# Proceeding at Hearing of December 9, 2020

**Commissioner Austin F. Cullen**

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December 9, 2020
(Via Videoconference)
(PROCEEDINGS COMMENCED AT 9:30 A.M.)

THE REGISTRAR: Good morning. The hearing is now resumed. Mr. Commissioner.

THE COMMISSIONER: Thank you, Madam Registrar. Yes, Mr. Davis, do you have conduct of this witness?

MR. DAVIS: I do, Mr. Commissioner. But before the next witness, commission counsel seek to tender two overview reports to have them marked as exhibits in these proceedings.

THE COMMISSIONER: Very well.

MR. DAVIS: The two overview reports relate to trade money laundering, which is the sector you'll be hearing evidence on over the next three days, and both reports have been circulated to participants for their feedback.

THE COMMISSIONER: Very well.

MR. DAVIS: Madam Registrar, if you could please pull up the first report titled "Overview Report CMAA With Appendices Final-November 23rd, 2020" from the list of documents, please.

Mr. Commissioner, this is the first of two overview reports that sets out information related to Canada's customs mutual assistance
agreements and also attaches a memorandum of understanding on exports between Canada and the United States. And I'd ask that this please be marked as exhibit number 338.

THE COMMISSIONER: Very well. 338.

THE REGISTRAR: Exhibit 338.

EXHIBIT 338: Overview Report: Canada's Customs Mutual Assistance Agreement

MR. DAVIS: Madam Registrar, if you could next pull up the report titled "Overview TBML With the Appendices Final-November 23, 2020." Thank you.

Mr. Commissioner, this is the second of two overview reports that attaches a number of works published by the FATF, FATF-style regional bodies and a number of records produced by Canada. I'd ask that this be marked as the next exhibit, please, number 339.

THE COMMISSIONER: Very well, 339.

THE REGISTRAR: Exhibit 339.

EXHIBIT 339: Overview Report: Trade-Based Money Laundering Publications and Records

MR. DAVIS: Madam Registrar, I won't need that document displayed any longer. Thank you.

And, Mr. Commissioner, the next witness will be John Cassara.
Madam Registrar, Mr. Cassara will swear.

JOHN CASSARA, a witness called for the commission, sworn.

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


THE REGISTRAR: Thank you.

EXAMINATION BY MR. DAVIS:

Q Mr. Cassara, can you hear and see me okay?
A I can.

Q I'm going to start off by asking you some questions about your background and experience.

MR. DAVIS: Madam Registrar, if I could ask that you please pull up the document titled "001 J. Cassara Biography" from the list of documents, please.

Q Mr. Cassara, do you see this document before you?
A I do.

Q And you recognize it as a 2020 biography that you provided to the commission?
A Yes, I do recognize it.

MR. DAVIS: Mr. Commissioner, if I could ask that
this please be marked as exhibit 340.


THE REGISTRAR: Exhibit 340.

EXHIBIT 340: Biography of J. Cassara

MR. DAVIS: Madam Registrar, I don't need that displayed for the time being. Thank you.

Q Mr. Cassara, you worked in the federal government intelligence and law enforcement communities for 26 years until your retirement in 2005; is that correct?

A That is correct.

Q And what were your areas of expertise and focus during your law enforcement career?

A During my law enforcement career my areas of expertise were primarily money laundering and then after 9/11 [indiscernible] finance.

Q Sorry, you cut out a little bit there on my end. And after 9/11 ...

A Terror finance.

Q And your last position was as a special agent detailee to the Department of Treasuries office of terrorism finance and financial intelligence; is that right?

A That's correct.

Q And how long did you hold that role for?
A  It was the last tour I had before I retired. It was about a year.

Q  And what were are your responsibilities and duties in that role?

A  During that role my primary responsibilities were to help make policies for US Department Of Treasury with matters dealing with terror finance and to also coordinate issues with other departments and US agencies in the federal government.

Q  And you worked with FinCEN. And sorry FinCEN is the financial intelligence unit in the United States; is that right?

A  That's correct, the Financial Crimes Enforcement Network is the US financial intelligence unit, and yes, I did work with them from about 1996 to about 2004.

Q  And what were your responsibilities when you worked at FinCEN?

A  During the first number of years until about 2000 -- 1996 to 2000 I was the US Customs liaison officer to FinCEN, our financial intelligence unit and at that time I represented US Customs. I coordinated cases. I tried to obtain financial intelligence analytical
John Cassara (for the commission)
Exam by Mr. Davis

reports. I represented the United States and
FinCEN and customs at many overseas meetings,
coordinated investigations. And then after
2001, the period surrounding 9/11 my primary
focus again was threat finance.

Q And in the middle of that time at FinCEN from
2002 till about 2004 you were detailed to the US
Department of States Bureau of International
Narcotics and Law Enforcement Affairs; is that
correct?

A That is correct.

Q And what were your responsibilities in that
role?

A States INL -- International Narcotics and Law
Enforcement Affairs, their primary mission is to
provide training and technical assistance
resources to countries around the world to
combat money laundering and related matters, so
I helped in that regard. But my primary
responsibility was once again threat finance.
After 9/11 there was a need around the world for
terror finance training and technical
assistance. That's what I coordinated. I ran a
$10 million budget and helped put programs
together for countries around the world.
Q And prior to that you held a role with
US Customs; is that correct?
A Yes, I was a special agent with the United
States Customs Service.
Q And during that time you served for two years as
an undercover arms dealer; is that right?
A Yes, I did. It was basically my first
assignment with the US Customs service because I
came from the intelligence community. There was
a new undercover investigation going on focused
in Washington, DC. We ran it for about
two years and it was very, very successful.
I'll make a very, very long story short.
The South African government and arms corp was
trying to procure sophisticated technology to
put on a weapons system. We ran the operation
for two years. Everybody pled guilty and it was
the first successful anti-apartheid prosecution
for these weapons systems by the US government.
Q And it was so successful in fact that for your
efforts you received the US Attorney of the
District of Columbia Law Enforcement Officer of
the Year Award; is that right?
A Yes, I did. There were some other agents who
had -- in another capacities also won awards,
but yes, I did win that award.

And from 1990 to about 1996 you were assigned to
the Office of the Customs Attaché in Rome, Italy; is that correct?

That's correct.

And what can you tell the Commissioner about
that assignment?

I was selected to head up the world's first
truly anti-money laundering task force between
the US Customs Service and the Italian Gardia di
Finanza, or fiscal police. Our task was to look
at the flow of dirty money going back and forth
between Italy and the United States as relates
to organized crime, the mafia, and it was a very
early use of using financial intelligence for
targeting.

We were also a regional office in Rome. We
covered 53 countries, so I was on the road quite
a bit to Africa, the Middle East, other areas in
Europe conducting a wide variety of
customs-related investigations.

And you've been designated a law enforcement
expert for the FATF for Moneyval and for the US
government for international anti-money
laundering mutual evaluations; is that right?
A  That is correct.

Q  And, Mr. Cassara, what work have you been engaged in, if any, since your retirement from government in 2005?

A  It doesn't feel like I ever really retired. I've done a lot of consulting for a lot of the same government agencies and departments I used to work for. I've really discovered I enjoy teaching, mentoring, training. I've done a lot of writing. I've written five books and a lot of articles. I've consulted for business. And it's been fun. I mean, for the first time in my life I can do what I want to do. It's been a lot of fun.

Q  And you spoke about the books you've authored. One of those was in November 2015 that was titled *Trade-Based Money Laundering: The Next Frontier in International Law Enforcement*; is that right?

A  I have a copy right here. Yes, I do.

Q  And, Mr. Cassara, more recently in 2020 you published *Money Laundering and Illicit Financial Flows: Following the Money and Value Trails*; is that right?

A  That is correct.
Q Thank you. And, Mr. Cassara, can you explain to the Commissioner over all of this experience what sorts of money laundering cases you worked on during your law enforcement career.

A General customs fraud cases, certainly trade-based money laundering cases. I've worked a number of what we call pickup operations, primarily coordinating a lot of those when I was overseas, picking up drug cash and following the money trails. Underground financial investigations. Lot of cases working money laundering against mafia. Just a wide variety of cases.

Q And did you conduct any investigations into money laundering with a connection to Canada or in conjunction with Canadian authorities and/or law enforcement?

A Not specific money laundering cases. Over the years I worked with Canadian liaison on a number of issues, but I don't recall working specific money laundering, trade-based money laundering cases with Canada.

Q And, Mr. Cassara, you hold a Masters Degree in International Management from the American Graduate School of International Management; is
MR. DAVIS: Madam Registrar, if I could ask that you please pull up the document entitled "002 J. Cassara Final Statement to the Cullen Commission" from the list of documents, please.

Q Mr. Cassara, do you see that document in front of you there?

A I do.

Q And you recognize it as the report you prepared for the commission?

A I do recognize it as such.

MR. DAVIS: Mr. Commissioner, I'd ask that this please be marked as the next exhibit, number 341.

THE COMMISSIONER: Very well. 341.

THE REGISTRAR: Exhibit 341.

EXHIBIT 341: J. Cassara Final Statement to the Cullen Commission

MR. DAVIS: Madam Registrar, I don't need that displayed for time being. Thank you.

Q Mr. Cassara, could you describe the general scope of this report to the Commissioner.

A I responded to the questions submitted to me by the Cullen Commission representatives. Very,
very broadly I start off talking about, per
t heir request, my experience as an expert on the
FATF mutual evaluation team that evaluated
Canada. I talked about the US experience
combating international money laundering. I
next focused on trade-based money laundering and
countermeasures.

Q And for reference, those questions you've
provided them at pages 1 and 2 of the report; is
that right?

A That's correct.

Q And what can you tell the commission,
Mr. Cassara, about your methodology and sources
for writing this report?

A Some of the material I was able to borrow from
previous writings, particularly my last two
books. Other is original research. Everything
that I used was in the public domain. I
obviously no longer have access to classified
information or tactical law enforcement
information, so everything that I got is
referenced and is available in the public
domain.

Q And for the record, Mr. Cassara, in preparing
this report you didn't research in any
1 particular detail the laws of Canada that deal
2 with money laundering?
3 A No, I did not.
4 Q And you didn't do any in-depth research of any
5 particular cases of potential money laundering
6 in Canada; is that also fair?
7 A That is fair.
8 Q Mr. Cassara, my first area of questioning on the
9 report relates to your work with the Financial
10 Action Task Force, the FATF. Mr. Cassara, you
11 were the law enforcement expert during the
12 FATF's second mutual evaluation of Canada; is
13 that right?
14 A Yes, I was.
15 Q And what is the role of a law enforcement expert
16 in the FATF mutual evaluation process?
17 A Well, the FATF mutual evaluation process is
18 conducted by a team. It's normally comprised of
19 a small number of experts in the legal,
20 financial and law enforcement fields of the FATF
21 member governments other than that of the
22 country being evaluated. The law enforcement
23 expert focuses on issues regarding how that
24 particular country being evaluated adheres to
25 the FATF 40 recommendations that primarily deal
with law enforcement issues. We talk about cases, about your statistics, what challenges you face, the overall effectiveness of the anti-money laundering response. These types of things.

Q And what can you tell the Commissioner about your experience in the second mutual evaluation of Canada?
A Overall it was very positive. It was the first mutual evaluation that I participated in. The Canadians were extremely hospitable, very professional, and I think we put forward a good report.

Q And did you conduct any sort of interviews in that role?
A Yes, I did.

Q And what can you tell the Commissioner about the interviews you conducted?
A Basically I was involved in the fact-finding process, including interviews of Canadian government officials at the policy and operational levels, regulators and supervisors of financial institutions and designated non-financial businesses and professions, the Royal Canadian Mounted Police, prosecutor
And you write at page 4 of your report, you say:

"I primarily asked law enforcement related questions related primarily to capacity, resources, cooperation, and effectiveness."

Is that right?

That is correct.

And what sorts of questions would you ask, Mr. Cassara, today to evaluate the effectiveness of anti-money laundering enforcement measures of a particular country?

Today I think I would go back and ask many of the same questions. One of my biggest focuses would be -- since we've had, you know, almost 30 years of doing this type of work since the FATF 40 was put together, I would ask the effectiveness of those measures as measured by case statistics, how many successful investigations, prosecutions, convictions for money laundering, talk about seizures and forfeitures. That type of thing.

And also at page 4 you identify some of the primary concerns that existed in Canada with
respect to anti-money laundering at the time of
the second mutual evaluation report. Do you
recall what some of those concerns were from an
enforcement perspective?

A    Very, very vaguely. Again, I'd like to remind
everybody that this took place well over
20 years ago. I don't remember the details of
the discussions, but I remember at the time one
of the primary concerns was about new Canadian
anti-money laundering legal and regulatory
tools. For example, Canada was in the process
of creating the Canadian financial intelligence
unit, FINTRAC. There was discussion about the
role and duties of FINTRAC and the collection,
warehousing, analysis and dissemination of
financial intelligence, the feed for enhanced
legislation. Privacy concerns were definitely a
big issue in the sharing of financial
intelligence.

Q    Did you have any particular takeaways
considering all of that regarding the
capabilities of Canada's enforcement regime to
combat money laundering?

A    My recollection at the time and everything that
has been buttressed over the years particularly
dealing with the Canadian law enforcement, the
RCMP, a very, very professional, very competent
organization.

Q And you write at page 4 -- I think this is in
the second paragraph about halfway down, and
I'll read it here. It says:

"I remember that many of the officials
that we spoke to (outside of the RCMP)
sugarcoated Canadian law enforcement
issues. When I spoke to various
individuals and institutions, they
communicated that Canada did not have
problems with major law enforcement issues
including narcotics, organized crime,
money laundering, tobacco smuggling, etc.
I knew that was not the case."

Do you see that quote there on page 4?

A I do.

Q And what officials are you referring to that you
spoke with outside of the RCMP?

A We had a number of discussions with a number of
officials that I talked about in the regulatory
community, the banking community, various
offices and departments within the Canadian
government. Once again, these conversations
happened many, many years ago, but it just
seemed to me that -- and I'm hesitant to use
this word, but it just seemed to me they were
very naïve. They kept thinking -- saying that,
you know, Canada doesn't have these problem.
And even though I didn't represent the United
States, I represented the FATF, they kept
saying, we don't have the same problems you have
in the United States. And I kept thinking to
myself, well, we have very, very similar
problems. But that was my takeaway. It was
kind of sugar coated.

Q And that was actually my next question is why
did you believe that Canada did have enforcement
issues?

A Well, because they have many of the same, say,
demographics as the United States does. The
United States -- again talking at the time, a
lot of issues with organized crime groups, a lot
of issues with gangs, a lot of issues with
narcotics trafficking, many of the things that
we'll be talking about, you know, today, and it
just -- they seemed for some reason to think
that all of that just stopped at the border,
that this didn't happen in Canada. Although I
was not an expert on Canadian criminal activity -- I still am not -- it just seemed to me, as I said, that was a bit naïve.

Q And you write at page 4, down at the bottom of that paragraph, it says:

"My sense was that there were many enforcement related issues that were not being adequately addressed. The RCMP seemed to agree with me."

Do you see that?

A Yes, I do.

Q And why did you have -- sorry, I've actually just asked you that. I'll ask you what did the RCMP say or do to give you the impression that they agreed with your sentiments?

A Well, I can give you one example, and it had to do with the sharing of financial intelligence. That at the time there were proposed restrictions on how FINTRAC could share financial intelligence even with the RCMP, and as I recall, a lot of this dealt with privacy concerns. And coming from the US, coming from FinCEN, our financial intelligence unit, I found it ironic that FINTRAC could more easily share its financial intelligence with the US FinCEN
John Cassara (for the commission)                             20
Exam by Mr. Davis

than it could with domestic Canadian law

enforcement. And I was puzzled over that

because, once again, financial intelligence is

to support law enforcement. And I just could

not -- we commiserated, the RCMP and I.

Q And that was information that the RCMP provided

to you that FINTRAC could more easily provide

data to FinCEN than it could RCMP members?

A Yes.

Q Mr. Cassara, I'd like to jump next into the

United States anti-money laundering regime more

generally. I'd ask you first what you can tell

the Commissioner in a general way about the US

approach to collecting intelligence and pursuing

enforcement against money laundering?

A Just a minute. I am checking my notes. And by

the way, I just want to let you know, let the

Commissioner know that I am referring back to my

testimony and I do have notes. I hope that's

okay.

THE COMMISSIONER: Yes, that's fine.

THE WITNESS: Mr. Davis, I'm sorry, could you tell me

on which page this question comes from.

MR. DAVIS:

Q Sorry. And, Mr. Cassara, that is a pretty
general question to start.

A Could you repeat your question, then.

Q Yeah. So I'm just asking you generally what you can tell the Commissioner about the US approach to collecting intelligence and pursuing enforcement against money laundering?

A The United States has collected financial intelligence going back to about 1970 with the creation of the Bank Secrecy Act. In fact this is the 50th anniversary of the Bank Secrecy Act. At the time, President Nixon declared the war on deductibles and Congress want today give law enforcement tools or ways to follow the money trail, so they started passing a series of laws, rules and regulations that dealt with financial transparency or financial intelligence. Transparency is a misnomer. It really -- I'm sorry, bank secrecy is a misnomer. It really does have to do with financial transparency.

Q Are there any particular strengths or challenges to the US approach today that you might highlight for the Commissioner?

A Well, the strengths are the numbers involved with these types of reporting. Very broadly there's about 200 million or more financial
intelligence reports in the FinCEN library, if
you will, or financial intelligence unit. About
20 million-odd reports are filed every year.
That's strengths. At the same time it's a
weakness. It's almost too much to evaluate.
And you write at page 12 -- maybe this can focus
it a bit. At page 12 of your report:
"Primarily because of resources, data,
technology, and advanced analytics, the
United States has the most professional
and vigorous customs enforcement service
in the world."

Is that accurate?
I believe it is.
And why do you conclude that?
Well, because we have an incredible amount of
resources. When the United States puts its mind
to something, it can accomplish whatever it
wants. So we spend an incredibility amount of
money and manpower. We have access to data. We
collect data. We have intelligence. We have
technical means. I've done a lot of work in a
lot of different countries and, you know, I --
obviously I'm very proud of the work that we do,
and it's not really bragging. This is a
professional evaluation. When we put our mind
to something, we can do it probably the best in
the world.

Q And speaking of resourcing, if we turn to
page 5. Starting at page 5 of your report --
starting at page 5, Mr. Cassara, you describe a
number of agencies and departments that play a
role in working to combat money laundering. And
for brevity, I'm going to say that those include
the Department of Homeland Security, the
Department of Justice, the State Department and
the Department of Treasury; is that right?

A That is correct.

Q What can you tell the Commissioner about the
role of the Department of Homeland Security in
combating money laundering and in particular,
if you can, trade-based money laundering?

A I think it's important to understand that the
Department of Homeland Security was created
right after 9/11, so it was created roughly
2003-ish by the time it was finally put
together. And it incorporated what we call or
what I call legacy customs; all right? So it
has a dual role today. Immigration and Customs
Enforcement deals with immigration and it deals
with customs issues. So a lot of the legacy customs issues went into Homeland Security investigations, so it is the logical place for trade-based money laundering investigations to take place, and in fact they do. Both legacy customs and now homeland security investigations probably takes the lead on the types of things we'll be talking about today.

Q  Where -- within the Department of Homeland Security, where is Customs and Border Protection situated? Is that legacy or is that ...

A  Yeah, it kind of went with -- if you think about it, Customs and Border Protection is like the old legacy customs inspector, get involved with inspectors and inspection control of the border. These are the people that -- if you go in and out of the United States, these are the people that, for example, will examine your bags or they're at the ports examining cargo and this type of thing. They don't conduct the investigations. If they find investigative leads, they'll turn it over to the special agents and they'll conduct the investigations.

Q  And those special agents are within the Department of Homeland --
Exam by Mr. Davis

1 A Security. Yes, they are.

2 Q Okay. And, Mr. Cassara, to what extent do entities within the US Department of Justice investigate money laundering?

5 A Well, they definitely do. For example, the Drug Enforcement Administration definitely plays a role in investigating money laundering, but it's a single-mission agency. It's narcotics. The FBI also gets involved, the Department of Justice also gets involved in money laundering. And they're very good at what they do, but they don't, for example, have expertise or a mission to, say, look at trade. That's just not what they do. Homeland security investigations has that treasury/customs background. They have the data; they have the expertise.

17 Q And what's the role of International Narcotics and Law Enforcement Affairs when it comes to money laundering?

20 A Basically it's focused overseas and it's to help countries around the world. It provides training; it provides technical assistance; it provides residence advisors in certain countries that ask for it. It coordinates a lot of international assistance abroad relating to
anti-money laundering and now counterterrorism
finance.

And what about the Department of Treasury? Do they have any role in combatting money laundering?

They do. As it relates to, for example, our Internal Revenue Service, our tax -- our fiscal police, they have a group of special agents. Most of it is tax focused, but they do get involved with money laundering. Treasury still has OFAC, the Office of Foreign Assets Control. They get involved with sanctions and designations. And then the, again, the Office of Terrorism and Financial Intelligence, they also play a role at a policy-making body. I think it's important to understand outside of just a few IRS special agents that focus on money laundering, Treasury no longer really has an enforcement arm. Secret Service, Alcohol, Tobacco and Firearms, all that is gone now with the creation of the Department of Homeland Security.

And where is FinCEN located?

FinCEN is also within the Department of Treasury. It's a small, little bureau. I don't
think there's more than 300 people there. I think we'll be talking about FinCEN, but FinCEN really doesn't have an investigative capacity. It basically analyzes financial -- receives intelligence, analyzes it and disseminates it to support law enforcement.

Q Well, maybe we can talk about that briefly now. Do you know under what circumstances FinCEN does share its information with law enforcement partners or other agencies?

A Yeah, I mean, that is basically -- its original mission is to share law -- or I'm sorry, to share financial intelligence. These forms that are filed with Treasury every year, they share it at the federal, state and local levels and increasingly even overseas with Egmont Group members that are part of a financial intelligence unit network around the world. I think there are about 164 members today.

Obviously there are safeguards, there are permissions, but most definitely FinCEN does share directly or indirectly. Sometimes they just give downloads of bulk information to agencies, say for example, the FBI; they do their own analysis.
Q And you mentioned just a minute ago that you estimate that there are probably about 300 persons working at FinCEN. I'm wondering what you can tell the Commissioner about the staffing there. Like, is it -- for example, whether or not there are law enforcement or accountants or other kind of non-traditional intelligence persons employed at FinCEN?

A Yeah, there are, including some economists. When I was there studying about the magnitude of money laundering there were a lot of technical people as well. They do have law enforcement in the sense that all of those federal agencies that I mentioned -- the FBI, the DEA, Homeland Security investigations, Secret Service, et cetera -- they all have what they call liaison officers at FinCEN. So they're there representing their agencies. They provide information; they receive information; they bring it back to their parent organizations. And then they coordinate cases and deconflict cases to make sure that they're not working the same operation, or, if they are, that they coordinate it.

Q And considering all of the departments that
Exam by Mr. Davis

you've just described to the Commissioner, how,
Mr. Cassara, if you know, do all of those
departments coordinate information sharing to
tackle money laundering as sort of a cohesive
unit, if they do at all?

A    I am sorry, I didn't follow your question.

Q    How do all of the units that you've just
described, so Treasury, the Department of
Homeland Security, how do they all work together
with the massive amounts of information and
persons to combat money laundering?

A    Well, if you're talking about at FinCEN, these
representatives meet periodically and they
discuss if there's any conflict. There are
also, for example, hits on information. So, for
example, when I was with customs at FinCEN, if
there was a DEA agent that was working the case
in Miami and they did a hit on information that
we had and they wanted to use it, you know, I
would talk to the case agents involved and I
would with their assistance decide whether or
not we could disseminate that to that DEA
requester.

These deconfliction sessions, if you will,
were done sometimes formally, sometimes very
informally. It was a lot of coordination, a lot of liaison.

Q And you note at page 8 of your report that federal law enforcement in the United States works closely with state and local police forces; is that right?

A That is correct.

Q And what can you tell the Commissioner about the benefits or drawbacks to having federal police work with their state and local counterparts?

A It's a very good thing. We do this on a daily basis. We do it on a task force-type of basis but we also do it on a, you know, case-by-case basis. When the federal agencies, departments get involved, they can bring in a lot of expertise, they can bring in resources, staffing, analysis. Sometimes these local cases that are generated turn into huge cases, so the federal government steps in when it's in their jurisdiction obviously and assists however they can.

Q And at page 7 of your report you mention integrated units. And this is something that I expect the Commissioner will hear evidence about, but it's integrated police units with
prosecutors and forensic accountants, for example. What can you tell the Commissioner about your views on whether or not those sorts of integrated units are useful to combat money laundering?

A Well, yes, they very much so. I'll just kind of talk about a little bit. You know, some of these integrated units, these task forces, they combine the federal, state and local law enforcement. Many of them are run by, say for example, US Attorney offices. They're set up for special purposes or they can meet regularly to discuss and to investigate things like narcotics traffic or terror finance.

There are also regional SAR, suspicious activity report, review teams. And then you have federal financial regulators. They also play a role in combatting money laundering by conducting examinations of financial institutions. And these federal financial regulators include, say, the board of governors of the Federal Reserve system, the Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, the National Credit Union Administration, Securities and Exchange
And this kind of feeds nicely into the quote at page 7 of your report which is citing the 2016 FATF Mutual Evaluation Report of the United States where it says:

"Overall, LEAs --"

Is that law enforcement agencies?

Law enforcement agencies, yes.

"-- have access to a wide range of financial intelligence, capabilities and expertise allowing them to trace assets, identify targets and undertake expert financial [money laundering and terrorist financing] investigations."

Do you see that on page 7 there?

Yeah, I recognize it. Yes.

It's -- yeah, for reference it's at the second paragraph towards the bottom of page 7. But would you agree with that statement, Mr. Cassara?

Yes, I would.

And what are the particular sources of intelligence, even if you can speak generally, that enable the US to effectively combat money
A First of all, our financial intelligence database. We have -- for example, when you talk about trade-based money laundering, our trade-related databases. We have commercially available databases. Obviously we have classified databases. We have a wide range, a wide gamut of information, intelligence data that's available.

Q And the quote at page 7 goes on to say, right towards the bottom there:

"There is a strong focus on following the money in predicate offence investigations at the Federal level. There is, however, no uniform approach to State-level AML efforts and it is not clear that all states give [money laundering] due priority."

Do you see that?

A I do.

Q And what are your views on that statement?

A I definitely agree with that. It was brought home to me -- after I retired I did a lot of contract work with the state and local anti-terrorism training group sponsored by the
US Department of Justice. To make a long story short, a number of criminal investigators, people like myself, FBI agents would go out to state and local law enforcement and we would talk about law enforcement matters of concern dealing with threat finance. I always talked about money laundering, the tools that were available to help follow the money trail, financial intelligence this type of thing. And I was absolutely shocked repeatedly, you know, 30 years after the founding of FinCEN that many members at the state and local level were not even aware that FinCEN existed or the financial intelligence existed to help them in their investigations. So we have a lot of work to do.

And looking at pages 7 to 8, and you touched on this earlier, Mr. Cassara. What can you tell the Commissioner about this idea that the primary investigative focus is not on the money but rather on participants and/or the illegal product?

Well, US law enforcement has consistently talked about following the money and taking away the proceeds of crime from criminals and criminal organizations, yet for the United States and I
suppose most countries, including Canada, the
primary investigative focus is not the money but
the participants and/or the illegal product.
And insofar as that is the approach, the United
States does that as well as anybody.

But the reality, in my opinion, is that law
enforcement focuses on the participants and the
product because it's far easier than going after
the money. And the product's not just illegal
drugs. It's similarly holds true for, say,
human beings and trafficking networks,
counterfeit goods, stolen cars, weapons
smuggling, illicit tobacco, wildlife,
everything.

And it should be obvious, but many forget
that the criminal don't traffic, say for
example, in drugs for the sake of drug or any
other illegal good and service. They engage in
crime for the money. They're motivated by
greed. And our emphasis on product and
participants has led to AML failure, in my
opinion.

So as I talk about it in my book, and I
think I put that in my statement, in order to
change that paradigm, we need to truly finally
emphasize money and value, and in order to do
that we have to change the incentives and the
cultures of the bureaucracies. Because the way
that things are set up in law enforcement, at
least in the United States, too much emphasis is
made on going after the little guy because those
cases generate statistics and that's how
everybody is rated, for example.

So long-term meaningful impact cases are
sometimes shunned by management and the
bureaucracies because they're resource intensive
and many ultimately fail. We have a saying in
the US law enforcement, big cases mean big
problems. So sometimes they're just not worth
it.

Q And speaking of effectiveness, Mr. Cassara, at
page 5 of your report you say that:

"The success of a country's AML/CFT regime
is best judged on results."

Is that right?

A Yes, I do.

Q And sorry, we're jumping around a little bit
here. But at page 8 you go on to discuss the
metrics that matter in terms of evaluating
effectiveness.
A Yes.

Q What are those metrics?

A The only metrics that matter -- and, again, I've been doing this for so many years. The metrics that matter are forfeitures -- criminal forfeitures and convictions. And I've heard people say well, it's disruption. It's not disruption. It's not the amount of financial intelligence that's filed every year, how many financial intelligences units are in the Egmont Group. It's not whether or not a country is compliant with the FATF 40. We do all of that obviously, and we should, so that we can identify money laundering, investigate, prosecute, take the bad guys off the street and take away their money, their motivation.

So the two metrics that matter, in my view, are successful investigations, prosecutions, convictions and forfeitures. Not just seizures but forfeitures, how much we ultimately take away from them.

Q Do you talk about in your report how the US fares in terms of both metrics?

A I do, and candidly we don't do very well. I have to kind of -- very, very briefly. The
amount of money laundered in the United States is conservatively estimated in the hundreds of billions of dollars every year. Going back to an official US risk assessment back in 2015, they estimated that the amount of money laundered was about 300 billion but they also acknowledged little certainty. Fraud and drug trafficking were the biggest specified unlawful activities, if you will.

But I believe that the magnitude of money laundered in the United States is much much higher than that. I think you could easily make an argument, I could make an argument that total approach is over a trillion dollars or so.

But getting back to the metrics that matter. We do have a pretty good idea about how much money is actually forfeited every year. And going -- because I use the FATF mutual evaluation report, those numbers are -- going back to 2014, we actually forfeited about 4.4 billion. And while that sounds like an impressive total, it's not certain if it in fact was forfeited or just seized. I'm sorry, I misspoke there.

But going back to that 300 billion number,
if we approximately say 300 billion was actually laundered and we use about -- the estimate that about 3 billion was actually forfeited, seized and forfeited, then I can't see how you could say that -- what we're doing isn't working. It's about 1 percent of the total.

And the other important metrics is convictions. And again these numbers are hard to get, but currently there are about 1,200 money laundering convictions annually at the federal level. And that seems like a large number, but divided into the amount of criminal activity in the United States and factoring in the hundreds of billions, if not trillion dollars of illicit proceeds it really isn't. And if you look at that 1,200 number again, although the numbers aren't public available, I can make a very educated guess or advance an educated opinion that many of those individuals are low-level drug couriers.

So I don't think we're doing very well at all.

Q And that's an interesting point, Mr. Cassara. And kind of a deviation here, but how do you reconcile this idea that convictions are an
important metric, yet to have a high number of convictions it's easier to go after the low-level individuals. So how do you reconcile those two things?

A You need to do both. I kind of touched on that earlier. Obviously you've got to follow the money trail and sometimes you do arrest those low-level drug couriers, for example. I'm not saying they shouldn't be. But if you really want to make a difference, if you want to make -- if you want to make a difference, if you really want to hurt these criminal organization, you have to follow the money and value trail and make what I call impact cases. Headline cases. We're kind of moving away from that.

Back in my heyday, back in the -- you know, in the 90s, for example it seemed like every year or so there were major headline-grabbing cases that really changed the money laundering environment. And we just don't see that as much today and we've kind of shied away from it.

So we have to have -- to answer your question briefly, I think we have to have a mixture of both.

Q And did you review the two metrics that matter
in your view for Canada?

A Yes, I did.

Q And acknowledging your testimony earlier that you're not here as an expert on Canadian money laundering, how did Canada fare on your review of its metrics?

A They didn't do well. I have the statistics. I don't have them right in front of me right now. But both on forfeitures and convictions they did not fare well at all. This is information I saw that was in the public domain from news articles and this type of thing.

Q Thank you. And, Mr. Cassara, I'd now like to turn to trade-based money laundering. And I'll ask you first, what is trade-based money laundering?

A I really like the FATF definition, which is the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their origins.

Q And for lay people how would you put that FATF definition?

A Well, I think -- for lay people I think I would concentrate on the word "value"; all right?
Particularly in the west, you know, kind of like with our linear logic, we tend to inflate money laundering methodologies with money in the traditional sense, for example, cash or wire transfers or even automatic teller machines. It's kind of, you know, our culture, our way of doing business. These are the things we experience in our daily lives but we are not often confronted with or don't even think about value transfer, but money launderers do understand value transfer. They've used it effectively for years.

Q So how is trade-based money laundering distinct from traditional, if you will, money laundering?

A In traditional money laundering we use the three stages of money laundering to describe it: placement, layering and integration. Although I don't want to go into a lot of detail because it takes time, but, for example, you would place drug proceeds into a bank in a wide variety of ways. And then to help launder or obfuscate or make it difficult for criminal investigators to follow the money trail you would layer it. Once it's successfully deposited you would send it from one bank to another, from one country to
another, from one offshore to another because every time you layer, it makes it very difficult to follow that money trail. And then finally they integrate it. They integrate it back into the economy. They buy up the shopping centres, the fancy homes, the cars, they meet their payroll, they invest in the stockmarket, all that kind of stuff. Placement, layering and integrating.

In traditional money laundering you can track that. Trade-based money laundering, yeah, but it's not quite the same. It's a money-laundering methodology and it can be used actually in all three of those categories of placement, layering and integration, but it's not very neat. It's not very precise.

Q And you write at page 10 of your report that:
"... trade-based money laundering and value transfer are still not recognized as significant threats."

Is that accurate?

A Yes, I do.

Q And can you explain that to the Commissioner.

A Because I think it's basically -- it's hiding in plain sight. And I tell a story, I've told it
fairly frequently, but I'll tell it very briefly here because I think it does make the point.

Not long after 9/11 I had a conversation with a Pakistani individual who you could charitably say was involved in the grey markets. And I was talking to him about threat finance, but we're talking about many of the things we're going to be talking about this morning. We were talking about trade-based money laundering, we are talking about value transfer, we were talking about counter-evaluation, fictitious invoicing. And at the end of the conversation this gentleman tells me, he said, Mr. John, don't you know that your enemies are laughing at you; that they're transferring money and value right under your noses but the west doesn't see it; they are laughing at you.

And that's what I mean; okay? A lot of this stuff is just hiding in plain sight. We just don't see it.

Q And why, in your view, is that? Is it a matter of focus? Is it a matter of capability? Is it -- why do we not see it?

A It's focus; it's capability; it's lack of expertise. But I think more than anything else,
again with the perspective of 30 years, it's because our anti-money laundering countermeasures were set up decades ago to fight the traditional, say, Miami cocaine cowboy where large amounts of drug money were sloshing around through western financial institutions.

And it's worked to a certain extent. I'm not dismissing that. But because we're so focused on traditional money laundering through banks, we're not seeing all this other stuff that's going on.

Q And that's why you write -- at page 10 of your report where you write:

"The trade-based methodologies almost completely avoided detection by our traditional FATF-centric [anti-money laundering and counterterrorist financing] countermeasures."

Is that right?

A That is correct.

Q And so what is it about that FATF-centric model that leaves countries or states that makes it challenging to see and detect trade-based money laundering?

A Well, once again, the FATF was established in,
you know, late 1980s, early 1990s. And as I said, the global money laundering threat was
much different then. So we engineered countermeasures, you know, part of the FATF 40,
to try to stop it. Financial intelligence. Compliance programs. Creating financial
intelligence units. All these things. And during those early years FATF almost completely
ignored these kinds of things. I mean, I talk about it. I remember back in the early 90s I
talked to FATF about the misuse of the international gold trade and trade-based money
laundering, but they weren't ready for it then. Methodologies that were based on trade.

And I think part of the problem particularly back in the early years of the FATF, you know,
the 1990s, for example, the FATF was dominated by western countries, outside of Japan and a few
others. And these countries you know, as I talked about earlier, kind of our western linear
logic ways of doing business, they were focusing on traditional money laundering and banks. And
it's only been in more recent years that the FATF and regional-style FATF bodies have been
going input from other countries and being
made more aware that there are other ways of
laundering money and transferring value that
kind of fall away from the FATF traditional
guidelines.

Q And you touched on this a bit earlier in your
testimony, but what can you tell the
Commissioner about the risk of conflating
trade-based money laundering with, for example,
trade fraud for the purposes of tax evasion or
avoiding currency controls? What's the risk
there?

A It's kind of a difficult issue because it goes
back to predicate offences and specified
unlawful activities. There's some debate, if
you will. A lot of people say that trade fraud
is trade-based money laundering and others will
say it's not trade-based money laundering;
it's -- you know, it's a specified unlawful
activity but it's not money laundering itself.

I can argue both sides of it, but they're
all kind of intermingled. Trade fraud is kind
of a common denominator in trade-based money
laundering, so I just look at it as such. Does
that make sense?

Q It does to me, Mr. Cassara. Thank you. And
next what can you tell the Commissioner about
the scope or magnitude of trade-based money
laundering that you provide in your report?

A  Well, certainly even the FATF says that
trade-based money laundering is one of the big
three money laundering methodologies. The two
others are obviously money laundering in
financial institutions. Number two is bulk cash
smuggling. Number three is trade-based money
laundering.

Q  And what can you tell the Commissioner about the
magnitude of your view of how big the problem
is?

A  I believe, and I wrote a book on it, that if you
talk about all the different facets of
trade-based money laundering. You talk about
obviously customs fraud, which is the biggest
part of it, you talk about, you know, export
incentive fraud, you talk about how it's used in
capital flight, you talk about VAT fraud, you
know, you talk about underground financial
systems, countervaluation, all of these things
that I talk about -- I think it's in my
statement somewhere, I list them out -- that it
is the largest money laundering methodology in
the world, and it's the one that is least recognized and enforced. And it breaks my heart. I just think the overall magnitude of the problem is enormous.

I'm kind of looking at my notes here. And I think you may ask a question, and I think you also have a witness testifying in a few days, Dr. John Zdanowicz. And I've talked to him. He provided me some information for my books not this testimony. But he's looked at countries around the world. He's looked at data in the United States, trade data in the United States. He's saying that roughly 6 to 9 percent of US trade is suspect, dealing with, say, over and under invoicing. 6 to 9 percent. You know, and that entails an incredible amount of loss of revenue. Taxes, duties for the United States.

But my point is that the United States say 6 to 9 percent of our trade is suspect, at least it needs further examination. And we have some of the best customs, law enforcement, intelligence services in the world. If that's what our issue is, what does that mean for other countries around the world? It's really a problem that needs addressing.
Q And you acknowledge, however, at page 11 of your report that there are no known official estimates of the magnitude of trade-based money laundering; is that fair?

A That is correct. And that's something I faulted, for example, the United States government on for years because it definitely impacts our revenue, it impacts our national security. It impacts many, many things, but we have never put a comprehensive evaluation together on the magnitude of trade-based money laundering. And as far as I know, that's, you know, the same for most countries around the world. That's true globally. Worldwide. I don't believe the FATF has done it as well.

Q You kind of beat me to the punch here. But, Mr. Cassara, what sorts of harms flow to society or to government or to an economy as a result of trade-based money laundering?

A I think there's two. First of all, it's the -- in my opinion it's the largest money laundering methodology with all that it entails. And next, as I think we're going to discuss further, since TBML is also based on invoice fraud manipulation that means that the governments involved lose
substantial revenue, be it non- or lesser payment of taxes and duties.

Q Well, and we -- and perhaps now is a good time to turn to looking particular typologies, Mr. Cassara. And I'd ask what you tell the Commissioner generally about invoice fraud, which is identified, for reference, on page 15 of your report? Sorry, and I should say generally about how invoice fraud is used to launder funds through trade.

A Well, generally speaking trade-based money laundering often involves varied and sometimes elaborate schemes. But almost all of them it evolves around invoice fraud and manipulation. For example, over- and under-invoicing of goods and services, multiple invoicing of goods and services and falsely described goods and services.

Q Maybe if we could stop there. Sorry, go ahead.

A No, go ahead.

Q I was going to say, if we could stop there and maybe you can explain to the Commissioner each of those, so multiple invoicing of goods, over- and under-invoicing and falsely described goods, and explain how that facilitates trade-based
money laundering, please.

A Sure. What I like to do sometimes is use an example. So, say for example, Mr. Davis, you and I are in the business of buying and selling, trading pens; all right? You're in Canada; I'm in United States. You don't know me; I don't know you. You send me a letter of inquiry. I manufacture pens. All right. So we have an arm's length business relationship. We negotiate the price of a pen; all right? And I sell you these pens. We come upon a fair price. Say, I don't know, $50. Manufacturing costs, shipping, freight, all this kind of stuff. And I send you a shipment of pens; okay? That's how it should work.

Say for example, you do not know -- you know me. You know me well. We might be brothers or cousins or whatever it is. We decide we want to over- or under-invoice these pens. We could make the price of this pen $20, $100, $1, whatever it is. We are business partners. We could be colleagues in a criminal organization. We could be involved with all kinds of suspect work. But we are -- or I am sending you pens, and you can transfer a lot of value via pen. I
could launder money with literally any commodity. It doesn't obviously have to be a pen. It can be literally anything. I think we're going to be talking about that.

So when we talk about falsely described goods, it's just that. You know, it's the quality of the pen. It's the value of the pen. When you talk about multiple invoicing of goods, remember the reason a lot of times money launderers do this is to create an invoice for payment; right? So every time there's an invoice presented, there's rationale for payment to be sent abroad.

It's similar to phantom shipping, which is another one, where no goods are actually shipped but the fraudulent documentation generated is used to justify payment abroad. And this is sometimes called circular shipping. That's another one. It's sometimes -- I'm not an expert on that VAT by any means. We don't have VAT in this country. But I understand it's somewhat similar. The same shipments in and out, in and out, in and out generating invoices and payments made sometimes with tainted funds.

Sorry. I appreciate that there's a variety of
methods you've just described. Could you explain to the Commissioner -- and you do so in your report, I think, in a pretty pithy way about how value is transferred or funds are laundered using over- and under-invoicing -- how value moves and which way it moves.

A Sure. I'll give you a brief explanation, but then I want to go to my cheat sheet that I always use here. Over- and under-invoicing of goods. For example, by under-invoicing goods below their fair market price an exporter is able to transfer value to an importer while avoiding the scrutiny associated with more direct forms of money transfer. The value the importer receives when selling, directly or indirectly, the goods on the open market is considerably greater than the amount he or she paid the exporter.

And I think what you're referring to in my testimony is I use an example. I said company A is located in Canada. And, say for example, they ship a million widgets worth $2 each to a company B based in Mexico. On the invoice, however, company A listed the widgets at a price of only $1 each and the Mexican importer pays a
Canadian exporter only 1 million for them. Thus extra value has been transferred to Mexico where the importer can sell, directly or indirectly, widgets on the open market for a total of 2 million.

So the Mexican company then has several options. It can keep the profits. It can transfer some of them to a bank outside the country or the proceeds can be further laundered via layering and integration. It can share the proceeds with a Canadian exporter, once again depending on the nature of the relationship, or even transfer them to a criminal organization that may be the hidden actor behind the business transactions.

So we're talking under-invoicing. You can do the same thing in the opposite direction. An exporter could, say, over-invoice goods above their fair market price. In this manner the exporter receives the value from the importer because the latter's payment is higher than the goods' actual value on the open market.

And speaking from a -- say, from a customs perspective, a law enforcement perspective, an intel perspective, even a bank finance
officer -- we're going back to this example of pen -- you may be able to spot some of these large discrepancies, but if they don't get too greedy, very -- highly unlikely it's going to raise scrutiny. They're not going to get caught.

And I just wanted to leave with one thing. This is kind of like my cheat sheet, if you will. Invoice manipulation made simple. If you think about you want to move money, value out of a country, you import goods at overvalued prices or export goods at undervalued prices. You want to move money in, you import goods at undervalued prices or export goods at undervalued prices. It's kind of common sense, but a lot of times people don't think about it.

Q And it is -- perhaps another example we can turn to, Mr. Cassara, is at pages 17 to 18 of your report.

A Yes.

Q And there you provide an example of tracking the pricing of refrigerators; is that correct?

A I do, yes.

Q And maybe you can provide further information. What can you tell the Commissioner about this
example that you've provided here?

A This is from a real US customs case and it basically deals with the exporting of refrigerators from the United States to another country in South America. So the horizontal line here is time and the vertical line represents value. And what we're doing is we're getting the values and the quantities of the refrigerators being shipped, say for example, from the US shipper's export declaration. So this is official customs data. And then we are getting the reciprocal data from that other country, their import data; right?

So going back to, say, the widget example, if I'm exporting, I don't know, 1,000 widgets to Mexico and each widget is priced at $100, when they get to Mexico with some recognized variables you should still have 1,000 widgets and they should still be priced at $100. But that's not happening in the example of the refrigerators.

You can see the discrepancies between the peaks and the valleys, and those discrepancies are the transfer of value in the form of refrigerator. Another example of trade-based
money laundering.

Q And what do -- so, for example, looking here at the difference between those -- you know, the area between those two graphs, you say that represents the value. What do those sorts of anomalies tell us about money laundering and what do they not tell us? What can the Commissioner take from price anomalies?

A There are some very interesting ones out there, and again I refer to Dr. John Zdanowicz. He's provided me with some really fascinating anomalies. I don't recall them all off the top of my head, but I know there was one example -- he showed me, for example, the US was importing plastic buckets from the Czech Republic at about $970 a bucket or we were exporting live cattle to Mexico at about $21 a head. These are definitely anomalies. They don't make any market sense. They don't make any economic sense.

And you remember what I said about trade-based money laundering and over- and under-invoicing. Unfortunately these types of anomalies even though they raise eyebrows, I mean, generally speaking they're not being
investigated. And it goes back to your question about what anomalies do not tell us. So something like this, you know, that $972 bucket, it could simply be an example -- it could be an example of customs fraud but it could also be, say for example, statistical outlier based on bad input information.

But from an investigative standpoint, I kind of look at this as -- you could call it suspicious activity. From a law enforcement perspective you use this for possible lead information. You look at other similar types of transactions with the same parties involved. Is there a pattern; is there a method; is there a trend. If something doesn't look right, you may decide to make inquiries. You do analysis; you conduct investigations; you ask questions. Who, what, when, where, why. Maybe there's a rational explanation for all that. Maybe there is a rational explanation for a $972 bucket. I don't know.

And sometimes there actually are. I've conducted some of those interviews too. And you just walk away and scratch your head, but it makes sense when you get the explanation. But
that is the kind of things that needs to be done
more, and unfortunately it's not.

Q And on the topic of unique items, one of the
issues that you identify in your report is with
respect to the bulk shipment of items that may
be easily conflated with like items. And the
example that you use is RAM chips that go into
computers. Can you tell the Commissioner about
that, please.

A Sure. That's also an example from real life.
This was -- a few years ago I was down -- I was
over in Jordan doing trade-based money
laundering and other types of trading for
Jordanian customs, and there was a Jordanian
customs inspector that gave me a real life
example. She says, Mr. John, she said, this is
a real problem I have right now; we're importing
these RAM chips; some of them are -- you know,
16 gigabytes or 64 gigabytes, whatever it was.
I don't recall specifically. But she says, I
cannot tell the difference; they look the same
but obviously the value is inherently different.
What do you we do?

You know, this is the kind of thing that
we're talking about. You know, there's customs,
taxes and duties. There's that type of an
issue. It could also be, say, value transfer.

Q And thank you, Mr. Cassara. I turn next to ask
you about capital flight and underground
finance, which is described starting at page 19
of your report. First of I'll ask, Mr. Cassara,
what is capital flight?

A Well, first of all, I want to say that capital
flight is -- occurs all over the world. I talk
a lot about capital flight in China, capital
flight, say, from China coming into Canada, but
it's not unique to just China. But I do
concentrate on China because I think it has
direct impact on some of the inquiries from the
commission. Basically it's trying to get money
out of one country or value into another
country; all right? For lots of reasons.

For example, going back to China, over
recent years the Chinese government or the CCP
has imposed capital controls on corporations and
businesses and as well as its citizens, and the
CCP has recently begun penalizing severe
violators with jail time. Chinese
restrictions -- I think there are about -- I
think it's about $67,000 Canadian per year,
that's how much the average Chinese citizen can send outside of the country.

So with those restrictions, you know, how do they get around them because there is a great need by Chinese people to get money out of the country for a whole host of reasons. And they do it in wide variety of ways. And I talk about some of that in my testimony, including tapping political and personal connections, using transfer quotas of friends and family members to get money out of the country, using illegal funds through gaming and junkets particularly via Macau. Using -- until recently I think the special relationship with Hong Kong has served as a financial conduit to the rest of the world. Obtaining special financial services offered to elites. And then it gets back to what we were talking about. Trade-based value transfer and underground financial systems.

Q And, for the record, Mr. Cassara, that list you just went through, that's contained at pages 19 and 20 of your report; is that right?

A I think so.

Q The bottom of page 19 and the top of page 20. Sorry, are you able to confirm that,
Mr. Cassara?

Yes. I just ...

Thank you.

Yes, I am.

Thank you. And, Mr. Cassara, what sorts of risks arise as a result of capital flight?

Well, again I'm going to use my example of China. I think there are many risks. The exodus of capital has fuelled worries about the Chinese economic outlook. There are other issues as well, including, say, you know, the US-China trade war, plummeting Chinese stock market, fears of a real estate bubble, suspect loans and balance sheets by Chinese banks, fears of currency devaluations, increasing debt, the theft of state funds by Chinese officials, paltry returns on savings accounts. All this has been exacerbated by the coronavirus. The deteriorating situation in Hong Kong, social unrest.

You know, all of this stuff helps contribute to capital flight. And so as I said -- you know, as the Chinese government cracks down on corruption and starts to jail people because of this, Chinese citizens are transferring wealth
out of the country, and of course with so much capital leaving the country there are risks for receiving countries as well.

Q And what in your view are those risks to receiving countries?

A Well, I think there's some questions that the commission should ask itself. For example, you're talking about massive amounts of capital leaving China. In theory there's nothing wrong with capital coming in. In fact a lot of countries encourage capital investment. That's great. But unfortunately when we're talking about the things that we're talking about, in money laundering we use the descriptive of mixing licit with illicit funds. With all this capital coming in, it could be -- for example, the proceeds of crime is mixed in with some of this stuff.

Another one that intrigues me is does China consider capital flight over the reporting threshold, say, of $67,000 Canadian a year money laundering. And if it does, does that designation of money laundering kind of transfer to the receiving country. Is the United States or Canada -- you know, do we recognize that.
Will we help the Chinese in their investigations? The influx of capital, as I said, can be helpful, but it can also distort local markets. Real estate markets, for example. Cause inflationary pressure. Act as a catalyst for social disruption. Cause undue influence. There's all kinds of issues. It's not all a good thing.

Q: And you describe in this section of your report at page 21 the Vancouver model of money laundering; is that right?

A: I do.

Q: What can you tell the Commissioner about the Vancouver Model and how it might involve or be related to capital flight and trade-based money laundering?

A: First of all, I want to make it perfectly clear that I am not an expert on the Vancouver Model of money laundering. I'm assuming you guys are. That's one of the reasons why you are doing this.

My research on the Vancouver Model of money laundering comes from, again, publicly available information. But my understanding it's a where large of amounts of money are taken out of
China, for example, through informal value
transfer systems and other means to avoid these
limits on capital flight that we were talking
about. And they to that in a wide variety of
ways. And once in, say, British Columbia the
funds are sometimes mixed with cash from the
drug trade and perhaps other illicit proceeds of
crime, and then the cash is cleaned through
British Columbia casinos or private mortgages.
This type of thing.
So in other words, you've got the Vancouver
Model of money laundering, it involves capital
flight, and as you remember my lists of ways to
get around these currency restrictions, it
includes trade-based money laundering and value
transfer and underground financial systems such
as flying money. I think we're going to be
talking about that. Money laundering via real
estate and other means.

Q And you're right, we are going to be talking
about that. And looking at page 21 of your
report, the starting point, what can you tell
the Commissioner about the definition or meaning
of underground banking or alternative remittance
systems?
When I talk about alternative remittance systems, they're sometimes known as underground banking, informal value transfer systems, parallel banking. Sometimes people that don't know better just lump everything together and they say well, that's hawala, which -- hawala is -- I'm sure everybody is aware is a very old system that's been around literally for hundreds of hundreds of years, if not more. Originated in India, south Asia. It's now found literally all over the world. It's remittance systems primarily used today by immigrants, hard working immigrants that want to send money back home to support their loved ones. And it's very efficient and very effective. Very -- it doesn't cost very much. So it makes a lot of sense for many of these immigrant communities to use this system and similar type of systems.

And you mentioned hawala. Just on that point, for the record, you provide a helpful list of the various types of remittance systems that are found all across the world at pages 21 to 22 of your report; is that correct?

Yes, I do. I see it here.

And so what can you tell the Commissioner about
how these underground banking systems operate in a general way?

A

In a very, very general way they almost all operate the same way. I'll take hawala. It could just as easily be, you know, hundi which means the same thing in Pakistan, or undiyal which means the same thing in Sri Lanka or Fei-chien or flying money in China. They almost all operate the same way.

Say for example, you have a Somali immigrant in Victoria, British Columbia, and he wants to send money back to his loved ones in Somalia. He drives a taxi. He works very hard. You know, he wants to send money back home, say, $500 equivalent. So he could go to a bank or he could go to Western Union but they charge too much, besides there's not a whole lot of banks or, you know, Western Union outlets in Somalia because of the situation there. So he finds himself a hawala broker. It could be a member of his extended family, tribe or clan. A hawala means a number of things, but a lot of it means, you know, trust. He trusts for example his cousin the hawala broker.

So he gives the $500 -- Canadian dollars to
that hawala broker in Victoria with directions
to, say, deliver it to his father, say, back in
Mogadishu in Somalia. So he pays a small fee at
that end. The broker in Victoria contacts his
counterpart broker in Mogadishu either directly
or through various exchanges, for example, in
Dubai and elsewhere. And that same money, $500
less commissions in shillings, which is the
currency in Somalia is delivered directly and
probably within 24 hours to his father in
Mogadishu.

Hawala means in the US legal systems money
transfer without money movement. So the money
was transferred from Victoria to Somalia but it
didn't actually move. The money, the Canadian
dollars, if you will, stayed in Victoria; the
Somali shillings were located in Somalia. So
the money didn't actually travel; it stayed put.

Now, the important thing for our
discussions -- and once again this could be
hawala, it could be flying money; they operate
the same way -- you've got these brokers on both
sides of the world, so periodically somebody is
running a surplus, somebody is running a
deficit. They have to balance the books. So
they do a wide variety of things to do that. Sometimes they use banks, sometimes they use cash couriers, gold couriers depending on the situation. Sometimes -- there's not a lot of information on this -- we believe they're using mobile payments, cybercurrencies.

But historically and culturally these systems were based on trade, trade-based value transfer and it goes back to over- and under-invoicing. Transferring value through invoice fraud and manipulation. This is what they've done. They've done it for hundreds and moneys of years, in the Chinese case well over a thousand years. This is -- we talk a lot -- particularly after 9/11 we talked about hawala. People don't understand hawala unless they understand trade-based value transfer and countervaluation.

Q And so why, then, Mr. Cassara, would underground banking systems be targeted by potential money launderers to launder their funds?

A Because they're opaque. Because they're involved with secrecy. Because they easily -- I hate to use that description, but they easily ignore our primary anti-money laundering
countermeasures, financial intelligence.

And so what -- kind of onto this next point, what challenges, if any, do law enforcement face when they're attempting to investigate or find about these underground banking systems?

Quite a number of challenges. Again it depends on the group involved. And, again, I want to make this perfectly clear. I am not ethnic bashing in the least. I have the utmost admiration and respect for the individuals, the systems involved. They're very highly efficient and they work very, very well. So I just wanted to make that clear.

But the challenges for law enforcement, once again, is they're difficult to understand. They're not necessarily part of traditional western culture and ways of doing business. They're cloaked in secrecy. They're very hard to infiltrate. We don't have, say -- speaking for the United States, we don't have a lot of Gujarati FBI speakers or Pashto speaker -- FBI speakers or even, for that matter, Mandarin FBI speakers. There are not that many. And even if we, say, recruited an agent to go into some of these networks, the question might be, this
whole thing is based on trust and who you know
is -- who's your uncle in the village back in
the old country. So it's very, very
challenging.

And a lot of this stuff too, you go up on a
wire, they use a lot of slang, a lot of dialect,
a lot of jargon. Very, very challenging.

Q On that challenge -- sorry. Go ahead,
Mr. Cassara. I cut you off.

A No, I don't know if one of your questions are
going to be, but, you know, our traditional
countermeasure to counteract a lot of this stuff
is to have them file suspicious activity
reports. They're classified in the United
States as, say, money service businesses, and
that hasn't worked either.

Q And why do you believe that to be the case?
A Well, I'll give you the numbers. I mean, I use
this example because I think it's very, very
telling. I was at FinCEN, as I said, in the
1990s, in the late 1990s, and these money
service businesses first started getting
recognition. So we wanted to, you know, start
passing some laws and regulations to govern
their use. So before we could do that, the
director of FinCEN contracted out with one big accounting groups, one of the big 8. Do a study; tell us how many MSBs there are because we need to know. So, again, this was in the late 1990s. After a few years and a lot of money they came back with a study that said, as I recall, there's something -- about 240,000 MSBs in the United States. These are everything from mom and pop cheque-cashing companies to casa de cambios to PayPals to Western Unions to all this stuff.

Nothing was done with that information, and then 9/11 happened. And then the Congress discovers hawala, passes the USA Patriot Act and says okay, all of these MSBs, they have to be registered with Treasury's FinCEN; they have to be licensed in -- I think it's about 48 or 49 of the 50 states; they have to file suspicious activity reports with Treasury's FinCEN.

Well, 20 years later very little of that has been done. You can get on the FinCEN website and find out the number of money service businesses. It's measured in the tens of thousands. Not a very high number at all. Certainly not that 240,000 number. You want to
talk about the number of suspicious activity
reports filed by hawaladars. It's not
happening.

And that is the same in countries around the
world. I mean, I've worked with the United Arab
Emirates, have them crack down on hawaladars and
they're supposed to file suspicious activity
reports. It doesn't happen. It just doesn't
happen. And why should it? Hawala's based on
trust. You're not going to -- you're not going
to file a suspicious activity report on your
cousin. It doesn't work.

Q Thank you. And I'd like to turn gears just a
little bit to page 25 of your report,
Mr. Cassara.

A Okay.

Q And I'll ask generally what risks -- or pardon
me, what is trade finance? What can you tell
the Commissioner about trade finance?

A Well, trade finance covers trade transactions in
which a bank provides some form of financing to
a party in the transaction. In the transactions
a party will present documents to the bank, and
often a letter of credit, for example, is
requested. And these are referred to as
documentary transactions. In these transactions banks generally process documentation involved in the trade transactions such as bill of lading, invoice, packing lists. This type of stuff. And the trade finance officer in the bank reviews the information underlying the transaction for soundness and compliance with anti-money laundering policies and procedures. [Indiscernible] trade finance.

Q And how -- what sort of risks, if any, does trade finance present for trade-based money laundering?

A Well, for one thing it's the very volume of international trade that creates the risk. I mean, global merchandise trade is in the tens of trillions of dollars every year but only about 20 percent of global trade transactions involve trade finance. I mean, still that represents multi multi multi hundreds of billions of dollars a year, but, again, it's the volume of trade that is tremendous risk.

The other thing is because trade is so complex, it's very, very difficult for, say, law enforcement to understand. It's traditionally been under their radar screen, but as we've
seen, it definitely presents a risk.

Q And what can you tell the Commissioner about open account trade, which is described, for reference, at page 26 of your report?

A Open account trade are, say, trade transactions not financed by a bank. In open account trade the financial transactions between the buyer and the seller, which underpins the trade transaction, is usually processed through a bank's automatic payment system. And according to the Wolfsberg Group, and I kind of refer to this above, 80 percent of international trade that is processed through financial institutions is open account. Only 20 percent involved trade finance.

So these open account trades are kind of automatic, and they're just not flagged. There may be anti-money laundering software that looks at some of this stuff, but I've never worked in a bank. I can't testify with any knowledge about that.

Q Understood. And looking at -- around there at page 25 of your report. I'm not going to take you there, but you note that appendix 1 to your report provides for a list of red flag
indicators related to trade finance; is that correct?

A That's correct.

Q And what are the sources of those indicators that you've put in your report?

A I took this list from my book *Trade-Based Money Laundering* because I compiled this list. So I reviewed that 2006 FATF typology report on trade-based money laundering, the 2012 Asia-Pacific group typology report on trade-based money laundering, the 2014 federal financial institutions examination council Bank Secrecy Act anti-money laundering examination manual. I included a 2010 FinCEN advisory to financial institutions on filing suspicious activity reports regarding trade-based money laundering. I looked at Singapore's 2018 AML/CFT industry partnership best practices for countering trade-based money laundering. And I added a few of my own.

So obviously there's lot of overlap. In fact there's -- they pretty much all say the same thing, but I think it's an overall working list of red flag indicators.

Q And considering your experience in law
enforcement, what's your view on law enforcement relying on these sorts of red flag indicators to conduct their investigations or assist them in their work?

A I think it's important to understand that red flags are just general indicators. They're like a caution sign, you know, like a flashing yellow light at an intersection. Slow down. They encourage a compliance officer in a bank or even a law enforcement officer, you know, to take a closer look. They're general in nature and they're certainly not a substitute for inquiry, for analysis and perhaps investigation. They're just -- they're general and they're just an indicator that perhaps we need to take a closer look.

Q And for reference, Mr. Cassara, I'm looking now at page 18 of your report.

A Yes.

Q What is service-based money laundering?

A Service-based money laundering is a term that I coined and it is exactly what it describes. We talked about trade-based money laundering where you got a good, a commodity that can be, say, over- and under-invoiced to transfer money and
value. Well, the same type of thing happens with service fraud -- service-based fraud.

I learned about this in my travels overseas. You could have services be used and abused by individuals, criminals and criminal organizations. Say for example, you've got accounting fraud, legal fraud, marketing fees, natural resource exploration fees. When I was in Italy the mafia did an awful lot with fraudulent construction costs. In Brazil there was a huge money laundering investigation the last couple of years called Operation Car Wash that spotlighted official corruption dealing with construction costs. You've got software development -- professional fees of all sort. Medical fees is a huge one in the United States. Product promotion fees. Music concert promotion fees. All this stuff generates invoices. And just like we were talking about in trade-based money laundering, those invoices are used for payment, and illicit proceeds can be used to make payment.

The problem from an investigative standpoint when you're looking at trade-based money laundering, you're focused on a commodity. It
basically has -- you know, it's a good that has
a generally accepted world market price. With
services it's much more subjective, if it even
happened at all; right? It could be a type of
phantom service just like phantom trade-based
money laundering. But it's very, very difficult
to put a value on service. So they are -- I
think they're very common but unfortunately
we're not making a lot of cases. We're not
focused on it.

Q And to what extent does law enforcement have a
view into service-based money laundering?

A I can only talk about what I know in the United
States. Like I said, I've seen this overseas.
I think in many countries even in the developing
world they're much more focused on this than we
are in the United States. There's certain forms
of trade-based -- I mean service-based money
laundering that will look at -- for example,
there's been some major cases dealing with
medical fraud, but by and large it's just
ignored. And it's -- it also deals with
jurisdiction.

I think this is -- mostly comes under for
example, from a US perspective, FBI territory.
Homeland security investigations, DEA, whatnot, they're not going to work these cases.

Q And, Mr. Cassara, we've talked about invoice fraud and a number of other typologies. Are there any other emerging methodologies or typologies related to trade-based money laundering that I might not have asked about yet?

A No, I think you covered them. There are some -- and I kind of mentioned it in passing. Some things that concern me are the use of mobile payments. I think we had some questions about WeChat, you know, the Chinese social app that's used to transfer money. We talked a little bit about cryptocurrencies and bitcoin, this type of stuff. They're important in trade-based money laundering and underground financial systems because I think we're going to be seeing their use more and more, as I described earlier, about balancing the books between these brokers.

There's not a lot of information out there. Not a lot in the public domain. I don't know about classified reporting, but this is something I worry about. But at the same time we're really getting killed, taken advantage of
through the old-fashioned methods. And I can say with utmost certainty that until we can crack down on these old fashioned methods, simple trade fraud, for example, the criminal organizations will continue to use them.

Q And you talk about cracking down on traditional kind of trade fraud. I'm wondering if you can describe, looking, for reference, at page 26 -- the bottom of page 26 of your report.

A Yes.

Q About the intelligence holes that you describe that exist in the United States with respect to trade-based money laundering.

A I think part of it comes back to my background. I was a covert intelligence officer years ago during the Cold War, and we acted on what we call in the United States intelligence reporting requirements. So basically headquarters would say, this is a problem; go collect information on this problem, develop sources, and these are the questions we want you to ask. That kind of thing needs to be done for trade-based money laundering.

I think intelligence and law enforcement both need to get taskings from their particular
headquarters, focus on trade-based money laundering. And, again, these guys are not --
the guys and gals are not the experts. They need to be trained up and then they need to be
given guidance. They need to be explained why this is important and they need to be given
specific reporting requirements. This is what we're tasking you to do; go out and do this;
ask -- develop these sources, go out and ask these questions. That is how the game should be
played.

Q And on that what sorts of training do you think would be beneficial for law enforcement to
understand and investigate trade-based money laundering?

A I think you have to start off with kind of the basics. You know, not promoting me but I've
done a lot of training in this area at a federal, state and local and international basis. And every audience is different, so training has to be tailored for that specific audience. But you have to start off with, you know, basic money laundering, number one. You have to start off with our countermeasures. A lot of people or completely unaware of financial
intelligence. And then you just build from there. You talk about everything from different types of money laundering methodologies. Then you talk about trade-based money laundering. You explain that. You talk about the kinds of things we've talked about today. We talk about underground financial systems, countervaluation. We talk about countermeasures. We talk about, you know, trade data and how it can be used. This type of thing.

Once again, I'm not trying to skirt the question, but it really in large part depends on the audience itself.

MR. DAVIS: Thank you. And Mr. Commissioner, I'm about to turn to a new topic. And I note the time and wonder if it would be an appropriate time for the morning break.

THE COMMISSIONER: Yes, we'll do that, Mr. Davis. We'll take 15 minutes. Thank you.

THE REGISTRAR: This hearing is adjourned for a 15-minute recess until 11:33 a.m. Please switch off your video and mute your mic. Thank you.

(WITNESS STOOD DOWN)

(PROCEEDINGS ADJOURNED AT 11:18 A.M.)

(PROCEEDINGS RECONVENED AT 11:33 A.M.)
THE REGISTRAR: Thank you for waiting. The hearing is now resumed. Mr. Commissioner.

THE COMMISSIONER: Thank you, Madam Registrar. Yes, Mr. Davis.

MR. DAVIS: Thank you, Mr. Commissioner.

EXAMINATION BY MR. DAVIS (continuing):

Q Mr. Cassara, I'd like to turn to the topic of trade transparency units, or TTUs. I'll ask first what is a trade transparency unit?

A I think the best way to describe a trade transparency unit is to kind of compare it to a financial intelligence unit, which the commission is aware of.

A financial intelligence unit obviously collects financial intelligence, and it shares that financial intelligence with law enforcement and it also shares financial intelligence with members of the Egmont Group financial intelligence units. A trade transparency unit is similar in that it is -- in that it uses customs data, trade data, instead of financial intelligence. Every country in the world has a
customs service. Every country in the world collects import data and export data for national security purposes or for revenue purposes or whatever. So just like in the example of -- say for example, the refrigerator that we talked about, if a country shares that data, targeted, say, export data with another country's targeted import data, you can spot -- easily spot those anomalies, say, over- and under-invoicing, for example.

So the goal of trade transparency unit network is to eventually over another generation or so be somewhat analogous to the Egmont Group. We'll talk probably later on about the numbers of TTUs, but I'm hoping that over the next so many years there will be literally dozens and dozens and dozens of these TTUs around the world that can share financial -- or trade information and promote trade transparency and combat trade-based money laundering.

Q And you noted in your report that Homeland Security investigations has established a trade transparency unit; is that right?

A That is correct.

Q And that was pursuant to a proposal that you
advanced in 2004; is that correct?

That is correct. I getting back to that -- for example, with that conversation I shared with that Pakistani gentleman involved with the grey markets. That conversation and others triggered my thinking how could we successfully combat underground financial systems. And since many of these are based on trade, the idea of going via the back door by examining trade between countries could open some of those doors into these opaque systems I talked about.

But it evolved from there and eventually Homeland Security -- the Department of Homeland Security adopted this proposal and was included in the national US government anti-money laundering strategy report. So it's part of the US government money laundering countermeasures right now.

And on the US example, what can you tell the Commissioner about the Data Analysis and Research For Trade Transparency System, that's DARTTS, that was developed by Homeland Security investigations? And for reference, Mr. Cassara, that's on page 27 of your report.

Thank you. To help analyze all that trade data
Homeland Security investigations developed specialized software called this Data Analysis and Research For Trade Transparency System, or DARTTS.

Analysts and agents use DARTTS to examine trade and other data to generate leads for HSI investigations. DARTTS incorporates trade data, US import and export data, reported to Customs and Border Protection, CBP -- we talked about that earlier -- and, which is important, financial data, for example, suspicious activity reports, suspicious transaction reports, large currency transaction reports, this type of thing, that are reported to FinCEN.

The TTU also receives and disseminates targeted import and export data from these counterpart customs services, partner countries. So the system allows the users to see both sides of a trade transaction or a series of transactions at a macro level making it transparent. As I said, it's somewhat similar to the example of the refrigerator that I talked about. And then at the macro level you can drill down, because the governments control the information, to the micro level and you can see
the parties involved with that transaction, which is really necessary to conduct the investigation.

Q And so what sort of data is being exchanged between countries who might have TTUs?

A It's the countries' import and export data.

Q And what have the results been, Mr. Cassara, if you are aware of the trade transparency unit in the US?

A Well, there's various ways to measure the results. The solid numbers that I have, and there are very few out there, but going back to 2015 the very small TTU network has seized well over $1 billion worth of assets. But it's difficult to quantify success. And we'll probably talk about it, but although I love the concept, it's not yet been fully implemented. So there are some challenges to come.

Q And you describe that at page 28 of your report. And I'll ask, then, what are those issues with respect to the management and implementation of the trade transparency unit that the US has experienced?

A Yeah, I think I reference this in my information that I provided to the commission. Our
Government Accountability Office, GAO, was requested by members of Congress to examine trade-based money laundering, and they focused on trade transparency units as the primary countermeasure. They've issued a number of reports that I've referenced, and we're still waiting for the final report.

But to me the takeaway is that everybody likes the concept of TTUs. It's the implementation of the TTU that has generated some difficulty, some challenges, and from a former legacy customs perspective I think I know what those challenges are. And it's because -- and this is kind of internal baseball, but the Department of Homeland Security when it was formed, it basically incorporated both immigration and customs. And over the last 20 years most of the resources have gone into the immigration side of the house and short-shifted traditional customs.

So the powers that be really haven't bought into the TTU. They haven't given it resources, manpower, staffing and money that it needs to get going. They've put the brakes on expansion of the TTU network I describe. So these issues
have to be sorted out.

MR. DAVIS: Madam Registrar, if I could ask that you turn up exhibit number 341. That should be marked as Mr. Cassara's report. And, Madam Registrar, if you could turn to page 47 of the PDF please. It should read "Appendix 2" at the top.

Q Mr. Cassara, do you see that on the screen?

A I do.

Q And what can you tell the Commissioner about what we see on the screen?

A The appendix 2, and you can see -- I don't know if you have a footnote. I do in my notes. But it comes from that same US Government Accountability Office report that I was describing earlier. It lists the TTUs that are currently established around the world -- there's 17 of them -- and the year formed and data sharing frequency.

I think one thing the commission might want to note is there was an early impetus within HSI and the TTU network to establish TTUs in South America, Central America to target the Colombian black market peso exchange. I think we may be talking about the black market exchange in a
little bit. So that was the early emphasis on
the TTU.

One other quick observation while we're
talking about TTUs is that often times many of
these countries established trade transparency
units not necessarily to go after money
laundering, not necessarily to go after
trade-based money laundering or going after
underground financial systems, which was in my
mind original goal. It was to crack down on
trade fraud, underpayment of taxes and duties.
And this isn't a bad thing. I mean, frankly I
don't care, HSI does not care the reasons for
this, but I find it interesting that that was
the country's motivation, but like I said,
that's fine.

Q  So are you of the view that in addition to being
a useful kind of utility to combat money
laundering that there are also other benefits --
potential benefits to a TTU?

A  Oh, yeah. First of all, you know, it does crack
down on trade-based money laundering, it
promotes trade transparency, but it's a -
revenue maker for the host country.

You know, like I mentioned -- this is an
aside, but I mentioned my experience literally travelling dozens and dozens and dozens of countries and working with those countries to combat, say, money laundering and many of them -- I'm paraphrasing, but they'll say oh, Mr. John, thank you so much for coming out here but, you know, we're really not that interested; you know, we're doing the best I can -- the best we can, but we don't really have any problems; so thank you very much for coming but you can just go home. And I would say something well, you may not be interested in money laundering, but let me show you how you can increase your revenue by cracking down on trade fraud. Then they become very, very interested because everybody needs that. So just an aside.

Q And why on this chart or table prepared here do certain countries have different reporting frequencies, and what is that -- what impact would that different frequency have, if any?

A Yeah, that would be my understanding because I did not prepare this. In my understanding it would be the frequency that they exchange trade information. So you would see at the top Colombia does it with the United States on a
monthly basis, Argentina does it on a weekly basis, Uruguay does it on a quarterly basis. So this would be the bulk trade data, the raw data that would be exchanged between the two countries.

Q So this data sharing frequency, this the frequency that the country listed under the leftmost column would share with the United States?

A Correct. And we also obviously, you know, assist them with our information as well. It's a two way street.

Q And do those countries -- so, for example, does Colombia share its information with Argentina or with Brazil?

A That has to be negotiated. The other thing I should have mentioned, and I forgot -- I'm sorry -- is the fact that all of these TTU agreements are dependent on negotiation. They are dependent on what we call customs-to-customs agreements. Some of these are memorandums of understanding, some of them are formal treaties, customs treaties, but they all have to be negotiated. It can't be just kind of a gentleman's agreement. You have -- it has to be
And does Canada have any such agreement to your knowledge with the United States?

A Not to my knowledge.

MR. DAVIS: Madam Registrar, if I could ask that you please pull up the document 003 appendix S from the list of documents, please.

Mr. Commissioner, for your reference this is appendix S to the already marked and entered exhibit number 338. I don't intend to have this marked as an exhibit or ask that it be marked as an exhibit unless you feel it necessary. I've only asked that this individual appendix be brought up to avoid opening the entire overview report again.

THE COMMISSIONER: No, that's fine. It's already been marked and you referenced it by its number and location. So that's perfectly all right.

MR. DAVIS: Thank you, Mr. Commissioner.

And, Mr. Cassara, have you reviewed in preparation for your testimony this memorandum of understanding on the exchange of import data with annexes?

A I did.

Q And you write -- at page 28 of your report you
MR. DAVIS: Sorry, Madam Registrar, I actually won't need that document displayed. Or that document displayed any longer. Thank you.

Q Mr. Cassara, you write at page 28 of your report:

"There is a 1987 Memorandum of Understanding between the United States and Canada governing the exchange of primarily import data between the two countries."

Just to stop there. That was the same report that was just displayed on the screen; is that right?

A That's correct.

Q And you go on to write:

"The data exchange occurs at the macro level. While helpful for monitoring trade, I do not believe the information being exchanged has the necessary specificity nor the requisite export information that is needed to combat [trade-based money laundering] and value transfer."

Is that accurate?
A Yes, it is.

Q And can you please explain that to the Commissioner.

A Okay. With the caveat of course is I did not write that agreement. I did not -- was not involved with the preparation of it. It happened a long time ago. But my read of it was that it dealt with country -- the two countries' import data and it was again done at a macro level. Had more general. There was not enough specificity involved. And if you're a criminal investigator and you're doing these types of investigations into TBML, you need that specificity. You need to know the players involved. You need to know the specifics of the shipment. You know, its description, its value, its weight, its routing. All this type of stuff. And from my reading of this I didn't get the impression that that information was included.

Q And that information that you described, such as weight and descriptions, that would be included to your knowledge in any agreement between the United States and any of the countries that were listed on that column?
A Yeah, all of that is negotiated out. There are different agreements with different countries. Some countries will put restrictions on certain things. But the short answer to your question is yes, it should be.

Q And on that point I'd like to turn to ask you a few questions about data and analytics, Mr. Cassara. And I'd ask you in a broad way what you can tell the Commissioner about the potential for data analytics and other technology to combat trade-based money laundering.

A Very broadly, you know, I feel we've just scratched the surface in applying data analytics and, say, technical advances to trade-based money laundering by using state of the art technology. I believe international trade transparency is theoretically achievable or certainly possible. That's certainly a factor many times we have today.

You know, from a political standpoint I'm not sure if that's where countries want to go, but I think technically -- for the first time today I think we could theoretically achieve it or come close to it.
Q And at page 30 you describe the use of distributed ledger technology, such as blockchain. Sorry, I'll let you turn there, Mr. Cassara, that's page 30.

A Yes.

Q You describe distributed ledger technology, such a blockchain, to combat trade-based money laundering. What can you tell the Commissioner about that?

A Well, many experts feel that distributed ledger technology, such as blockchain, represents great promise in detecting and preventing trade misinvoicing, which is -- we talked about the biggest component of trade-based money laundering. So distributed ledger technology and blockchain themselves are designed so that all users along the trade supply chain are given permissions to make transactions. And then blockchain then creates a kind of unchangeable secure record of those transactions so that the completed record achieves a sort of trade transparency for those that have permissions to make those inquiries.

Q And what can you tell the Commissioner about the -- scrolling down the page just a little
In 2018 the United States Customs and Border Protection piloted a future concept assessment to evaluate the application of blockchain technology to the process of submitting documents for cargo entry. And as we talked about, blockchain allows different users to make transactions and then creates this unchangeable secure record of those transactions.

So the distributor ledger technology, including blockchain, they share, they verify the information across various, multiple devices to increase transparency, to reduce the risk of tampering. And basically it also removes a need for, like, third parties to be involved.

The goal of the Customs and Border Protection assessment is to prove that a standards-based fully digital system could be created to replace the existing paper-based system, which sometimes can be rife with abuse. Manual document handling, it's insecure, it facilitates fraud, slows logistics. So hopefully this new technology will improve
auditability, increased transparency and more
clearly identify suppliers and manufacturers,
which could help better identify fraudulent
documentation and assist with this trade
transparency that I was talking about.

Q Thank you. And one point that you raised that
I'd ask if you could elaborate on is the
standards-based approach versus the paper-based
approach. And that's something that we haven't
discussed yet. Can you describe what your
understanding of a standards-based approach is?

A Well, I go back to the vulnerabilities of a
paper-based approach. Again, this is what we've
used in the old days because that's all we had.
We didn't have the technology that's available
today. And once again it's -- it worked for
what it did, but it's also very easy to
manipulate. It's open to fraud and abuse.

A standards-based approach is much more
formal. There's agreed-upon standards and norms
and there are technical ways to make sure that
the documentation is legitimate, what it says it
is.

Q More so than under the kind of traditional
paper-based approach?
A Correct. Correct.

Q And you also describe in your report smart shipping containers. And I'm wondering what you can tell the Commissioner about smart shipping containers.

A Yeah, this is kind of fun, and I think hopefully we'll be seeing more of this. I mean, I'm old enough to remember the days when, you know -- kind when we were converting over to, you know, these 40-foot shipping containers when merchandise would kind of fall off the truck, and, you know, we'd be involved with some of this stuff. The longshoremen on the piers working with organized crime. But those days are gone.

This newest generation of what we call smart shipping containers, you know, there's a lot of promise there to combat TBML. There are some studies out there, and I think I referenced them in my report, showing that a single shipping transaction involves an average of 28 different entities, including, you know, ports and freight forwarders and carriers and customs agencies and all of this. So smart containers offer realtime monitoring anywhere in the world of a
container's location, its internal conditions, its temperature, for example. Whether it's been broken into, whether it's secure. Its physical integrity. All of this.

The new technology features access controls so that each container remains sealed until the shipper authorizes the opening of each container. And the data generated for each container can also provide customs agencies an additional tool to identify safe containers which can sometimes qualify for expedited clearance.

Q And so is this being used in the US to your knowledge or elsewhere in the world?

A Elsewhere in the world to the US, some of this stuff is just getting off the ground. But yeah, it's a growing industry.

Q Thank you. And I'd like to turn briefly to looking at Canada and British Columbia more specifically. And acknowledging the limitations that you've outlined for the Commissioner, what is your view on whether Canada and more generally -- or pardon me, more specifically British Columbia face threats from trade-based money laundering?
Very generally it's my belief that Canada in general and British Columbia specifically do face current threats from trade-based money laundering.

And why?

I want to make it clear that, you know, once again I'm not a money laundering expert on Canada or British Columbia, but what I've seen from a general context makes me concerned. And once again, I go back to Dr. Z, Dr. Zdanowicz who's going to be talking to the commission, I believe, in a few days. I have not seen his work, I have not, but I understand that his work is going to show that there is, you know, a pretty big magnitude of customs fraud and related invoice manipulation. That it's serious and it's widespread and it results in substantial revenue loss for Canada and its provinces, including British Columbia. So the customs fraud issue is there.

And then as this relates to, you know, over- and under-invoicing and these other issues that we talked a bit about, other methodologies, threats related to capital flight, underground financial systems, value transfer, all this type
of stuff, I most definitely think Canada and
British Columbia are vulnerable.

And you talked about typologies, and I'm looking
at pages 32 and 33 of your report. Something
that you raise -- sorry, I'll let you get there,
Mr. Cassara.

Yes, I've found it.

Thank you. One of the typologies you raise is
the black market peso exchange typology. Can
you explain that kind of in an overview way and
why you believe that it might present a risk to
Canada and British Columbia?

The black market peso exchange is one of the
largest money laundering methodologies in the
western hemisphere. Years ago, in fact, the
Department of Treasury of the US government said
it was the largest. Not sure if that's true
today, but it's right up there.

In the -- what we call the traditional black
market peso exchange that started in Columbia
and then it's moved into Mexico, narcotics
traffickers sell at a discount all the proceeds
of US drug sales within the United States.
Those are the street sale of narcotics, $20
bills, the $5 bills, all this kind of stuff.
They sell these -- they sell the money at a
discount to a black market peso broker, say,
based in Mexico or Colombia. So the narcotics
traffickers are out of the equation. They've in
effect laundered their money because they get
clean money back in Mexico or Colombia.

In turn the brokers, those black market
brokers, they place the illicit proceeds into US
financial system and then use that money to
purchase trade goods that are sent back to
Colombia and Mexico that, say, legitimate
businessmen need because there are, as you know,
sometimes currency exchange controls on pesos
and other currencies, you can only send so much
hard currency out of at country. So this gives
these businessmen access to hard currencies that
they need. No money crosses the borders. Only
the ownership of the currencies involved changed
hands.

So in years past, US drug dollars purchased,
for example, Marlboro cigarettes or Bell
helicopters or US manufactured electronics. And
the companies involved, the representatives of
the companies involved dealing with those trade
brokers, they didn't know that they were
receiving drug money or maybe they were willfully blind. They kind of looked the other way. So the same type of BMPE takes place in Europe as well. You know, drug money will purchase an Italian Carrara marble; right?

   Now, increasingly things have changed. Say, go back ten years or so, and now the purchases, the logistics, the foreign exchange specialist and the trade intermediaries are Chinese, in Chinese organized crime groups, and they arrange for drug dollar purchase of Chinese merchandise -- much of it, say, could be counterfeit goods too -- to be sent to Central and South America, including Colombia, Mexico, the Tri-Border area, the Colon Free trade zone. All of this.

   So discussing this, and I was doing some research for this paper, Canada's FINTRAC notes that:

   "Brokers send suspected illicit funds held in Latin America or the U.S. to Canadian trading companies, wholesalers, dealers and brokers via electronic funds transfer and, to a limited extent, cash courier. These entities subsequently send
the funds to entities in multiple
jurisdictions, including China, Hong Kong
and the U.S., to pay for goods."

And further, according to FINTRAC:

"Brokers send suspected illicit funds held
in Latin America to U.S.-based entities of
varying types, as well as to China or Hong
Kong-based trading companies, through
electronic funds transfer via a Canadian
financial institution acting as a
correspondent bank."

In other words, FINTRAC is seeing signs of the
black market peso exchange. I'm concerned that
Canadian drug dollars here are being used to buy
Canadian products, whatever that product is. That, in essence, is the black market peso
exchange.

Q And that's why you conclude at page 33 of your
report -- you conclude:

"While there are few if any
investigations -- "

This is at the third paragraph, if you count
those top two lines as a paragraph.

"While there are few if any
investigations, there is a very good
probability that Canadian drug dollars are used to directly or indirectly purchase Canadian manufactured goods, commodities, and raw materials."

That's why you make that conclusion, Mr. Cassara?

A Yes, because it happens elsewhere. I mean, it happens in the United States. We know that. We've known it for 20 years. It happens in Europe. It kind of goes back to what I was saying before. I mean, it happens elsewhere. It's going to happen in Canada. I'm sure it's happening in Canada, you just have to look for it.

Q And you also note, going down to page -- actually staying on page 33, about the potential misuse of international gold, precious metals and gems; is that right?

A That is correct.

Q And what can you tell the Commissioner about that risk in a general way?

A The misuse of the international gold trade is something I've been concerned about for many, many years. When I went to Italy -- I mentioned that I went to Italy in 1990. That's when I
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Exam by Mr. Davis

first saw it. And I've done a lot of work over
the years both investigating it analysing it.
Some of the largest cases in -- money laundering
cases in history have involved the misuse of the
international gold trade.

I talk about it a lot in my book on
trade-based money laundering. I also talk about
it a lot in my book on money laundering, and
it's -- just to very briefly go through this.
Gold is extremely attractive to money launderers
because, depending on its form, gold is both a
commodity and kind of a *de facto* bearer
instrument. Gold is a readily acceptable medium
of exchange. It's accepted anywhere in the
world. In times of uncertainty, gold offers
stability. Gold offers easy anonymity to money
launderers. Depending on the need gold can
be -- the form of gold can be easily changed or
altered. It can be melted, smelted down.
There's a worldwide market in cultural demand.
Gold transactions can easily be layered or
hidden. It's perfect for placement, layering
and integration. Old and varied forms can be
easily smuggled. And by weight it represents
much more value than cash.
Gold is often used in fraudulent trade-based money laundering schemes, for example, importing gold scrap at lies prices higher than gold bullion, believe it or not. And in parts of the world gold is the favoured commodity used in underground financial systems like hawala. Historically and culturally gold has been the favoured commodity to use. I could launder money with any type of thing, but when we're talking about historically and culturally hawala and counter-evaluation it's gold.

In fact I remember reading a report prepared by the British Commonwealth Secretariat back in the early 1990s, and they said that if somehow could take gold and silver out of the hawala equation, 90 percent of hawala would disappear. It's certainly different today. And there's -- the gold trade is liberalized particularly in places like India and Dubai and elsewhere, but gold is a huge threat.

Q Thank you. And, Mr. Cassara, I'm now going to turn to the kind of concluding portion of your report, which begins at the end of page 34 and the page 35 onwards. And at page 34 you offer eight recommendations to the Commissioner; is
that correct?

A That's correct.

Q And for clarity, you have not considered the constitutional, statutory or any other implements that might exist with respect to implementing or considering those recommendations in Canada or British Columbia; is that fair?

A That is fair.

Q And I'm not going to take you through all of them, Mr. Cassara, but recommendation 3 involves creating a specialized policing unit to investigate trade-based money laundering; is that correct?

A That's correct.

Q And why would a specialized unit like that be beneficial?

A Well, I think for a variety of reasons. Number one, the status quo isn't working; okay? So, you know, sometimes it's time to try something new. I think it would also reassure the public that authorities are taking reports of widespread trade-based money laundering seriously. I think a specialized unit would develop specialized expertise. I think that's
probably needed. And I think the unit itself should easily pay for itself through the collection of increased taxes, duties, you know, forfeitures. This type of thing.

Q And are there any particular structures or staffing models that in your view would make for a particularly effective trade-based money laundering policing unit?

A Yeah. Again, every country is different, every country does it a different way, but I think the unit, whatever you want to call it, should have access to all relevant government, law enforcement, financial trade and related data, things that we've been talking about. I think the unit should have an adequate budget. That's something that, you know, the US has been struggling with. I think the unit should kind of be integrated within Canadian customs or, you know, the Canadian Border Services Agency or try to have direct representation. And the unit members, I think it would be best -- we've found from the US experience that they were kind of, you know, recruited or cross-pollinated, if you will, from a cross-section of applicable disciplines, including customs and financial
crimes and fraud. All this. And I think most importantly -- because I'm not sure how it works in Canada for investigating customs related crimes, but I think the officers should have the mandate to investigate TBML and related crimes and have the power of arrest.

Q    Thank you. And several of the recommendations that you make, Mr. Cassara, relate to gathering and having on hand relevant statistics and data. Is that a fair summary?

A    Yes, it is.

Q    And what data and statistics would you recommend that Canada, or British Columbia more specifically, have in hand as they consider how to combat trade-based money laundering and evaluates their efforts to date?

A    I urge the Cullen Commission to determine specifically how many trade-based money laundering cases have ever been worked in British Columbia or at the federal level that impact British Columbia, how many resulted in successful convictions, how many cases were presented for prosecution and how many were accepted or rejected. How many TBML-related assets we seized and ultimately forfeited. How
many law enforcement and other personnel have been devoted to combat trade-based money laundering. How many STRs related to trade-based money laundering have been filed that impact British Columbia. And using data that I believe is going to be presented by Dr. Zdanowicz and perhaps other sources, determine estimates for the amount of over- and under-invoicing on goods, imports and exports involving British Columbia and the aggregate potential loss of revenue.

Q And you note your recommendation number 6 is that Canada establish a registry of beneficial ownership information; is that right?

A Yes.

Q And how would beneficial ownership information in such a registry assist in dealing with trade-based money laundering?

A Well, beneficial ownership information basically are associated with these, you know, opaque shell companies, and this is very, very common in the layering stage of money laundering that I described earlier. It makes it very, very difficult for criminal investigators to follow the money and value trails if you don't know
who's involved, if you can't determine the ultimate beneficial ownership information.

So having a central national beneficial ownership registry I believe would greatly assist Canadian law enforcement and revenue authorities not only in trade-based money laundering investigations but in a wide variety of other investigations. All that being said, I'm not familiar with the details of the -- or the status of the Canadian initiative to require beneficial ownership information.

One thing I think it's probably important to recognize, and it's something the US is facing right now because we are getting close to establishing beneficial ownership information -- we have some language included in some legislation that looks like it's going to pass -- is that the majority of the world's trade transactions are not dependent on trade finance documentations. We discussed this. So as such, beneficial ownership information, a lot of people think it should necessarily sit with and be collected by both trade and financial intermediaries to be effective against trade-based money laundering. So not just by,
you know, financial institutions but also by the trade intermediaries.

MR. DAVIS: Thank you very much, Mr. Cassara.

And, Mr. Commissioner, those are my question for this witness.

THE COMMISSIONER: Thank you, Mr. Davis. And I understand that Ms. French on behalf of Canada has some questions for Mr. Cassara and has been allocated ten minutes.

MS. FRENCH: Thank you, Mr. Commissioner.

EXAMINATION BY MS. FRENCH:

Q    Good afternoon, Mr. Cassara. My name is Olivia French. I'm counsel for Canada.
A    Good morning.
Q    Good morning. I appreciate that you have already qualified with Mr. Davis some of the limitations of your knowledge about the Canadian criminal context and the Canadian approach to money laundering, trade-based money laundering. So with that in mind, I just have a couple of brief questions for you about one of the recommendations.
A    Of course.
Q    Thank you.

MS. FRENCH: I think it might be helpful if we do
pull up the report. So Madam Registrar, could we pull up Mr. Cassara's report. It's exhibit 341.

And, Mr. Cassara, I'll be going to page 35 of your report, if you'd like to pull that up.

Thank you, Madam Registrar.

Q Excellent. Mr. Cassara, you are at page 35 of your report?

A I'm getting there.

Q So I'm looking at the third recommendation. You can also view it on the screen as well.

A Okay. I see it on the screen.

Q Great. That's fine, then. So your third recommendation was to create a specialized unit within the RCMP to investigate money laundering, including trade-based money laundering; correct?

A Correct.

Q And then you write:

"According to a 2019 press report, 'not a single federal police officer is working to bust money launderers in B.C.'"

Have I read that correctly?

A You have, AND I also included a footnote for that.

Q Yes, you have. And that footnote is TO, as
you've described, sort of a public source, to the Star News publication. It's a news article?

Okay.

Shall we verify that?

Yeah, if you could.

Absolutely.

MS. FRENCH: Madam Registrar, I'm looking at page 39 now of the report.

And near the bottom we see footnote 62, LXII. And it's an article by Jen St. Denis?

Okay.

And it's the Star, Vancouver, dated April 8, 2019. Is that correct, Mr. Cassara?

Yes.

Excellent. So we can turn back now to page 35. So you've quoted the Star news article and then you write:

"If accurate, that is the crux of the problem."

Have I read that correctly?

Yes.

Yes.

In my opinion, yes.

And so you acknowledge, though, that you're not sure if this statement from the Star news
article is accurate; is that correct?

A That's why I wrote "if accurate." I don't have firsthand knowledge.

Q And so you didn't yourself independently verify that statement?

A No.

Q And if I were to put to you that that statement is inaccurate, you wouldn't be in a position to disagree with me; correct?

A I would not be in a position to disagree. I took the report on face value.

Q Thank you. So at this point in time you don't have any direct knowledge yourself of exactly how many federal police officers are currently working on money laundering investigations in BC; is that right?

A That is correct.

Q And likewise, you don't have direct knowledge of how the federal-provincial policing regime is structured in Canada?

A Outside of the very basics, no, I do not.

Q And that would also, then, apply to the specifics of how units are staffed or officers might be deployed or distributed for complex investigations?
A That is correct.

MS. FRENCH: Thank you, Mr. Cassara.

Mr. Commissioner, I have no further questions.

THE COMMISSIONER: Thank you, Ms. French.

Next on behalf the British Columbia Lottery Corporation, Mr. Leung has been allocated ten minutes.

EXAMINATION BY MR. LEUNG:

Q Sir, can you hear and see me?
A I can. Good morning.

Q I'd like to confirm -- expand on two points from your evidence today. First, you have testified that you are not an expert on the Vancouver Model of money laundering; is that correct?
A That is correct.

Q And your evidence is that all of your research on the Vancouver Model comes from publicly available information; is that correct?
A That's correct.

Q Is it fair to say, then, that you do not have any particular expertise on money laundering in British Columbia's casinos?
A Outside of what I have read in the public domain, I have never worked a case. So I think
MR. LEUNG: Thank you those are my questions.

THE COMMISSIONER: Thank you, Mr. Leung.

Mr. McFee on behalf of James Lightbody, who has been allocated 15 minutes.

MR. McGOWAN: And, Mr. Commissioner, just for the benefit of the participants, I should interject to say Mr. Lightbody and the British Columbia Lottery Corporation do not, in commission counsel's view, have standing on the trade-based money laundering topic. But because Mr. Cassara has such a broad wealth of experience and his report touches on areas that are relevant beyond trade-based money laundering, counsel for those two participants each sought standing to -- leave to question this witness on areas that may be relevant to their grant. And that leave request was granted by you.

THE COMMISSIONER: Yes, that's quite so. Thank you for identifying that, Mr. McGowan.

Yes, Mr. McFee.

MR. McFEE: Thank you.

EXAMINATION BY MR. McFEE:

Q Good morning, Mr. Carrara. Can you hear me fine?
Q One of the topics you addressed in your testimony and your report to the commission a capital flight out of China; correct?

A Yeah, correct.

Q And at page 19 of your report you say that from approximately 2006 to 2016, so a ten-year time frame, an estimated $3.8 trillion in capital left China. Do you recall that?

A Yeah, I see it right here. And I also included an endnote.

Q Right. And to your knowledge was the quantum of this capital flight relatively stable on an annual basis during this ten-year time frame or was the capital flight escalating on an annual volume as time progressed?

A I can't say. I have no firsthand knowledge about how that information was put together. Once again, this was from a -- I have to look at the source in the public domain and I just took it at value -- face value.

Q And from your -- from your broad experience in law enforcement and then as a consultant thereafter, to your knowledge was Canada one of the destination countries for capital flight
leaving China?

A Yes.

Q And you alluded to this in your testimony, but would you agree that it's fair to say that much the capital leaving China is the proceeds of legitimate businesses and sources of wealth of Chinese nationals?

A Oh, absolutely. But I also believe that -- as I think I said in my testimony, that it often occurs that illicit proceeds can be mixed or we sometimes say co-mingled with licit money. It's making it very, very difficult to distinguish.

Q Right. And that would be part of the layering in money laundering, would it?

A It would be.

Q But to be clear, the mere fact that funds entered Canada by way of capital flight from China doesn't cause one to necessarily conclude that this was illicit money?

A No. As I said, I have no data to back this up, but I would assume that the overwhelming majority of the capital leaving China into Canada is the result of licit funds. But I'm also convinced that there are illicit funds, the percentage of which I do not know and I don't
believe can be accurately estimated, but I believe there is a percentage that come from, say, illicit origins.

Q Now, also in your report and your testimony to the commission you referenced and you had a section in your report on data and technology?

A Sorry?

Q In your testimony and you have a section in your report on data and technology?

A Yes, sir.

Q And that's an area where you do have some personal experience and expertise?

A Well, yes and no. Please do not consider me a technical expert. I have worked for some data and analytic companies in the past as a consultant but -- and some of them are well known, but my contributions were basically with their sales department in the sense that I was trying to give them input on how the cultures of the bureaucracies work in the United States and possibly point them in the right direction.

Q And as you noted in your testimony, the FATF-centric model responding to money laundering is quite a data intensive model?

A Yes, it is.
Q I think you told the Commissioner that FinCEN in the United States has 20 million reports approximately filed annually?

A That's correct.

Q And I was struck by what you said in your testimony. You said that's both a strength and the weakness. It's a strength in the sense that you get of lot of data that's potentially available, but it's a weakness because, as you put it, as I understood it, so much of it is just not reviewed. Is that correct?

A That's correct. The strength -- and going back again to some of these technical companies. When I was working with my former colleagues they impressed upon me something basically I already knew is, you know, you're talking about big data, the more data there is, the better it is, right, for advanced analytics?

But at the same time from a practical standpoint we're talking about -- I mean, let's just talk about suspicious activity reports or suspicious transaction reports, as it's called in Canada. Well over 2 million are filed every year in the United States, I think some years approaching 3 million, about half from financial
institutions, about half from money service businesses. And many of these suspicious activity reports, STRs, are filed -- we call it defensively, and I call them garbage reports. It is gums up the system.

And if you only have, you know, a few dozen analysts at FinCEN that are charged to look at SARs, I mean, even with the best analytics it's just too much.

Q But does that lead us to a situation where, in your experience, tools and systems that allow government reporting agencies and law enforcement to actually analyze that data to weed out the garbage reports, that that component is a very important component of a comprehensive anti-money laundering strategy?

A I think it is. I think we need to do a much better job of that, both for government and also industry. I mean, I've talked to a number of bank compliance officers and they are frustrated as well. They file these, as I call it, garbage reports, or defensive filings I think is more commonly used, because, you know, they're concerned about large fines and penalties for not complying. So they've been advised just
file, just file, just file. At tremendous costs. At tremendous costs.

So this is something we need to do a much better job of. The compliance officers I've talked to, I've talked to ACAMS, I've talked to Association of Certified Anti-Money Laundering specialists, numerous think tanks. I've talked to, you know, friends. They said, you know, we need more feedback; we need more guidance; we need more specificity to help us with our reporting. And the US government, FinCEN, has struggled with that for years.

So in that context and in your experience as a law enforcement officer and then as a consultant on money laundering and anti-money laundering measures, would you encourage AML reporting entities to acquire analytical systems and utilize these systems to identify anomalies in the data?

I would. But both analytic systems and also to educate themselves. I think -- again, I am not a bank compliance officer. I've never worked in a financial institutions. But my gut is that there can be an overreliance on software to do a lot of this stuff. It's good in sorting; right?
It's good to program red flag indicators. But when push comes to shove, the bottom line is it takes a human being, a human being with good knowledge, you know, and trusting their gut input, their gut feeling, to look at this information and say, there's something here.

So at the end of the trail you'd need a human, an investigator to look at it, but it's very useful to have those software analytical tools to weed out the garbage and get you down to what a human should be looking at?

That is correct. And although you say you've never worked in a bank, I see from your -- I'll call it your CV, but I guess it's your work history. You were a consultant for SAS for about a five year period, 2011 to 2016?

That is correct. That is the -- one of the primary analytics -- data analytics companies I worked for as a consultant, yes.

And to your knowledge SAS has a software system that's widely used across of a number of sectors, including the banking sector and governments, to analyze business and financial data?
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1          A    Yes, it is, but I want also to make it perfectly
clear I'm not a SAS employee today. I never
was. I was a consultant, and I don't want to
speak for SAS.

5          Q    No. But to your knowledge did that system that
was used in these sectors provide data
management, including predictive analysis and
the ability to identify anomalies in the data
which would then cause a human to look at it and
drill down into it more deeply?

11         A    Yes, that's how it's advertised, and I think it
works fairly well, is my understanding. But
once again, I never actually had hands on with
these systems.

15                    From a law enforcement perspective I think
there's -- and I talked with my SAS colleagues
about this. I think one the most important
things that big data can do and advanced
analytics can do is what you just mentioned:
predictive analytics. There's a crying need for
that. And the other crying need is what I call
prioritization; right? There is so much data
out there and there's only so many resources
available. Use the big data and the analytics
to pick out those nuggets, those promising cases
that need X criteria because every law enforcement investigator or agent has a inbox like this. Which one should I focus on? And I think big data analytics is very promising in that regard.

Q So in your experience as a law enforcement officer and then as a consultant with a wide range of experience in the consulting and trading industry, these -- would you agree that these types of analytical tools that assist -- would assist an entity in developing a robust AML program?

A Yes.

Q And acquiring these types of tools would be something you'd encourage in the development of a robust AML program?

A Yes, I would.

Q And just one last topic, if I might briefly. And you -- in your recommendations you recommended the specialized unit be established within the RCMP to investigate money laundering, including trade-based money laundering?

A I did make that recommendation.

Q But to be clear, that's to investigate money laundering throughout the Canadian economy,
including potentially in designated reporting entities such as casinos?

A Yes. And obviously the specifics of that would have to be fleshed out regarding, you know, venue. Who would have jurisdiction, what entity would have jurisdiction, you know, at the federal level, at the provincial level, this type of thing. But in my opinion when you're talking about money laundering, let alone trade-based money laundering, financial crimes in general, you have to develop specialized expertise. It takes training and it takes experience. And I would encourage law enforcement authorities in Canada to move in that direction.

Q So I take it when you say it takes training and it takes expertise, that's the type of training, in your experience, and the type of expertise that police of local jurisdiction don't necessarily have, so that's why you recommend a specialized unit?

A Generally speaking, yes, local police do not have that kind of knowledge and experience.

Q And in your long experience as a law enforcement officer and then subsequently as a consultant
trainer, mentor in the money laundering field,
would the absence of a specialized AML law
enforcement unit create a gap in the AML regime
that could be exploited by organized crime?

A I think it could.

MR. McFEE: Those are my questions for you. Thank
you very much.

THE WITNESS: Thank you, sir.

THE COMMISSIONER: Thank you, Mr. McFee.

Now on behalf of the British Columbia Civil
Liberties Association Ms. Tweedie, who has been
allocated 10 minutes.

MS. TWEEDIE: Thank you, Mr. Commissioner.

EXAMINATION BY MS. TWEEDIE:

Q Good afternoon, Mr. Cassara. I just have a few
questions for you, some clarifying questions
about a couple areas of your evidence.

The first is regarding the metrics matter
which you spoke about earlier. And you speak
about forfeiture and convictions as being the
metrics that matter in AML enforcement.

First --

THE COMMISSIONER: Ms. Tweedie, I'm just going to
interrupt for a moment. I am afraid your voice
is quite distorted. I wonder if you could do
something with your microphone and perhaps
repeat that question.

MS. TWEEDIE: My apologies. Let me check the
settings. Are you able to hear me now?

THE COMMISSIONER: Yes, I am.

MS. TWEEDIE: Okay. Great.

Q So you spoke about forfeitures and convictions
as metrics that matter in AML enforcement. But
looking to page 9 of your report, I understand
that by your own estimation money confiscated by
the US is likely less than 1 percent of money
generated by criminal activity; is that correct?
A That is correct, ma'am.

Q And under the US civil forfeiture process, money
or assets are seized when they're suspected to
be linked to a crime but the person who owns the
money or the assets isn't necessarily charged
and may never actually be convicted of a crime.
You're familiar with that; correct?
A I am, but I readily admit I am not an expert on
civil forfeiture law in the United States.

Q Okay. Thank you. But you would agree that not
all money seized through civil forfeiture has
been proven to be the proceeds of crime?
A Absolutely, yes.
And also on page 9 of your report you write that dated info suggests that money launderers in the US face less than a 5 percent chance of conviction?

Yes.

And you spoke about this earlier, how most -- it's your belief that most of these convictions are low-level money couriers; that's correct?

I wouldn't use the word "most" but I would say a lot. And it's very difficult for me -- maybe the Department of Justice has that information, but I can't find it. I don't know if it's in the public domain or not, but I would say that a lot are kind of low-level stats.

Okay. And by "low level" you mean they are not high up in the criminal chain? These are not --

It does not make a difference. Again, I go back and, you know, I'm generalizing again, but these are the low-level couriers instead of the individuals higher up the food chain.

Yeah, so not the ones who are profiting significantly?

Correct.

Likely actors that could be easily replaced. Is that fair to say?
A: Yes. Yes.

Q: And so in looking at these statistics -- the 1 percent of forfeitures, 5 percent or less of potentially low-level actors, these statistics, while they may be a good metric for enforcement measures, they are not an indicator of the magnitude of the money laundering problem. That's fair to say?

A: No. I think to look at the magnitude of money laundering problem you have to look at the other types of metrics that are out there. I'm not sure if I talked a lot about this in the report or not. I did in my book. The international monetary fund uses an estimate of about, which is commonly accepted, somewhere between 2 and 5 percent of world GDP is laundered every year. Which very round numbers, very, very round numbers equates to a roughly, say, $4 trillion a year with a wide band there.

There are other estimates as well from other, you know, ONDCP and others have come out with their own. But it's very, very difficult to come up with precise numbers for the magnitude of money laundering. The FATF hasn't even attempted it. By its very nature this
money is hidden. It's opaque. I know when I was at FinCEN for six years we hired a full-time economist to look at the magnitude of money laundering to come up with a definition to try to help the FATF, and after two years this economist just threw up her hands and gave up. It was just impossible.

So we do recognize that there is a lot of play in those numbers, but in kind of academic governmental and non-profit circles generally speaking they use that IMF estimate of 2 to 5 percent.

Q Yes, we've been hearing evidence about the complications of quantifying the money laundering problem. I understand that it's next to impossible to get a good estimate. But just to clarify, using these metrics of law enforcement of forfeiture and convictions, that's not a good way to measure either the scale of the money laundering problem or the impact we're having. Is that fair to say?

Seeing as we're looking at such a small percentage.

A I would look at those metrics that matter when you talk about seizures and forfeitures and this
type of stuff as the results, the results of our
work; okay? So we can quantify how much the
Department of Justice, for example, the
Department of Treasury in the United States,
they have asset forfeiture funds. We know how
much we recover that is forfeited to the
government every year. That's quantifiable.

So to me, you know, you break that down,
what's involved with money laundering,
et cetera, et cetera and you compare and
contrast that to those very imperfect numbers
that we talked about, the magnitude, and that is
why you come up with, for example, Raymond
Baker's statement, you know, a total failure is
only a decimal point away.

Q  Okay. Thank you. And I just have a few
questions about capital flight which you
discussed earlier. Underground financial
systems like fei-chien these -- my understanding
is that they developed as a response to the
failure of conventional financial infrastructure
to offer efficient services to immigrant
workers; is that correct?

A  Well, it depends how far you want to go back,
and again I'm not a sinologist, I'm not a
Chinese expert, but I've done some reading on this -- and actually the pronunciation is probably off -- fei-chien, flying money, goes back to I understand to the Tang Dynasty back about the 7th century. And at that time obviously didn't have modern banking and cheques and all this kind of stuff, it was a way to pay taxes to the government when, say, farmers, peasants would take tea or rice or whatever to a marketplace and they would be given almost like a chit, for lack of a better description. And they would take that back to their home province -- it was a long trip -- and they would present that to a government official for payment. So that's how it developed.

Over the centuries with the Chinese diaspora, Chinese individuals spread around the world and they needed money and they most importantly wanted to send money back home to support their loved ones. So these systems developed.

Q Yeah. And so the -- and you spoke about this earlier, but the primary use of these systems is precisely that, correct, in immigrant workers sending money to their family?
A Correct. Absolutely. And I want to make
perfectly clear that government at whatever
level, you know, intelligence, law enforcement,
regulatory, you know, have no wish to interfere
with hard-working immigrants sending their hard
earned money back home to support their loved
ones.

Q Okay. And would you agree that due to the
significant economic, social and cultural
factors these informal transfer systems, they
will continue to persist?

A Yes.

Q Yeah. Okay. And that due to many factors,
including the scale and scope of these systems
and the fact that law enforcement has very
little understanding of these systems, attempts
to tackle these systems by law enforcement are
unlikely to get very far. Is that a fair
assumption?

A Yeah, I wouldn't say -- particularly when you're
talking about hawala in the year 2020, I
wouldn't say that we have little knowledge of
them. I think it's fair to say we don't have a
lot of knowledge about the intricacies and the
magnitude of the Chinese -- of the corresponding
Chinese flying money systems. But I can say in my experience that the countermeasures that we've put in place -- I think you probably listened in. I talked about, you know, the United States designating these informal value transfer systems as money service businesses, they have to be registered and they have to be licensed, they have to provide suspicious activity reports. These types of countermeasures have proven to fail all around the world they've been tried.

MS. TWEEDIE: Okay. Thank you, Mr. Cassara, those are all my questions.

THE WITNESS: Thank you. You're very welcome.

THE COMMISSIONER: Thank you, Ms. Tweedie.

And now for Transparency International Coalition, Mr. Gratl, who has been allocated 20 minutes.

MR. GRATL: Thank you, Mr. Commissioner.

EXAMINATION BY MR. GRATL:

Q Mr. Cassara, as I understand your evidence, you're saying a portion of trade-based money laundering transactions involve cross-border transactions; is that right?

A When you say cross-border transactions, could
you be more specific? Because when I say
cross-border transactions I'm talking, you know,
literally the -- crossing a border with cash
that may or may not have to be declared
depending on the value. So if you could just
explain a little bit more.

Q Sure. Say, import/export contracts?
A Yes.

Q Yeah. And so a portion of those transactions
essentially involve the same person being both
the importer and the exporter?
A Not necessarily. I mean, there's generally --
the same person?

Q Sure. A portion of those transactions involve
the -- essentially the same legal person or
entity being both the importer and the exporter.
A A portion, I suppose, yes, but I wouldn't say
that's the overwhelming percentage.

Q And then for other of those trade-based money
laundering transactions the importer and
exporter may be related by a family connection?
A They could be or they could be -- or could be --
I mean, the primary percentage, if you will, are
arms's length transactions. I don't know you;
you don't know me; they make a deal. And I also
understand that actually the majority of international trade, global trade, is between the same multi-national group.

Q Right. Those so would not be arm's length transactions, then?

A Correct.

Q Would it be of assistance, then, at the point of border crossing where customs declarations have to be made in any event to add a requirement that the shipping party make a declaration of common beneficial ownership with the counterparty?

A I hadn't thought about that. It seems to be, you know, a fair idea. I'd have to think about that more, but from a law enforcement perspective that information, I think, would prove very helpful.

Q And how about a similar type of declaration at the point of border crossing in relation to whether or not the transaction is arm's length? Would that information be of assistance to law enforcement?

A The way I look at this is if you ask the average law enforcement, average intelligence officer, they're going to say the more information we
have the better it is. The more data we have, 
the better it is. So the short answer would be 
yes. At the same time leading government, okay, 
and talking to folks in industry I'm also 
sometimes -- let's put it I'm very sensitive to 
the fact it's very tempting sometimes to 
generate reporting requirements, but they can 
sometimes come at great cost.

So this all -- I'm not dismissing the idea 
at all. I think it can be helpful, but at the 
same time I understand the regulatory burdens 
that this sometimes imposes on a group.

Q All right. And then as I understand it one of 
the primary vehicles for trade-based money 
laundering is over or undervaluing one of these 
import export transactions?

A That's correct.

Q And again at the point of customs there's a 
requirement to declare the value of the goods 
and the nature of the goods.

A Correct. Correct.

Q And would it -- in the United States is one of 
the vehicles for prosecuting or investigating 
trade-based money laundering essentially fraud 
in the process of describing the goods and
valuing them?

A Yes, absolutely. Absolutely.

Q So it's of particular importance to make sure that the offences in respect of that activity are properly characterized?

A Yes.

Q Or -- and easily enforceable or practically enforceable?

A Yes, sir.

Q And that the declarations are made by people who have adequate knowledge to make that declaration?

A Yes, sir.

Q All right. And are you in a position to -- that is to say when it comes to these cross-border import/export transactions you are not looking at prosecuting through money laundering statutes; it's actually just a form of cross-border fraud?

A That is correct. And it goes back to, I think, a bit of a discussion I had earlier with Mr. Davis about trade fraud itself. Depending on who you talk to, trade fraud could be considered a predicate offence for trade-based money laundering. And others say no, as you
just indicated, it's trade fraud, kind of separate. So, you know, this is a conversation that, you know, a lot of people have had and I don't think there's a good answer for it one way or the other.

Q In terms of the economic harm resulting from what amounts to dumping products at a lower cost, that's pretty significant, isn't it?

A Yeah. It can be in countries around the world.

Q But have -- for goods that are undervalued at the point of import, it can be very distractive on the domestic manufacturing of those comparable goods?

A Yes, sir, I agree.

Q All right. And so in that sense -- and I suppose you're familiar with this -- businesses engage in all sorts of intelligence-gathering about their competitors?

A Oh, yes.

Q And if they had access to a beneficial ownership registry for the shippers and receivers, they'd be in a good position to go and investigate their competitors for this type of money laundering activity, wouldn't they?

A I would imagine, and I have never worked, you
know, at that level in a business, but yes, I imagine that businesses would try to actively collect as much intelligence as they could about their competitors. There are a lot of initiatives right now going on. As I mentioned, in the United States we're very close to passing finally beneficial ownership information.

There's a lot of discussion about the particulars of that and who's going to have access to that information, where that information is going to be stored. And I think countries around the world are kind of struggling with those -- kind of going back to your question about, you know, could companies get access to that.

Q Right.

A A lot of observers, say, in Europe they want to have, I think -- and, again, I'm not an expert in this field -- they want to have, like, open register. So, you know, John Q. Public can see all of this. So, I mean, there is a lot of debate.

Q Right. So -- but by having a public open registry with low-cost access or no-cost access to the information, business competitors, rather
than government, could be recruited to sift
through the data to make sure people are playing
by the rules?

A It could happen, yes. Sure.

Q And there'd be of course a business incentive, a
financial incentive for business owners or
people working for them to go and find out that
type of information?

A Right. One of the things -- and I don't think
this came up in my conversation earlier talking
about trade-based money laundering, you're
talking about countermeasures, you're talking
about the be possibility of creating trade
transparency. I think legitimate players,
legitimate business people, legitimate
international, you know, business enterprises,
they should welcome all this.

I'm not sure if that's what you're getting
at, but legitimate players want to play by the
rules; right?

Q Right.

A And those that do not, you know, push back on
transparency, financial transparency, trade
transparency, whatever.

Q Right. And the same might be true on the other
side. Not just domestic businesses that are harmed by this type of activity but people in the exporting country might be interested in the places where the goods are being exported.

A Of course.

Q In cases of overvaluing goods at --

A That's correct.

Q So the same principle would apply to foreign access to this domestic data?

A Yes.

Q Now, trade-based money laundering is also domestic, not just cross-border; right?

A Give me an example of what you mean.

Q Oh, instead of having to cross a border -- well, I guess a classic example is now popularized by the Ozark television show, where the money launderer recruits all sorts of people to actually provide goods and services but at inflated prices and some of the money is washed back in the forms of now laundered funds?

A In that context, yes, I understand what you're saying.

Q So that's even more difficult to measure than the cross-border trade-based money laundering because there's no paper trail?
A That's correct, there's no -- there's no paper trail, as you described.

Q Or at least not a publicly accessible paper trail.

A There's no trade data involved because it didn't cross the border, yes.

Q Right. Service-based money laundering is also a very serious problem.

A In my opinion it is, and -- I'm not sure you heard our earlier discussion -- I think it's something that definitely deserves closer scrutiny.

Q That can be of an international order as well where, say, a company from Ireland pretends to provide services to a domestic company to allow the domestic company to move its profits offshore and not pay taxes?

A Correct.

Q That was common up until a year or so ago in United States?

A Yes.

Q And now that activity's moved to Bermuda. Can you say anything about that -- the level of that activity in Canada?

A I just don't have any first-hand knowledge of
that. I'm sorry. I wish I did.

Q All right. By there's also domestic
service-based money laundering?

A Oh, of course, yes.

Q And in particular that type of money laundering
could be used to pay bribes to public officials?

A In theory, yes.

Q Well, also in practice. For example, the
mothers of prime ministers could be paid $10,000
to give speeches for charities.

A I'm sure you have a particular case in mind. It
doesn't come to mind, but yes.

Q And so the difficulty is, I suppose, in
appraising the value of the prime minister's
mother's speech?

A Well, that's what I said in my discussion
earlier with Mr. Davis. The problem with
service-based money laundering is it's very
subjective. It's not like a trade good in
trade-based money laundering where most of the
time -- not all of the time, but most the time
there's a good that adheres to, you know, world
pricing norms. With services it's all over the
place.

Q I suppose one possibility could be to have
restrictions on family members of politically exposed persons receiving funds for services of that type?

A That's a possibility, but it's -- that's far out of my area of knowledge. I mean, I understand, I think, where you're going and I don't disagree with that, but I just don't have any specialized knowledge in those areas.

Q All right. On a different topic, undervaluing exports can cause harm to the receiving country, economic harm?

A Yes.

Q Is it not in the interest, then, of the exporting country to allow that type of activity?

A Once again could you give me an example?

Q Well, say, China had a currency restriction where you couldn't directly move currency but it tolerated undervaluing exports because of the damage it does to manufacturing in the importing country.

A Yes. Yes. In that case absolutely.

Q Are there any international conventions dealing with that type of perverse incentive, where undervaluing exports actually does damage to
A I'd like to say I should know, but I do not know. Again, my background is law enforcement, not international trade and policy, so I can't answer that question. But it's a very fair question.

Q So in terms of your experience as a law enforcement investigator you've had lots of dealings with people actually engaged in money laundering?

A I have.

Q Does jail, in your expert opinion, work as a threat or is it fines or forfeiture?

A I think it goes back again to some of the discussions I had earlier with Mr. Davis. In my opinion money launderers and criminal organizations that engage in money laundering, they're motivated by greed, money; okay? They don't traffic in people because of the people; they don't traffic in drugs because of the drugs; they don't traffic in weapons because of the weapons. They traffic, they commit crime because of the money.

So what I believe we need to do, I talked about this earlier, is to focus on the money.
Take the money, the proceeds away and follow that money as high as we can in the food chain. That scares, in my opinion. And I think there's been some stories in the international press and whatnot about some high-level drug trafficker, sometimes they're -- they accept, if you will, the prison, you know, the sentencing. What they really fear is taking away their assets.

Q I wonder if you can comment about the general money laundering net being fine enough to catch the little guys but that large capitalist concerns that engage in money laundering, it's just too easy for them to come up with a plausible story for them to be caught by the existing money laundering rules?

A Yes, once again I understand where you're coming from and I don't disagree. I work -- I'm on the board of directors of Global Financial Integrity, GFI -- you may have heard of it -- in Washington, DC. There's an interesting -- well, not interesting. He's a friend of mine. I have the utmost respect for him. Raymond Baker, he's the founding president of Global Financial Integrity. He has written and researched quite a bit about the kind of things that you're
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talking about. I would refer you to his book *Capitalism's Achilles Heel* and reaching out to GFI in general for kind of more insight on all this. But that's just -- like I said, that's not what I do.

MR. GRATL: All right. Thank you, very much, Mr. Cassara.

Mr. Commissioner, those were my questions.

THE COMMISSIONER: Thank you, Mr. Gratl.

Anything arising from that, Ms. Tweedie?

MS. TWEEDIE: Nothing arising. Thank you.

THE COMMISSIONER: Thank you. Mr. McFee?

MR. MCFEE: No, nothing arising. Thank you.

THE COMMISSIONER: Mr. Leung?

MR. LEUNG: Nothing arising. Thank you.

THE COMMISSIONER: Ms. French?

MS. FRENCH: Nothing arising. Thank you.

THE COMMISSIONER: And Mr. Davis?

MR. DAVIS: Nothing arising, Mr. Commissioner. Thank you.

THE COMMISSIONER: Thank you. Thank you, Mr. Cassara. We're very appreciative of the time you took to share with us your experience and expertise in this sometimes difficult to understand but emerging area. I fully expect
that what you provided us with will make a significant contribution to the work of the commission, so I'm grateful to you. You're now excused from any further testimony.

THE WITNESS: Thank you, Mr. Commissioner. Thank you to your staff as well.

(WITNESS EXCUSED)

THE COMMISSIONER: We will adjourn, then, until tomorrow morning at 9:30.

THE REGISTRAR: The hearing is now adjourned until December 10, 2020, at 9:30 a.m. Thank you.

(PROCEEDINGS ADJOURNED AT 1:04 P.M. TO DECEMBER 10, 2020)