. After the currency tested positive for traces of cocaine, the individual voluntarily relinquished ownership of the funds.

## 18 TECHNIQUES USED TO FACILITATE MONEY LAUNDERING

In many of the police cases, a number of guises and techniques were used to facilitate the laundering process. Most notably, attempts were made to hide the true source and ownership of illegally-acquired cash and other assets (through the use of nominees and layering), to avoid suspicions that may stem from transacting in large amounts of cash (by using smurfs and “structuring” transactions), or to create the perception that the funds were derived from a legitimate source (by claiming the criminal proceeds as revenue from a legal business). As indicated in Figure 10, the most prevalent money laundering techniques used were nominees, claiming the criminal proceeds were generated from legitimate sources, layering, smurfing, and structuring.

Figure 10 - Techniques and guises used to facilitate money laundering



## 18.1 Nominees

The most common technique used in conjunction with money laundering was the use of nominees. Of the 149 cases, 69 (46.3%) involved some attempt by the accused to obscure a direct connection between himself and assets he owned, primarily by registering legal title to the asset in the name of another individual, usually a relative, a friend, business associate, or a lawyer. In most cases, the nominee was unconnected to the criminal activities and had no criminal record. The assets most often placed in the name of nominees were real estate, cars, companies, and banks accounts.

A street-level drug trafficker purchased a home from a husband and wife and then registered the title and the mortgage for the home in their name. The accused gave the couple \$14,000 cash for the house and then secured a \$210,000 mortgage, also registered in the name of the couple. The husband received \$2,500 cash and a car from the drug trafficker for his efforts.



A career criminal, with a record that included drug trafficking, fraud, auto theft, and telecommunications theft, deposited cash into a bank account in the name of his parents. The accused purchased a home, the title of which was registered in his parents' name. He financed the home through a mortgage, which was also registered in the name of his parents. The \$320,000 mortgage was paid off in less than 6 months.



Two employees of a Taiwan software manufacturer used their positions to steal approximately \$3 million from the company. As financial officers, both had signing authority on the company's bank accounts. They fraudulently wrote cheques to fictitious businesses, which were in the names of friends or relatives, for services that were never rendered. The principal suspect wired approximately \$800,000 from bank accounts in Taipei into the accounts of nominees in Canada (believed by police to be relatives).



A cocaine trafficker operating in Vancouver employed a number of methods to launder his drug revenues, including deposit institutions, real estate, and numerous legitimate businesses. Central to his laundering operation was the extensive use of nominees. Although it was clear that the accused had ultimate control over a number of businesses, he was not registered as the official owner of any of them. Instead, ownership was placed in the names of his wife, a niece, his mother, his father-in-law, sisters, brothers-in-law, as well as business associates. During the period of investigation, police discovered that he had signing authority for 30 different bank accounts, although few were registered in his name. The accused appears to have taken particular advantage of his mother and father-in-law, both of whom were unable to read, write, or speak English and were financially dependent on their families as both entered Canada as sponsored immigrants with no money or assets. The accused opened bank accounts in their names while maintaining power of attorney and sole signing authority. As with

his restaurants and bank accounts, he registered title to other assets he owned in the names of nominees. A 1998 Ford Truck registered to one of his businesses was “sold” to a Pakistani national in exchange for land in that country. However, police learned that the truck was driven and maintained exclusively by the accused and his wife after the so-called sale. The accused also used the fictitious sale of real property to launder the proceeds of the cocaine sales. His former residence in Vancouver was “sold” to his sister-in-law and her husband in 1996 for \$120,000. Despite this sale, police were able to prove that the accused was the beneficial owner of the home.



Police believe that the parents of a drug trafficker named Jamie Kobiawski assisted their son in laundering his revenue through the use of credit cards registered in their names. In one document filed in court, police speculated, “Since Kobiawski’s parents are financial [sic] well established, any significant expenditure would not draw attention. In addition any of the transactions [conducted on the credit cards] would not be traceable to Kobiawski.” The police investigation also found that the title to a condo Kobiawski purchased in Jamaica was originally registered in the name of James Cann, but was then transferred to Kobiawski’s company, Kobie Homes Ltd.

## **18.2 Claiming the Proceeds of Crime as Legitimate Revenue**

One of the techniques used frequently to satisfy the third objective of the laundering process – creating the perception that the criminal proceeds were derived from a legitimate source – is to claim the proceeds of crime as revenue from a legal business. Once this seemingly lawful source of revenue is established, criminal proceeds can be deposited into bank accounts under the guise of this business. In some cases, the proceeds of crime will be co-mingled with revenues generated from legal businesses and deposited into bank accounts. A sample of the 39 police cases that involved this laundering technique can be found in those sections examining real estate (Section 7) and criminally-controlled companies (Section 9).

## **18.3 Layering**

Layering involves efforts to distance the illicit proceeds from their source, while obstructing any audit trail by creating several “layers” of financial and commercial transactions and/or assets. Specifically, layering is accomplished by either conducting multiple transactions with the illicit funds or by setting up complex hierarchies of assets in order to put as much distance between the laundered assets and their original source of funding and beneficial ownership. The layering stage is often the backbone of the money laundering process. This technique was suspected of being used in 26 of the 149 cases (17.1%).

Thirteen individuals involved in a British Columbia-based inter-provincial drug trafficking network (most of whom were family members related by blood and marriage) made numerous account transfers to one another among various banks, credit unions, and currency exchange businesses. There is some indication that one of the purposes of the myriad transactions was to launder the proceeds of the cocaine sales through layering.



A husband and wife team that smuggled tobacco products into Canada deposited \$115,000 in an account at a Calgary bank. A GIC was purchased with the funds, which in turn was deposited in an account at another bank. The funds were then applied toward the purchase of a home. Six months after the home was purchased, it was sold. The cheque from their real estate lawyer was cashed at another bank for large denominations of cash as well as bank drafts. The bank drafts were then cashed at yet another bank and the large denominations of cash received were smuggled to Hong Kong.



A junior lawyer with a Toronto law firm incorporated numerous shell and legitimate companies in Canada and off-shore on behalf of Michael Henchard, Thomas Farfrae, and others involved in a large-scale cocaine importation conspiracy. Millions of dollars in drug money was then funnelled through these companies by way of cash deposits, cheques, bank drafts, and wire transfers. Summarized below is a small fraction of some of the fund transfers orchestrated by the lawyer that took place among the numerous shell companies he established.

March 12, 1995 – The lawyer incorporates Casterbridge Ltd. Ltd. in a Caribbean country. Henchard is listed as a director of this company. The company is also the registered title holder of Henchard's principal residence in Toronto.

April 6 to April 15, 1995 – During this period, four deposits are made into the law firm's bank account on behalf of Casterbridge Ltd. in the amounts of \$90,000, \$180,000, \$35,000 and \$725,000. The last deposit was in the form of a draft from a Canadian bank dated March 15, 1995, which refers to the remitter as "M. Henchard."

May 28, 1995 - Three drafts from the same Canadian bank totalling \$220,500 are deposited into the law firm's bank account on behalf of Casterbridge Ltd. Later that day, the account file for the company is debited \$162,713. Two of the three debits are transfers totalling \$160,000 to the law firm's trust account file for Casterbridge Ltd., in the name of Thomas Farfrae.

July 3, 1995 – Two cheques, collectively valued at \$120,000, are deposited to the law firm's bank account in trust for Casterbridge Ltd.

July 14, 1995 – The law firm's trust account file for Casterbridge Ltd. is debited \$68,000. Two cheques from the law firm are made payable to Thomas Farfrae for \$52,000 and a company he controls for \$17,000.

August 14, 1995 – A trust account file is opened for Weydon Fairfield Inc., for which the lawyer is the sole director. The first deposit of \$20 is made in the bank account of the company. This is followed by another deposit of \$20,000, which is comprised of a cheque issued from the law firm's bank account for Mayor Investments Ltd., which was also incorporate by the lawyer in the Caribbean country.

November 25, 1995 – The lawyer incorporates three more companies in the Caribbean country (Kings Arms Holdings, Three Mariners Shipping, and Hardy Investments).

December 16, 1995 – The trust account file of Hardy Investments is debited \$25,250 by way of a cheque drawn against the law firm's bank account and payable to Farfrae's company.

December 17, 1995 – The trust account file of Hardy Investments is debited \$268,000 through a transfer that credits the law firm's trust account file for Weydon Fairfield Inc.

February 25, 1996 – The lawyer deposits four bank drafts for \$35,000 into the law firm's trust account on behalf of Weydon Fairfield Inc. Later that day, he deposits two cheques and one bank draft totalling \$173,000 in the name of this company. Finally, he transfers \$24,750.84 from his personal line of credit to the same trust account file. He then debits this account for \$305,000 in the form of a corporate cheque made payable to law firm.

March 1, 1996 – The law firm's trust account is credited with a deposit of \$120,000 on behalf of Weydon Fairfield Inc. by means of a certified cheque issued from a Caribbean bank account of Casterbridge Ltd. Later that day, a corporate cheque issued from the law firm's bank account is drawn against the trust account for Casterbridge Ltd. for the same amount and is made payable to Farfrae's company.

April 10, 1996 – The lawyer deposits \$286,850.10 into the law firm's bank account on behalf of Weydon Fairfield Inc. by means of nine bank drafts and cheques. The lawyer then issues a cheque made payable to law firm in-trust for \$320,000. The cheque is deposited into the trust account on behalf of Kings Arms Holdings. Also on this day, \$125,000 is transferred from funds held in trust for Hardy Investments to the account file of Kings Arms Holdings.

May 7, 1996 – The lawyer deposits \$262,349.80 into the law firm's bank account on behalf of Weydon Fairfield Inc. through 27 bank drafts. He then purchases a bank draft in the amount of \$175,000 by debiting the trust account file of Hardy Investments. The draft is payable to himself and bears a notation typed on the front of the draft that reads: "partial withdrawal." Through eight separate transactions, the lawyer deposits \$98,600 in cash into the law firm's bank account on behalf of Weydon Fairfield Inc. and then issues a cheque for \$422,000 payable to law firm in trust drawn from the same account, debiting the account of Weydon Fairfield Inc..

## 18.4 Smurfs

In 26 of the 149 cases (17.4%), the money laundering technique known as smurfing was used. A “smurf” is used by a criminal enterprise to attend numerous banks or other financial service providers and perform, at each, transactions with a relatively small amount of cash. Used primarily during the placement stage of the laundering process to circumvent mandatory reporting requirements and avoid suspicion associated with large amounts of cash, each smurf is instructed to deposit less than \$10,000 at a time. Larger criminal organizations may utilize a number of smurfs as part of elaborate money laundering effort. The objective of this laundering technique is to avoid transactions involving large amounts of cash by spreading the funds among a sizeable number of individuals, financial institutions, and accounts. In the context of money laundering, the term ‘smurf’ was derived from the blue cartoon characters, all of whom are innocuous in appearance (a characteristic of nominees that is highly valued by Fagin-like money launderers).

Two brothers used friends and relatives to conduct a number of transactions at banks and currency exchange companies with cash generated from cocaine trafficking. On one occasion, a smurf was asked to send two wire transfers from two different banks in Winnipeg to Miami for \$18,000 and \$20,000 respectively. Both were sent to a cocaine supplier and both transactions were initiated with cash. Cash was also physically smuggled out of Canada, and these trips were often preceded by a visit to a bank or a currency exchange business by smurfs to buy large denominations of American currency. Farmland was purchased through a mortgage, which was drawn from an account into which the cash proceeds of crime were deposited. Several bank drafts, obtained with cash by smurfs working for the brothers, were provided to a lawyer for the down payment on the farmland.



In 1995, the London RCMP Proceeds of Crime Section charged John Schtrumpf and Andrew Lynch with multiple counts of money laundering, possession of the proceeds of crime, and fraud. Over the course of one three-week period, Lynch discussed with Schtrumpf various ways he would launder cash derived from illegal drug and contraband tobacco. In one conversation with Schtrumpf, Lynch mentions that he is going out to “Smurfland.” The next day, Lynch answers a phone call from Schtrumpf singing “A smurfing we will go.”

Other examples of cases involving smurfs can be found in Section 6 (deposit institutions).

## 18.5 Structuring

In 24 of the 149 cases (16.1%), structuring was used to facilitate the laundering process. Structuring refers to a process whereby large cash deposits and other transactions are broken down into smaller amounts to avoid suspicion associated with large amounts of cash. Structuring is most commonly practiced at banks and similar financial service providers and is an integral part of smurfing. The

need for structuring as part of the money laundering process will be heightened in Canada as new legislation requires the financial services sector to record and report most cash transactions over \$10,000.

As part of a money laundering operation for a Columbian drug trafficking organization, the proceeds of cocaine sales were wire transferred out of Canada to the United States through fund transfer companies. The wire transfers would be structured so that each would be under (US)\$10,000 to avoid American reporting requirements.



A marijuana trafficker purchased bank drafts with cash and then used the drafts to help finance 60 acres of farmland. At a sentencing hearing, the accused admitted that he purchased the rural property – which housed a large marijuana grow operation – with the proceeds from drug offences. A police search of the law office that represented the buyer discovered a series of receipts, all dated the same day for funds received by the law firm for the property purchased by the accused. A bank deposit slip found in the law office for the same date indicates that three bank drafts, from three different banks, and all in amounts below \$5,000, were deposited in the firm’s account on that date. In an affidavit to restrain the property, the police officer investigating this case stated, “the purchase of the bank drafts from different banks in different locations for late consolidation is consistent with a technique of money laundering. The technique is for an individual with a significant quantity of cash to convert varying smaller amounts of cash at various financial institutions into bank drafts or money orders or other negotiable instruments in order to avoid attention by transacting business with large quantities of cash. This technique is also used to circumvent the *Proceeds of Crime (Money Laundering) Act*, which requires banks to obtain a declaration as to source of funds where cash transactions exceed \$10,000... Once the money has been converted to cheque form, the negotiable instruments can be consolidated into a single account without attracting attention or questions.”



In 1999, a former Canada Customs official was charged with a number of offences related to theft, breach of trust of a public official, and possession of proceeds of crime, which stemmed from the theft of \$1.6 million in U.S. cash that was seized by Canada Customs. Sometime after the seizure, he absconded with the cash, keeping it for himself. At the end of January 1999, an RCMP investigation learned that the Customs official had been depositing large amounts of U.S. currency into seven bank accounts. All were even numbered deposits, consisting of U.S. one hundred dollar bills. The investigation also learned that in October 1997, his wife began to deposit new U.S. one hundred dollar bills into banks accounts. The frequency of the deposits by the couple and other accomplices increased gradually; in the end, 44 bank and credit union accounts were opened, into which \$680,000 in American currency was deposited. The amount of the deposits ranged from \$1,600 to \$2,700. According to a RCMP report, the Customs official knew from his proceeds of crime training that any deposit over \$10,000 may trigger a currency transaction report. As such, he and his accomplices deliberately opened numerous accounts and deposited only small amounts of the stolen cash.



Between January and August 1994, more than 130 transactions were conducted through a trust account of a law firm that represented a drug trafficker in the purchase of a \$650,000 home in Toronto. The accused was convicted of drug trafficking and police were also able to prove that the funds used to purchase the property were derived from his illegal activities. During a two-week period preceding his purchase of the real estate, the accused provided the law firm with numerous bank drafts obtained from a number of different financial institutions. The vast majority of these bank drafts were between \$3,000 and \$5,000 in value. The highest amount was \$9,000. Between March 17 and March 25, 1994, 76 bank drafts were deposited on behalf of the accused in the law firm's trust account. On March 17 alone, 18 different bank drafts were deposited into the account. The bank drafts were purchased from eight different deposit institutions.

## 18.6 Undervaluing Assets

In some money laundering schemes identified in this study, an accused purchased an asset for a price below the actual value, with the vendor accepting the difference under the table (usually in cash). This laundering technique is most often used in relation to real property and motor vehicles but can also be applied to other big ticket items. By using this technique, the launderer can claim that he purchased an asset for a price that falls within his legitimate financial means. This transaction also allows the criminal entrepreneur to dispose of cash, which is provided secretly to the vendor. Undervaluing assets (also referred to as under-invoicing) was suspected of being used in nine of the 149 cases (6%).

A local distributor of drugs and contraband cigarettes purchased a home for himself and his wife. Rental properties and vacant land for future development were also purchased. The accused would buy the real estate for less than its fair market value and then pay the difference under-the-table. The same technique was used for the purchase of motor vehicles. One car dealership even provided two different receipts to accommodate this process.

Other examples of cases involving the undervaluing of property can be found in those sections examining real estate (Section 7) and automobiles (Section 12).

## 18.7 Providing Fraudulent Information

In some cases, an offender used an alias, provided false identification, or recorded bogus information on transaction reporting forms, in their dealings with financial institutions. Of the 149 cases examined, five involved the use of fraudulent information to facilitate the money laundering process.

A Quebec lawyer received approximately \$3 million in American currency from a Montreal businessman, which he deposited into the bank account of his law practice. The lawyer then had the bank transfer the funds to accounts in Switzerland, the United States, and Panama. A police investigation into the lawyer established that these funds were transferred to a reputed Colombian drug trafficker linked to the Cali Cartel. In Switzerland, another lawyer, who was used as part of the laundering process, transferred on one occasion (US)\$1,760,000 to the drug trafficker in Panama on the same day he received it from the Canadian lawyer. When depositing the funds in Canada, the Canadian lawyer completed the large transaction reports as required by the bank, fraudulently indicating that that the funds came from the sale of real estate. In their attempts to gather further information about the suspicious transactions, bank officials contacted the lawyer about the funds. The lawyer refused to provide any further information, claiming solicitor-client confidentiality. The bank subsequently informed the lawyer that it could no longer accept his business.

## 18.8 Internal Conspiracies and Corruption

One of the most effective techniques to satisfy the laundering process is to engage the cooperation of corrupt professionals, or for a criminal enterprise to place operatives within financial institutions. By doing so, the offender can bypass scrutiny, falsify documents, and avoid mandatory transaction reporting requirements. Internal conspiracies and corruption were identified in four cases.

A cocaine trafficker and his wife secured a mortgage from a trust company, assisted by an employee who police later discovered was the girlfriend of an associate in the cocaine trafficking organization.



Marty Burns was a multi-kilo importer of cocaine who conspired with a number of professionals, including mortgage brokers, bank staff, and insurance agents to help launder the proceeds of his drug trafficking. A mortgage broker named Waylon Smith was particularly active in facilitating the laundering process and it became clear to police that he was well aware of the source of the funds and the purposes of the many transactions he helped Burns undertake. Smith obtained the services of Lenny Haley, who recruited an accomplice named Karl White. Burns used White's position at a local bank to make two separate \$25,000 cash deposits into an account of a shell company. Police learned that Smith also paid bank employees to accept large cash deposits on behalf of Marty Burns without filing currency transaction reports. The funds were then moved through another bank with the help of two employees, Otto Burns (Marty's brother) and Edna Kerple (Otto Burns's girlfriend).

The proceeds of crime were also used to purchase short-term investments with a major life insurance company. The maturing funds were then applied to help finance Marty Burns's new residence. Burns also assisted in the purchase a new residence for a drug trafficking associate, with his brother Otto posing as the nominee owner for both homes. Another younger brother of Marty Burns was also the registered owner of a home, which in reality was purchased by Marty. In his capacity of mortgage broker, Waylon Smith secured mortgages for all three properties from the life insurance company. These mortgages were obtained despite the fact that the younger brother, in the words of Marty, had "never worked a day in his life." Marty Burns was even heard to say that his own legitimate income position was so poor that his bank refused a \$3,000 loan because, as Marty explained, he was "garbage." In one conversation, Smith pressured Marty to quickly expedite the mortgage through the life insurance so he could get his commission and because "we have to clean this money, right?"

Police also found that Kearney Smith, the brother of Waylon and an agent with the life insurance company, was implicated in the laundering scheme primarily by manipulating the purchase of a GIC from his company for the benefit of Marty Burns. In one telephone conversation, Kearney Smith explains to Burns that he would "siphon" the GIC investment through another of the insurance company's office, telling them that the client "deals in a lot of cash deals kind of thing and it's all legit, but [he] doesn't want to be having any problems with declarations." Smith expressed concern that a woman in his office (whom Marty referred to as "eyebrows") was suspicious of the transaction. Kearney wanted to know if the cash provided by Marty would be in small or large bills. Marty replied that there would be "all kinds." Kearney replied to this by saying, "holy fuck, can't you make (them) small and get them into big?" Marty then tells Kearney that he will have Waylon Smith purchase a bank draft with the funds through connections she has at a bank. Waylon would then give Marty the draft, who would then pass it along to Kearney.



The Caruana-Cuntrera organization relied heavily on professionals such as lawyers, bankers, financial advisors, and accountants, to facilitate their money laundering. Police strongly suspected that some of the professionals providing services to the group were well aware of the source of the funds and undertook transactions that were meant to exorcise the funds of their criminal past. In one instance, Guisepppe Cuntrera Jr. repeatedly called the employees of one bank to have them put \$1,000 bills aside for him.<sup>48</sup> Members of the Caruana-Cuntrera organization enjoyed a particularly close relationship with local banks in Montreal and preferred to establish their contacts with bank employees of Italian/Sicilian descent. The most accommodating professional known to police was Aldo Tucci, the manager of the City and District Savings Bank in Montreal, where much of the earliest laundering activity was detected. The RCMP estimated that between 1978 and 1981, this branch manager helped launder approximately (US)\$15 million. By the end of 1981, senior management at the City & District Savings Bank refused to service members of the Caruana-Cuntrera group, ordered all their

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<sup>48</sup> Police later discovered, hidden in the homes and businesses of members of the Caruana-Cuntrera organization, suitcases containing hundreds of thousands of dollars in thousand-dollar bills. One drug supplier, turned police informant, was Oreste Pagano, who told police that he had complained to Alfonso Caruana that the twenty- and fifty-dollar bills being used to make multi-kilo cocaine purchases in South America were too cumbersome and instructed him to start sending larger bills. According to Pagano, Caruana had no trouble providing larger denominations for subsequent purchases.

accounts closed, and had Tucci transferred to another branch. By mid-1984, Tucci was asked to resign because, although he was paid as a bank manager, he spent most of the day managing newly-opened companies for members of the Caruana-Cuntrera clan. Police later discovered he was registered as president for some of these companies and a Revenue Canada audit of Tucci for the years 1981 to 1985 showed that he had undeclared revenues of \$320,000. At a National Bank branch located on St. Michel Blvd. in Montreal, an original member of the Caruana-Cuntrera group, Giuseppe Cuffaro, had co-opted the Italian bank manager as early as 1979, although the principal laundering occurred between November 1981 and October 1982, where approximately (US)\$14 million in cash was converted. Assisting Cuffaro was Pasquale Caruana, who on many occasions helped Cuffaro physically transport heavy bags and suitcases full of U.S. cash. By 1982, Cuffaro was depositing such large amounts of cash so frequently that he was asked to bring the cash already counted and in bundles of \$5,000 to accelerate the deposits. He willingly complied.<sup>49</sup>

## 18.9 Loan-back

The loan-back technique involves issuing fictitious loans between a criminal entrepreneur and an accomplice (usually a family member, friend, or business associate). In particular, a money launderer will claim the proceeds of crime as a loan from an individual, who is paid a fee for this service. In some cases, criminal funds were given to the accomplice, who was instructed to deposit the cash and then provide a monetary instrument to the accused in return. The loan-back technique is effective in creating the guise of a legitimate source of funds for the accused, especially since it is often difficult to prove the source of funds provided by the alleged lender.

In December, 1998, Gerald Noble, a tobacco smuggler operating in Ontario and Atlantic Canada, purchased a residence in Halifax for \$245,000 with a \$85,000 mortgage. A bank draft for \$160,000 was provided by Noble to his lawyer to cover the balance of the purchase price, taxes, and legal fees. While police established that half of this money came from his smuggling business, Noble claimed the other half was comprised of loans from friends. However, police speculated that one of the laundering methods used by Noble was to give cash to friends and associates, who would then return the funds – as cheques or bank drafts – disguised as loans. The bogus lenders would be provided an honorarium for their services and the monetary instruments would be deposited into the personal or commercial bank accounts of Noble. In addition to facilitating the purchase of their home, a real estate agent was also one of the people who “loaned” money to Noble for the purchase of the house. During a search of his home, police discovered numerous copies of bank drafts and other monetary instruments indicating that over the course of two weeks (September 29 to October 14, 1998), Noble received \$75,000 in bank drafts and cheques from friends and associates. Included among the documents police seized were the following:

<sup>49</sup> Antonio Nicaso and Lee Lamothe. 2000. *Bloodlines: The Rise and Fall of Mafia's Royal Family*. Toronto: Harper Collins.

- A copy of a certified cheque voucher, dated September 29, 1998, for \$13,000 payable to Noble's wife from the account of a friend named Randy Demers. Police were able to seize a source of funds declaration for the \$13,000 from the issuing bank. On the declaration the friend indicated, "Personal [illegible] of funds received from friends to lend [illegible] to another friend in the form of a loan."
- A copy of a personal cheque, drawn on the account of another friend, Stuart Van Helm in the amount of \$65,000, dated October 1, 1998 payable to the Noble's wife.
- A copy of a cheque from Van Helm, drawn on an account at a different bank, in the amount of \$5,000, dated October 1, 1998, payable to Noble's wife. A hand written notation on the back of the cheque indicated that the funds were used as a partial mortgage for the purchase of their home.
- A copy of a cheque, drawn on a credit union account of Van Helm, for \$10,000, dated October 1, 1998, payable to the wife of Noble. A hand written notation on the back of the draft indicated that the funds were a mortgage for the purchase of their home.
- A copy of a bank draft purchased by R. Demers, dated the October 14, 1998, in the amount of \$30,000 payable to Noble and his wife. A hand-written notation on the back of the draft indicated that the funds were used as a partial mortgage for the purchase of a home for Noble and his wife.

## **19 CONCLUSION**

In their quest to legitimize revenue from unlawful activities, criminal entrepreneurs take advantage of a wide range of sectors, services, transactions, and professionals in the legitimate economy. Despite its underworld connotations, the money laundering process itself is not an economic aberration; it thrives on the very same commercial and financial transactions that are conducted by most Canadian citizens and companies. Indeed, a fundamental tenet of money laundering is to ensure that the transactions used to cleanse the criminal proceeds appear as legitimate as possible.

While this report has demarcated its analysis of money laundering into different economic sectors, the research shows that, in many cases, a number of different sectors will be used in the context of a single money laundering operation. This is especially true of the larger, more sophisticated schemes. When used for money laundering purposes, the different economic sectors used are not mutually exclusive but critically interconnected; one sector of the economy (such as deposit institutions) will often be used as a first step in accessing others (such as real estate). Indeed, deposit institutions continue to be the most frequently used medium through which the proceeds of crime are laundered. They also constitute the common thread running through the myriad of money laundering schemes used by criminal enterprises. This sector is especially significant because it represents the single largest portal into the legitimate economy for cash generated in the underground economy.

A number of techniques – some rudimentary, some more inventive – are also used to facilitate the money laundering process. Nominees, smurfs, structuring, and claiming criminal proceeds as legitimate revenue are commonly employed to conceal criminal ownership and avoid suspicion associated with large amounts of cash. Given the new mandatory transaction reporting regime in Canada, it is inevitable that these money laundering techniques will increase in the future in order to circumvent the filing of large cash and suspicious transaction reports by the private sector. One should also anticipate an increase in efforts by criminal organizations to corrupt industry professionals in order to by-pass or manipulate the transaction reporting requirements.

Despite its reach into the country's numerous economic sectors, there is little evidence that money laundering, in and of itself, has any substantial negative repercussions for the Canadian economy. In fact, the most significant costs incurred by the private sector may actually stem from the mandatory cash and suspicious transaction reporting laws. It could even be argued that money laundering has some benefits for society in that funds are expended in the legal economy, where it can contribute to producing legitimate and taxable wealth. This controversial hypothesis, however, will be saved for future research.

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