

**PROCEEDINGS 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

1                   agreements and also attaches a memorandum of  
2                   understanding on exports between Canada and the  
3                   United States. And I'd ask that this please be  
4                   marked as exhibit number 338.

5           THE COMMISSIONER: Very well. 338.

6           THE REGISTRAR: Exhibit 338.

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

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

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

18           THE COMMISSIONER: Very well, 339.

19           THE REGISTRAR: Exhibit 339.

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

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

24                   And, Mr. Commissioner, the next witness will  
25           be John Cassara.

1                                   Madam Registrar, Mr. Cassara will swear.

2   **JOHN CASSARA, a witness**  
3   **called for the**  
4   **commission, sworn.**

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

7           THE WITNESS: John August Cassara. J-o-h-n  
8                                   C-a-s-s-a-r-a.

9           THE REGISTRAR: Thank you.

10           **EXAMINATION BY MR. DAVIS:**

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

12           A     I can.

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

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

19           Q     Mr. Cassara, do you see this document before  
20                                   you?

21           A     I do.

22           Q     And you recognize it as a 2020 biography that  
23                                   you provided to the commission?

24           A     Yes, I do recognize it.

25           MR. DAVIS: Mr. Commissioner, if I could ask that

1                   this please be marked as exhibit 340.

2                   THE COMMISSIONER: Very well. 340.

3                   THE REGISTRAR: Exhibit 340.

4                   **EXHIBIT 340: Biography of J. Cassara**

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

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

11                  A     That is correct.

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

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

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

19                  A     Terror finance.

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

24                  A     That's correct.

25                  Q     And how long did you hold that role for?



1 reports. I represented the United States and  
2 FinCEN and customs at many overseas meetings,  
3 coordinated investigations. And then after  
4 2001, the period surrounding 9/11 my primary  
5 focus again was threat finance.

6 Q And in the middle of that time at FinCEN from  
7 2002 till about 2004 you were detailed to the US  
8 Department of States Bureau of International  
9 Narcotics and Law Enforcement Affairs; is that  
10 correct?

11 A That is correct.

12 Q And what were your responsibilities in that  
13 role?

14 A States INL -- International Narcotics and Law  
15 Enforcement Affairs, their primary mission is to  
16 provide training and technical assistance  
17 resources to countries around the world to  
18 combat money laundering and related matters, so  
19 I helped in that regard. But my primary  
20 responsibility was once again threat finance.  
21 After 9/11 there was a need around the world for  
22 terror finance training and technical  
23 assistance. That's what I coordinated. I ran a  
24 \$10 million budget and helped put programs  
25 together for countries around the world.

1 Q And prior to that you held a role with  
2 US Customs; is that correct?

3 A Yes, I was a special agent with the United  
4 States Customs Service.

5 Q And during that time you served for two years as  
6 an undercover arms dealer; is that right?

7 A Yes, I did. It was basically my first  
8 assignment with the US Customs service because I  
9 came from the intelligence community. There was  
10 a new undercover investigation going on focused  
11 in Washington, DC. We ran it for about  
12 two years and it was very, very successful.

13 I'll make a very, very long story short.  
14 The South African government and arms corp was  
15 trying to procure sophisticated technology to  
16 put on a weapons system. We ran the operation  
17 for two years. Everybody pled guilty and it was  
18 the first successful anti-apartheid prosecution  
19 for these weapons systems by the US government.

20 Q And it was so successful in fact that for your  
21 efforts you received the US Attorney of the  
22 District of Columbia Law Enforcement Officer of  
23 the Year Award; is that right?

24 A Yes, I did. There were some other agents who  
25 had -- in another capacities also won awards,

1 but yes, I did win that award.

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

5 A That's correct.

6 Q And what can you tell the Commissioner about  
7 that assignment?

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

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

22 Q And you've been designated a law enforcement  
23 expert for the FATF for Moneyval and for the US  
24 government for international anti-money  
25 laundering mutual evaluations; is that right?

1           A     That is correct.

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

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

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

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

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

25          A     That is correct.

1           Q     Thank you.  And, Mr. Cassara, can you explain to  
2                    the Commissioner over all of this experience  
3                    what sorts of money laundering cases you worked  
4                    on during your law enforcement career.

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

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

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

23          Q     And, Mr. Cassara, you hold a Masters Degree in  
24                    International Management from the American  
25                    Graduate School of International Management; is

1                   that right?

2           A        That's correct.

3           MR. DAVIS:  Madam Registrar, if I could ask that you  
4                   please pull up the document entitled "002  
5                   J. Cassara Final Statement to the Cullen  
6                   Commission" from the list of documents, please.

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

9           A        I do.

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

12          A        I do recognize it as such.

13          MR. DAVIS:  Mr. Commissioner, I'd ask that this  
14                   please be marked as the next exhibit, number  
15                   341.

16          THE COMMISSIONER:  Very well.  341.

17          THE REGISTRAR:  Exhibit 341.

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

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

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

24          A        I responded to the questions submitted to me by  
25                   the Cullen Commission representatives.  Very,

1                   very broadly I start off talking about, per  
2                   their request, my experience as an expert on the  
3                   FATF mutual evaluation team that evaluated  
4                   Canada. I talked about the US experience  
5                   combating international money laundering. I  
6                   next focused on trade-based money laundering and  
7                   countermeasures.

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

11          A       That's correct.

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

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

24          Q       And for the record, Mr. Cassara, in preparing  
25                  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

1 with law enforcement issues. We talk about  
2 cases, about your statistics, what challenges  
3 you face, the overall effectiveness of the  
4 anti-money laundering response. These types of  
5 things.

6 Q And what can you tell the Commissioner about  
7 your experience in the second mutual evaluation  
8 of Canada?

9 A Overall it was very positive. It was the first  
10 mutual evaluation that I participated in. The  
11 Canadians were extremely hospitable, very  
12 professional, and I think we put forward a good  
13 report.

14 Q And did you conduct any sort of interviews in  
15 that role?

16 A Yes, I did.

17 Q And what can you tell the Commissioner about the  
18 interviews you conducted?

19 A Basically I was involved in the fact-finding  
20 process, including interviews of Canadian  
21 government officials at the policy and  
22 operational levels, regulators and supervisors  
23 of financial institutions and designated  
24 non-financial businesses and professions, the  
25 Royal Canadian Mounted Police, prosecutorial

1                   judicial authorities, custom and tax  
2                   authorities. This type of thing.

3           Q       And you write at page 4 of your report, you say:  
4                   "I primarily asked law enforcement related  
5                   questions related primarily to capacity,  
6                   resources, cooperation, and  
7                   effectiveness."

8                   Is that right?

9           A       That is correct.

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

14          A       Today I think I would go back and ask many of  
15                   the same questions. One of my biggest focuses  
16                   would be -- since we've had, you know, almost  
17                   30 years of doing this type of work since the  
18                   FATF 40 was put together, I would ask the  
19                   effectiveness of those measures as measured by  
20                   case statistics, how many successful  
21                   investigations, prosecutions, convictions for  
22                   money laundering, talk about seizures and  
23                   forfeitures. That type of thing.

24          Q       And also at page 4 you identify some of the  
25                   primary concerns that existed in Canada with

1                    respect to anti-money laundering at the time of  
2                    the second mutual evaluation report. Do you  
3                    recall what some of those concerns were from an  
4                    enforcement perspective?

5                    A    Very, very vaguely. Again, I'd like to remind  
6                    everybody that this took place well over  
7                    20 years ago. I don't remember the details of  
8                    the discussions, but I remember at the time one  
9                    of the primary concerns was about new Canadian  
10                   anti-money laundering legal and regulatory  
11                   tools. For example, Canada was in the process  
12                   of creating the Canadian financial intelligence  
13                   unit, FINTRAC. There was discussion about the  
14                   role and duties of FINTRAC and the collection,  
15                   warehousing, analysis and dissemination of  
16                   financial intelligence, the feed for enhanced  
17                   legislation. Privacy concerns were definitely a  
18                   big issue in the sharing of financial  
19                   intelligence.

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

24                   A    My recollection at the time and everything that  
25                   has been buttressed over the years particularly

1                   dealing with the Canadian law enforcement, the  
2                   RCMP, a very, very professional, very competent  
3                   organization.

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

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

17                  Do you see that quote there on page 4?

18           A       I do.

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

21           A       We had a number of discussions with a number of  
22                   officials that I talked about in the regulatory  
23                   community, the banking community, various  
24                   offices and departments within the Canadian  
25                   government. Once again, these conversations

1                   happened many, many years ago, but it just  
2                   seemed to me that -- and I'm hesitant to use  
3                   this word, but it just seemed to me they were  
4                   very naïve. They kept thinking -- saying that,  
5                   you know, Canada doesn't have these problem.  
6                   And even though I didn't represent the United  
7                   States, I represented the FATF, they kept  
8                   saying, we don't have the same problems you have  
9                   in the United States. And I kept thinking to  
10                  myself, well, we have very, very similar  
11                  problems. But that was my takeaway. It was  
12                  kind of sugar coated.

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

16                A     Well, because they have many of the same, say,  
17                    demographics as the United States does. The  
18                    United States -- again talking at the time, a  
19                    lot of issues with organized crime groups, a lot  
20                    of issues with gangs, a lot of issues with  
21                    narcotics trafficking, many of the things that  
22                    we'll be talking about, you know, today, and it  
23                    just -- they seemed for some reason to think  
24                    that all of that just stopped at the border,  
25                    that this didn't happen in Canada. Although I

1                   was not an expert on Canadian criminal  
2                   activity -- I still am not -- it just seemed to  
3                   me, as I said, that was a bit naïve.

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

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

10                   Do you see that?

11           A       Yes, I do.

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

16           A       Well, I can give you one example, and it had to  
17                   do with the sharing of financial intelligence.  
18                   That at the time there were proposed  
19                   restrictions on how FINTRAC could share  
20                   financial intelligence even with the RCMP, and  
21                   as I recall, a lot of this dealt with privacy  
22                   concerns. And coming from the US, coming from  
23                   FinCEN, our financial intelligence unit, I found  
24                   it ironic that FINTRAC could more easily share  
25                   its financial intelligence with the US FinCEN

1                   than it could with domestic Canadian law  
2                   enforcement. And I was puzzled over that  
3                   because, once again, financial intelligence is  
4                   to support law enforcement. And I just could  
5                   not -- we commiserated, the RCMP and I.

6           Q       And that was information that the RCMP provided  
7                   to you that FINTRAC could more easily provide  
8                   data to FinCEN than it could RCMP members?

9           A       Yes.

10          Q       Mr. Cassara, I'd like to jump next into the  
11                   United States anti-money laundering regime more  
12                   generally. I'd ask you first what you can tell  
13                   the Commissioner in a general way about the US  
14                   approach to collecting intelligence and pursuing  
15                   enforcement against money laundering?

16          A       Just a minute. I am checking my notes. And by  
17                   the way, I just want to let you know, let the  
18                   Commissioner know that I am referring back to my  
19                   testimony and I do have notes. I hope that's  
20                   okay.

21          THE COMMISSIONER: Yes, that's fine.

22          THE WITNESS: Mr. Davis, I'm sorry, could you tell me  
23                   on which page this question comes from.

24          MR. DAVIS:

25          Q       Sorry. And, Mr. Cassara, that is a pretty

1                   general question to start.

2           A        Could you repeat your question, then.

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

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

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

23          A        Well, the strengths are the numbers involved  
24                   with these types of reporting.  Very broadly  
25                   there's about 200 million or more financial

1 intelligence reports in the FinCEN library, if  
2 you will, or financial intelligence unit. About  
3 20 million-odd reports are filed every year.  
4 That's strengths. At the same time it's a  
5 weakness. It's almost too much to evaluate.

6 Q And you write at page 12 -- maybe this can focus  
7 it a bit. At page 12 of your report:

8 "Primarily because of resources, data,  
9 technology, and advanced analytics, the  
10 United States has the most professional  
11 and vigorous customs enforcement service  
12 in the world."

13 Is that accurate?

14 A I believe it is.

15 Q And why do you conclude that?

16 A Well, because we have an incredible amount of  
17 resources. When the United States puts its mind  
18 to something, it can accomplish whatever it  
19 wants. So we spend an incredibility amount of  
20 money and manpower. We have access to data. We  
21 collect data. We have intelligence. We have  
22 technical means. I've done a lot of work in a  
23 lot of different countries and, you know, I --  
24 obviously I'm very proud of the work that we do,  
25 and it's not really bragging. This is a

1 professional evaluation. When we put our mind  
2 to something, we can do it probably the best in  
3 the world.

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

13 A That is correct.

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

18 A I think it's important to understand that the  
19 Department of Homeland Security was created  
20 right after 9/11, so it was created roughly  
21 2003-ish by the time it was finally put  
22 together. And it incorporated what we call or  
23 what I call legacy customs; all right? So it  
24 has a dual role today. Immigration and Customs  
25 Enforcement deals with immigration and it deals

1 with customs issues. So a lot of the legacy  
2 customs issues went into Homeland Security  
3 investigations, so it is the logical place for  
4 trade-based money laundering investigations to  
5 take place, and in fact they do. Both legacy  
6 customs and now homeland security investigations  
7 probably takes the lead on the types of things  
8 we'll be talking about today.

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

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

24 Q And those special agents are within the  
25 Department of Homeland --

1           A     Security.  Yes, they are.

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

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

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

20          A     Basically it's focused overseas and it's to help  
21                    countries around the world.  It provides  
22                    training; it provides technical assistance; it  
23                    provides residence advisors in certain countries  
24                    that ask for it.  It coordinates a lot of  
25                    international assistance abroad relating to

1 anti-money laundering and now counterterrorism  
2 finance.

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

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

23 Q And where is FinCEN located?

24 A FinCEN is also within the Department of  
25 Treasury. It's a small, little bureau. I don't

1 think there's more than 300 people there. I  
2 think we'll be talking about FinCEN, but FinCEN  
3 really doesn't have an investigative capacity.  
4 It basically analyzes financial -- receives  
5 intelligence, analyzes it and disseminates it to  
6 support law enforcement.

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

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

20 Obviously there are safeguards, there are  
21 permissions, but most definitely FinCEN does  
22 share directly or indirectly. Sometimes they  
23 just give downloads of bulk information to  
24 agencies, say for example, the FBI; they do  
25 their own analysis.

1           Q     And you mentioned just a minute ago that you  
2                   estimate that there are probably about 300  
3                   persons working at FinCEN. I'm wondering what  
4                   you can tell the Commissioner about the staffing  
5                   there. Like, is it -- for example, whether or  
6                   not there are law enforcement or accountants or  
7                   other kind of non-traditional intelligence  
8                   persons employed at FinCEN?

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

25           Q     And considering all of the departments that

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

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

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

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

24                                These deconfliction sessions, if you will,  
25                   were done sometimes formally, sometimes very

1                   informally. It was a lot of coordination, a lot  
2                   of liaison.

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

7           A       That is correct.

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

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

22          Q       And at page 7 of your report you mention  
23                  integrated units. And this is something that I  
24                  expect the Commissioner will hear evidence  
25                  about, but it's integrated police units with

1           prosecutors and forensic accountants, for  
2           example. What can you tell the Commissioner  
3           about your views on whether or not those sorts  
4           of integrated units are useful to combat money  
5           laundering?

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

15                 There are also regional SAR, suspicious  
16          activity report, review teams. And then you  
17          have federal financial regulators. They also  
18          play a role in combatting money laundering by  
19          conducting examinations of financial  
20          institutions. And these federal financial  
21          regulators include, say, the board of governors  
22          of the Federal Reserve system, the Office of the  
23          Comptroller of the Currency, Federal Deposit  
24          Insurance Corporation, the National Credit Union  
25          Administration, Securities and Exchange

1 Commission, the Commodity Futures Trading  
2 Commission. There's a lot.

3 Q And this kind of feeds nicely into the quote at  
4 page 7 of your report which is citing the 2016  
5 FATF Mutual Evaluation Report of the United  
6 States where it says:

7 "Overall, LEAs --"

8 Is that law enforcement agencies?

9 A Law enforcement agencies, yes.

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

16 Do you see that on page 7 there?

17 A Yeah, I recognize it. Yes.

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

22 A Yes, I would.

23 Q And what are the particular sources of  
24 intelligence, even if you can speak generally,  
25 that enable the US to effectively combat money

1                   laundrying?

2                   A     First of all, our financial intelligence  
3                   database. We have -- for example, when you talk  
4                   about trade-based money laundrying, our  
5                   trade-related databases. We have commercially  
6                   available databases. Obviously we have  
7                   classified databases. We have a wide range, a  
8                   wide gamut of information, intelligence data  
9                   that's available.

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

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

19                  Do you see that?

20                  A     I do.

21                  Q     And what are your views on that statement?

22                  A     I definitely agree with that. It was brought  
23                  home to me -- after I retired I did a lot of  
24                  contract work with the state and local  
25                  anti-terrorism training group sponsored by the

1 US Department of Justice. To make a long story  
2 short, a number of criminal investigators,  
3 people like myself, FBI agents would go out to  
4 state and local law enforcement and we would  
5 talk about law enforcement matters of concern  
6 dealing with threat finance. I always talked  
7 about money laundering, the tools that were  
8 available to help follow the money trail,  
9 financial intelligence this type of thing. And  
10 I was absolutely shocked repeatedly, you know,  
11 30 years after the founding of FinCEN that many  
12 members at the state and local level were not  
13 even aware that FinCEN existed or the financial  
14 intelligence existed to help them in their  
15 investigations. So we have a lot of work to do.

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

22 A Well, US law enforcement has consistently talked  
23 about following the money and taking away the  
24 proceeds of crime from criminals and criminal  
25 organizations, yet for the United States and I

1           suppose most countries, including Canada, the  
2           primary investigative focus is not the money but  
3           the participants and/or the illegal product.  
4           And insofar as that is the approach, the United  
5           States does that as well as anybody.

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

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

23                    So as I talk about it in my book, and I  
24          think I put that in my statement, in order to  
25          change that paradigm, we need to truly finally

1           emphasize money and value, and in order to do  
2           that we have to change the incentives and the  
3           cultures of the bureaucracies. Because the way  
4           that things are set up in law enforcement, at  
5           least in the United States, too much emphasis is  
6           made on going after the little guy because those  
7           cases generate statistics and that's how  
8           everybody is rated, for example.

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

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

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

20          Is that right?

21          A     Yes, I do.

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

1 A Yes.

2 Q What are those metrics?

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

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

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

24 A I do, and candidly we don't do very well. I  
25 have to kind of -- very, very briefly. The

1 amount of money laundered in the United States  
2 is conservatively estimated in the hundreds of  
3 billions of dollars every year. Going back to  
4 an official US risk assessment back in 2015,  
5 they estimated that the amount of money  
6 laundered was about 300 billion but they also  
7 acknowledged little certainty. Fraud and drug  
8 trafficking were the biggest specified unlawful  
9 activities, if you will.

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

15 But getting back to the metrics that matter.  
16 We do have a pretty good idea about how much  
17 money is actually forfeited every year. And  
18 going -- because I use the FATF mutual  
19 evaluation report, those numbers are -- going  
20 back to 2014, we actually forfeited about  
21 4.4 billion. And while that sounds like an  
22 impressive total, it's not certain if it in fact  
23 was forfeited or just seized. I'm sorry, I  
24 misspoke there.

25 But going back to that 300 billion number,

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

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

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

23                  Q     And that's an interesting point, Mr. Cassara.  
24                  And kind of a deviation here, but how do you  
25                  reconcile this idea that convictions are an

1                   important metric, yet to have a high number of  
2                   convictions it's easier to go after the  
3                   low-level individuals. So how do you reconcile  
4                   those two things?

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

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

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

25           Q        And did you review the two metrics that matter

1 in your view for Canada?

2 A Yes, I did.

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

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

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

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

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

24 A Well, I think -- for lay people I think I would  
25 concentrate on the word "value"; all right?

1                   Particularly in the west, you know, kind of like  
2                   with our linear logic, we tend to inflate money  
3                   laundering methodologies with money in the  
4                   traditional sense, for example, cash or wire  
5                   transfers or even automatic teller machines.  
6                   It's kind of, you know, our culture, our way of  
7                   doing business. These are the things we  
8                   experience in our daily lives but we are not  
9                   often confronted with or don't even think about  
10                  value transfer, but money launderers do  
11                  understand value transfer. They've used it  
12                  effectively for years.

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

15                A    In traditional money laundering we use the three  
16                  stages of money laundering to describe it:  
17                  placement, layering and integration. Although I  
18                  don't want to go into a lot of detail because it  
19                  takes time, but, for example, you would place  
20                  drug proceeds into a bank in a wide variety of  
21                  ways. And then to help launder or obfuscate or  
22                  make it difficult for criminal investigators to  
23                  follow the money trail you would layer it. Once  
24                  it's successfully deposited you would send it  
25                  from one bank to another, from one country to

1 another, from one offshore to another because  
2 every time you layer, it makes it very difficult  
3 to follow that money trail. And then finally  
4 they integrate it. They integrate it back into  
5 the economy. They buy up the shopping centres,  
6 the fancy homes, the cars, they meet their  
7 payroll, they invest in the stockmarket, all  
8 that kind of stuff. Placement, layering and  
9 integrating.

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

17 Q And you write at page 10 of your report that:

18 "... trade-based money laundering and  
19 value transfer are still not recognized as  
20 significant threats."

21 Is that accurate?

22 A Yes, I do.

23 Q And can you explain that to the Commissioner.

24 A Because I think it's basically -- it's hiding in  
25 plain sight. And I tell a story, I've told it

1                   fairly frequently, but I'll tell it very briefly  
2                   here because I think it does make the point.

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

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

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

24                  A     It's focus; it's capability; it's lack of  
25                  expertise. But I think more than anything else,

1                   again with the perspective of 30 years, it's  
2                   because our anti-money laundering  
3                   countermeasures were set up decades ago to fight  
4                   the traditional, say, Miami cocaine cowboy where  
5                   large amounts of drug money were sloshing around  
6                   through western financial institutions.

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

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

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

19                  Is that right?

20                 A     That is correct.

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

25                 A     Well, once again, the FATF was established in,

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

15                         And I think part of the problem particularly  
16                         back in the early years of the FATF, you know,  
17                         the 1990s, for example, the FATF was dominated  
18                         by western countries, outside of Japan and a few  
19                         others. And these countries you know, as I  
20                         talked about earlier, kind of our western linear  
21                         logic ways of doing business, they were focusing  
22                         on traditional money laundering and banks. And  
23                         it's only been in more recent years that the  
24                         FATF and regional-style FATF bodies have been  
25                         getting input from other countries and being

1           made more aware that there are other ways of  
2           laundering money and transferring value that  
3           kind of fall away from the FATF traditional  
4           guidelines.

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

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

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

25          Q     It does to me, Mr. Cassara.  Thank you.  And

1 next what can you tell the Commissioner about  
2 the scope or magnitude of trade-based money  
3 laundering that you provide in your report?

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

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

14 A I believe, and I wrote a book on it, that if you  
15 talk about all the different facets of  
16 trade-based money laundering. You talk about  
17 obviously customs fraud, which is the biggest  
18 part of it, you talk about, you know, export  
19 incentive fraud, you talk about how it's used in  
20 capital flight, you talk about VAT fraud, you  
21 know, you talk about underground financial  
22 systems, countervaluation, all of these things  
23 that I talk about -- I think it's in my  
24 statement somewhere, I list them out -- that it  
25 is the largest money laundering methodology in

1                   the world, and it's the one that is least  
2                   recognized and enforced. And it breaks my  
3                   heart. I just think the overall magnitude of  
4                   the problem is enormous.

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

18                  But my point is that the United States say 6  
19                  to 9 percent of our trade is suspect, at least  
20                  it needs further examination. And we have some  
21                  of the best customs, law enforcement,  
22                  intelligence services in the world. If that's  
23                  what our issue is, what does that mean for other  
24                  countries around the world? It's really a  
25                  problem that needs addressing.

1           Q     And you acknowledge, however, at page 11 of your  
2                     report that there are no known official  
3                     estimates of the magnitude of trade-based money  
4                     laundering; is that fair?

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

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

20          A     I think there's two. First of all, it's the --  
21                     in my opinion it's the largest money laundering  
22                     methodology with all that it entails. And next,  
23                     as I think we're going to discuss further, since  
24                     TBML is also based on invoice fraud manipulation  
25                     that means that the governments involved lose

1                   substantial revenue, be it non- or lesser  
2                   payment of taxes and duties.

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

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

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

20          A       No, go ahead.

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

1 money laundering, please.

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

16 Say for example, you do not know -- you know  
17 me. You know me well. We might be brothers or  
18 cousins or whatever it is. We decide we want to  
19 over- or under-invoice these pens. We could  
20 make the price of this pen \$20, \$100, \$1,  
21 whatever it is. We are business partners. We  
22 could be colleagues in a criminal organization.  
23 We could be involved with all kinds of suspect  
24 work. But we are -- or I am sending you pens,  
25 and you can transfer a lot of value via pen. I

1           could launder money with literally any  
2           commodity. It doesn't obviously have to be a  
3           pen. It can be literally anything. I think  
4           we're going to be talking about that.

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

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

25          Q        Sorry. I appreciate that there's a variety of

1            methods you've just described. Could you  
2            explain to the Commissioner -- and you do so in  
3            your report, I think, in a pretty pithy way  
4            about how value is transferred or funds are  
5            laundered using over- and under-invoicing -- how  
6            value moves and which way it moves.

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

19                     And I think what you're referring to in my  
20           testimony is I use an example. I said company A  
21           is located in Canada. And, say for example,  
22           they ship a million widgets worth \$2 each to a  
23           company B based in Mexico. On the invoice,  
24           however, company A listed the widgets at a price  
25           of only \$1 each and the Mexican importer pays a

1 Canadian exporter only 1 million for them. Thus  
2 extra value has been transferred to Mexico where  
3 the importer can sell, directly or indirectly,  
4 widgets on the open market for a total of  
5 2 million.

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

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

23 And speaking from a -- say, from a customs  
24 perspective, a law enforcement perspective, an  
25 intel perspective, even a bank finance

1                   officer -- we're going back to this example of  
2                   pen -- you may be able to spot some of these  
3                   large discrepancies, but if they don't get too  
4                   greedy, very -- highly unlikely it's going to  
5                   raise scrutiny. They're not going to get  
6                   caught.

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

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

20                  A    Yes.

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

23                  A    I do, yes.

24                  Q    And maybe you can provide further information.  
25                  What can you tell the Commissioner about this

1 example that you've provided here?

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

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

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

1 money laundering.

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

9 A There are some very interesting ones out there,  
10 and again I refer to Dr. John Zdanowicz. He's  
11 provided me with some really fascinating  
12 anomalies. I don't recall them all off the top  
13 of my head, but I know there was one example --  
14 he showed me, for example, the US was importing  
15 plastic buckets from the Czech Republic at about  
16 \$970 a bucket or we were exporting live cattle  
17 to Mexico at about \$21 a head. These are  
18 definitely anomalies. They don't make any  
19 market sense. They don't make any economic  
20 sense.

21 And you remember what I said about  
22 trade-based money laundering and over- and  
23 under-invoicing. Unfortunately these types of  
24 anomalies even though they raise eyebrows, I  
25 mean, generally speaking they're not being

1           investigated. And it goes back to your question  
2           about what anomalies do not tell us. So  
3           something like this, you know, that \$972 bucket,  
4           it could simply be an example -- it could be an  
5           example of customs fraud but it could also be,  
6           say for example, statistical outlier based on  
7           bad input information.

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

22                     And sometimes there actually are. I've  
23          conducted some of those interviews too. And you  
24          just walk away and scratch your head, but it  
25          makes sense when you get the explanation. But

1                   that is the kind of things that needs to be done  
2                   more, and unfortunately it's not.

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

10          A       Sure. That's also an example from real life.  
11                   This was -- a few years ago I was down -- I was  
12                   over in Jordan doing trade-based money  
13                   laundering and other types of trading for  
14                   Jordanian customs, and there was a Jordanian  
15                   customs inspector that gave me a real life  
16                   example. She says, Mr. John, she said, this is  
17                   a real problem I have right now; we're importing  
18                   these RAM chips; some of them are -- you know,  
19                   16 gigabytes or 64 gigabytes, whatever it was.  
20                   I don't recall specifically. But she says, I  
21                   cannot tell the difference; they look the same  
22                   but obviously the value is inherently different.  
23                   What do you we do?

24                   You know, this is the kind of thing that  
25                   we're talking about. You know, there's customs,

1 taxes and duties. There's that type of an  
2 issue. It could also be, say, value transfer.

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

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

18 For example, going back to China, over  
19 recent years the Chinese government or the CCP  
20 has imposed capital controls on corporations and  
21 businesses and as well as its citizens, and the  
22 CCP has recently begun penalizing severe  
23 violators with jail time. Chinese  
24 restrictions -- I think there are about -- I  
25 think it's about \$67,000 Canadian per year,

1                   that's how much the average Chinese citizen can  
2                   send outside of the country.

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

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

23                A     I think so.

24                Q     The bottom of page 19 and the top of page 20.  
25                    Sorry, are you able to confirm that,

1                   Mr. Cassara?

2           A       Yes.  I just ...

3           Q       Thank you.

4           A       Yes, I am.

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

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

21                         You know, all of this stuff helps contribute  
22                         to capital flight.  And so as I said -- you  
23                         know, as the Chinese government cracks down on  
24                         corruption and starts to jail people because of  
25                         this, Chinese citizens are transferring wealth

1 out of the country, and of course with so much  
2 capital leaving the country there are risks for  
3 receiving countries as well.

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

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

19 Another one that intrigues me is does China  
20 consider capital flight over the reporting  
21 threshold, say, of \$67,000 Canadian a year money  
22 laundering. And if it does, does that  
23 designation of money laundering kind of transfer  
24 to the receiving country. Is the United States  
25 or Canada -- you know, do we recognize that.

1 Will we help the Chinese in their  
2 investigations? The influx of capital, as I  
3 said, can be helpful, but it can also distort  
4 local markets. Real estate markets, for  
5 example. Cause inflationary pressure. Act as a  
6 catalyst for social disruption. Cause undue  
7 influence. There's all kinds of issues. It's  
8 not all a good thing.

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

12 A I do.

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

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

22 My research on the Vancouver Model of money  
23 laundering comes from, again, publicly available  
24 information. But my understanding it's a where  
25 large of amounts of money are taken out of

1                   China, for example, through informal value  
2                   transfer systems and other means to avoid these  
3                   limits on capital flight that we were talking  
4                   about. And they to that in a wide variety of  
5                   ways. And once in, say, British Columbia the  
6                   funds are sometimes mixed with cash from the  
7                   drug trade and perhaps other illicit proceeds of  
8                   crime, and then the cash is cleaned through  
9                   British Columbia casinos or private mortgages.  
10                  This type of thing.

11                   So in other words, you've got the Vancouver  
12                  Model of money laundering, it involves capital  
13                  flight, and as you remember my lists of ways to  
14                  get around these currency restrictions, it  
15                  includes trade-based money laundering and value  
16                  transfer and underground financial systems such  
17                  as flying money. I think we're going to be  
18                  talking about that. Money laundering via real  
19                  estate and other means.

20                  Q   And you're right, we are going to be talking  
21                  about that. And looking at page 21 of your  
22                  report, the starting point, what can you tell  
23                  the Commissioner about the definition or meaning  
24                  of underground banking or alternative remittance  
25                  systems?

1           A     When I talk about alternative remittance  
2                    systems, they're sometimes known as underground  
3                    banking, informal value transfer systems,  
4                    parallel banking.  Sometimes people that don't  
5                    know better just lump everything together and  
6                    they say well, that's hawala, which -- hawala  
7                    is -- I'm sure everybody is aware is a very old  
8                    system that's been around literally for hundreds  
9                    of hundreds of years, if not more.  Originated  
10                   in India, south Asia.  It's now found literally  
11                   all over the world.  It's remittance systems  
12                   primarily used today by immigrants, hard working  
13                   immigrants that want to send money back home to  
14                   support their loved ones.  And it's very  
15                   efficient and very effective.  Very -- it  
16                   doesn't cost very much.  So it makes a lot of  
17                   sense for many of these immigrant communities to  
18                   use this system and similar type of systems.

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

24           A     Yes, I do.  I see it here.

25           Q     And so what can you tell the Commissioner about

1                   how these underground banking systems operate in  
2                   a general way?

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

10                         Say for example, you have a Somali immigrant  
11                         in Victoria, British Columbia, and he wants to  
12                         send money back to his loved ones in Somalia.  
13                         He drives a taxi. He works very hard. You  
14                         know, he wants to send money back home, say,  
15                         \$500 equivalent. So he could go to a bank or he  
16                         could go to Western Union but they charge too  
17                         much, besides there's not a whole lot of banks  
18                         or, you know, Western Union outlets in Somalia  
19                         because of the situation there. So he finds  
20                         himself a hawala broker. It could be a member  
21                         of his extended family, tribe or clan. A hawala  
22                         means a number of things, but a lot of it means,  
23                         you know, trust. He trusts for example his  
24                         cousin the hawala broker.

25                                 So he gives the \$500 -- Canadian dollars to

1           that hawala broker in Victoria with directions  
2           to, say, deliver it to his father, say, back in  
3           Mogadishu in Somalia. So he pays a small fee at  
4           that end. The broker in Victoria contacts his  
5           counterpart broker in Mogadishu either directly  
6           or through various exchanges, for example, in  
7           Dubai and elsewhere. And that same money, \$500  
8           less commissions in shillings, which is the  
9           currency in Somalia is delivered directly and  
10          probably within 24 hours to his father in  
11          Mogadishu.

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

19                         Now, the important thing for our  
20           discussions -- and once again this could be  
21           hawala, it could be flying money; they operate  
22           the same way -- you've got these brokers on both  
23           sides of the world, so periodically somebody is  
24           running a surplus, somebody is running a  
25           deficit. They have to balance the books. So



1 countermeasures, financial intelligence.

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

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

14 But the challenges for law enforcement, once  
15 again, is they're difficult to understand.  
16 They're not necessarily part of traditional  
17 western culture and ways of doing business.  
18 They're cloaked in secrecy. They're very hard  
19 to infiltrate. We don't have, say -- speaking  
20 for the United States, we don't have a lot of  
21 Gujarati FBI speakers or Pashto speaker -- FBI  
22 speakers or even, for that matter, Mandarin FBI  
23 speakers. There are not that many. And even if  
24 we, say, recruited an agent to go into some of  
25 these networks, the question might be, this

1 whole thing is based on trust and who you know  
2 is -- who's your uncle in the village back in  
3 the old country. So it's very, very  
4 challenging.

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

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

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

17 Q And why do you believe that to be the case?

18 A Well, I'll give you the numbers. I mean, I use  
19 this example because I think it's very, very  
20 telling. I was at FinCEN, as I said, in the  
21 1990s, in the late 1990s, and these money  
22 service businesses first started getting  
23 recognition. So we wanted to, you know, start  
24 passing some laws and regulations to govern  
25 their use. So before we could do that, the

1 director of FinCEN contracted out with one big  
2 accounting groups, one of the big 8. Do a  
3 study; tell us how many MSBs there are because  
4 we need to know. So, again, this was in the  
5 late 1990s. After a few years and a lot of  
6 money they came back with a study that said, as  
7 I recall, there's something -- about  
8 240,000 MSBs in the United States. These are  
9 everything from mom and pop cheque-cashing  
10 companies to casa de cambios to PayPals to  
11 Western Unions to all this stuff.

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

20 Well, 20 years later very little of that has  
21 been done. You can get on the FinCEN website  
22 and find out the number of money service  
23 businesses. It's measured in the tens of  
24 thousands. Not a very high number at all.  
25 Certainly not that 240,000 number. You want to

1 talk about the number of suspicious activity  
2 reports filed by hawaladars. It's not  
3 happening.

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

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

16 A Okay.

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

20 A Well, trade finance covers trade transactions in  
21 which a bank provides some form of financing to  
22 a party in the transaction. In the transactions  
23 a party will present documents to the bank, and  
24 often a letter of credit, for example, is  
25 requested. And these are referred to as

1 documentary transactions. In these transactions  
2 banks generally process documentation involved  
3 in the trade transactions such as bill of  
4 lading, invoice, packing lists. This type of  
5 stuff. And the trade finance officer in the  
6 bank reviews the information underlying the  
7 transaction for soundness and compliance with  
8 anti-money laundering policies and procedures.  
9 [Indiscernible] trade finance.

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

13 A Well, for one thing it's the very volume of  
14 international trade that creates the risk. I  
15 mean, global merchandise trade is in the tens of  
16 trillions of dollars every year but only about  
17 20 percent of global trade transactions involve  
18 trade finance. I mean, still that represents  
19 multi multi multi hundreds of billions of  
20 dollars a year, but, again, it's the volume of  
21 trade that is tremendous risk.

22 The other thing is because trade is so  
23 complex, it's very, very difficult for, say, law  
24 enforcement to understand. It's traditionally  
25 been under their radar screen, but as we've

1           seen, it definitely presents a risk.

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

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

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

22          Q     Understood. And looking at -- around there at  
23          page 25 of your report. I'm not going to take  
24          you there, but you note that appendix 1 to your  
25          report provides for a list of red flag

1 indicators related to trade finance; is that  
2 correct?

3 A That's correct.

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

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

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

25 Q And considering your experience in law

1 enforcement, what's your view on law enforcement  
2 relying on these sorts of red flag indicators to  
3 conduct their investigations or assist them in  
4 their work?

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

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

19 A Yes.

20 Q What is service-based money laundering?

21 A Service-based money laundering is a term that I  
22 coined and it is exactly what it describes. We  
23 talked about trade-based money laundering where  
24 you got a good, a commodity that can be, say,  
25 over- and under-invoiced to transfer money and

1 value. Well, the same type of thing happens  
2 with service fraud -- service-based fraud.

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

23 The problem from an investigative standpoint  
24 when you're looking at trade-based money  
25 laundering, you're focused on a commodity. It

1                    basically has -- you know, it's a good that has  
2                    a generally accepted world market price. With  
3                    services it's much more subjective, if it even  
4                    happened at all; right? It could be a type of  
5                    phantom service just like phantom trade-based  
6                    money laundering. But it's very, very difficult  
7                    to put a value on service. So they are -- I  
8                    think they're very common but unfortunately  
9                    we're not making a lot of cases. We're not  
10                   focused on it.

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

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

24                   I think this is -- mostly comes under for  
25                   example, from a US perspective, FBI territory.

1 Homeland security investigations, DEA, whatnot,  
2 they're not going to work these cases.

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

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

21 There's not a lot of information out there.  
22 Not a lot in the public domain. I don't know  
23 about classified reporting, but this is  
24 something I worry about. But at the same time  
25 we're really getting killed, taken advantage of

1 through the old-fashioned methods. And I can  
2 say with utmost certainty that until we can  
3 crack down on these old fashioned methods,  
4 simple trade fraud, for example, the criminal  
5 organizations will continue to use them.

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

10 A Yes.

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

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

24 I think intelligence and law enforcement  
25 both need to get taskings from their particular

1                   headquarters, focus on trade-based money  
2                   laundering. And, again, these guys are not --  
3                   the guys and gals are not the experts. They  
4                   need to be trained up and then they need to be  
5                   given guidance. They need to be explained why  
6                   this is important and they need to be given  
7                   specific reporting requirements. This is what  
8                   we're tasking you to do; go out and do this;  
9                   ask -- develop these sources, go out and ask  
10                  these questions. That is how the game should be  
11                  played.

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

16                A     I think you have to start off with kind of the  
17                    basics. You know, not promoting me but I've  
18                    done a lot of training in this area at a  
19                    federal, state and local and international  
20                    basis. And every audience is different, so  
21                    training has to be tailored for that specific  
22                    audience. But you have to start off with, you  
23                    know, basic money laundering, number one. You  
24                    have to start off with our countermeasures. A  
25                    lot of people or completely unaware of financial

1 intelligence. And then you just build from  
2 there. You talk about everything from different  
3 types of money laundering methodologies. Then  
4 you talk about trade-based money laundering.  
5 You explain that. You talk about the kinds of  
6 things we've talked about today. We talk about  
7 underground financial systems, countervaluation.  
8 We talk about countermeasures. We talk about,  
9 you know, trade data and how it can be used.  
10 This type of thing.

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

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

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

20 THE REGISTRAR: This hearing is adjourned for a  
21 15-minute recess until 11:33 a.m. Please switch  
22 off your video and mute your mic. Thank you.

23 **(WITNESS STOOD DOWN)**

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

25 **(PROCEEDINGS RECONVENED AT 11:33 A.M.)**



1                   customs service. Every country in the world  
2                   collects import data and export data for  
3                   national security purposes or for revenue  
4                   purposes or whatever. So just like in the  
5                   example of -- say for example, the refrigerator  
6                   that we talked about, if a country shares that  
7                   data, targeted, say, export data with another  
8                   country's targeted import data, you can spot --  
9                   easily spot those anomalies, say, over- and  
10                  under-invoicing, for example.

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

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

24           A       That is correct.

25           Q       And that was pursuant to a proposal that you

1 advanced in 2004; is that correct?

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

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

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

25 A Thank you. To help analyze all that trade data

1 Homeland Security investigations developed  
2 specialized software called this Data Analysis  
3 and Research For Trade Transparency System, or  
4 DARTTS.

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

15 The TTU also receives and disseminates  
16 targeted import and export data from these  
17 counterpart customs services, partner countries.  
18 So the system allows the users to see both sides  
19 of a trade transaction or a series of  
20 transactions at a macro level making it  
21 transparent. As I said, it's somewhat similar  
22 to the example of the refrigerator that I talked  
23 about. And then at the macro level you can  
24 drill down, because the governments control the  
25 information, to the micro level and you can see

1                   the parties involved with that transaction,  
2                   which is really necessary to conduct the  
3                   investigation.

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

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

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

10          A       Well, there's various ways to measure the  
11                   results. The solid numbers that I have, and  
12                   there are very few out there, but going back to  
13                   2015 the very small TTU network has seized well  
14                   over \$1 billion worth of assets. But it's  
15                   difficult to quantify success. And we'll  
16                   probably talk about it, but although I love the  
17                   concept, it's not yet been fully implemented.  
18                   So there are some challenges to come.

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

24          A       Yeah, I think I reference this in my information  
25                   that I provided to the commission. Our

1           Government Accountability Office, GAO, was  
2           requested by members of Congress to examine  
3           trade-based money laundering, and they focused  
4           on trade transparency units as the primary  
5           countermeasure. They've issued a number of  
6           reports that I've referenced, and we're still  
7           waiting for the final report.

8           But to me the takeaway is that everybody  
9           likes the concept of TTUs. It's the  
10          implementation of the TTU that has generated  
11          some difficulty, some challenges, and from a  
12          former legacy customs perspective I think I know  
13          what those challenges are. And it's because --  
14          and this is kind of internal baseball, but the  
15          Department of Homeland Security when it was  
16          formed, it basically incorporated both  
17          immigration and customs. And over the last  
18          20 years most of the resources have gone into  
19          the immigration side of the house and  
20          short-shifted traditional customs.

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

1                   have to be sorted out.

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

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

9                   A     I do.

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

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

20                                 I think one thing the commission might want  
21                                 to note is there was an early impetus within HSI  
22                                 and the TTU network to establish TTUs in South  
23                                 America, Central America to target the Colombian  
24                                 black market peso exchange. I think we may be  
25                                 talking about the black market exchange in a

1                    little bit. So that was the early emphasis on  
2                    the TTU.

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

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

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

25                                You know, like I mentioned -- this is an

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

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

21          A       Yeah, that would be my understanding because I  
22          did not prepare this. In my understanding it  
23          would be the frequency that they exchange trade  
24          information. So you would see at the top  
25          Colombia does it with the United States on a

1                   monthly basis, Argentina does it on a weekly  
2                   basis, Uruguay does it on a quarterly basis. So  
3                   this would be the bulk trade data, the raw data  
4                   that would be exchanged between the two  
5                   countries.

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

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

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

16          A       That has to be negotiated. The other thing I  
17                   should have mentioned, and I forgot -- I'm  
18                   sorry -- is the fact that all of these TTU  
19                   agreements are dependent on negotiation. They  
20                   are dependent on what we call customs-to-customs  
21                   agreements. Some of these are memorandums of  
22                   understanding, some of them are formal treaties,  
23                   customs treaties, but they all have to be  
24                   negotiated. It can't be just kind of a  
25                   gentleman's agreement. You have -- it has to be

1 negotiated.

2 Q And does Canada have any such agreement to your  
3 knowledge with the United States?

4 A Not to my knowledge.

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

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

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

19 MR. DAVIS: Thank you, Mr. Commissioner.

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

24 A I did.

25 Q And you write -- at page 28 of your report you

1                   write --

2           MR. DAVIS:  Sorry, Madam Registrar, I actually won't  
3                   need that document displayed.  Or that document  
4                   displayed any longer.  Thank you.

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

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

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

15           A       That's correct.

16           Q       And you go on to write:

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

25           Is that accurate?

1           A     Yes, it is.

2           Q     And can you please explain that to the  
3                 Commissioner.

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

21          Q     And that information that you described, such as  
22                 weight and descriptions, that would be included  
23                 to your knowledge in any agreement between the  
24                 United States and any of the countries that were  
25                 listed on that column?

1           A     Yeah, all of that is negotiated out. There are  
2                   different agreements with different countries.  
3                   Some countries will put restrictions on certain  
4                   things. But the short answer to your question  
5                   is yes, it should be.

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

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

21                         You know, from a political standpoint I'm  
22                         not sure if that's where countries want to go,  
23                         but I think technically -- for the first time  
24                         today I think we could theoretically achieve it  
25                         or come close to it.

1           Q     And at page 30 you describe the use of  
2                   distributed ledger technology, such as  
3                   blockchain.  Sorry, I'll let you turn there,  
4                   Mr. Cassara, that's page 30.

5           A     Yes.

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

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

24          Q     And what can you tell the Commissioner about  
25                   the -- scrolling down the page just a little

1 bit -- about the 2018 United States customs  
2 pilot that applied this sort of blockchain  
3 technology at cargo entry?

4 A In 2018 the United States Customs and Border  
5 Protection piloted a future concept assessment  
6 to evaluate the application of blockchain  
7 technology to the process of submitting  
8 documents for cargo entry. And as we talked  
9 about, blockchain allows different users to make  
10 transactions and then creates this unchangeable  
11 secure record of those transactions.

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

18 The goal of the Customs and Border  
19 Protection assessment is to prove that a  
20 standards-based fully digital system could be  
21 created to replace the existing paper-based  
22 system, which sometimes can be rife with abuse.  
23 Manual document handling, it's insecure, it  
24 facilitates fraud, slows logistics. So  
25 hopefully this new technology will improve

1                   auditability, increased transparency and more  
2                   clearly identify suppliers and manufacturers,  
3                   which could help better identify fraudulent  
4                   documentation and assist with this trade  
5                   transparency that I was talking about.

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

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

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

24          Q       More so than under the kind of traditional  
25                  paper-based approach?



1 container's location, its internal conditions,  
2 its temperature, for example. Whether it's been  
3 broken into, whether it's secure. Its physical  
4 integrity. All of this.

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

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

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

18 Q Thank you. And I'd like to turn briefly to  
19 looking at Canada and British Columbia more  
20 specifically. And acknowledging the limitations  
21 that you've outlined for the Commissioner, what  
22 is your view on whether Canada and more  
23 generally -- or pardon me, more specifically  
24 British Columbia face threats from trade-based  
25 money laundering?

1           A     Very generally it's my belief that Canada in  
2                    general and British Columbia specifically do  
3                    face current threats from trade-based money  
4                    laundering.

5           Q     And why?

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

21                         And then as this relates to, you know, over-  
22                   and under-invoicing and these other issues that  
23                   we talked a bit about, other methodologies,  
24                   threats related to capital flight, underground  
25                   financial systems, value transfer, all this type

1                   of stuff, I most definitely think Canada and  
2                   British Columbia are vulnerable.

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

7           A       Yes, I've found if it.

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

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

19                         In the -- what we call the traditional black  
20                         market peso exchange that started in Columbia  
21                         and then it's moved into Mexico, narcotics  
22                         traffickers sell at a discount all the proceeds  
23                         of US drug sales within the United States.  
24                         Those are the street sale of narcotics, \$20  
25                         bills, the \$5 bills, all this kind of stuff.



1           receiving drug money or maybe they were  
2           willfully blind. They kind of looked the other  
3           way. So the same type of BMPE takes place in  
4           Europe as well. You know, drug money will  
5           purchase an Italian Carrara marble; right?

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

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

20                    "Brokers send suspected illicit funds held  
21                    in Latin America or the U.S. to Canadian  
22                    trading companies, wholesalers, dealers  
23                    and brokers via electronic funds transfer  
24                    and, to a limited extent, cash courier.  
25                    These entities subsequently send



1                   probability that Canadian drug dollars are  
2                   used to directly or indirectly purchase  
3                   Canadian manufactured goods, commodities,  
4                   and raw materials."

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

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

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

19          A       That is correct.

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

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

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

6 I talk about it a lot in my book on  
7 trade-based money laundering. I also talk about  
8 it a lot in my book on money laundering, and  
9 it's -- just to very briefly go through this.  
10 Gold is extremely attractive to money launderers  
11 because, depending on its form, gold is both a  
12 commodity and kind of a *de facto* bearer  
13 instrument. Gold is a readily acceptable medium  
14 of exchange. It's accepted anywhere in the  
15 world. In times of uncertainty, gold offers  
16 stability. Gold offers easy anonymity to money  
17 launderers. Depending on the need gold can  
18 be -- the form of gold can be easily changed or  
19 altered. It can be melted, smelted down.  
20 There's a worldwide market in cultural demand.  
21 Gold transactions can easily be layered or  
22 hidden. It's perfect for placement, layering  
23 and integration. Old and varied forms can be  
24 easily smuggled. And by weight it represents  
25 much more value than cash.

1                   Gold is often used in fraudulent trade-based  
2                   money laundering schemes, for example, importing  
3                   gold scrap at lies prices higher than gold  
4                   bullion, believe it or not. And in parts of the  
5                   world gold is the favoured commodity used in  
6                   underground financial systems like hawala.  
7                   Historically and culturally gold has been the  
8                   favoured commodity to use. I could launder  
9                   money with any type of thing, but when we're  
10                  talking about historically and culturally hawala  
11                  and counter-evaluation it's gold.

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

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

1                   that correct?

2           A        That's correct.

3           Q        And for clarity, you have not considered the

4                   constitutional, statutory or any other

5                   implements that might exist with respect to

6                   implementing or considering those

7                   recommendations in Canada or British Columbia;

8                   is that fair?

9           A        That is fair.

10          Q        And I'm not going to take you through all of

11                   them, Mr. Cassara, but recommendation 3 involves

12                   creating a specialized policing unit to

13                   investigate trade-based money laundering; is

14                   that correct?

15          A        That's correct.

16          Q        And why would a specialized unit like that be

17                   beneficial?

18          A        Well, I think for a variety of reasons.  Number

19                   one, the status quo isn't working; okay?  So,

20                   you know, sometimes it's time to try something

21                   new.  I think it would also reassure the public

22                   that authorities are taking reports of

23                   widespread trade-based money laundering

24                   seriously.  I think a specialized unit would

25                   develop specialized expertise.  I think that's

1                   probably needed. And I think the unit itself  
2                   should easily pay for itself through the  
3                   collection of increased taxes, duties, you know,  
4                   forfeitures. This type of thing.

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

9                   A     Yeah. Again, every country is different, every  
10                  country does it a different way, but I think the  
11                  unit, whatever you want to call it, should have  
12                  access to all relevant government, law  
13                  enforcement, financial trade and related data,  
14                  things that we've been talking about. I think  
15                  the unit should have an adequate budget. That's  
16                  something that, you know, the US has been  
17                  struggling with. I think the unit should kind  
18                  of be integrated within Canadian customs or, you  
19                  know, the Canadian Border Services Agency or try  
20                  to have direct representation. And the unit  
21                  members, I think it would be best -- we've found  
22                  from the US experience that they were kind of,  
23                  you know, recruited or cross-pollinated, if you  
24                  will, from a cross-section of applicable  
25                  disciplines, including customs and financial

1 crimes and fraud. All this. And I think most  
2 importantly -- because I'm not sure how it works  
3 in Canada for investigating customs related  
4 crimes, but I think the officers should have the  
5 mandate to investigate TBML and related crimes  
6 and have the power of arrest.

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

11 A Yes, it is.

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

17 A I urge the Cullen Commission to determine  
18 specifically how many trade-based money  
19 laundering cases have ever been worked in  
20 British Columbia or at the federal level that  
21 impact British Columbia, how many resulted in  
22 successful convictions, how many cases were  
23 presented for prosecution and how many were  
24 accepted or rejected. How many TBML-related  
25 assets we seized and ultimately forfeited. How

1           many law enforcement and other personnel have  
2           been devoted to combat trade-based money  
3           laundering. How many STRs related to  
4           trade-based money laundering have been filed  
5           that impact British Columbia. And using data  
6           that I believe is going to be presented by  
7           Dr. Zdanowicz and perhaps other sources,  
8           determine estimates for the amount of over- and  
9           under-invoicing on goods, imports and exports  
10          involving British Columbia and the aggregate  
11          potential loss of revenue.

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

15          A     Yes.

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

19          A     Well, beneficial ownership information basically  
20                 are associated with these, you know, opaque  
21                 shell companies, and this is very, very common  
22                 in the layering stage of money laundering that I  
23                 described earlier. It makes it very, very  
24                 difficult for criminal investigators to follow  
25                 the money and value trails if you don't know

1                   who's involved, if you can't determine the  
2                   ultimate beneficial ownership information.

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

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

1                   you know, financial institutions but also by the  
2                   trade intermediaries.

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

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

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

10          MS. FRENCH: Thank you, Mr. Commissioner.

11          **EXAMINATION BY MS. FRENCH:**

12          Q     Good afternoon, Mr. Cassara. My name is Olivia  
13                   French. I'm counsel for Canada.

14          A     Good morning.

15          Q     Good morning. I appreciate that you have  
16                   already qualified with Mr. Davis some of the  
17                   limitations of your knowledge about the Canadian  
18                   criminal context and the Canadian approach to  
19                   money laundering, trade-based money laundering.  
20                   So with that in mind, I just have a couple of  
21                   brief questions for you about one of the  
22                   recommendations.

23          A     Of course.

24          Q     Thank you.

25          MS. FRENCH: I think it might be helpful if we do

1 pull up the report. So Madam Registrar, could  
2 we pull up Mr. Cassara's report. It's  
3 exhibit 341.

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

6 Thank you, Madam Registrar.

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

9 A I'm getting there.

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

12 A Okay. I see it on the screen.

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

17 A Correct.

18 Q And then you write:

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

22 Have I read that correctly?

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

25 Q Yes, you have. And that footnote is TO, as

1                   you've described, sort of a public source, to  
2                   the *Star News* publication. It's a news article?

3           A     Okay.

4           Q     Shall we verify that?

5           A     Yeah, if you could.

6           Q     Absolutely.

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

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

11          A     Okay.

12          Q     And it's the *Star*, Vancouver, dated April 8,  
13                   2019. Is that correct, Mr. Cassara?

14          A     Yes.

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

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

20                   Have I read that correctly?

21          A     Yes.

22          Q     Yes.

23          A     In my opinion, yes.

24          Q     And so you acknowledge, though, that you're not  
25                   sure if this statement from the *Star* news

1 article is accurate; is that correct?

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

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

6 A No.

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

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

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

17 A That is correct.

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

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

22 Q And that would also, then, apply to the  
23 specifics of how units are staffed or officers  
24 might be deployed or distributed for complex  
25 investigations?

1           A     That is correct.

2           MS. FRENCH: Thank you, Mr. Cassara.

3                     Mr. Commissioner, I have no further  
4                     questions.

5           THE COMMISSIONER: Thank you, Ms. French.

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

9           **EXAMINATION BY MR. LEUNG:**

10          Q     Sir, can you hear and see me?

11          A     I can. Good morning.

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

16          A     That is correct.

17          Q     And your evidence is that all of your research  
18                     on the Vancouver Model comes from publicly  
19                     available information; is that correct?

20          A     That's correct.

21          Q     Is it fair to say, then, that you do not have  
22                     any particular expertise on money laundering in  
23                     British Columbia's casinos?

24          A     Outside of what I have read in the public  
25                     domain, I have never worked a case. So I think

1                   your statement is fair.

2           MR. LEUNG: Thank you those are my questions.

3           THE COMMISSIONER: Thank you, Mr. Leung.

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

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

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

21                   Yes, Mr. McFee.

22          MR. McFEE: Thank you.

23          **EXAMINATION BY MR. McFEE:**

24          Q        Good morning, Mr. Carrara. Can you hear me  
25                  fine?

1 A I can. Good morning, sir.

2 Q One of the topics you addressed in your  
3 testimony and your report to the commission a  
4 capital flight out of China; correct?

5 A Yeah, correct.

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

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

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

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

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

1 leaving China?

2 A Yes.

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

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

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

15 A It would be.

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

20 A No. As I said, I have no data to back this up,  
21 but I would assume that the overwhelming  
22 majority of the capital leaving China into  
23 Canada is the result of licit funds. But I'm  
24 also convinced that there are illicit funds, the  
25 percentage of which I do not know and I don't

1 believe can be accurately estimated, but I  
2 believe there is a percentage that come from,  
3 say, illicit origins.

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

7 A Sorry?

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

10 A Yes, sir.

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

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

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

25 A Yes, it is.

1           Q     I think you told the Commissioner that FinCEN in  
2                   the United States has 20 million reports  
3                   approximately filed annually?

4           A     That's correct.

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

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

19                         But at the same time from a practical  
20                         standpoint we're talking about -- I mean, let's  
21                         just talk about suspicious activity reports or  
22                         suspicious transaction reports, as it's called  
23                         in Canada. Well over 2 million are filed every  
24                         year in the United States, I think some years  
25                         approaching 3 million, about half from financial

1 institutions, about half from money service  
2 businesses. And many of these suspicious  
3 activity reports, STRs, are filed -- we call it  
4 defensively, and I call them garbage reports.  
5 It is gums up the system.

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

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

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

1 file, just file, just file. At tremendous  
2 costs. At tremendous costs.

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

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

20 A I would. But both analytic systems and also to  
21 educate themselves. I think -- again, I am not  
22 a bank compliance officer. I've never worked in  
23 a financial institutions. But my gut is that  
24 there can be an overreliance on software to do a  
25 lot of this stuff. It's good in sorting; right?

1                   It's good to program red flag indicators. But  
2                   when push comes to shove, the bottom line is it  
3                   takes a human being, a human being with good  
4                   knowledge, you know, and trusting their gut  
5                   input, their gut feeling, to look at this  
6                   information and say, there's something here.

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

12          A       That is correct.

13          Q       And although you say you've never worked in a  
14                  bank, I see from your -- I'll call it your CV,  
15                  but I guess it's your work history. You were a  
16                  consultant for SAS for about a five year period,  
17                  2011 to 2016?

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

21          Q       And to your knowledge SAS has a software system  
22                  that's widely used across of a number of  
23                  sectors, including the banking sector and  
24                  governments, to analyze business and financial  
25                  data?

1           A     Yes, it is, but I want also to make it perfectly  
2                    clear I'm not a SAS employee today.  I never  
3                    was.  I was a consultant, and I don't want to  
4                    speak for SAS.

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

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

15                         From a law enforcement perspective I think  
16                         there's -- and I talked with my SAS colleagues  
17                         about this.  I think one the most important  
18                         things that big data can do and advanced  
19                         analytics can do is what you just mentioned:  
20                         predictive analytics.  There's a crying need for  
21                         that.  And the other crying need is what I call  
22                         prioritization; right?  There is so much data  
23                         out there and there's only so many resources  
24                         available.  Use the big data and the analytics  
25                         to pick out those nuggets, those promising cases

1                   that need X criteria because every law  
2                   enforcement investigator or agent has a inbox  
3                   like this. Which one should I focus on? And I  
4                   think big data analytics is very promising in  
5                   that regard.

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

13          A       Yes.

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

17          A       Yes, I would.

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

23          A       I did make that recommendation.

24          Q       But to be clear, that's to investigate money  
25                  laundering throughout the Canadian economy,

1 including potentially in designated reporting  
2 entities such as casinos?

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

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

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

24 Q And in your long experience as a law enforcement  
25 officer and then subsequently as a consultant

1                   trainer, mentor in the money laundering field,  
2                   would the absence of a specialized AML law  
3                   enforcement unit create a gap in the AML regime  
4                   that could be exploited by organized crime?

5           A        I think it could.

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

8           THE WITNESS:  Thank you, sir.

9           THE COMMISSIONER:  Thank you, Mr. McFee.

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

13           MS. TWEEDIE:  Thank you, Mr. Commissioner.

14           **EXAMINATION BY MS. TWEEDIE:**

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

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

22                   First --

23           THE COMMISSIONER:  Ms. Tweedie, I'm just going to  
24                   interrupt for a moment.  I am afraid your voice  
25                   is quite distorted.  I wonder if you could do

1 something with your microphone and perhaps  
2 repeat that question.

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

5 THE COMMISSIONER: Yes, I am.

6 MS. TWEEDIE: Okay. Great.

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

13 A That is correct, ma'am.

14 Q And under the US civil forfeiture process, money  
15 or assets are seized when they're suspected to  
16 be linked to a crime but the person who owns the  
17 money or the assets isn't necessarily charged  
18 and may never actually be convicted of a crime.  
19 You're familiar with that; correct?

20 A I am, but I readily admit I am not an expert on  
21 civil forfeiture law in the United States.

22 Q Okay. Thank you. But you would agree that not  
23 all money seized through civil forfeiture has  
24 been proven to be the proceeds of crime?

25 A Absolutely, yes.

1           Q     And also on page 9 of your report you write that  
2                   dated info suggests that money launderers in the  
3                   US face less than a 5 percent chance of  
4                   conviction?

5           A     Yes.

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

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

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

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

21          Q     Yeah, so not the ones who are profiting  
22                  significantly?

23          A     Correct.

24          Q     Likely actors that could be easily replaced. Is  
25                  that fair to say?

1           A     Yes.  Yes.

2           Q     And so in looking at these statistics -- the  
3                   1 percent of forfeitures, 5 percent or less of  
4                   potentially low-level actors, these statistics,  
5                   while they may be a good metric for enforcement  
6                   measures, they are not an indicator of the  
7                   magnitude of the money laundering problem.

8                   That's fair to say?

9           A     No.  I think to look at the magnitude of money  
10                   laundering problem you have to look at the other  
11                   types of metrics that are out there.  I'm not  
12                   sure if I talked a lot about this in the report  
13                   or not.  I did in my book.  The international  
14                   monetary fund uses an estimate of about, which  
15                   is commonly accepted, somewhere between 2 and  
16                   5 percent of world GDP is laundered every year.  
17                   Which very round numbers, very, very round  
18                   numbers equates to a roughly, say, \$4 trillion a  
19                   year with a wide band there.

20                   There are other estimates as well from  
21                   other, you know, ONDCP and others have come out  
22                   with their own.  But it's very, very difficult  
23                   to come up with precise numbers for the  
24                   magnitude of money laundering.  The FATF hasn't  
25                   even attempted it.  By its very nature this

1 money is hidden. It's opaque. I know when I  
2 was at FinCEN for six years we hired a full-time  
3 economist to look at the magnitude of money  
4 laundering to come up with a definition to try  
5 to help the FATF, and after two years this  
6 economist just threw up her hands and gave up.  
7 It was just impossible.

8 So we do recognize that there is a lot of  
9 play in those numbers, but in kind of academic  
10 governmental and non-profit circles generally  
11 speaking they use that IMF estimate of 2 to  
12 5 percent.

13 Q Yes, we've been hearing evidence about the  
14 complications of quantifying the money  
15 laundering problem. I understand that it's next  
16 to impossible to get a good estimate. But just  
17 to clarify, using these metrics of law  
18 enforcement of forfeiture and convictions,  
19 that's not a good way to measure either the  
20 scale of the money laundering problem or the  
21 impact we're having. Is that fair to say?  
22 Seeing as we're looking at such a small  
23 percentage.

24 A I would look at those metrics that matter when  
25 you talk about seizures and forfeitures and this

1 type of stuff as the results, the results of our  
2 work; okay? So we can quantify how much the  
3 Department of Justice, for example, the  
4 Department of Treasury in the United States,  
5 they have asset forfeiture funds. We know how  
6 much we recover that is forfeited to the  
7 government every year. That's quantifiable.

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

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

24 A Well, it depends how far you want to go back,  
25 and again I'm not a sinologist, I'm not a

1 Chinese expert, but I've done some reading on  
2 this -- and actually the pronunciation is  
3 probably off -- fei-chien, flying money, goes  
4 back to I understand to the Tang Dynasty back  
5 about the 7th century. And at that time  
6 obviously didn't have modern banking and cheques  
7 and all this kind of stuff, it was a way to pay  
8 taxes to the government when, say, farmers,  
9 peasants would take tea or rice or whatever to a  
10 marketplace and they would be given almost like  
11 a chit, for lack of a better description. And  
12 they would take that back to their home  
13 province -- it was a long trip -- and they would  
14 present that to a government official for  
15 payment. So that's how it developed.

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

22 Q Yeah. And so the -- and you spoke about this  
23 earlier, but the primary use of these systems is  
24 precisely that, correct, in immigrant workers  
25 sending money to their family?

1           A     Correct. Absolutely. And I want to make  
2                   perfectly clear that government at whatever  
3                   level, you know, intelligence, law enforcement,  
4                   regulatory, you know, have no wish to interfere  
5                   with hard-working immigrants sending their hard  
6                   earned money back home to support their loved  
7                   ones.

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

12          A     Yes.

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

20          A     Yeah, I wouldn't say -- particularly when you're  
21                  talking about hawala in the year 2020, I  
22                  wouldn't say that we have little knowledge of  
23                  them. I think it's fair to say we don't have a  
24                  lot of knowledge about the intricacies and the  
25                  magnitude of the Chinese -- of the corresponding

1 Chinese flying money systems. But I can say in  
2 my experience that the countermeasures that  
3 we've put in place -- I think you probably  
4 listened in. I talked about, you know, the  
5 United States designating these informal value  
6 transfer systems as money service businesses,  
7 they have to be registered and they have to be  
8 licensed, they have to provide suspicious  
9 activity reports. These types of  
10 countermeasures have proven to fail all around  
11 the world they've been tried.

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

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

15 THE COMMISSIONER: Thank you, Ms. Tweedie.

16 And now for Transparency International  
17 Coalition, Mr. Gratl, who has been allocated  
18 20 minutes.

19 MR. GRATL: Thank you, Mr. Commissioner.

20 **EXAMINATION BY MR. GRATL:**

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

25 A When you say cross-border transactions, could

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

7           Q        Sure. Say, import/export contracts?

8           A        Yes.

9           Q        Yeah. And so a portion of those transactions  
10                   essentially involve the same person being both  
11                   the importer and the exporter?

12          A        Not necessarily. I mean, there's generally --  
13                   the same person?

14          Q        Sure. A portion of those transactions involve  
15                   the -- essentially the same legal person or  
16                   entity being both the importer and the exporter.

17          A        A portion, I suppose, yes, but I wouldn't say  
18                   that's the overwhelming percentage.

19          Q        And then for other of those trade-based money  
20                   laundering transactions the importer and  
21                   exporter may be related by a family connection?

22          A        They could be or they could be -- or could be --  
23                   I mean, the primary percentage, if you will, are  
24                   arms's length transactions. I don't know you;  
25                   you don't know me; they make a deal. And I also

1                   understand that actually the majority of  
2                   international trade, global trade, is between  
3                   the same multi-national group.

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

6           A       Correct.

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

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

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

23          A       The way I look at this is if you ask the average  
24                  law enforcement, average intelligence officer,  
25                  they're going to say the more information we

1                   have the better it is. The more data we have,  
2                   the better it is. So the short answer would be  
3                   yes. At the same time leading government, okay,  
4                   and talking to folks in industry I'm also  
5                   sometimes -- let's put it I'm very sensitive to  
6                   the fact it's very tempting sometimes to  
7                   generate reporting requirements, but they can  
8                   sometimes come at great cost.

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

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

17                 A    That's correct.

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

21                 A    Correct. Correct.

22                 Q    And would it -- in the United States is one of  
23                   the vehicles for prosecuting or investigating  
24                   trade-based money laundering essentially fraud  
25                   in the process of describing the goods and

1 valuing them?

2 A Yes, absolutely. Absolutely.

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

6 A Yes.

7 Q Or -- and easily enforceable or practically  
8 enforceable?

9 A Yes, sir.

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

13 A Yes, sir.

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

20 A That is correct. And it goes back to, I think,  
21 a bit of a discussion I had earlier with  
22 Mr. Davis about trade fraud itself. Depending  
23 on who you talk to, trade fraud could be  
24 considered a predicate offence for trade-based  
25 money laundering. And others say no, as you

1                   just indicated, it's trade fraud, kind of  
2                   separate. So, you know, this is a conversation  
3                   that, you know, a lot of people have had and I  
4                   don't think there's a good answer for it one way  
5                   or the other.

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

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

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

14          A       Yes, sir, I agree.

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

19          A       Oh, yes.

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

25          A       I would imagine, and I have never worked, you

1 know, at that level in a business, but yes, I  
2 imagine that businesses would try to actively  
3 collect as much intelligence as they could about  
4 their competitors. There are a lot of  
5 initiatives right now going on. As I mentioned,  
6 in the United States we're very close to passing  
7 finally beneficial ownership information.  
8 There's a lot of discussion about the  
9 particulars of that and who's going to have  
10 access to that information, where that  
11 information is going to be stored. And I think  
12 countries around the world are kind of  
13 struggling with those -- kind of going back to  
14 your question about, you know, could companies  
15 get access to that.

16 Q Right.

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

23 Q Right. So -- but by having a public open  
24 registry with low-cost access or no-cost access  
25 to the information, business competitors, rather

1           than government, could be recruited to sift  
2           through the data to make sure people are playing  
3           by the rules?

4           A     It could happen, yes.    Sure.

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

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

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

21          Q     Right.

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

25          Q     Right.  And the same might be true on the other

1 side. Not just domestic businesses that are  
2 harmed by this type of activity but people in  
3 the exporting country might be interested in the  
4 places where the goods are being exported.

5 A Of course.

6 Q In cases of overvaluing goods at --

7 A That's correct.

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

10 A Yes.

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

13 A Give me an example of what you mean.

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

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

23 Q So that's even more difficult to measure than  
24 the cross-border trade-based money laundering  
25 because there's no paper trail?

1           A     That's correct, there's no -- there's no paper  
2                    trail, as you described.

3           Q     Or at least not a publicly accessible paper  
4                    trail.

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

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

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

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

18          A     Correct.

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

21          A     Yes.

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

25          A     I just don't have any first-hand knowledge of

1                   that. I'm sorry. I wish I did.

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

4           A       Oh, of course, yes.

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

7           A       In theory, yes.

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

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

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

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

25          Q       I suppose one possibility could be to have

1                   restrictions on family members of politically  
2                   exposed persons receiving funds for services of  
3                   that type?

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

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

12          A       Yes.

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

16          A       Once again could you give me an example?

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

22          A       Yes. Yes. In that case absolutely.

23          Q       Are there any international conventions dealing  
24                   with that type of perverse incentive, where  
25                   undervaluing exports actually does damage to

1                   your economic competitors?

2           A        I'd like to say I should know, but I do not  
3                   know.  Again, my background is law enforcement,  
4                   not international trade and policy, so I can't  
5                   answer that question.  But it's a very fair  
6                   question.

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

11          A        I have.

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

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

24                         So what I believe we need to do, I talked  
25                         about this earlier, is to focus on the money.

1                   Take the money, the proceeds away and follow  
2                   that money as high as we can in the food chain.  
3                   That scares, in my opinion. And I think there's  
4                   been some stories in the international press and  
5                   whatnot about some high-level drug trafficker,  
6                   sometimes they're -- they accept, if you will,  
7                   the prison, you know, the sentencing. What they  
8                   really fear is taking away their assets.

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

16                   A    Yes, once again I understand where you're coming  
17                   from and I don't disagree. I work -- I'm on the  
18                   board of directors of Global Financial  
19                   Integrity, GFI -- you may have heard of it -- in  
20                   Washington, DC. There's an interesting -- well,  
21                   not interesting. He's a friend of mine. I have  
22                   the utmost respect for him. Raymond Baker, he's  
23                   the founding president of Global Financial  
24                   Integrity. He has written and researched quite  
25                   a bit about the kind of things that you're

1            talking about. I would refer you to his book  
2            *Capitalism's Achilles Heel* and reaching out to  
3            GFI in general for kind of more insight on all  
4            this. But that's just -- like I said, that's  
5            not what I do.

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

8            Mr. Commissioner, those were my questions.

9            THE COMMISSIONER: Thank you, Mr. Gratl.

10            Anything arising from that, Ms. Tweedie?

11            MS. TWEEDIE: Nothing arising. Thank you.

12            THE COMMISSIONER: Thank you. Mr. McFee?

13            MR. McFEE: No, nothing arising. Thank you.

14            THE COMMISSIONER: Mr. Leung?

15            MR. LEUNG: Nothing arising. Thank you.

16            THE COMMISSIONER: Ms. French?

17            MS. FRENCH: Nothing arising. Thank you.

18            THE COMMISSIONER: And Mr. Davis?

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

21            THE COMMISSIONER: Thank you. Thank you,

22            Mr. Cassara. We're very appreciative of the  
23            time you took to share with us your experience  
24            and expertise in this sometimes difficult to  
25            understand but emerging area. I fully expect

1                   that what you provided us with will make a  
2                   significant contribution to the work of the  
3                   commission, so I'm grateful to you.  You're re  
4                   now excused from any further testimony.

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

7                   **(WITNESS EXCUSED)**

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

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

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

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