

**PROCEEDINGS AT HEARING
OF
OCTOBER 29, 2020**

COMMISSIONER AUSTIN F. CULLEN

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October 29, 2020

(Via Videoconference)

(PROCEEDINGS COMMENCED AT 9:30 A.M.)

GORDON FRIESEN, a

witness for the

commission, recalled.

HEARINGS COORDINATOR: Good morning, everyone. Thank
you for waiting. This hearing is now resumed.
Please ensure your microphones are muted unless
you are speaking.

THE COMMISSIONER: Thank you, Ms. Peter.

Now, I think we left off with Ms. Mainville
and Mr. Smart remaining to examine Mr. Friesen.

MR. MCGOWAN: Yes, that's correct, Mr. Commissioner.

THE COMMISSIONER: All right. Thank you.

Ms. Mainville.

MS. MAINVILLE: Thank you. Good morning.

Apologies. I didn't see Mr. Friesen. I
wanted to make sure he was there.

EXAMINATION BY MS. MAINVILLE:

Q Good morning, Mr. Friesen.

A Good morning, Christine.

Q Now, am I right to say that as betting limits
increased, so did the volume of cash coming into
casinos?

1 A Yes.

2 Q And do you recall that in 2014 the betting
3 limits were increased to \$10,000 per hand or per
4 spot, rather, meaning \$100,000 per hand as a
5 table limit?

6 A Yes.

7 Q And did GPEB have to approve those increases?

8 A Yes.

9 Q So they approved this 2014 limit increase;
10 correct?

11 A That's -- to the best of my knowledge they had
12 to, yes.

13 Q And so am I right that they did this, then,
14 despite these concerns that were set out earlier
15 in these letters sent to BCLC that were put to
16 you by commission counsel saying how the
17 suspicious cash was a huge integrity of gaming
18 issue and increasing at an alarming rate, and so
19 despite those letters, it was subsequent to that
20 they approved this increase of cash limit?

21 A Yes.

22 Q Based on your experience both in the proceeds of
23 crime unit and subsequently at BCLC, in your
24 opinion is it the case that it is difficult to
25 launder money in BC casinos in the traditional

1 sense of putting dirty cash in and obtaining
2 clean money out of the casino?

3 A Yes.

4 Q And would you say that BCLC and the service
5 providers would generally be capable of
6 determining whether money laundering in the
7 traditional sense was occurring in the casinos?

8 A Yes.

9 Q Is that because there were controls in place to
10 monitor that?

11 A Yes.

12 Q And would you say the patterns of the money
13 launderer are far easier to detect than, for
14 example, those of the wealthy individual who is
15 gambling with proceeds of crime and losing them,
16 generally speaking, at a casino?

17 A Yes.

18 Q And is that particularly difficult to detect
19 when the patron has wealth?

20 A Yes.

21 Q And am I right that the casino play doesn't tell
22 you anything if the customer is losing money or
23 playing -- otherwise playing like a normal
24 patron?

25 A That's correct.

1 Q Again, I'm talking about if they come in with
2 proceeds of crime. Their play doesn't inform
3 whether they are proceeds or not; is that fair?

4 A If they are a genuine player, it is very
5 difficult to tell that they're attempting to
6 launder money.

7 Q Right. And so if those other issues aren't red
8 flags, so their play or their wealth, their
9 level of wealth substantiating their level of
10 play, is it fair to say BCLC could not tell
11 simply based on the cash coming in whether the
12 cash was in fact proceeds of crime?

13 A Well, based on other factors as well, and that
14 is that their betting is commensurate with their
15 buy-in. The fact that they are losing and the
16 fact that they are not demanding verified win
17 cheques when they cash out are all indicators
18 that they are playing genuine or they're betting
19 genuine and they're playing genuine.

20 Q And so am I right, then, that BCLC was -- during
21 your time there required -- or looking for -- or
22 needed, I would say, needed some objective
23 measure before refusing a transaction, a cash
24 transaction on the basis that it may be proceeds
25 of crime?

1 A Yes.

2 Q And from your perspective, the way the money was
3 packaged was insufficient?

4 A Yes.

5 Q And is that -- well, let me ask you this: when
6 you were asked a question about where the cash
7 could have potentially come from, you answered
8 with various possibilities, but you mentioned
9 that we should remember that these are wealthy
10 people. And was your point there that wealthy
11 people, perhaps excessively wealthy people, may
12 not live and go about their business the way
13 many of us do?

14 A Well, they have -- I guess my point would be
15 that they have access to extraordinary wealth.
16 A lot more than you and I would.

17 Q Right.

18 MR. MCGOWAN: Mr. Commissioner, I'm slow to interrupt
19 my friend. There is one point I wanted to
20 raise. Ms. Mainville's client and the British
21 Columbia Lottery Corporation are in many senses
22 aligned in interest, and I notice the form of
23 her questions has largely been leading in
24 nature. I don't say there's an absolute
25 prohibition on that, but I do wonder about the

1 value of this type of questioning with a witness
2 who is aligned with interest with her client.

3 THE COMMISSIONER: Ms. Mainville, do you have any
4 response to that?

5 MS. MAINVILLE: Well, only that -- well, first of
6 all, I had not been informed earlier that I was
7 not entitled to lead any witness or suggest
8 questions, but I would also say that Mr. Friesen
9 was at all times relevant to my client at BCLC
10 at a time when my client was at GCGC, so it's
11 not as though they were co-workers or working
12 for the same entity at the same time. And I --
13 my understanding is that I'm allowed to suggest
14 questions -- or I'm allowed to lead the witness,
15 but if the Commissioner has concerns about
16 that ...

17 MR. MCGOWAN: To be clear, Mr. Commissioner, I'm not
18 suggesting there's an absolute prohibition. I'm
19 just raising an issue about the value of the
20 evidence and leave that ultimately to you in
21 considering the issues before you.

22 THE COMMISSIONER: Yeah, I think it's a question of
23 weight rather than the admissibility of the
24 evidence sought through that form of
25 questioning, so just bear that in mind,

1 Ms. Mainville. I leave it to you as to how you
2 conduct your examination.

3 MS. MAINVILLE: Thank you.

4 Q Mr. Friesen, are money service businesses one of
5 the ways in which it was believed, perhaps, that
6 patrons may have been getting cash?

7 A Yes.

8 Q And money service businesses are not considered
9 a bank; is that fair?

10 A I suppose so. I'm not familiar with their, you
11 know, operation under a charter, like a
12 chartered bank, so -- but it is a money lending
13 facility, so -- with access to resources, so ...

14 Q Now, you've said, looking at the cash coming in,
15 that even if it was all being gambled or lost,
16 there was suspicion --

17 A Yes.

18 Q Yes. And is that why it was being reported?

19 A Yes.

20 Q And so is it fair to say that these transactions
21 that had the potential to be proceeds of crime
22 were not ignored from BCLC's perspective?

23 A True.

24 Q And so I just wanted to be clear. It wasn't
25 just instances of potential money laundering

1 through the casino that were reported, but also
2 instances of potential proceeds of crime being
3 brought in and lost at the casino?

4 A Yes.

5 Q Am I right that BCLC didn't have the same access
6 to information as GPEB in terms of what -- in
7 terms of what was going on outside of the
8 casinos?

9 A No.

10 Q No -- just to be clear on your answer to my
11 question, do you mean --

12 A What I mean -- what I mean by that is if you're
13 referring to access to police files, access to
14 criminal records, access to those types of --
15 that type of information, we didn't have access
16 to that.

17 Q Do you know whether GPEB had access to CPIC?

18 A Excuse me. I missed that.

19 Q Do you know whether GPEB had access to CPIC?

20 A Yes, I do.

21 Q And they did?

22 A Yes.

23 Q And did they convey that type of information to
24 BCLC, for instance, that any given player was on
25 CPIC or anything like that?

1 A No.

2 Q Did they otherwise act on information obtained
3 from this police database to your knowledge?

4 A I don't know.

5 Q Did GPEB otherwise provide BCLC with concrete
6 information that BCLC could act on in respect of
7 large cash buy-ins, for instance connections --
8 people who might have been connected to
9 organized crime or the source of particular
10 funds, things like that?

11 A No.

12 Q Throughout your time at BCLC, did GPEB provide
13 any assistance to BCLC on AML or on the volume
14 of cash issue?

15 A No.

16 Q And did GPEB tell BCLC about any actions that
17 they were taking in respect of large cash
18 buy-ins?

19 A No.

20 Q Did GPEB tell BCLC that they were not taking
21 action?

22 A No.

23 Q So there was no feedback; is that --

24 A No.

25 Q Okay.

1 A None.

2 Q So were you informed of what GPEB's position was
3 as to their own authority? Did they say whether
4 they were in a position to investigate or not?

5 A GPEB made it very clear that they were the
6 investigators and that BCLC was not to enter
7 into criminal investigations, and that was their
8 responsibility. And if we did, there would
9 be -- we would have to cease and desist, or
10 there would be consequences.

11 Q So is it -- do you recall Joe Schalk from GPEB
12 telling BCLC that they were interfering in
13 criminal investigations and that action may be
14 taken against them --

15 A Yes. Yes.

16 Q Was that when BCLC did try to take action?

17 A Yes.

18 Q And let's -- to just be clear, did GPEB tell
19 BCLC that BCLC's role was to observe and report,
20 then?

21 A That's correct. That was our role.

22 Q So that was --

23 A As far as they were concerned, that was our
24 role.

25 Q And so that was GPEB's position as well that --

1 A Yes.

2 Q -- BCLC's role was to monitor and report?

3 A Yes. We observed, reported; they investigated
4 criminal activity. That was their
5 responsibility.

6 Q If BCLC's role was to observe and report, am I
7 right that there was no expectation that service
8 providers would turn away large cash buy-ins
9 unless there was some evidence of criminality?

10 A Sorry, I missed the intent of that question.

11 Q Sure. Well, let me just say this: were there
12 any expectations that service providers would
13 turn away large cash buy-ins if there was no
14 evidence of criminality?

15 A No, they wouldn't do that.

16 Q And to be clear, was there any expectation on
17 BCLC's part in that regard?

18 A No.

19 Q And am I right that BCLC devised the AML control
20 that the service providers were to follow?

21 A Yes.

22 Q During your time at BCLC, am I right that
23 casinos had a significant surveillance presence
24 at the properties?

25 A Yes.

1 Q And did they deal with issues that arose with
2 patrons typically before BCLC got involved?

3 A Yes.

4 Q Did you view that as problematic at all that
5 service providers would deal with patrons in
6 first instance?

7 A No. It's very efficient and necessary.

8 Q Now, during your time with BCLC, am I right that
9 you met regularly with law enforcement?

10 A Yes.

11 Q And did you try to engage them to take action in
12 respect of large cash buy-ins?

13 A Yes.

14 Q Was your engagement with law enforcement outside
15 of GPEB's involvement or presence?

16 A Yes.

17 Q And BCLC provided -- did BCLC provide
18 information to the police?

19 A Constantly.

20 Q And at one point BCLC gave CFSEU a substantial
21 amount of information, and am I right that --
22 well, do you recall that?

23 A Yes.

24 Q And did -- was BCLC's understanding that the
25 CFSEU was going to investigate?

- 1 A Yes, there was.
- 2 Q Do you recall whether this was in 2014?
- 3 A Yes, I do.
- 4 Q It is -- it was?
- 5 A Yes.
- 6 Q And am I right that BCLC was also sending
7 reports directly to IPOC?
- 8 A Yes.
- 9 Q Do you recall that time frame?
- 10 A We were sending reports to the RCMP proceeds of
11 crime unit right from the day I got there. I
12 was employed by BCLC.
- 13 Q And that --
- 14 A As far back as 2005.
- 15 Q And that didn't stop --
- 16 A No.
- 17 Q -- until your departure?
- 18 A No. We actually had a specific dedicated email
19 site where we sent our reports to automatically.
- 20 Q And did Brad Desmarais also encourage police to
21 take action once you became VP compliance at
22 BCLC?
- 23 A Yes.
- 24 Q Do you have any personal knowledge of his
25 interactions with Mr. Kroeker on that front?

1 A No.

2 Q Now, Mr. Kroeker was VP compliance at GCGC
3 during -- around this time, at the very end of
4 2012 through to your departure from BCLC in
5 2014. Did you have any interactions that you
6 recall with Mr. Kroeker while he was at GCGC?

7 A Yes.

8 Q Do you have any knowledge of Mr. Kroeker's
9 general position at that time when it came to
10 AML measures?

11 A His condition? I'm sorry.

12 Q Sorry, his position.

13 A Oh, his position, yes.

14 Q On AML controls and measures?

15 A Yes.

16 Q Could you tell us a bit about that from your
17 perspective.

18 A I believe they aligned with BCLC's position.

19 Q Which -- how would you characterize that, BCLC's
20 position?

21 A BCLC had our AML controls in place with respect
22 to the casino environment. And Mr. Kroeker was
23 definitely in line with those controls.

24 Q Was he cooperative with --

25 A Yes.

1 Q -- BCLC? Yes?

2 A Absolutely.

3 Q Now, is it your view that large amounts of cash
4 created a public safety risk at and around
5 casinos?

6 A Yes.

7 Q And were cash alternatives important even for
8 that reason?

9 A Yes.

10 Q And did BCLC try to put cash alternatives in
11 place during your time there --

12 A I'm sorry.

13 Q Sorry, during your time with BCLC, did BCLC try
14 to put cash alternatives in place?

15 A Yes.

16 Q And did those need to get approved by GPEB?

17 A They needed to be approved by GPEB, yes.

18 Q And was that -- were there any difficulties in
19 getting those approvals?

20 A There were -- I know the process was very slow,
21 and there were some issues that had to be worked
22 out, as best I can recall the specifics, of
23 which I don't recall.

24 Q Could we -- well, you can let me know if we need
25 to bring it up, but there was a document put to

1 you by commission counsel, which was an email --
2 this is -- if Madam Registrar does want to bring
3 it up, it's BCLC12599 -- sorry, exhibit 107 now.

4 It was an email -- this is regarding the
5 \$50,000 threshold at River Rock, and it was an
6 email you received from Ross Alderson in 2011.
7 My first question is am I right that this issue
8 to your knowledge only related to River Rock?

9 A Which tab is that?

10 MR. LEUNG: Tab 7.

11 THE WITNESS: 7. Just excuse me for a minute. If I
12 could just have a quick look here.

13 MS. MAINVILLE:

14 Q Sure.

15 A Yes, I believe that was -- that issue was unique
16 to River Rock.

17 Q So it didn't apply to all of GCGC's properties;
18 is that right?

19 A I'm sorry?

20 Q It did not -- it was not something to your
21 knowledge that was happening at other GCGC
22 properties?

23 A No.

24 Q And Mr. Alderson's response is that he would be
25 bringing it up at the next meeting?

1 A Yes.

2 Q Was your understanding that this was at a
3 meeting with casino staff?

4 A Yes.

5 Q And did you -- from your perspective was -- did
6 you take this as the issue being dealt with?

7 A Did I take it as what? There's a bit of an echo
8 here. I'm sorry for being difficult, but I'm
9 sometimes straining to hear you. I apologize.
10 I want to make sure I get this straight.

11 Q Was Mr. Alderson dealing with this issue from
12 your perspective?

13 A Yes.

14 Q And this is in late 2011; correct?

15 A Yes.

16 Q And am I right that until you left BCLC in 2014
17 no audits -- to your knowledge no audits
18 detected any issues with River Rock having an
19 incorrect reporting threshold? If you know.

20 A No, I believe this issue was resolved.

21 Q In 2011?

22 A Yes.

23 Q So was this your last awareness of this issue?

24 A I'm sorry?

25 Q Was this your last awareness of this issue?

1 A Yes.

2 Q So you --

3 A As far as I -- as best I recall, this was --
4 this could have been the end of it. I think
5 there are some other emails, but -- in respect
6 to this, but the dates allude me right now.

7 Q But in or around this time --

8 A It was dealt with. It was dealt with, yes.

9 Q Okay. So do I take it, then, that between the
10 time that Mr. Kroeker arrived at GCGC, which was
11 in late 2012, until your departure from BCLC in
12 2014, you didn't have any conversations with him
13 regarding this issue?

14 A No.

15 Q Do you have any reason to believe that
16 Mr. Kroeker was aware of this apparent
17 misconception by some staff at River Rock?

18 A I have no idea if he was aware of it whatsoever.

19 Q Okay. And you provided training to casino staff
20 on FINTRAC reporting while you were at BCLC; is
21 that right?

22 A Yes.

23 Q During the 2012 to 2014 time frame, were you
24 aware of the content of the FINTRAC training
25 given to service providers, however it may have

1 been delivered to them?

2 A Yes.

3 THE COMMISSIONER: Ms. Mainville, have you concluded
4 with the emails, the exhibit --

5 MS. MAINVILLE: Oh, yes, yes. Thank you.

6 THE COMMISSIONER: Thank you. That may be taken down
7 now.

8 MS. MAINVILLE:

9 Q Do you -- were the staff -- were the service
10 provider staff to your recollection trained to
11 report any transaction they found to be
12 suspicious?

13 A Yes.

14 Q You're not aware of the training varying from
15 that?

16 A Training varying from that? No.

17 Q No?

18 A No.

19 Q And I just want to be clear. Most of your time
20 at BCLC was under Terry Towns' leadership;
21 correct?

22 A Yes.

23 Q And then you were there for the first portion of
24 Brad Desmarais's time as VP compliance?

25 A Yes.

1 Q Am I right you have no direct knowledge of how
2 things changed when Mr. Kroeker arrived at BCLC
3 in September 2015?

4 A No. I was gone.

5 MS. MAINVILLE: Those are all my questions.

6 THE COMMISSIONER: Thank you, Ms. Mainville.

7 Mr. Smart.

8 MR. SMART: Mr. Commissioner, I'm in a different room
9 than where Mr. Friesen is, but I've been
10 asked if we could just -- I don't think anybody
11 has to leave, but if we could go off camera for
12 a minute or two so his camera can be adjusted.
13 He's a little bit further away.

14 THE COMMISSIONER: Oh, sure. That's fine. So you're
15 asking everyone to go off camera or just
16 yourselves?

17 MR. SMART: I think just Mr. Friesen.

18 THE COMMISSIONER: Oh, I see. I follow that.

19 MR. SMART: Once it's adjusted, he'll come back on.

20 THE COMMISSIONER: All right. That's fine.

21 MR. SMART: Thank you, Mr. Commissioner.

22 **EXAMINATION BY MR. SMART:**

23 Q Mr. Friesen, I want to start by asking you
24 some -- about a question from commission counsel
25 yesterday, and Ms. Mainville returned to this

1 subject just before she concluded her
2 examination. It had to do with whether River
3 Rock Casino, BCLC and GPEB had agreed upon a
4 \$50,000 threshold for determining whether River
5 Rock needed to file reports. And I'm doing
6 to -- in a minute I'm going to ask to have
7 exhibit 107 put back up again, but can you
8 remind us what a service provider such as River
9 Rock was required to file?

10 A River Rock was required to file, like every
11 other casino in the province, any transaction,
12 any cash transaction of \$10,000 and more.

13 Q And what was -- where were they to file? What
14 were they to file?

15 A They were to file that information with FINTRAC.

16 Q Were they to file anything with GPEB?

17 A Yes. They would create a section 86 report from
18 the best of my knowledge and file that as well.

19 Q And the section 86 refers to a section of the
20 gaming enforcement act?

21 A Yes.

22 Q Or control act, *Gaming Control Act*?

23 A Yes.

24 Q And is that the issue about the \$50,000 as to
25 whether they only needed to file a section 68 --

1 section 86 report with you, that is BCLC, and
2 GPEB if the transaction was in excess of
3 \$50,000?

4 A That was my understanding. That's where the
5 brunt of the confusion lay.

6 Q Okay. Let me just go back, please.

7 MR. SMART: If we can put up, Madam Registrar,
8 exhibit 107, please. Thank you.

9 Q And that is at tab -- I think it's tab 7 of your
10 book, Mr. Friesen. So as Ms. Mainville
11 brought -- reminded you, this email that you
12 responded to in September of 2011, you respond
13 to Mr. Alderson, who raised the issue that:

14 "We had some recent files where we had
15 patrons buy in for 49,960 and 49,980 in
16 20s, and we have found out through further
17 investigation. River Rock are not
18 reporting these as suspicious, and Steve
19 and I feel it's too much of a coincidence
20 and the players must have been informed.
21 We also find that an individual player
22 that may have combined buy-ins over a
23 24-hour period exceeding \$50,000 in
24 buy-ins in 20s are also not deemed
25 suspicious as the only individual buy-in

1 is being looked at. Steve is looking at
2 the STRs --"

3 And that's suspicious transaction reports,
4 Mr. Friesen?

5 A Yes.

6 Q "... we have done recently to get some
7 iTrak file numbers."

8 And iTrak is the system that BCLC uses to track
9 information?

10 A Yes. It's the BCLC universal reporting system,
11 unique to BCLC.

12 Q "We believe this is a totally cynical
13 attempt by the site to avoid reporting
14 buy-in as suspicious."

15 "The site" being River Rock?

16 A Yes.

17 Q "I know that a 50,000 buy-in limit was
18 agreed upon, but if you look at the AML
19 training, there is a scenario for 30,000
20 in 20s. I'm concerned that the outside
21 auditor will find this non-compliant."

22 Let me just ask you, do you know what
23 Mr. Alderson was referring to when he said "I
24 know that a \$50,000 buy-in limit was agreed
25 upon"? I appreciate this was 11 years ago -- or

1 nine years ago, but do you recall what he's
2 referring to there?

3 A To the best of my recollection, this was a GPEB
4 request that they were not interested in
5 transactions below the \$50,000 amount that was
6 received in \$20 bills.

7 Q So GPEB -- your understanding was that GPEB was
8 telling River Rock if it's below \$50,000, don't
9 send us a section 86 report?

10 A Right.

11 Q All right. So you then respond at the top of
12 the page, and Mr. McGowan raised some of this to
13 you but not all of it:

14 "This is not written in our policy, so an
15 auditor will not find us non-compliant."

16 Can you just explain that, what you meant by
17 that.

18 A Just because GPEB was not interested in
19 transactions under the \$50,000 mark, did not
20 preclude the fact that our policy states any
21 suspicious transaction regardless of amount must
22 be reported.

23 Q Reported to who?

24 A Must be reported to FINTRAC.

25 Q And to BCLC?

1 A Pardon me?

2 Q And to BCLC?

3 A Yes.

4 Q Okay. So let me just -- I'll just carry on.

5 "So this is not written in our policy, so

6 an auditor would not find us

7 non-compliant. This is an AML strategy.

8 The problem we face is that if we believe

9 River Rock are not reporting because

10 someone has instructed the cage not to

11 report these incidents, I don't think

12 you're going to get too many confessions."

13 What did you mean by that?

14 A Well, if an employee was instructing patrons on

15 the fact that they were not liable to report

16 transactions under \$50,000 and just keep their

17 transactions under the \$50,000 mark, then it

18 wouldn't be reported and they wouldn't be

19 identified. So I'm not so sure because this was

20 not policy their instructions were totally

21 something different that you wouldn't get too

22 many people that would admit to the fact that

23 they've been telling patrons not to conduct a

24 transaction under \$50,000.

25 Q Wouldn't get any hands going up saying, that was

1 me?

2 A No, sir.

3 Q What I would -- and then you carry on:

4 "What I would do is research how many
5 patrons this pertains to, which are
6 probably a select few, and have
7 surveillance put a watch on their buy-ins,
8 discuss this with staff at your next
9 scheduled meeting and air your concerns,
10 i.e. general manager, cage manager, et
11 cetera, and determine the response. As
12 indicated, the \$50,000 threshold was just
13 a simple determination made at River Rock
14 because of the volume of transactions."

15 And I'll interrupt there. That was a threshold
16 set by GPEB?

17 A Yes. That's my understanding.

18 Q Yeah. And you carry on:

19 "You can alter this at will."

20 And by that "you" you mean Mr. Alderson and
21 Mr. Beeksma and Mr. Karlovcec or any other
22 investigators with BCLC?

23 A Yes.

24 Q "You can alter this at will. There may
25 well be suspicious transactions involving

1 small denominations of bills, much less
2 than \$50,000."

3 So you were -- what were you trying to
4 communicate to your investigators there,
5 Mr. Friesen?

6 A Regardless of the amounts, circumstances
7 dictated whether or not it became a suspicious
8 financial transaction or not, and if it did, it
9 must be reported. It didn't matter if it was
10 \$50,000 or \$500. Circumstances dictated the
11 determination, whether it was going to be an SFT
12 and reported or not.

13 Q In answer to Ms. Mainville, you -- she asked you
14 whether or not this was the end of the problem,
15 and you referred that there may be some other
16 emails that you can't remember dates or email to
17 address this problem. So I want to refer you to
18 BCLC number 15839, if Madam Registrar is able to
19 pull that up for us, please. And this is at
20 tab 51 of your booklet, Mr. Friesen.

21 A Yes, one moment, please.

22 MR. SMART: Thank you, Madam Registrar.

23 Q I'll just get you to scroll down, please, to the
24 bottom of the second page just to identify.
25 You'll see at the bottom of the second page

1 there's an email from Mr. Dickson to
2 Mr. Karlovcec, and this is February 3rd, 2012,
3 so it's a few months after the last email, which
4 was September of 2011. Just going back to
5 Ms. Mainville's questions. Before Mr. Kroeker
6 started at River Rock but it refers to \$100
7 bills at River Rock, and if we just go to page 3
8 and look at what he writes to Mr. Karlovcec.
9 Thank you.

10 "Good morning, John. We're starting to see
11 a trend developing where River Rock is not
12 submitting section 86 reports regarding
13 suspicious cash buy-ins where \$100 bills
14 are presented. On at least one occasion
15 recently, BCLC investigators discovered
16 that a patron had left River Rock several
17 times and returned shortly thereafter with
18 large amount of cash in 100 dollar
19 denomination. The total was
20 approximately --"

21 And I don't know whether he means 5 million or
22 500,000, but looks what he's got is 5 million.

23 "And River Rock was directed to forward an
24 86. The feedback our investigators are
25 getting is that River Rock does not

1 consider any buy-ins with \$100 bills as
2 being suspicious, and they're too busy to
3 do this. Have you heard this and is this
4 River Rock's unofficial policy regarding
5 \$100 bills."

6 I'll just stop there. We're dealing now with
7 hundreds rather than twenties and we're dealing
8 with filing of section 86 reports. And I guess
9 it seems to be that Mr. Dickson's understanding
10 is that River Rock doesn't believe it has to
11 file section 86 reports if there's \$100 bills.
12 Is that your take or your understanding from
13 what Mr. Dickson is communicating?

14 A Yes.

15 MR. SMART: So let's -- if I can just then, Madam
16 Registrar, go back to page 2.

17 Q Mr. Karlovcec responds:

18 "Gents. Simply for your information, I
19 told Derek that I haven't heard the fact
20 that River Rock surveillance does not
21 consider any buy-in with \$100 bills as
22 being suspicious and they're too busy to do
23 this. I've directed the below-noted
24 comments from Derek Dickson to Pat Ennis."
25 Ennis again was -- Mr. Friesen, what his role?

1 A Pat Ennis?

2 Q Yes.

3 A He was the director of surveillance for ...

4 Q River Rock or Great Canadian?

5 A Great Canadian, I'm sorry.

6 Q That's okay. So Mr. Karlovcec is saying that
7 he's directed what Mr. Dickson provided to him
8 to Mr. Ennis for his feedback.

9 "As we know, we do not guilty take
10 denominations in consideration. However,
11 I told Derek that we do not simply focus
12 in on denominations, be it \$5, \$10, \$20,
13 50 or 100s and neither should the service
14 provider, as this would be wrong to do so.
15 The site should be taking into
16 consideration the totality of the
17 circumstances that may include patron's
18 casino history, bill denominations, total
19 amount of cash brought into the casino,
20 associates of patrons and their
21 background, circumstances how money is
22 delivered or brought into the casino, just
23 to mention a few. When in doubt they
24 should create an incident file and we
25 would follow up on it."

1 Let me stop there. The incident file, would
2 that be an iTrak entry?

3 A Yes.

4 Q And that would allow BCLC to follow up on it?

5 A Yes.

6 Q And the considerations that Mr. Karlovcec is
7 referring to, the totality of the circumstances,
8 is that your understanding of what BCLC
9 investigators were communicating to service
10 providers' staff?

11 A Yes, sir.

12 Q Yes. Mr. Karlovcec continues:

13 "Really these indicators form part of our
14 decision, a risk decision tree, and help
15 us to categorize our high-risk patrons.
16 I've asked Pat Ennis to clarify this with
17 his staff, to simply say that patron Y
18 brought in \$300,000 in \$100 bills and not
19 \$20 bills, therefore is not suspicious,
20 may be erroneous on the service provider's
21 part. Focusing on denominations in itself
22 is taking a tunnel vision approach. We
23 understand the site is busy and there may
24 be some incidents that go undetected but
25 to simply not report incidents because

1 \$100 bills are being used is the wrong
2 road to travel down."

3 Now, you were copied on that?

4 A Yes.

5 Q And you agree with what Mr. Karlovcec said?

6 A Yes.

7 MR. SMART: So let's go to page 1, please, Madam
8 Registrar.

9 Q And we'll see Mr. Alderson responds, and says:

10 "As you are aware, we ourselves have
11 discussed this issue here with management
12 a number of times, including the \$50,000
13 threshold for \$20 bills."

14 I'll just stop. That goes back to that earlier
15 email from September of 2011?

16 A Yes, sir. As far as I would be concerned, yes.

17 Q Yes.

18 "So we've discussed with management a
19 number of times, including the
20 \$50,000 threshold for \$20 bills. Our
21 argument has always been is 40,000 in 20s,
22 200,000 in 50s or 10,000 in fives, times
23 over 48 hours less suspicious. We pointed
24 out the AML training, which they have all
25 taken."

1 And I'll just stop. The AML training, is that
2 training that BCLC provided to service
3 providers?

4 A Yes, sir.

5 Q "We pointed out that the AML training,
6 which they have all taken, does not
7 specify amounts but more circumstances.
8 The standard response has always been it's
9 a service provider staff resourcing issue
10 and surveillance and that BCLC management
11 has agreed to the thresholds. However,
12 they will try harder. I hope if when
13 FINTRAC do an audit, that response
14 satisfies them under the risk management
15 strategies we have in place. I have my
16 doubts whether it would, especially
17 considering the scenarios found in our AML
18 online training and the fact that other
19 sites are not reporting a lot less
20 amounts."

21 And then Mr. Karlovcec responds:

22 "I just spoke to Pat."

23 And, again, that would be Pat Ennis that you've
24 referred to:

25 "And he will be speaking to and clarifying

1 with the staff to ensure that they're not
2 simply focusing on denominations or taking
3 into account the big picture on these."

4 Again, you're copied on that, and that satisfied
5 you the steps that your investigators were
6 taking?

7 A Yes.

8 Q Is that an example of efforts to deal with money
9 laundering in casinos that BCLC was taking
10 during this period of time, that is to try to
11 ensure that its service providers were reporting
12 appropriately when transactions were suspicious?

13 A Yes, sir.

14 MR. SMART: Thank you. Mr. Commissioner, if that
15 could be marked as an exhibit, please.

16 THE COMMISSIONER: That would be marked as exhibit
17 113, I think, Madam Registrar.

18 THE REGISTRAR: That's correct, Mr. Commissioner.
19 113.

20 THE COURT: Thank you.

21 **EXHIBIT 113: Email exchange between Karlovcec,**
22 **Alderson and Beeksma re \$100 Bills at RRRCR -**
23 **February 3, 2012**

24 MR. SMART:

25 Q So I just have one more document I want to show

1 you, and I'm sorry for all the reading, but this
2 is exhibit 109, please. Sorry, that's tab --
3 you've got tab 32?

4 A Yes, yes, sir.

5 MR. SMART: Thank you, Madam Registrar.

6 Q You were referred to this document yesterday and
7 a small portion was read to you. This is a
8 response that you wrote -- you don't need to
9 pull this up, Madam Registrar -- but you can
10 see, Mr. Friesen, that you signed page 3 of this
11 document?

12 MR. SMART: Sorry, Madam Registrar, I do want to have
13 the document up. You didn't need to move to
14 page 3. I just wanted Mr. Friesen to identify
15 he was the author of this document.

16 THE WITNESS: That is correct. I'm reading from my
17 copy, so ...

18 MR. SMART: Thank you, Madam Registrar.

19 Q Mr. McGowan referred you to Mr. Dickson's
20 correspondence of April 14th, 2010, and then to
21 this your response. You say:

22 "Receipt of your correspondence dated 2010
23 April 14th, is hereby acknowledged. This
24 reply may also be considered as followup
25 to our meeting at your office April 19th,

1 2010, where we discussed most of the
2 concerns as identified in your memo I
3 believe to our mutual satisfaction."

4 So, Mr. Friesen, I appreciate again this is
5 2010, it's a long time ago, but reading that
6 does that refresh your memory that you met with
7 Mr. Dickson in fact in person at his office?

8 A I actually don't recall that meeting.

9 Q You don't --

10 A I don't recall a meeting in person.

11 Q You have some confidence, though, that it took
12 place or you wouldn't have written that?

13 A That's a fair assumption.

14 Q This appears that this is some cooperation
15 between you and GPEB, Mr. Dickson in particular
16 where you actually had a face-to-face meeting?

17 A Yes.

18 Q But then you carry on and Mr. McGowan read this
19 part to you:

20 "To reiterate our conversation about this
21 ongoing problem, particularly with respect
22 to chronic violators or loan sharking
23 incidents and chip passing we at BCLC
24 share your concern that this activity
25 could be the greatest single threat to the

1 integrity of gaming in the province."

2 When you say your concern, who are you referring
3 to?

4 A GPEB.

5 Q Yeah. But you share GPEB's concern that this
6 activity could be the greatest single threat to
7 the integrity of gaming in the province. You go
8 on and say:

9 "We wish to assure you that BCLC view the
10 threat of loan sharking as serious and we
11 will take any and all action possible
12 against these observed participating in
13 this activity."

14 In his letter to you -- I can lead you on
15 this -- he identified certain individuals. Some
16 of that information is redacted in the document,
17 but he -- you respond:

18 "As per our discussions on April 19th,
19 four individuals identified in your memo
20 as being of the most concern due to their
21 activities of chip passing and association
22 with loan sharks."

23 And I'll just usual initials:

24 "Z is presently the subject of an ongoing
25 RCMP integrated proceeds of crime

1 investigation."

2 How did you know that?

3 A We would have been advised by proceeds of crime.

4 Q So there was some flow back and forth of
5 information flow from proceeds of crime to BCLC
6 investigators?

7 A To a degree, yes.

8 Q Is there a reason why you -- again, I'm asking
9 you to remember back 10 years, but is there a
10 reason why you had been -- you or the BCLC would
11 be advised that this person is the subject of an
12 integrated proceeds of crime investigation?

13 A One reason that stands out with our interaction
14 with different police units on this type of
15 issue is that they would have certain -- I'm
16 going to say things that they would like to see
17 or expect from us as far as their ability to
18 further these types of investigations. They
19 could have watched -- excuse me. They could
20 have asked that we allow this individual to keep
21 coming into the site to determine what type of
22 buy-ins he's making, the amounts, his
23 associates, how he's bringing this money into
24 our sites, what vehicles are being utilized,
25 licence plates, all this type of information

1 that would assist them in furthering their
2 investigation.

3 Q So if you were to ban him, that might very much
4 impede their ongoing investigation?

5 A Yes.

6 Q You tell Mr. Dickson that:

7 "Z is presently the subject of ongoing
8 RCMP integrated proceeds of crime
9 investigation. Needless to say, a
10 significant amount of information received
11 by the police about Z was supplied by BCLC
12 corporate security."

13 That's accurate?

14 A Yes.

15 Q "Z remains on the watch category in
16 iTrak."

17 What's that?

18 A That identifies an individual when they arrive
19 at the casino. All or as much information as
20 can be obtained on the individual's activities
21 in our casino are documented.

22 Q And who is to watch? Who is the
23 watch directed -- I mean, I appreciate --

24 A Surveillance -- the surveillance crew in the
25 casino.

1 Q So the service provider's surveillance crew --

2 A Surveillance staff, yes.

3 Q Okay:

4 "X and C have been provincially barred and
5 we are presently awaiting the results of
6 an investigation into the activities of Q
7 that may also result in a provincial
8 barring."

9 So you're addressing the four individuals that
10 Mr. Dickson has raised concern about?

11 A Yes.

12 Q Then you carry on. And I want to ask you about
13 what you've written here and whether it's
14 accurate. You carry on at page 2. Thank you.

15 "In order to deter and prohibit any level
16 of loan sharking operating in our casinos,
17 BCLC continues to maintain and support an
18 aggressive attitude and philosophy. As
19 well BCLC maintains strategies presently
20 in place internally as well as in our
21 casinos that are dedicated to the
22 detection and interdiction of loan
23 sharking."

24 I'm not even sure I know what "interdiction" is.

25 A 1930s term that had to do with the interdiction

1 of alcohol, I guess. Well, interdiction, what I
2 would mean by this would be the attempts to
3 fully stop loan sharking in our casino.

4 Q Okay.

5 "These strategies include BCL investigator
6 training to ensure investigators are
7 familiar with loan shark tactics and
8 operating methods."

9 So I'll stop there. Who's being trained? Is it
10 the BCLC investigators or the service providers?

11 A These are our own investigators.

12 Q Okay. So they're being trained to ensure
13 investigators are familiar with loan shark
14 tactics and operating methods?

15 A Yes.

16 Q "An internal policy guide has been
17 developed and implemented to assist
18 investigators in conducting loan sharking
19 investigations."

20 That would be an internal BCLC policy guide?

21 A Yes.

22 Q Okay.

23 "It clearly details the common elements of
24 loan sharking more commonly witnessed in
25 our casinos. BCLC investigators are

1 with the RCMP. A complete library of
2 individuals operating or suspected as loan
3 sharks in our Lower Mainland casinos has
4 been created and has made it readily
5 available to all of our investigators as a
6 reference."

7 When you say a "library," can you just tell us
8 what you mean by that?

9 A It's a compendium of loan shark suspects created
10 by us, by BCLC and available to all
11 investigators throughout the province.

12 Q Would the library be on iTrak?

13 A Yes, it would.

14 Q "This profile library also identifies some
15 of the organized groups responsible for
16 the lion's share of loan sharking in the
17 casinos and is updated regularly. Other
18 strategies involve the daily scrutiny of
19 casino cheques issued to patrons for
20 verified wins only."

21 Let me just ask you about that. You were asked
22 about cheques by Mr. McGowan, and I think you
23 established there was financial limits to these
24 cheques. Can you just explain this a little
25 further:

1 "Other strategies involve the daily
2 scrutiny of casino cheques issued to
3 patrons for verified wins only."

4 What's that about? Actually let me just -- I
5 shouldn't have stopped. Let me read the next
6 sentence:

7 "This ensures that these cheques are
8 issued as per BCLC policy and not to
9 suspected loan sharks looking to hide
10 their incomes by virtue of casino
11 cheques."

12 Were you involved in those scrutiny of these
13 casino cheques issued to patrons for verified
14 wins only, or is that done by others?

15 A Well, for the most part, by the time I became
16 system manager or manager, that scrutiny was
17 left to investigators who were on site in our
18 casinos.

19 Q So what you've written here looks like what the
20 scrutiny is is to see who's getting these
21 verified win cheques and make sure they're not
22 people suspected of loan sharking?

23 A Yes.

24 Q "All BCLC investigators are tasked with
25 the delivering FINTRAC training to casino

1 greater scrutiny. BCLC's incidents of
2 non-suspicious chip passing between
3 patrons be investigated and reported.
4 Patrons are warned about this activity and
5 that to continue to repeat doing so may
6 incur sanctions."

7 Now, I think you discussed yesterday
8 non-suspicious and maybe it was business
9 transactions. What do you mean by
10 "non-suspicious nature" in this case?

11 A I don't think in the spirit of this memo we're
12 referring to innocent chip passing, which of
13 course would be construed as non-suspicious.
14 Let's say between husband and wife. That's in a
15 different category compared to, let's say,
16 friends or other associates that may be
17 considered innocent. I'm not so sure that all
18 may be innocent. So that's why we've indicated
19 this as we have in this memo.

20 Q So you're not just concerned about suspicious
21 incidents but also non-suspicious?

22 A True.

23 Q Okay.

24 "I referred to the discussion we had in
25 regards to chip passing and the further

1 steps BCLC intended to take with regard to
2 sanctions. BCLC believes this strategy
3 will significantly reduce the overall
4 amount of chip passing incidents presently
5 experienced. Another ongoing strategy is
6 that casino surveillance is continually
7 monitoring and sensitive to chip passing
8 and potential loan shark activity taking
9 place in their respective casino sites.
10 Patrons identified participating in this
11 activity are confronted by security and
12 warned about their actions."

13 That's your understanding of what was occurring?

14 A Yes.

15 Q "This is documented, and if required
16 patrons, are flagged in iTrak under the
17 watch category. All LMV [sic] --"

18 That would be Lower Mainland casinos?

19 A Yes, sir.

20 Q "-- have access to these subject profiles
21 and therefore all benefit from this
22 category and are able to continue
23 monitoring patron activity regardless of
24 which casino they may attend. However,
25 depending on circumstances, a patron or

1 patrons may be removed immediately from
2 the casino, pending a BCLC investigation
3 into the incident. Subsequent to an
4 investigation if warranted, any patron or
5 patrons found engaging in any level of
6 loan sharking will be provincially barred.
7 Please be assured that BCLC is committed
8 to do everything it possibly can to
9 address all incidents of loan sharking,
10 both strategically and proactivity, thus
11 ensuring integrity of gaming within this
12 province."

13 What you've written here, Mr. Friesen, is all
14 accurate to the best of your knowledge at the
15 time and your recollection today?

16 A Sorry, just ask that again, please.

17 Q What you've written here, is this accurate?

18 A Yes.

19 Q These are the efforts that BCLC was making to
20 deal with loan sharking?

21 A Yes, sir. And chip passing.

22 Q And part of its strategy or efforts to deal with
23 money laundering?

24 A Yes.

25 Q And did you yourself in fact bar people that

1 were suspected of money laundering --

2 A Hundreds. In the hundreds.

3 MR. SMART: Thank you. Those are my questions on
4 that document. Thank you, Madam Registrar.

5 Q Let me just ask you. A lot of this has been
6 covered, and I don't want to repeat what others
7 have asked you, Mr. Friesen, but let me start by
8 asking this: you've told the commission and
9 Mr. Commissioner that you spent 34 years with
10 the RCMP as a police officer, the large majority
11 of it investigating organized crime and drug
12 trafficking?

13 A Yes, sir.

14 Q And the last six years of your time with the
15 RCMP, you were in charge, the sergeant in charge
16 of the RCMP drug section in Surrey?

17 A Yes, sir.

18 Q And it would be fair to say that there is,
19 without being unfair to the citizens of Surrey,
20 there's a lot of drug trafficking that occurs in
21 that city?

22 A Yes, sir.

23 Q During your time as a police officer dealing
24 with drugs and organized crime, did you gain an
25 understanding of the social consequences of

1 illegal drugs, that is the impact illegal drugs
2 have on individuals and families and our
3 communities?

4 A Yes, sir.

5 Q I expect you gained an understanding of the
6 violence, I'll say the extreme violence,
7 perpetrated by gangs that traffic illegal drugs,
8 gangs like the Hells Angels?

9 A Very much so.

10 Q These were some of the gangs that you
11 investigated in assisting others to investigate
12 and have charged with serious criminal offences?

13 A Yes, sir.

14 Q And did you gain an understanding that it's the
15 profits, the profits that come from drug
16 trafficking, that encourages organized crime to
17 engage in drug trafficking?

18 A Yes. The prime motivator.

19 Q Knowing this, having this background of
20 experience, when you worked at BCLC would you
21 ever have permitted money from the sale of drugs
22 to be used in casinos if you knew it was drug
23 money?

24 A No.

25 Q You've already been asked about this, and I'll

1 just summarize this. You've testified that
2 during your time at BCLC the betting limits for
3 patrons grew over time from \$500 to \$10,000. In
4 other words, the betting limits during your
5 tenure increased 20 times?

6 A Yes, sir.

7 Q Did you or your fellow investigators make the
8 decision to increase betting limits?

9 A No.

10 Q Was that something that you encouraged?

11 A No. But I wasn't asked.

12 Q And of course as you've testified as the limits
13 increase, so did the amount of cash that came
14 into casinos?

15 A Yes, sir.

16 Q Because cash during much of this period of time
17 was the only method to gamble while -- though in
18 time cash alternatives were put in place, but
19 essentially it was the only method for people to
20 gamble in casinos?

21 A Yes, sir.

22 Q I want to ask you about -- we've referred to a
23 class of patrons called -- I think it's VIPs.

24 A Yes, sir.

25 Q Generally who were VIPs?

1 A Generally speaking they were wealthy Asian
2 patrons.

3 Q Were they treated any different than any other
4 patrons?

5 A Not by BCLC.

6 Q Did they appear to be treated any different by
7 service providers?

8 A Well, I think in -- we have to distinguish the
9 fact that as far as -- I'm not sure how you mean
10 by -- how you mean by treated, but they were
11 definitely patronized, I would suggest, more
12 than someone who was not able to bring as much
13 wealth into a casino than somebody else. But
14 that didn't mitigate the fact that they weren't
15 reported on if there were anomalies.

16 Q Did they -- these patrons, did it appear to you
17 that they were -- these VIP patrons were of
18 significant importance to the service providers?

19 A Yes.

20 Q Did they have special rooms built for them?

21 A Yes.

22 Q What would -- do you go into this VIP rooms from
23 time to time?

24 A Yes, I did.

25 Q What differentiated them from anywhere else in

1 the casino like River Rock?

2 A The main difference was that entry into these
3 rooms by, let's say, the general public was
4 highly restricted. These rooms were VIP patrons
5 only, and others that didn't have, as far as I
6 was concerned, a legitimate business, legitimate
7 business to be there, would not be allowed in.

8 Q You testified that -- I think that gaming -- as
9 the cash transactions expanded in casinos, at
10 the same time casino facilities were expanding?

11 A Well, I think --

12 Q Yeah, go ahead.

13 A I'm just trying to recall the sequence of
14 events. You had to build a facility before you
15 could actually bring the people in, so, you
16 know, that accommodation would have been, I'm
17 sure, taken into account by when the facility
18 was built.

19 Q Were the number of VIP rooms expanding over the
20 time you were with the BCLC?

21 A Yes, they were.

22 Q Was the number of VIP patrons, did it appear to
23 you that they were expanding?

24 A Yes.

25 Q These VIP patrons were -- were these -- I don't

1 want to lead you on this. What sort of amounts
2 of cash -- as a generalization, what were the
3 sorts of amounts of cash the VIP patrons were
4 bringing into casinos to gamble with?

5 A Well, that definitely varied not only with a
6 patron, but I'm going to suggest the
7 circumstance of the day. Maybe one day they
8 would bring in \$100,000, maybe the next day it
9 was 200-. This is all guesswork. The record
10 would have to -- you would have to scrutinize
11 records to get a definitive answer.

12 Q I think Mr. McGowan asked yesterday at times
13 there was cash transactions of up to \$600,000 or
14 \$800,000?

15 A Yes. I --

16 Q Might be rare --

17 A I can't recall specific buy-ins of that amount,
18 but I don't see that that would be unlikely over
19 time.

20 Q You testified that BCLC was able to obtain
21 information from and about these VIP patrons?

22 A Yes.

23 Q What kind of information did you learn?

24 A Well, first and fore most, even with the buy-in
25 process, these patrons had to identify

1 themselves by virtue of government issues --
2 government-issued photo identification. They
3 had to produce their resident address; they had
4 to produce contact information; they had to
5 identify their means of employment. The
6 security people in the casino were very, very
7 good at getting to know these individuals and
8 speaking with them and learning things about
9 them that would confirm employment, wealth,
10 associates and that sort of information, and we
11 were party to some of that as well.

12 Q And I think you said that you also were able to
13 learn information from open sources?

14 A That's correct.

15 Q What do you mean by open source information?

16 A We were able to retrieve information from
17 newspapers from local BC government records. I
18 believe some television interviews. That sort
19 of media-generated type of intelligence or
20 information.

21 Q Okay. Did you believe that these -- first of
22 all, these VIPs, did they appear to you to have
23 persons of legitimate wealth?

24 A Yes.

25 Q Did they appear to be persons connected to

1 organized crime groups?

2 A No.

3 Q Did you believe from your observations and
4 knowledge of them that they would -- these
5 wealthy Chinese -- and I guess they were
6 primarily businessmen, were they?

7 A Yes.

8 Q Did you believe these wealthy Chinese
9 businessmen would knowingly bring cash into a
10 casino that was the proceeds of crime?

11 A I don't believe so. I can't answer that
12 definitively.

13 Q Mr. Sha was one of the persons -- was a person
14 Mr. Dickson referred to in his letter to you in
15 November of 2010. And as Mr. Dickson pointed
16 out, Mr. Sha brought in over a one-month period
17 over \$3 million in cash and lost most of it.
18 Did you believe that he had the legitimate
19 financial means to be able to bring that
20 amount -- to obtain that amount of cash?

21 A Yes.

22 Q Other Chinese VIPs also brought large sums of
23 cash in, we've heard?

24 A Yes.

25 Q And Mr. Sha and many of these other wealthy

1 Chinese VIPs generally lost the money they
2 brought in, didn't they, or most of it?

3 A Yes, sir.

4 Q Did you gain an understanding as to why these
5 VIP patrons would gamble such large sums of cash
6 when they generally lost it?

7 A That was their form of entertainment.

8 Q Did you or any other investigator at BCLC
9 benefit financially in any way from permitting
10 these large cash transactions to proceed into
11 the casinos and the money to be used in
12 gambling?

13 A Absolutely not.

14 Q Was it your decision to allow these large
15 suspicious cash transactions to be used to
16 gamble at casinos?

17 A Sorry?

18 Q Was it your decision, was it an investigator's
19 decision whether to allow these large suspicious
20 cash transactions to be used to gamble in
21 casinos? Did you decide to allow that?

22 A No.

23 Q Did you have the authority to tell service
24 providers to turn it away just because it was
25 suspicious?

1 A No.

2 Q Did you have the authority to investigate the
3 source of these large suspicious cash
4 transactions?

5 A No.

6 Q Did you and the other BCLC investigators have
7 the resources or the legal right under our
8 *Criminal Code* to go into a community and conduct
9 undercover surveillance operations, execute
10 search warrants, obtain wire tap authorizations,
11 employ informants and police agents or arrest
12 individuals to question them?

13 A No.

14 Q When you filed the reports that you filed about
15 these large cash transactions or suspicious
16 transactions to FINTRAC, GPEB and police
17 agencies, what was your expectation as to what
18 use would be made of the information you and
19 your investigators filed in these reports?

20 A The hope was that when we filed these types of
21 reports, either the GPEB or the place may also
22 be working on these types of individuals and any
23 information that we had could support their
24 investigations into these individuals or crime
25 groups.

1 Q We've heard some evidence about -- and I think
2 you've told about this -- there was generally
3 monthly meetings of investigators at BCLC.

4 A Yes.

5 Q And you attended those usually?

6 A Yes. Usually.

7 Q Was the action by police -- or the response by
8 the police to the information you were providing
9 them or perhaps the apparent lack of action ever
10 the subject of discussion amongst investigators?

11 A Yes.

12 Q What was the discussion?

13 A Well, the discussion between us and the police
14 was definitely one of encouragement if in fact
15 they could pick up investigations on some of our
16 targets. But at the same time we realized that
17 they had their priorities as well and may not be
18 able to initiate investigations into these
19 individuals as we would like. However, that
20 wouldn't preclude the fact that we wouldn't --
21 we would terminate feeding them information.

22 Q You continued to terminate them. Was there
23 frustration expressed at the meetings about the
24 apparent lack of police action?

25 A Well, of course.

1 Q And in fairness to the police, you were an RCMP
2 officer. You understand that they have
3 priorities other than just money laundering and
4 loan sharking?

5 A One of the problems with money laundering is
6 that in order to prosecute from a police
7 perspective, you need to have a predicate or
8 enterprise offence; the individual has to be
9 convicted of that. Then the secondary
10 investigation commences, which is the money
11 laundering.

12 Q And it's usually more challenging to
13 investigate?

14 A This is very difficult.

15 Q We have heard evidence at the commission and
16 will hear from another one of your
17 investigators, Mike Hiller, that a number of
18 investigators complained and expressed
19 frustration about these suspicious cash
20 transactions being accepted by BCLC. Do you
21 recall hearing those complaints or frustrations?

22 A Yes.

23 Q Did you respond to those investigators'
24 complaints yourself?

25 A Yes.

1 Q What response did you give them? Just in a
2 general way.

3 A We -- in a general sense we totally understood
4 their frustrations. We were having the same
5 level of frustrations as well, but our function
6 was clearly defined, and until such time as we
7 were -- we were able to obtain information that
8 supported suspicions or supported what we would
9 try to do with ridding ourselves of people that
10 were involved in the money laundering trade, we
11 had to depend on others to do that for us.

12 Q And the others being ...

13 A Gaming Policy Enforcement Branch and the police.

14 Q Okay. Mr. McGowan asked you have you ever -- I
15 think the term he used pushed the police to
16 investigate these large suspicious cash
17 transactions or loan sharking, and you said -- I
18 think you said you didn't.

19 A We couldn't. We could request, but we couldn't
20 push people into doing something that they
21 couldn't.

22 Q You were once a police officer. Do you think
23 trying to push police to do something was an
24 effective strategy?

25 A No.

1 Q Did you make efforts to encourage police to
2 investigate during your time at BCLC,
3 investigate loan sharking and suspicious large
4 cash transactions, for example?

5 A Of course we did.

6 Q And how did you do that?

7 A Request. Look if you have time, please try and
8 help.

9 Q Did you have face-to-face meetings?

10 A Absolutely.

11 Q During your time at BCLC do you believe that
12 BCLC made significant efforts to address money
13 laundering in casinos?

14 A I do.

15 Q I think you've discussed some of them with --
16 advise the Commissioner, so I won't ask you to
17 go through those. I think you've used
18 expressions that it was sort of an evolving
19 process?

20 A Very much so.

21 Q Why do you think that was that it took time to
22 evolve these, what I'll call AML strategies?

23 A Well, as with anything new, like the expansion
24 of gaming in the province, the expansion of the
25 casino facilities, the influx of patrons, the

1 traffic exploded, the table game limits
2 virtually, from my perspective, exploded. We
3 had to gain experience and knowledge of how all
4 these elements were interlinked, and we were
5 trying desperately to impart our experience and
6 knowledge along with the service provider to
7 effectively deal with this. It just takes time.

8 Q Are you able to comment on whether you believe
9 the British Columbia Lottery Corporation during
10 your time there was ahead or behind the casino
11 industry in Canada in dealing with money
12 laundering and loan sharking?

13 A I firmly believe we definitely were ahead of the
14 curve.

15 Q And what do you base that on?

16 A I think that the fact that we had the amount of
17 investigators that we did, and we had them on
18 site, we could benefit more than other
19 jurisdictions who didn't follow that scenario
20 and we could benefit from experience.

21 Q Did you yourself get feedback from the other
22 casino industry personnel in the country about
23 the work BCLC was doing?

24 A Yes.

25 Q What kind of feedback?

1 A We wish we would copy your model.

2 Q Can you give us an example of where that -- who
3 said that to you, what organization said that to
4 you?

5 A Alberta and Saskatchewan.

6 Q Do you remember the approximate time period when
7 that -- you received -- time periods that you
8 received that feedback?

9 A It was while I was manager, so I'm going to
10 suggest 2013, 2014.

11 Q Before you left, BCLC hired Brad Desmarais?

12 A Yes, sir.

13 Q Did you know Mr. Desmarais? I'm probably
14 mispronouncing his name. He'll be a witness
15 later. Did you know him when he was a police
16 officer?

17 A No.

18 Q Do you know about his background?

19 A Yes.

20 Q What did you understand his background to be?

21 A He initially served with the Vancouver Police
22 Department and then transitioned over to the
23 RCMP.

24 Q Did you learn that he had extensive experience
25 in investigating money laundering by organized

1 crime?

2 A Yes.

3 Q From your perspective at the time you were there
4 before you left, did his joining BCLC have any
5 effect on anti-money laundering procedures or
6 plans that were brought into place by BCLC?

7 A Yes. Two significant changes, I'm going to
8 suggest from my perspective, and that is --
9 well, three, really. One was training our
10 investigators in anti-money laundering proceeds
11 of crime. They would take the certified
12 recognized course in that regard. We dedicated
13 people specifically to our anti-money laundering
14 program, and we were in constant throws of
15 updating our technology, and when Mr. Desmarais
16 became the VP of our section, we engaged a
17 company to do -- to specifically do that for us.

18 Q Just let me ask you about the money laundering
19 program. You had internal program to teach
20 investigators. Was this an external program?

21 A Yes, it was.

22 Q Can you just explain it, if you would, please.

23 A It's the -- I forget the name of it. It just
24 went right out of my head.

25 Q Is it sort of a Canadian-wide?

1 responsible if the time you were manager for
2 filing large cash transaction and suspicious
3 transaction reports with FINTRAC?

4 A Surveillance.

5 Q Sir ... Okay. I want you to listen carefully
6 to my question. Who was responsible for filing
7 large cash transaction reports and suspicious
8 cash transaction reports to FINTRAC?

9 A Okay. The large cash transaction report was
10 automated, and I believe surveillance was doing
11 that. The suspicious financial transactions
12 were filed by BCLC.

13 Q Okay. Thank you, sir. One of the later
14 questions my friend Mr. Smart asked you related
15 to feedback you had received from the other
16 gaming industry participants, and you said that
17 there was feedback to you from Alberta and
18 Saskatchewan to the effect that they wanted to
19 copy your model?

20 A Yes, sir.

21 Q Who were the individuals that gave you that
22 feedback?

23 A The people in charge of their -- the security
24 and surveillance program for the province.

25 Q Are you able to tell me their names?

1 A No. I forget.

2 MR. MCGOWAN: Thank you. Those are my questions in
3 re-examination, Mr. Commissioner.

4 THE COMMISSIONER: Thank you. Mr. Harlingten?

5 MS. HARLINGTEN: Yes, thank you, Mr. Commissioner.
6 Just a few questions.

7 **EXAMINATION BY MS. HARLINGTEN:**

8 Q Mr. Friesen, can you hear me all right?

9 A Sorry?

10 Q Can you hear me all right?

11 A Yes. Thank you.

12 Q Great. Thank you so much.

13 In response to my friend Ms. Mainville's
14 question about GPEB's view of its authority, you
15 stated that GPEB advised BCLC that its role was
16 to investigate criminal activity. Is that your
17 evidence?

18 A That it was their role, yes.

19 Q Yes. Do you recall if this was made -- this
20 statement was made orally or in writing?

21 A In writing.

22 Q And do you have a copy? Was it an email or a
23 letter?

24 A Do I have it in my possession? No, I don't.

25 Q Do you remember if it was an email or a letter?

1 A I believe it was a letter.

2 Q Do you recall who it was from?

3 A GPEB, Joe Schalk.

4 Q And the letter in your evidence specifically
5 stated that GPEB's authority was to investigate
6 criminal activity?

7 A Yes.

8 Q When was this letter sent to you?

9 A While I was manager, I received two or three
10 letters from Mr. Schalk explaining the same
11 opinion.

12 Q Opinion. And so you're expressing your opinion
13 on GPEB's authority as well; is that right,
14 Mr. Friesen?

15 A No, I'm trying to quote -- I'm trying to
16 remember a letter or correspondence that I
17 received from Mr. Schalk explaining their
18 authority as far as criminal investigations were
19 concerned.

20 MS. HARLINGTEN: All right. Thank you, Mr. Friesen,
21 those are my questions.

22 THE WITNESS: Thank you.

23 THE COMMISSIONER: Ms. Harmer?

24 MS. HARMER: Yes, thank you.

25 **EXAMINATION BY MS. HARMER:**

1 Q Mr. Friesen, can you hear me okay?

2 A Yes, thank you.

3 Q Mr. Friesen, you told Mr. Smart that you did not
4 have the authority to sell service providers to
5 turn away buy-ins because they were suspicious.
6 Was that your evidence?

7 A Yes.

8 Q And when you gave that evidence, were you
9 referring to you personally as an investigator,
10 or were you referring to BCLC?

11 A No, I was referring to me personally.

12 Q Because BCLC itself would have the authority to
13 direct service providers to turn away suspicious
14 transactions?

15 A Yes, they would.

16 MS. HARMER: Thank you very much. I have no further
17 questions.

18 THE COMMISSIONER: Thank you. Mr. McFee?

19 MR. McFEE: Sorry, I had to get unmuted. No
20 followup. No questions. Thank you
21 Mr. Commissioner.

22 THE COMMISSIONER: Thank you. Ms. Mainville?

23 MS. MAINVILLE: No, thank you.

24 THE COMMISSIONER: Thank you. All right. Thank you.
25 You're excused, Mr. Friesen. Thank you. And we

1 will resume with our next witness.

2 **(WITNESS EXCUSED)**

3 THE COMMISSIONER: I think, Ms. Latimer, do you wish
4 to proceed at this time or take a break first?

5 I leave it in your hands.

6 MS. LATIMER: Maybe we can take five minutes. I
7 think there are some adjustments that need to be
8 made with the camera for this witness.

9 THE COMMISSIONER: All right. Well, if it's
10 convenient to everyone why don't we take our
11 15-minute morning break now and resume, then, at
12 approximately 11:20.

13 MS. MAINVILLE: Mr. Commissioner.

14 THE COMMISSIONER: Yes.

15 MS. MAINVILLE: I do have a request in respect of the
16 next witness. I'm at your disposal in terms of
17 whether I should raise it now or when we return
18 of when it's my time to cross-examine. But it
19 would be a request for additional time to
20 cross-examine the witness. So it would be very
21 brief comments, but ...

22 MR. MCGOWAN: Mr. Commissioner, I'm going to suggest
23 that it might be most appropriate to address
24 that issue when it comes time for Ms. Mainville
25 to examine the witness. At which point she's

1 relatively later in the order, and by that point
2 we should have a much better sense of how much
3 time remains available and it may be that if
4 there is sufficient time, that would impact on
5 your decision.

6 THE COMMISSIONER: Sure. Okay. That makes sense.

7 Are you satisfied with that, Ms. Mainville.

8 MS. MAINVILLE: I am. Thank you.

9 THE COMMISSIONER: Thank you. All right. We'll
10 adjourn for 15 minutes, then, thank you.

11 THE REGISTRAR: This hearing is adjourned for a
12 15-minute recess until 11:22 a.m.

13 **(PROCEEDINGS ADJOURNED AT 11:06 A.M.)**

14 **(PROCEEDINGS RECONVENED AT 11:21 A.M.)**

15 THE REGISTRAR: Thank you for waiting. The hearing
16 is now resumed, Mr. Commissioner.

17 THE COMMISSIONER: Thank you, yes. Ms. Latimer.

18 MS. LATIMER: Our next witness is John Karlovcec, and
19 I understand the witness would like to be sworn.

20 **JOHN KARLOVCEC, a**
21 **witness called for the**
22 **commission, sworn.**

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

25 THE WITNESS: John Karlovcec, first name J-o-h-n,

1 last name K-a-r-l-o-v-c-e-c.

2 THE REGISTRAR: Thank you.

3 **EXAMINATION BY MS. LATIMER:**

4 Q Good morning, Mr. Karlovcec. My name is Allison
5 Latimer, and I am the commission lawyer who will
6 be asking you some questions today. And my
7 first question is can you hear me okay?

8 A Perfect. Thank you.

9 Q Great. And you were an RCMP from 1982 to 2006;
10 is that right?

11 A Actually, 1981 to 2006.

12 Q Okay. And you began your RCMP career with a
13 10-year posting in Maple Ridge; correct?

14 A Correct.

15 Q And in 1992 you transferred to the Surrey
16 detachment where you spent a year in uniform as
17 the senior constable on the watch; is that
18 right?

19 A That's correct.

20 Q You were then recruited to the drug section and
21 from 1994 until your retirement from the RCMP in
22 2006 your unit supported serious crime
23 investigations where required but you were
24 mainly involved in drug investigations; is that
25 right?

1 dollars, you may also see up to \$10,000
2 denominations.

3 Q Denominations, do you mean in the -- like,
4 bundled in \$10,000 bricks? Is that what you
5 mean?

6 A Yes, that's what I mean.

7 Q And did you notice any denomination that was
8 more prevalent than any other in the drug money
9 that you seized?

10 A It varied, but \$20 bills were quite prominent.

11 Q And do you have any understanding of what large
12 volumes of cash looks like when it comes from
13 the bank?

14 A Yes.

15 Q Can you describe what's different about it from
16 the money you were just describing?

17 A Typically it would be wrapped in paper, no
18 elastic bands.

19 Q And if it was a large volume of money, might it
20 come in different denominations?

21 A It could, yes.

22 Q Okay. In the course of your law enforcement
23 career did you ever receive information from
24 FINTRAC?

25 A No.

1 Q Did you provide information to FINTRAC?

2 A Yes, we did.

3 Q Okay. And you joined the BC lotto corporation
4 as a casino security and surveillance
5 investigator in 2006; is that correct?

6 A That's correct.

7 Q Could you describe for the Commissioner, please,
8 what was your daily work routine at that time in
9 2006?

10 A Well, 2006, my first posting, if you will, was
11 at the River Rock Casino and daily duties
12 typically involved accessing BC lottery's casino
13 management system, reviewing incidents that had
14 taken place at River Rock Casino as well as
15 other gaming sites throughout the province. And
16 taking appropriate action where required, either
17 followup investigation, speaking with either
18 security surveillance staff, notifying law
19 enforcement if necessary, ensuring that GPEB was
20 notified of certain incidents.

21 Q Did you receive reporting training for FINTRAC?

22 A I did. Gord Friesen, who was also stationed at
23 River Rock was my trainer, if you will, when I
24 first started, and so several weeks of not only
25 FINTRAC training but also getting to learn the

1 reporting systems within BC Lottery and the
2 types of investigations or reviews that we would
3 be conducting.

4 Q Can you describe for the Commissioner how the
5 information that was ultimately sent to FINTRAC
6 was collected and verified by BCLC?

7 A So back at that time when large cash
8 transactions were occurring, so when I started
9 in 2006, that went up until 2009 where there was
10 a change in legislation, but large cash
11 transactions were typically entered into the
12 reporting system by the service provider, so at
13 the time I believe it was the surveillance team
14 that actually entered those transactions. If
15 they reached the reporting threshold of \$10,000,
16 either in one lump sum buy-in or two or more
17 transactions that had occurred within a 24-hour
18 period. So the service providers would have a
19 tracking sheet of all the transactions of
20 patron X, for example, for that 24-hour period
21 and then they would load into the system. On a
22 daily basis, actually, we would -- myself and
23 Mr. Friesen would review those transactions to
24 ensure that they were actually loaded into the
25 system properly, that they were accurate, that

1 they had mandatory information required under
2 the legislation per know your customer
3 requirements, and if everything was in order, we
4 would then essentially send the report directly
5 to FINTRAC. So --

6 Q Sorry, is the system you're describing, was that
7 iTrak?

8 A Yes, it was a module within iTrak.

9 Q Okay. And you mentioned it was important to
10 ensure that all the relevant data in the
11 mandatory fields were completed; is that right?
12 And was that important for large cash
13 transaction reports?

14 A Yes. For all reports.

15 Q What was the consequence if that mandatory -- if
16 a mandatory field was left blank?

17 A Well, essentially because it was an automated
18 system, once that report was sent off, if it
19 didn't meet the criteria, it would automatically
20 come back as an error, it would be flagged as an
21 error in the system. So myself or Mr. Friesen
22 would have to do the necessary inquiries to
23 ensure that we had the information to begin
24 with, for example, an occupation field or some
25 other piece of ID that wasn't entered into the

1 system.

2 At that time the commission should know
3 that that was all free text, so it wasn't as in
4 later years where you couldn't move forward
5 unless that information field was actually
6 filled in. So yes, so we would make the
7 correction, and then subsequently hit the send
8 button again and get it to FINTRAC within the
9 15-day reporting window.

10 Q You mentioned the occupation field and my
11 question is would you ever ask a BC lotto
12 corporation employee to make up an occupation if
13 that information was missing from that mandatory
14 field and you didn't have access to that
15 information?

16 A No. I mean, there is processes in place. If
17 that is missed the patron is simply flagged in
18 the system and the information is obtained when
19 that patron returns. It's all documented within
20 an iTrak incident file and all the investigators
21 would be aware of the process involved in that.

22 Q We have heard from a previous witness that in
23 our around February 13th, 2014, a BC lotto
24 corporation investigator Murray Ross informed
25 Stone Lee that he had spoken to you about a

1 large cash transaction report for a player where
2 the occupation field was not completed because
3 that information was not on the file, and his
4 evidence was that Mr. Ross told him to make up
5 an occupation for the player so that the large
6 cash transaction report could be processed. Do
7 you have any recollection of ever giving such an
8 instruction?

9 A To Mr. Ross?

10 Q Yes.

11 A No.

12 Q Is that the kind of thing you would have done
13 then or at any time?

14 A No.

15 Q At the time -- at that time early on in 2006 did
16 you have an oversight role in respect of all
17 gaming large cash transaction reports that were
18 deemed reportable to FINTRAC for all facilities
19 across the province?

20 A Yes.

21 Q Did you form a view about where most of these
22 large cash transaction reports were coming from?

23 A No.

24 Q In other words, were they centred in the Lower
25 Mainland, or were they all over the province?

1 A Yeah. So large cash transaction reports were
2 mainly from the Lower Mainland, the big five
3 casinos, and as well some smaller venues that
4 actually offered up table games. In subsequent
5 years, 2009, when BCLC was required to report
6 casino disbursements, then other facilities --
7 we were monitoring and reporting those as well.

8 Q You mentioned that you were stationed at the
9 River Rock when you first joined the BC lotto
10 corporation, and was -- that the idea of having
11 BC lotto corporation investigators centred at a
12 site, was that a new development?

13 A It was a new initiative when I first started.
14 Our director of corporate security and
15 compliance at the time, Mr. Terry Towns, felt
16 that it would be an opportunity to get our
17 investigators on site and the whole idea was
18 relationship building onsite, work with the
19 service providers, be available should they need
20 assistance, and it allowed us an opportunity to
21 form further working relationships with outside
22 agencies such as the police.

23 Q And were you stationed there with someone else?

24 A With Mr. Friesen.

25 Q And were there investigators stationed at many

1 of the casinos or just River Rock or some
2 handful of them?

3 A At that time in 2006 it was a pilot project, so
4 River Rock was the only site that had
5 investigators on site. That evolved as time
6 went on and the model is still being used today.

7 Q Do you know why River Rock was chosen as the
8 pilot site?

9 A I can only say it was the largest site in the
10 Lower Mainland and I believe it was built in
11 2004, built and opened in 2004, so it made sense
12 to have investigators there.

13 Q What was the relationship like with the service
14 providers at that time?

15 A I thought it was good. I think initially there
16 was probably a little bit of trepidation on
17 their part why all of a sudden there were BCLC
18 investigators on site. This was something new.
19 So I think they were probably trying to figure
20 out the purpose behind it. But as time went on,
21 they recognized the benefit.

22 Q What did you do in that role? You talked a
23 little bit already about reviewing iTrak, but
24 what else were you doing at the site in that
25 role in the early days?

1 A Building the relationships was huge. We formed
2 working group meetings, had regular meetings
3 with the management on site, group meetings
4 where we invited police of jurisdiction, which
5 was the Richmond RCMP, GPEB, and casino
6 management to go over issues of mutual concern
7 perhaps, and it allowed -- it was an open venue
8 where people could discuss their concerns if
9 there were any. It also allowed, for example,
10 the police to know who to get ahold of if they
11 needed anything relative to an investigation.

12 Q How frequently did those working groups meet?

13 A I think the working group meetings were monthly.
14 The management type meetings were pretty much
15 daily, weekly. We had an open-door policy at
16 the site.

17 Q At the working group, what were the main issues
18 of concern that were discussed?

19 A Well, from our perspective, I think it was
20 simply at that time there seemed to be cash
21 facilitation going on on the gaming floor and we
22 were trying to bring that to the attention of
23 the police, and we were limited in our
24 ability -- in our abilities as to how to deal
25 with the issue, so all we had at our disposal at

1 that time was a barring process, the ban process
2 under the *Gaming Control Act*, so that's what we
3 employed where we could.

4 Q And what was the response of law enforcement to
5 that cash facilitation issue?

6 A Well, they were supportive. I mean, we had a
7 free-flow of information, so we would share if
8 we had concerns about certain individuals we
9 would provide that to law enforcement. As far
10 as investigations that were conducted, we really
11 had no idea as to what was taking place.

12 Q Why did you think that cash facilitation was an
13 issue that should be brought to the police of
14 jurisdiction's attention?

15 A Well, what we had was known clients, players
16 that had been -- that were playing regularly,
17 and then from our perspective, we wanted to
18 ensure that criminality wasn't starting to
19 entrench itself into the casino environment.

20 Q And you thought that the cash facilitation had a
21 link to criminality?

22 A It could be a component for sure.

23 Q Were you concerned at that time about money
24 laundering?

25 A Not really. Again, I was new to the gaming

1 industry. It was a cash-based business. From
2 my perspective I was still in that learning mode
3 as to what was normal and what wasn't normal, so
4 I was trying to absorb all that as well.

5 Q What kind of criminality were you concerned
6 about? Was it loan sharking?

7 A Well, I don't like to use loan sharking as
8 terminology other than -- it could be, but
9 again, having the evidence that they were
10 actually charging criminal rates of interest, we
11 had no idea. But just the fact that there was
12 cash facilitation taking place on the gaming
13 floor may have indicated some level of
14 criminality.

15 Q Do you think that the cash facilitators were
16 associated to known criminals?

17 A I hadn't really formed an opinion yet, but it's
18 possible.

19 Q Did you hear that from the police who were
20 participating in the working groups?

21 A I can't recall exactly what we heard from them.

22 Q And you mentioned that GPEB also was a
23 participant at the working groups?

24 A They did attend some of the working group
25 meetings, yes, they did.

1 Q And what was their take on the issues that were
2 being raised?

3 A I think they had the same feeling that we did,
4 that it needed to be addressed. We were
5 limited, again, as to how we could do that from
6 the BCLC side. The fact that GPEB had the
7 special constable provincial status, they had
8 more access to what we felt was information or
9 they can get information maybe a little bit
10 easier from the policing jurisdiction.

11 Q You were encouraging GPEB at these working group
12 meetings to gain more information from the
13 police of jurisdiction?

14 A I don't recall encouraging them. I think it
15 would be fair to say they were present and they
16 knew what was going on as well.

17 Q Okay. Was any participant at the working group
18 encouraging BCLC to do anything in addition to
19 what was already being done to curb this cash
20 facilitation?

21 A I don't recall that.

22 Q Can you describe to the best of your memory what
23 kinds of transactions you were seeing in these
24 early days at River Rock.

25 A Cash transactions, they varied. 10-, 25,000,

1 maybe a little higher, but without access to the
2 reporting system, I wouldn't actually be able to
3 give you a definitive number, but it was down in
4 that range.

5 Q Okay. And you were moved to Starlight at a
6 certain point in 2008; is that correct?

7 A Yes. I was just -- as the Starlight Casino was
8 opening. I think it opened in late 2007.

9 Q Okay. And how long did you remain there at the
10 Starlight?

11 A I think I was there approximately two years,
12 just over two years.

13 Q And did you see a similar kind of thing going on
14 at the Starlight from what you had seen at the
15 River Rock in terms of volumes of cash to your
16 observation?

17 A There was cash certainly. I'm not so sure that
18 it was the same volumes as at River Rock, but
19 there was cash coming in there as well because
20 of the table game environment of the
21 [indiscernible].

22 Q Was your observation that it was lesser than at
23 the River Rock?

24 A Yes.

25 Q Okay. And did you notice the cash -- size of

1 the cash transactions change over time?

2 A Well, as table game limits increased -- and I'm
3 trying to remember when that was, but there was
4 a steady increase in table limits, and as table
5 limits increased, so did the volume of cash that
6 started coming in.

7 Q Were the table limit increases something that
8 was discussed at the working group meetings?

9 A I don't recall those limits being discussed.
10 Those types of decisions would be made at a
11 higher level, executive level in consultation
12 with GPEB as well as the service providers.

13 Q The service providers weren't participating in
14 the working group meetings, I take it.

15 A Well, for each site that we had, we had a
16 working group meeting going on. So, for
17 example, at Starlight we started a working group
18 meeting there, but those discussion of table
19 limits did not come up at those meetings. Those
20 were hold at what I would say the executive
21 table and those decisions were made by VP of
22 casino operations and in consultation with
23 service providers. There was a process involved
24 with that.

25 Q So is one of the reasons they weren't brought up

1 at the working group meetings because it wasn't
2 thought to be connected to the cash facilitation
3 issue?

4 A It just wasn't brought up.

5 Q Did the transactions that you were observing in
6 the gaming facilities have any similar
7 characteristics that you noticed at that time?

8 A Just large amounts of cash, \$20 bills, and
9 depending on the patron would dictate how much
10 cash was coming in. A lot of these patrons
11 based on information we had at the time were
12 wealthy business people, and so depending on who
13 it was, some brought in more, some less.

14 Q You mentioned it was predominantly \$20 bills.
15 Did it also come bound in elastic bands?

16 A Some of it I'm sure did. Again, I wasn't
17 present when the cash was coming in. Typically
18 the gaming that was taking place was -- although
19 throughout the day a lot of activity was later
20 in the evenings into the early morning hours.

21 Q When you reviewed the reports on iTrak as you
22 mentioned you did in that role, was one of the
23 things that was discussed in those reports what
24 the cash looked like when it came into the
25 casino?

1 A On occasion certainly. Depending on who did the
2 report up at the cage. Some were more detailed
3 than others.

4 Q And was it also the case that you were able to
5 access surveillance video of large cash buy-ins
6 when you were reviewing those reports?

7 A Yes, we could have.

8 Q And so when you were reviewing those -- and you
9 did do that from time to time; is that right?

10 A That's correct.

11 Q So when you reviewed those reports and those
12 surveillance videos, did you notice anything
13 about the way that the cash was being brought in
14 in terms of how it was packaged?

15 A Well, from my recollection, typically -- it
16 varied, but you would certainly see it wrapped
17 in elastic bands.

18 Q And coming in in what kinds of receptacles?

19 A Oh, bags. Could be a shopping bag. Could be a
20 knapsack. Could be a paper bag.

21 Q Okay. Do you recall an incident in May 2010
22 when a regular high-limit patron redeemed
23 \$1.2 million in Starlight Casino value chips
24 into cash and requested that management supply
25 him with a letter explaining that?

1 A Yes.

2 Q Can you describe what occurred there.

3 A Well, I think the patron, if my memory serves me
4 correctly, was travelling or wanted to travel to
5 Montreal and he had asked the VIP hostess, I
6 believe, that he be supplied -- they be supplied
7 with a letter saying that the cash was from the
8 casino, and yeah, that was very out of the
9 ordinary. So when we did discover that, we
10 approached management and subsequently GPEB was
11 notified as well, and I know at one point my
12 manager at the time along with our VP of
13 corporate security as well as the VP of casino
14 operations went and met with the executive at
15 Gateway Casinos.

16 Q What did they have to say when you met with the
17 with the Gateway personnel?

18 A I think at the time they were -- because this
19 individual was a well-known client, they were
20 trying to accommodate them. I don't think they
21 gave it much thought, to be honest with you, as
22 to what they had just done. We explained that,
23 you know, there was some major concerns about
24 what they had done with the letter and that
25 we -- you know, certainly it would -- it could

1 impact on, for example, FINTRAC reporting, the
2 regulator. Obviously it was potentiality an
3 integrity issue.

4 Q Was one of the concerns you had about the way
5 that situation had been handled that it could be
6 facilitating money laundering?

7 A I actually hadn't thought about the money
8 laundering piece of it. It was more -- I looked
9 at it as being a grievous breach of BCLC policy.

10 MS. LATIMER: Madam Registrar, I wonder if you could
11 put GPEB document 0573.001 before the witness,
12 please.

13 THE REGISTRAR: Yes.

14 MS. LATIMER: And I'm going to be looking at page 5
15 of that document. I'm going to start at page 1.

16 Q I take it, sir, this isn't a document that you
17 necessarily would have seen at the time it was
18 created. Is that fair?

19 A No, this looks like an internal GPEB document.

20 Q This is a gaming policy and enforcement branch
21 investigation division report of findings. It's
22 titled "Breach of the Integrity of Gaming"?

23 A Right.

24 Q If you go to page 5 at the bottom there, it's
25 described that on May 13th, 2010, BCLC

1 investigators, John Karlovcec, Don Merkel and
2 Steve Beeksma met with Ballesty, Barnett and
3 Starlight Casino executive general manager of
4 table games Sam Oan. And the Gateway personnel
5 admitted that in the past VIP staff --

6 MS. LATIMER: Madam Registrar, if you go to the next
7 page, please. It's one page too far. Oh, no,
8 that's right.

9 Q In the past VIP staff have shown an tendency to
10 lean too much to the customer service side of
11 the fence for fear of offending the VIP patrons
12 and they advised they were taking steps to
13 ensure this did not happen again.

14 Does that refresh your recollection as to
15 what the Gateway personnel suggested was the
16 problem with this incident?

17 A Yes.

18 Q And they advised they were taking steps to
19 ensure this wouldn't happen again, and are you
20 aware what steps were taken to ensure that that
21 didn't happen again?

22 A Not sure what steps. I don't recall. As I
23 mentioned earlier, I know that there was a
24 subsequent meeting with the executive from BCLC
25 with the executive at Gateway in relation to

1 this matter.

2 Q And it says four lines down in this paragraph
3 that they also advised that they had been
4 negligent in not keeping Gateway's director of
5 security and surveillance, Stan Wager informed
6 of incident situations that clearly fall within
7 his job description; right?

8 A Right.

9 MS. LATIMER: Madam Registrar, I'm done with that
10 document. Thank you.

11 Q And that tendency to lean too much to the
12 customer service side and even in the face of
13 compliance concerns, was that a recurring
14 tension that you experienced between BCLC and
15 service providers in or around this time?

16 A Certainly on occasion. With respect to this
17 specific incident, Gateway at the time was owned
18 by -- and I think it had just been recently
19 bought by an Australian firm -- and the team
20 that was there was new to the regulatory
21 environment here in British Columbia. So
22 perhaps they were operating as they might back
23 in Australia. I have no idea.

24 Q Do you understand the root of the concern about
25 leaning too much for the customer service side,

1 did you understood the root of that concern to
2 be a business concern related to revenue?

3 A I would suppose. I think typically when a
4 certain provider has a client that has been a
5 good client for them, they don't want to lose
6 that client to the competition, if you will, and
7 that they will make every effort possible to
8 accommodate or keep them as a client.

9 Q Even in the face of compliance concerns; is that
10 fair?

11 A While it's unfortunate, compliance, certainly
12 the service provider, recognize that compliance
13 is top of mind over revenue from BCLC's
14 perspective.

15 Q But not in this incident that didn't carry the
16 day; correct?

17 A It didn't appear to do.

18 Q Okay. And at some point in 2010 you
19 successfully applied to be the assistant manager
20 of casino security and surveillance
21 investigations under Gord Friesen; is that
22 correct?

23 A Yes.

24 Q And you held that role until 2013; right?

25 A I did.

1 Q Could you describe for the Commissioner what the
2 nature of that role was, please?

3 A The assistant manager role?

4 Q Yeah.

5 A Yes. So essentially I provided -- assisted
6 Mr. Friesen with the functional leadership of
7 the team. One of my responsibilities was to
8 move the AML program forward, develop, implement
9 at gaming sites training, create dedicated
10 training, update as necessary as legislation
11 changed. We were also responsible for the
12 security of some -- I'm not sure how many
13 facilities we had then, but anywhere from 40 to
14 50 gaming facilities throughout the province,
15 create working relationships, maintain working
16 relationships with police of jurisdiction,
17 proceeds of crime, GPEB. Yeah.

18 Q At this time were BCLC investigators assigned to
19 all Lower Mainland casinos?

20 A Yes, they were.

21 Q And were they handling the day-to-day reporting
22 to suspicious transaction reports and large cash
23 transaction reports?

24 A They were.

25 Q And casino disbursement reports as well?

1 A Yes.

2 Q And did you have oversight of that reporting?

3 A Yes.

4 Q Okay. And you and Mr. Friesen both worked under
5 the director of compliance, Bryon Hodgkin; is
6 that correct?

7 A We did.

8 Q You all ultimately worked under Terry Towns, who
9 was the VP of corporate security; right?

10 A Yes.

11 Q And how would you describe Mr. Towns' leadership
12 focus?

13 A Compliance. Anti-money laundering was -- if it
14 wasn't right at the very top, I'm going to
15 suggest it was right there. Being compliant,
16 ensuring, you know, that from a reputational
17 standpoint that we would withstand any federal
18 examinations or provincial examinations.

19 Q And so one of the things about being compliant
20 is reporting to FINTRAC; correct?

21 A Yes.

22 Q I understand that in 2010 there was a FINTRAC
23 fine levied against BC lotto corporation; is
24 that correct?

25 A Yes, there was.

1 Q Could you tell us about that or the root cause
2 of that?

3 A Well, simply I think what it was from my
4 understanding was it was a software issue where
5 the two systems weren't talking, so BCLC was
6 sending reports, but FINTRAC software was not
7 accepting the reports. That was rectified and
8 cleared up the issue.

9 Q Okay. And by late 2010, while I take it you
10 said Terry Towns' management style was focused
11 on anti-money laundering, so I take it by this
12 point in time BC lotto corporation had money
13 laundering on its mind as a concern about
14 casinos.

15 A I'm sorry, could you repeat it again.

16 Q By 2010 was money laundering an issue of concern
17 for BCLC in BC casinos?

18 A Oh, it was because it was all over the media.

19 Q Can you explain what you mean by that?

20 A Well, there was -- there was media stories that
21 money laundering was running rampant through BC
22 casinos, so certainly that was concerning.

23 Q Were those media stories focused on the large
24 volumes of cash that were coming into Lower
25 Mainland casinos at that time?

1 A Yes.

2 Q Did you have a view at that time as to where the
3 cash was coming from?

4 A Not really, other than we, you know, certainly
5 suspected. I mean, when you see that much
6 volume of cash, certainly you're suspicious, and
7 as a result we were reporting as per our
8 authorities.

9 Q Your suspicion at that time was that it was
10 proceeds of crime; is that correct?

11 A Certainly some of it may have been. I think --
12 certainly think that it would be disingenuous to
13 say that it was all proceeds of crime, but it
14 did raise suspicion and, hence, the reporting to
15 the federal regulator. As well it was our
16 provincial regulator for the proceeds of crime
17 unit.

18 Q And you were aware that by late 2010 GPEB had
19 concerns about the cash that was coming into
20 casinos; correct?

21 A I think we all had concerns about the cash that
22 was coming into the casinos, yes.

23 Q Do you recall that in November 2010 you were
24 informed that Derek Dickson of GPEB had
25 requested River Rock surveillance to notify GPEB

1 via section 86 report of any buy-in of \$50,000
2 or more where conducted with \$20 bills?

3 A I don't have personal knowledge of him notifying
4 River Rock on that.

5 MS. LATIMER: Okay. Madam Registrar, could I have
6 exhibit 75, please, the excerpts from
7 appendices I and J that I sent.

8 THE COMMISSIONER: Sorry, before we proceed further,
9 Ms. Latimer, did you wish the previous document
10 marked as an exhibit?

11 MS. LATIMER: I don't think this witness can identify
12 the document, so I'm content to have him just
13 refresh his memory with it.

14 THE COMMISSIONER: All right. Thank you.

15 MS. LATIMER:

16 Q You recognize this, sir, as an email from Gord
17 Friesen to Rick Pannu, Mike Hiller, Steve
18 Beeksma and copying you and Patrick Ennis with
19 the subject line "large cash transactions";
20 correct?

21 A Yes.

22 Q And this is -- Mr. Friesen is here notifying you
23 all of a conversation he had with Patrick Ennis,
24 and can you just identify who Patrick Ennis was
25 at this time?

1 A Patrick Ennis was the director of surveillance
2 for Great Canadian casinos.

3 Q Okay. And he's advising that he had a
4 conversation with Patrick Ennis wherein he
5 advised that GPEB Derek Dickson had requested
6 River Rock surveillance notify them by a section
7 86 report of any buy-in of \$50,000 or more where
8 conducted with \$20 bills.

9 "In our discussion Pat advised he would
10 instruct his employees to open an incident
11 report and put a brief note in it as to
12 circumstances, et cetera. Therefore, we
13 would be advised and could monitor and/or
14 investigate these transactions as required
15 and add the necessary supplements. If in
16 our investigation we feel it requires an
17 SFT and report to FINTRAC, we will file a
18 report and change the drop down or request
19 a change."

20 So refreshes your memory as to this issue that
21 arose in November 2010?

22 A Yes. I'm just looking at the date it was sent,
23 and typically that time of year I'm in Ontario,
24 so that's why it didn't really jump at me.

25 MS. LATIMER: Madam Registrar, I ask that exhibit 110

1 four-week period at the Starlight Casino
2 illustrates the magnitude of this
3 situation. This division, the branch and
4 the RCMP are very concerned about the
5 potential money laundering by this patron
6 in BC casinos."

7 And you remember those concerns expressed by
8 GPEB and notifying you that the RCMP shared
9 these concerns about potential money laundering
10 being raised at this time; correct?

11 A Correct.

12 Q And Mr. Dickson goes on to describe numerous
13 transactions on dates between August 31st, 2010,
14 and if we go to page 2, the date range is from
15 August 31st, 2010, to September 29th, 2010. And
16 you see that's a fair enough description?

17 A Yes.

18 Q After this list, Mr. Dickson notes that the
19 total buy-ins for this patron during this period
20 are just over \$3 million, of which 2,657,940 are
21 in \$20 denominations. This total does not
22 include any buy-ins he had with value chips.
23 Not included in these totals are his buy-ins for
24 this play at the Starlight Casino in August,
25 which totalled 808,000 in Canadian currency all

1 in \$20 denominations. That would bring this
2 two-month total of buy-ins consisting of
3 \$20 denominations to \$3,465,940; correct?

4 A Correct.

5 Q He goes on to say that this patron is not an
6 isolated case, and I take it that was consistent
7 with your observations at the time, that there
8 were numerous similar buy-ins from different
9 players with small denominations at the
10 Starlight and other casinos in the province?

11 A There were certainly -- yes, several known
12 patrons that were bringing in large volumes of
13 cash, yes.

14 Q And it wasn't only occurring at the Starlight;
15 it was happening at other facilities including
16 the River Rock; correct?

17 A Correct.

18 Q In the third full paragraph Mr. Dickson sets out
19 that he and Mr. Schalk met with the officer in
20 charge RCMP integrated proceeds of crime unit,
21 and they are well aware of this issue and are
22 seriously concerned that the casinos are being
23 used as a method to launder large sums of money
24 for organized crime groups. They are of the
25 opinion this is without doubt large-scale money

1 laundrying. And you were aware that the RCMP
2 IPOC unit had communicated this view at this
3 time; correct?

4 A Based on this letter. And yeah, I mean, they
5 would be aware of it because BCLC was reporting
6 all these transactions directly to the proceeds
7 of crime unit, so ...

8 Q Did you share this view that this was without a
9 doubt large-scale money laundrying at this time?

10 A Well, no, not really. Only because that within
11 the casino environment, there's only -- it's
12 difficult. There's so in many processes in
13 place to actually launder within the casino
14 environment. I can't speak for what was
15 happening or is happening away from the gaming
16 site. It can only -- we can only really provide
17 insight based on what we see in front of us, and
18 so to give you an example, this specific
19 individual would come in with the cash, would go
20 to the cash cage, would buy in. It's not that
21 he or she was bringing the cash in \$20 bills and
22 then trying to refine it and get \$100 bills or
23 \$50 bills. They were actually going to the
24 table and then essentially -- and in this case
25 losing almost all of that money. So I struggle

1 with the actual laundering taking place on site.
2 And the other thing is the other venue or method
3 would be to receive a verified win cheque for
4 something that you actually hadn't won, so when
5 I mean verified win cheque, so if you had come
6 in with \$50,000 and you worked that \$50,000 up
7 to \$150,000, the casino could only provide you
8 with \$100,000 verified win. The other \$50,000
9 you would receive back in the denominations that
10 you brought in.

11 Q Okay. And so even though you were suspicious at
12 this time that these large volumes of cash were
13 proceeds of crime and even though GPEB and the
14 RCMP were communicating that this was without
15 doubt large-scale money laundering, the view at
16 BCLC was that it was not likely money laundering
17 because the money was being lost; is that
18 correct?

19 A Oh, I think what I'm saying here is that there
20 was no evidence or nobody telling us not to take
21 the cash. There's no investigation from my
22 understanding that has been conducted to
23 actually prove these allegations that it's
24 actual money laundering. So that's where it was
25 difficult for us in our roles where we had no

1 authority to conduct those types of
2 investigations, so we did what we could. And
3 that was report to the regulators and to the
4 police, those that could actually conduct those
5 investigations.

6 Q To your point that nobody was telling you not to
7 take the cash, if you look at the last line of
8 the first paragraph on page 3, Mr. Dickson
9 suggests that a restriction of allowing a
10 maximum of \$10,000 in \$20 denominations could
11 remedy the situation. Were you aware -- I guess
12 you were aware at this time of the suggestion
13 made by GPEB that you not take more than \$10,000
14 in \$20 bills at this time?

15 A Certainly aware of that. I would say, though,
16 in my role I had no authority to do that. That
17 decision would be made at a higher level,
18 executive level, involvement with the CEO, GPEB
19 executive and potentially even the minister's
20 office.

21 Q But you don't take issue that although you
22 couldn't make the decision, you say in your
23 role, BCLC could make that decision at this
24 time; is that correct?

25 A Again, in consultation, potentially with higher

1 level, yes.

2 Q Okay. And he ends here by saying:

3 "BCLC needs to seek solutions to the
4 obvious increasing and continuous money
5 laundering threat that is occurring,
6 particularly involving the flood of small
7 denomination currency within BC casinos."

8 And you were aware at this time that GPEB viewed
9 the threat of money laundering to be obvious,
10 increasing and continuous; correct?

11 A That was their view.

12 Q And you didn't share that view; is that right?

13 A Well, as I've indicated, you can suspect all you
14 want, but having the evidence or the proof is
15 what was necessary for us to be able to do
16 anything or the authorities to do anything,
17 so ...

18 Q What level of evidence did you think was
19 required in your role with BCLC before some
20 action could be taken to limit the flow of
21 \$20 bills into BC casinos?

22 A I'm sorry?

23 Q What level of proof did you consider was
24 required before you could take some action to
25 restrict the flow of \$20 bills into BC casinos?

1 A Well, there was -- all we had was cash. We had
2 no idea the source of the cash or where it was
3 coming from, so again, I think it would be
4 difficult to start approaching patrons that are
5 known that have been identified and start
6 challenging people as to where that cash came
7 from before accusing without any level of proof
8 or evidence provided by a policing authority.

9 Q You had your own suspicions that the money was
10 proceeds of crime; correct?

11 A It was suspicious for sure.

12 Q And you had information from GPEB that both GPEB
13 and law enforcement believed that this was --
14 casinos were being used to launder large sums of
15 money for organized crime groups; correct?

16 A That was the information GPEB was supplying.

17 Q And so despite those suspicions and despite that
18 information from those two organizations, that
19 wasn't enough evidence for you to restrict the
20 flow of cash; is that your evidence?

21 A Well, as I've said, in my role I didn't have the
22 authority to make those decisions. At that time
23 there was ongoing dialogue between our executive
24 and GPEB executive, for example developing
25 patron gaming fund accounts, cash alternatives.

1 So there was ongoing discussion taking place.
2 And so those decisions would be made at that
3 higher level, not at a low level manager's
4 position.

5 Q Okay. And did you understand that the higher
6 levels at BCLC were interested in restricting
7 the cash coming into casino's at this time?

8 A They were looking for solutions, and that's why
9 the cash alternative program was being
10 developed, and as well as a patron gaming fund
11 accounts.

12 Q Were they looking at solutions like a cash cap,
13 like Mr. Dickson is suggesting?

14 A I'm not sure what they were looking at.

15 MS. LATIMER: Madam Registrar I ask that exhibit 111
16 be placed before the witness, please.

17 Q Sir, you recognize as your response to
18 Mr. Dickson's letter dated December 24th, 2010
19 with the subject line "money laundering in
20 British Columbia casinos"; correct?

21 A Correct.

22 Q Is it the case that this letter before it was
23 sent was reviewed and approved by Gordon
24 Friesen?

25 A Yes. Gord Friesen and I believe Gord had also

1 spoken with our VP to get concurrence.

2 Q And that's Terry Towns; correct?

3 A That's correct.

4 Q Both Mr. Friesen and Mr. Towns approved of the
5 content of this letter?

6 A That's correct.

7 Q And at the end of the first paragraph, the last
8 three lines, you acknowledge that both GPEB and
9 RCMP are very concerned about the potential
10 money laundering by this patron at BC casinos;
11 right?

12 A Yes.

13 Q And then on page 2 on the second paragraph, you
14 blame that BCLC corporate security conducted a
15 thorough investigation in relation to this
16 patron's gaming play between August 31st and
17 September 29th; correct?

18 A That's correct.

19 Q You set out the total buys and the total net
20 loss after the third paragraph; right?

21 A Yes.

22 Q And it was your view at this time, I take it
23 from the answers you've just given, that large
24 volumes of cash like this were not suspicious if
25 the player put the funds at risk?

1 And my question is on what basis did you believe
2 that Asian ethnicity amplified the cash-based
3 nature of the gambling business?

4 A So in discussions with others from the Chinese
5 community, I heard that gambling is part of
6 their culture, and I know for a fact that there
7 were numerous of these high-limit players that
8 were looking for increased table game limits to
9 gamble because the table game limits, as I
10 understood it for them, wasn't sufficient enough
11 based on what they were used to in Macao or
12 potentially even in Vegas, but they were looking
13 for greater table game limits.

14 Q But these patrons of Asian ethnicity had access
15 to all the same noncash alternatives that other
16 patrons had access to; correct?

17 A Noncash alternatives?

18 Q Yeah.

19 A Well, that was still being developed at the
20 time. That hadn't even been implemented, so
21 cash was king back then and the only thing that
22 could be used.

23 Q Well, there were player gaming fund accounts at
24 this point in time; is that correct?

25 A Yes, there were.

1 Q And that player could use a player gaming fund
2 account without bringing large volumes of cash
3 into the casinos; is that correct?

4 A Well, the player gaming accounts were initially
5 a test -- a pilot project, and the uptake on
6 those accounts, it was more of a customer
7 convenience for them. The initial uptake wasn't
8 there on those, and I know for a fact that BC
9 lotteries along with the service providers went
10 on a marketing spree to encourage the use of
11 those accounts. We couldn't force them to use
12 it, and so as time went on, the uptake was
13 better, but in the early stages, which this was,
14 yeah, there was very little as far as those that
15 wanted to use that account.

16 Q Well, in terms of not being able to -- this
17 player I'm going to suggest to you, if you look
18 at page 3 at the bottom -- if you look at the
19 bottom paragraph -- well, page 3 there's a
20 paragraph here that addresses patron gaming fund
21 accounts and you were aware that this patron in
22 fact had such an account; is that correct?

23 A I believe they did.

24 Q And you go on to say in the third paragraph on
25 page 3 at the bottom that -- the point you've

1 just made which is that participation in that
2 program is purely voluntary; correct?

3 A That's correct.

4 Q The decision whether or not to utilize this
5 option rests solely with the customer?

6 A That's right.

7 Q But certainly BCLC had tools in its toolbox to
8 encourage that choice; isn't that fair?

9 A Well, all BC lotteries or the service provider
10 could do was offer up that customer convenience.
11 Again, whether or not an individual wished to
12 utilize that service, that was completely up to
13 them.

14 Q Well, if you put a restriction on a customer's
15 ability to bring large volumes of cash into a
16 casino and that customer wished to gamble and
17 they had a player gaming fund account, isn't it
18 fair they might choose to use that option?

19 A Again, as I answered already, it wasn't within
20 my wheelhouse to put cash limits. That was at a
21 higher level, and a decision to be made by the
22 executive of BC lotteries in conjunction with
23 GPEB and the service provider.

24 MR. MCGOWAN: Mr. Commissioner, I'm just going to
25 interject. I've been advised there may be a

1 problem with the live stream. I'll maybe just
2 ask if Madam Registrar indicate whether there is
3 a problem and whether we need to stand down.

4 THE REGISTRAR: Seems to be okay right now. Oh,
5 sorry. Yes, we do request to stand down.

6 IT SUPPORT: Can we take five minutes, please.

7 MR. MCGOWAN: I'm going to suggest we take
8 10 minutes, Mr. Commissioner, and if further
9 time is required, if the staff can advise me and
10 I'll advise you.

11 THE COMMISSIONER: Thank you. We'll take 10 minutes.

12 MR. MCGOWAN: Thank you.

13 THE REGISTRAR: This hearing is standing down for
14 10 minutes until 12:30 p.m.

15 **(WITNESS STOOD DOWN)**

16 **(PROCEEDINGS ADJOURNED AT 12:19 P.M.)**

17 **(PROCEEDINGS RECONVENED AT 12:31 P.M.)**

18 **JOHN KARLOVCEC, a**
19 **witness for the**
20 **commission, recalled.**

21 THE REGISTRAR: The hearing is now resumed.

22 THE COMMISSIONER: Thank you. Yes, Ms. Latimer.

23 MS. LATIMER: Thank you. Madam Registrar, I was
24 asking questions about exhibit 111, and I just
25 ask that that be put back up, please. And I'm

1 looking at page 3 of this letter.

2 **EXAMINATION BY MS. LATIMER (continuing):**

3 Q And, Mr. Karlovcec, I'm at page 3 and we had
4 just been discussing player gaming fund
5 accounts. But I want to move back a little bit
6 to the letter. At the top paragraph on page 3
7 you're addressing the question that has been
8 posed by Mr. Dickson as to why this patron
9 chooses not to take these 20 dollar denomination
10 currency bills to a banking facility, and in the
11 last line of this paragraph you say:

12 "The \$20 bill is the most widely utilized
13 form of currency in Canada."

14 Have I read that correctly?

15 A Yes.

16 Q Then pausing there. Are you suggesting here
17 it's not suspicious for a patron to buy in for
18 between 2 and a half and 3 and a half million
19 dollars in \$20 bills in a two-month period
20 because of the commonality of the \$20 bill?

21 A No, I don't think I'm saying that. Just reading
22 that paragraph. We're talking about 20 dollar
23 denomination bills, why this individual has \$20
24 bills. I'm not sure -- I'm not sure why
25 Mr. Dickson is asking why this individual is not

1 taking the \$20 bills to the bank.

2 Q I'm doing to suggest that the reason is because
3 he's suggesting that this volume of \$20 bills is
4 inherently suspicious. Do you agree that this
5 volume of \$20 bills is inherently suspicious?

6 A As I've indicated before, certainly the volume
7 is suspicious for sure.

8 Q And especially because it's coming in in such a
9 low denomination; correct?

10 A Well, the volume itself says to me that it's
11 suspicious.

12 Q Because it's hard to imagine where you would
13 generate that volume of \$20 bills; correct?

14 A Again, no idea how this individual would have
15 obtained that volume of cash.

16 Q Can you think of any legitimate explanation for
17 that volume of \$20 bills?

18 A Well, it's significant. I mean, again, in the
19 absence of any real supporting evidence that
20 suggests where it came from, I could only assume
21 potentially some of it may have come from a
22 bank, some may have come from a potential
23 cash-based business. Some may be an underground
24 banking type of deal, hawala. I can't really
25 give you a definitive answer as to where the

1 cash came from.

2 Q I'm looking at the next page of this letter,
3 please. And here at the top you're addressing
4 the recommendation made by Mr. Dickson to
5 restrict the amount of \$20 denomination bills
6 allowed at \$10,000, and you say:

7 "Due to the fact that gaming in the
8 province is case based this restriction
9 is unrealistic, given the circumstances."

10 And just pausing there. Isn't it the case that
11 simply refusing large quantities of 20s would
12 indirectly force a noncriminal, high-limit
13 patron to use a different form of payment such
14 as a certified bank draft or the PGF account
15 that was available at that time?

16 A I'm not so sure that those cash alternatives
17 were available at that time. That's why -- as
18 mentioned earlier, we were cash based. That was
19 just developing at the time. And, again, to
20 limit the number of bills and -- to a limit of
21 \$10,000 would not be in my authority level.
22 That, again, would have to take place between
23 the executive, GPEB executive and potentially
24 even the government of the day.

25 MS. LATIMER: Madam Registrar, could you go back,

1 please, to page 3.

2 Q Sir, I'm just refreshing your memory here. If
3 you look at the third paragraph on this page,
4 you say -- well, the second paragraph you say --
5 you query why this patron is not forced by the
6 service provider and BCLC to use the PGF
7 account. And then you go on to describe the PGF
8 account. So you'll agree with me that the PGF
9 account was an available alternative to bringing
10 in cash at this time; correct?

11 A Yes. The PGF account was in its infancy and I
12 can't recall whether or not it was still in a
13 pilot project at the time or not, but that full
14 program was developing at the time.

15 Q So on the next page, if we go to page 4, you say
16 that it's unrealistic to restrict 20 dollar
17 denomination bills to \$10,000 because it's
18 cash-based. My question is isn't that simply
19 refusing to take any more of the \$10,000 in 20s,
20 wouldn't that indirectly force a non-criminal
21 high-limit patron to use a different form of
22 payment like the PGF account?

23 A It may or may not. Depending on the patron.

24 Q Well, the PGF account was available at this
25 time; correct?

1 A It was available, but it was a customer
2 convenience. But there was no requirement for
3 that individual patron to actually utilize it.
4 The process back then was very cumbersome,
5 actually even signing up for the account. So it
6 turned a lot of these patrons off the PGF
7 accounts.

8 Q But this patron had that available to him as an
9 option; correct?

10 A It appears to be so, yes.

11 Q And so what would be unrealistic about limiting
12 this patron's play to \$10,000 in cash given
13 those circumstances?

14 A I would recall say you can't limit one
15 individual patron's limit to 10,000. This has
16 to be a global solution, and we're not making up
17 special rules for one individual. It has to
18 take into account gaming in the province and
19 that's why I say those decisions would be made
20 at a higher level if they in fact wanted to
21 proceed down that road.

22 Q Is it your evidence, sir, that it was not open
23 to the BC lotto corporation to take targeted
24 measures against specific players who are buying
25 in with very large quantities of cash and who

1 law enforcement and the regulator were raising
2 serious concerns about money laundering about?

3 A The direction we were given was to report it to
4 those authorities that had the authority to
5 conduct those investigations.

6 Q Thank you.

7 MS. LATIMER: Madam Registrar, I ask that exhibit 112
8 be placed before the witness, please.

9 Q Sir, you recognize this as a letter from Joe
10 Schalk to Mr. Friesen and it copies you and
11 others and it's dated February 28th, 2011;
12 correct?

13 A Yes.

14 Q And you'll see from the first paragraph that
15 this letter was written in response to the ones
16 we just looked at; correct?

17 A Correct.

18 Q And in the second paragraph about six lines
19 down, he says:

20 "It is unacceptable to simply say that due
21 to the fact that gaming in the province is
22 cash-based, this restriction of limiting
23 the amount of 20 denomination bills
24 allowed to be cashed at any casino is
25 unrealistic."

1 Right?

2 A Yes, that's what it says.

3 Q He refers again to the fact that police believe
4 this is money laundering and he says:

5 "Experts in money laundering matters in
6 the police community have said the same
7 thing publicly and privately to GPEB and
8 BCLC personnel."

9 Correct?

10 A That's what he says, yes.

11 Q You were aware then at this time that experts in
12 the police community had made this communication
13 to BCLC both publicly and privately at this
14 time?

15 A Well, I'm not sure that -- I don't recall
16 specifically, and I'm not sure who Mr. Schalk is
17 referencing when he says "experts in money
18 laundering" had spoken to BCLC. So I really
19 don't know.

20 Q Had you communicated with any experts in law
21 enforcement in money laundering?

22 A We had spoken with proceeds of crime members and
23 we were sharing information with them. What was
24 being done with that information, I have no
25 idea.

1 Q And those people that you had communicated with,
2 had they communicated their belief that this was
3 money laundering occurring in casinos?

4 A I don't ever recall hearing that from anybody,
5 any individual person that I spoke to.

6 Q Would you have any reason to disbelieve
7 Mr. Dickson when he set this out -- or
8 Mr. Schalk when he set this out in this letter?

9 A Again, as far as what he heard?

10 Q Yeah.

11 A What he was told?

12 Q Yeah.

13 A No, I mean, if that's what he was told, that
14 was -- that's what he was told, but I have no
15 knowledge of specifically. I wasn't present.

16 Q Okay. He goes on to say that BCLC security
17 personnel often comment on a variety of
18 suspicious currency reported issues in venues,
19 often making reference to the seriousness of the
20 suspicions surrounding the passing of currency
21 and denominations being used and also often
22 terms even commenting on the association of that
23 currency to know loan sharking activity and the
24 source of that currency for the patron at the
25 venue, and he says John Karlovcec himself has

1 been the writer of a number of those iTrak based
2 comments; right?

3 A That's correct.

4 Q You were aware at this time that some of this
5 currency was associated to known loan sharking
6 activity; correct?

7 A Or cash facilitators, yes.

8 Q And if you go to the next page, the second
9 paragraph from the bottom, the third line says:

10 "Patrons using these large quantities of
11 20 dollar currency buy-ins may not in
12 some, certainly not all cases, be directly
13 involved with or themselves be criminals.
14 Regardless of whether they win or lose all
15 of the money they buy in with, we believe
16 in many cases patrons are at the very
17 least facilitating the transfer of and/or
18 the laundering of proceeds of crime.
19 Those proceeds may have started out two or
20 three persons or groups removed from the
21 patron using these instruments to play in
22 the casino, regardless, money is being
23 laundered. The end user, the patron, must
24 still pay back all of the moneys he or she
25 receives in order to facilitate his buy-in

1 with \$20 bills, and for the person on the
2 initial start of the facilitation process,
3 the money is being laundered for him, her,
4 through the use of the gaming venue."

5 Sir, you were aware that Mr. Schalk held the
6 view at this time that the player would have to
7 pay back all the moneys he receives to buy in
8 with 20s and that is how the money was being
9 laundered; correct?

10 A Well, this is Mr. Schalk's opinion. I don't
11 discount what he's saying, but as I mentioned
12 earlier, what evidence or proof do we have that
13 that is actually taking place in these
14 transactions? Again, it's suspicious. Hence
15 the reporting to the regulators as well as the
16 police for any action they felt appropriate.

17 Q You had no reason to disagree with that
18 suggestion in 2011, did you?

19 A Well, what I'm saying is that if that's what
20 Mr. Schalk believes, then what action is being
21 taken by the authorities to actually prove that
22 and make, if need be, an arrest or a seizure. I
23 mean, it's a statement from him. I mean, I --
24 in theory it sounds appropriate, but again, the
25 proof.

1 Q Sir, was it your view at the time that absent an
2 arrest there was no step that BCLC could take to
3 limit the flow of cash that was believed to be
4 proceeds of crime into casinos?

5 A No, I'm not saying that. What I'm saying is
6 that in my role I had no authority to make those
7 decisions. If BCLC upper management, including
8 executive CEO, as well as GPEB and potentially
9 the government of the day, wanted to make that
10 move, they would have made it and it would have
11 been implemented. It wasn't in my wheelhouse to
12 do that.

13 Q And you agree that from this letter we can
14 understand that GPEB did want to take steps to
15 restrict the flow of cash; correct?

16 A Well, Mr. Schalk, I believe, would have been
17 aware that there was ongoing dialogue between
18 BCLC executive as well as GPEB executive, so he
19 should have been aware that there was discussion
20 going on. What was being discussed at the
21 table, I have no idea, but again -- and I sound
22 like a broken record here -- patron gaming fund
23 account was new. We were also looking at
24 implementing cash alternatives. Those were
25 ongoing discussions.

1 Q Those discussions and those alternatives, at
2 least for this patron that's being considered,
3 were completely ineffective; correct?

4 A No, because the alternatives did not exist. The
5 cash alternatives -- alternatives to cash was
6 still developing at the time.

7 Q But, sir, we went over already that the player
8 gaming fund account was an available
9 alternative?

10 A That's one component of it. But the alternative
11 itself of cash, replacing cash with for example
12 a bank draft, was not available at the time.

13 Q But the player gaming fund account was available
14 as an alternative and it wasn't being used;
15 correct?

16 A The patron chose not to use it. As I mentioned,
17 it wasn't a requirement. It was a convenience
18 for that patron should they decide to utilize
19 it.

20 MS. LATIMER: Madam Registrar, I ask that document
21 GPEB 0181.001 be placed before the witness,
22 please.

23 Q Mr. Karlovcec, you were not copied on this
24 communication from Mr. Schalk to your superior
25 Bryon Hodgkin at BCLC dated December 27th, 2012.

1 However, if you look at the first paragraph
2 Mr. Schalk says that this memorandum is further
3 to the previous correspondence we were just
4 looking at. So my question is was this further
5 memorandum brought to your attention when it was
6 sent?

7 A No.

8 Q That was about 10 months after the
9 communications we were just looking at. You
10 didn't review this letter at that time?

11 A I don't recall reviewing this letter, no.

12 Q Okay. He says in the second paragraph that:

13 "GPEB had conducted a review of suspicious
14 currency transaction reporting for the
15 period between September 1, 2010, and
16 August 31, 2011."

17 Were you aware of that review at this time in
18 2012?

19 A No.

20 Q Did you know that the total dollar amount of
21 SCTs in that period was over 39 1/2 million
22 dollars?

23 A I didn't know what the dollar value was, no.

24 Q Did you know that the top three venues were the
25 River Rock, Starlight and Grand Villa?

1 A I didn't know, but that would make sense.

2 Q Did you know that the top five patrons had
3 suspicious currency buy-ins totalling over
4 \$5.8 million?

5 A No.

6 Q Did you know that the vast majority of all
7 suspicious current city buy-ins occurred -- was
8 conducted in \$20 bills?

9 A Based on the transactions, I more than likely
10 would have been aware of the \$20 bill
11 denominations for sure.

12 Q If you go to the second page, the top paragraph,
13 Mr. Schalk says:

14 "It has become abundantly clear that most
15 of these patrons are of Asian descent and
16 are using large amounts of suspicious
17 currency supplied by loan sharks often
18 operating in the vicinity of the casinos."

19 Was that description consistent with your
20 observations of what was being reported by BCLC
21 investigators at this time?

22 A Well, certainly that the patrons were of Asian
23 descent. In some instances, I'm sure. I'm not
24 so sure loan sharking. Again, I don't like that
25 word because I'm not aware of anybody that --

1 any of the individuals or cash facilitators that
2 we have the knowledge that they were charging
3 criminal rates of interest, but cash
4 facilitators for sure.

5 Q And that they were operating in the vicinity of
6 the casinos?

7 A That's fair.

8 Q Okay. And he says:

9 "It's known that these Asian gamblers are
10 using suspicious currency obtained from
11 loan sharks who we believe are obtaining
12 the proceeds of crime from organized crime
13 subjects or groups."

14 Now, I take it you will take issue with the term
15 "loan shark" used in this sentence, but if you
16 put in the word "cash facilitator" instead of
17 "loan shark," would you agree with that
18 statement? Was that consistent with what you
19 understood was going on at the time?

20 A Well, again, we didn't know what the origin of
21 the funds were, so to say that it was coming
22 from organized crime or groups, there is no
23 evidence to really support that statement.
24 Potentially. But, again, to this day I don't
25 believe that any law enforcement agency has

1 corporation except law enforcement's
2 professional opinion that this activity is
3 money laundering."

4 You were aware of that recommendation in 2011 or
5 by 2012 that was made by Mr. Kroeker?

6 A Yes.

7 Q Because he says here that BCLC accepted these
8 recommendations and agreed to enhance its
9 anti-money laundering initiatives and
10 strategies. And so you were aware that BCLC had
11 accepted this recommendation that the BC lotto
12 corporation accept law enforcement's
13 professional opinion that this activity is money
14 laundering at this time; correct?

15 A Yes.

16 Q And did you come to -- and you did come to
17 accept these suspicious currency transactions
18 were money laundering by 2011; correct?

19 A Yes.

20 Q Okay. Mr. Schalk then goes on to discuss a
21 review of suspicious currency transactions
22 conducted for the period between January 1,
23 2012, and September 30th, 2012. And in this
24 nine-month period he says the total dollar
25 amount was over 63 million and the total dollar

1 amount in 20s was over 44 million, and then he
2 says:

3 "The top 22 patrons had suspicious
4 currency transaction buy-ins totalling
5 over 45 million."

6 My question is were you aware in 2011 and
7 2012 -- well, 2012, I guess, that such a large
8 volume of the suspicious cash transactions were
9 concentrated on such a small number of patrons?

10 A I can't remember when -- we recognize that at
11 some point that there was a small concentration
12 of patrons that were bringing in the majority of
13 the cash. I just can't recall exactly when that
14 took place. I think what the commission needs
15 to understand as well is that, BCLC's AML
16 program was in its infancy. It was starting to
17 be evolved. Measures were being put in place as
18 a result of various -- not only FINTRAC
19 examinations, as well as external audits that
20 were being conducted by third party audit firms,
21 for example, Deloitte, Price Waterhouse.

22 So the program was starting to build, and
23 with the change in legislation, we were evolving
24 as well. The casino industry was really growing
25 at the time, and searching for cash alternatives

1 was at top of mind for BCLC and GPEB and the
2 government of the day.

3 Q Okay. Was it open to BC lotto corporation at
4 this time to put that small number of patrons on
5 sourced cash conditions?

6 A At some point that occurred. I'm just not sure
7 when that took place. Again, the program was
8 evolving and so I'm going to -- I'm just
9 thinking when all this took place, Terry Towns's
10 leadership had changed over to Brad Desmarais, I
11 believe, in February of 2013, so this was just
12 prior to Terry Towns's retirement.

13 Q Could it have been considered at this time to
14 put these patrons on sourced cash conditions?

15 A Well, certainly if you look back, it would have
16 benefitted, but the program hadn't evolved to
17 that step yet, and it was a work in progress, if
18 you will, as to how to address the cash coming
19 in and as we progressed and as consultation took
20 place between not only BCLC but also as we
21 learned, I guess, how things were working, we
22 evolved, and that came at a later date.

23 Q It might not have occurred to BCLC at the time,
24 but was there any reason it couldn't have been
25 done if it had occurred to you?

1 A Well, had it occurred, and the approval was
2 provided to go down that route, of course it
3 might have mitigated the amount of cash coming
4 in. For sure.

5 MS. LATIMER: Mr. Commissioner, I'm not going to ask
6 that the letter be marked as an exhibit because
7 this witness wasn't able to identify it. But I
8 wonder if I should mark it just for
9 identification.

10 THE COMMISSIONER: All right. Well, that's fine. I
11 don't -- yes, all right. That's fine. We'll
12 mark it as exhibit A for identification.

13 THE REGISTRAR: Exhibit A.

14 **EXHIBIT A FOR IDENTIFICATION: Letter from Joe**
15 **Schalk re Suspicious Currency Transactions/Money**
16 **Laundering Review Report - December 27, 2012**

17 MS. LATIMER:

18 Q Mr. Karlovcec, how was your relationship with
19 GPEB employees Mr. Schalk and Mr. Vander Graaf
20 during this time, around 2011 and 2012?

21 A I didn't have a whole lot of actual interaction
22 with either one of those gentlemen. I thought I
23 had a good relationship with them regardless
24 when I -- when we did encounter each other. I
25 typically would engage with Mr. Derek Dickson,

1 who I had a strong working relationship with.

2 MS. LATIMER: Okay. Madam Registrar, could I have
3 please GPEB document 3953001 placed before the
4 witness. Can I see the second page, please. If
5 you look at the bottom of the first page -- can
6 we go back to the first page. Sorry, Madam
7 Registrar.

8 Q At the bottom of the first page, sir, you'll see
9 an email from you to Murray Ross and copying
10 Derek Dickson, passing on Mr. Dickson's contact
11 information.

12 A Right.

13 Q The email is January 27th, 2011. And if you go
14 to the next page, please. You say:

15 "Tell Derek that he needs to tell Joe to
16 take a pill. Major embarrassment
17 yesterday."

18 SO first of all this email is referring to Joe
19 Schalk; correct?

20 A Yes.

21 Q And if you look above this email back on the
22 first page, Mr. Dickson writes back and asks
23 what is this about. He notes it's not very
24 flattering language; correct?

25 A Yes.

1 Q And above that you explain:

2 "Joe was on his high horse yesterday, or
3 at least appeared that way. Police and
4 service provider were wondering where he
5 was going with his tone at one point. I
6 guess you had to be there. Maybe not
7 intentionally, but did not come across
8 well."

9 Can you explain what that incident related to
10 that you were describing here?

11 A Oh, yeah. That was -- we were at the Fraser
12 Downs casino, and we were meeting with police in
13 Cloverdale. They were at the table. Again, one
14 of our working group meetings involving the
15 service provider, and I'm not sure how GPEB
16 actually -- why they were there, but I think it
17 was more to bring everybody to the table and
18 there was conversation and essentially what that
19 reference was, Mr. Schalk came across to the
20 service providers and to the police -- they
21 actually approached me afterwards because he --
22 and I don't even know what the gist of the
23 conversation was, but he had gone off on some
24 tangent that set them back. So that's all that
25 was. I mean, probably should have picked up the

1 phone and spoken to Derek instead of putting it
2 in an email, a nine year old email. I surprise
3 that is even being presented.

4 Q What did you mean when you said he was on his
5 high horse?

6 A I think he was going -- again, I can't even
7 recall what it was about. It was about
8 potentially roles, what GPEB's role was and what
9 BCLC's role was.

10 Q Because at this time was there some friction
11 between these two organizations as to their
12 respective roles?

13 A Again, I had no trouble working with any of the
14 GPEB people. If there was any friction, it may
15 have been at a higher level. Certainly it was
16 probably unprofessional of me to put that in an
17 email, but it was -- well, it was more of a
18 frustration thing at that point more than
19 anything.

20 Q Mr. Dickson says he has to pass on your concerns
21 to Mr. Vander Graaf, who you understand to be
22 Mr. Schalk's superior; correct?

23 A I believe so, yes.

24 Q He suggests a meeting might be good because he
25 says we don't want anything festering and you

1 say there is nothing festering. And my question
2 is first of all did that meeting occur?

3 A No.

4 Q Did you hear from Mr. Vander Graaf about this
5 issue?

6 A No.

7 Q Was there something festering between yourself
8 and Mr. Schalk at this time?

9 A Nothing. No.

10 Q This email suggests that your relationship with
11 Mr. Schalk was at least strained. Would you
12 agree with that?

13 A No, it wasn't.

14 MS. LATIMER: I ask that this be marked as the next
15 exhibit, please.

16 THE COMMISSIONER: Very well. That will be -- are we
17 at exhibit 114, Madam Registrar?

18 THE REGISTRAR: That's correct, Mr. Commissioner.
19 Exhibit 114.

20 THE COMMISSIONER: Thank you.

21 **EXHIBIT 114: Email from John Karlovcec re Derek**
22 **Dickson - Jan 27, 2011**

23 MS. LATIMER: Madam Registrar, I ask that you put
24 document BCLC0006636 before the witness, please.
25 I don't believe that's the correct document.

1 00006636, please. Madam Registrar, the version
2 I'm looking at has less redactions than this
3 version.

4 THE REGISTRAR: I'm sorry, I think this is the one
5 that we've been provided. Can you let me just
6 double-check for one sec. Counsel, I believe
7 this is the one that we have been provided.
8 Uploaded last night.

9 MS. LATIMER: Okay. Let's see how I go.

10 Q Sir, you recognize this as an email from you to
11 Rob Kroeker dated November 28th, 2017, with the
12 subject "forward *Vancouver Sun* AML story today";
13 correct?

14 A Yes.

15 Q You were writing, you say, further to your
16 discussion, that morning surrounding
17 inaccuracies in the Postmedia article; correct?

18 A Correct.

19 Q Saying that you have reviewed all of the
20 incidents referred to in the article as well as
21 additional section 86 reports provided to me
22 yesterday by Laura Piva-Babcock. Who is that?

23 A Director of Communications at BC lotteries.

24 Q And then you say you've determined the
25 following. And first of all, just to help us

1 understand what follows, am I correct that the
2 next six paragraphs, the black text and the
3 highlighted text comes from the article? Is
4 that correct?

5 A I'm sorry? So the ...

6 Q Like, if you look at the second paragraph on
7 this when you read the black text with the
8 highlighting there.

9 A Right.

10 Q That text comes from the Postmedia article;
11 correct?

12 A No, it doesn't. It actually -- there's further
13 text that I have included in there.

14 Q Yeah. I'm going to suggest that your text is in
15 red and it's largely redacted in this document.
16 Is that correct?

17 A Yes. So everything that's redacted that says
18 "redacted RCMP," that was all red, yes.

19 Q To understand this document, what we can
20 understand is the part that comes before the
21 redaction that is in black text, you've taken
22 that from the Postmedia article; correct?

23 A Oh, that's correct, yes.

24 Q And then your response is what follows but it's
25 largely redacted; right?

1 A That's correct.

2 Q And in each instance these six paragraphs that
3 follow, you -- you are reporting that you have
4 reviewed the iTrak file; correct?

5 A That's correct, yes.

6 Q And what was your purpose in reviewing the iTrak
7 file?

8 A To demonstrate that the Postmedia article was in
9 fact inaccurate.

10 Q And what inaccuracies were you concerned with at
11 this time?

12 A Well, the articles -- or the article had alluded
13 to that these incidents had not been reported to
14 GPEB and the police, and so I wanted to
15 demonstrate that that wasn't actually the case.

16 Q Okay.

17 THE REGISTRAR: My apology. We just received this
18 one.

19 MS. LATIMER: Thank you, Madam Registrar.

20 Q This is the -- this is easier now to understand.
21 So the red text is your response on each of
22 these incidents that's reported in the article;
23 correct?

24 A Yes.

25 Q Okay.

1 MS. FRENCH: This is Ms. French with Canada.

2 THE COMMISSIONER: Yes, Ms. Wray.

3 MS. FRENCH: This is Ms. French, actually. Just to
4 note, if we could take -- this document here
5 does not have the necessary FINTRAC redactions,
6 but the original one Ms. Latimer was using had
7 redactions from RCMP that were later removed.
8 So we will be providing a document with some
9 FINTRAC redactions.

10 MS. LATIMER: Okay. I think if you could assist. My
11 request today was that exhibits not be displayed
12 on the live stream but that they be made
13 available to participants.

14 Q So in any event, I guess my question, sir -- I
15 don't want to belabour the point -- if we read
16 this document, what we can understand is your
17 answer is in red, and that's what you determined
18 from reviewing the iTrak file; correct?

19 A Yes.

20 Q And then in the last -- after that, you see the
21 bottom paragraph there with that highlighting on
22 it, but if you look at the paragraph below that,
23 you note that you were provided with six
24 additional section 86 reports that Ms. Babcock
25 received from the reporter and three of those

1 were not referenced in the article and then you
2 give your account of what you learned from
3 reviewing the iTrak file for those as well;
4 correct?

5 A Yes.

6 Q And in the majority of these cases, what you
7 concluded was that the incident was reported to
8 the law enforcement; correct?

9 A That's correct.

10 MS. LATIMER: I ask that this be marked as the next
11 exhibit, Mr. Commissioner, but I guess the
12 version that has the appropriate FINTRAC
13 reporting -- the appropriate FINTRAC redactions.

14 THE COMMISSIONER: All right. So is that the first
15 version we saw?

16 MS. FRENCH: Mr. Commissioner, this is Ms. French.
17 We will provide the correct version. The RCMP
18 redactions will not be there, but FINTRAC
19 redactions will be applied.

20 THE COMMISSIONER: All right, thank you. So that
21 will be marked as exhibit 115 once received.

22 THE REGISTRAR: Exhibit 115.

23 THE COMMISSIONER: Thank you.

24 **EXHIBIT 115: Email from Rob Kroeker re**

25 **Vancouver Sun - AML story today - November 28,**

1 **2017**

2 MS. LATIMER:

3 Q Sir, you recall a concern being raised in 2011
4 about a \$50,000 threshold that was being applied
5 by River Rock; correct?

6 A Yes.

7 MS. LATIMER: Madam Registrar, I'm asking that you
8 please put 107 before the witness.

9 Q At the bottom of this email chain, you recognize
10 this as a September 23rd, 2011 email from Ross
11 Alderson to you and Mr. Friesen and copying
12 Mr. Beeksma with the subject "under \$50,000
13 buy-ins in \$20 bills"; correct?

14 A Correct.

15 Q Mr. Alderson explains that he has had some
16 recent files where patrons buy in for \$49,960 or
17 \$49,980 in 20s and the River Rock was not
18 reporting these as suspicious; correct?

19 A Correct.

20 Q He says it's too much of a coincidence and
21 players must have been informed; right?

22 A Yes.

23 Q And what's he referring to there?

24 A For whatever reason, the River Rock and I can't
25 say that it was every one of them, but they

1 weren't -- or they had it in their mind that
2 unless the buy-in amount was \$50,000 or over,
3 that it -- they weren't required to report that
4 as a suspicious financial transaction, or an
5 unusual financial transaction.

6 Q And the service provider, when they make an
7 unusual financial transaction report, that goes
8 to BC lotto corporation; correct?

9 A Yes, so that incident report would be created in
10 the BC lottery casino case management system,
11 iTrak, yes.

12 Q Is a consequence of the service provider failing
13 to make an unusual financial transaction report
14 that BCLC would then not make a suspicious
15 financial transaction report to FINTRAC?

16 A Certainly if BCLC was unaware that that had
17 taken place, then we couldn't report something
18 that we were unaware of. Unless it was
19 discovered during the course of an internal
20 audit by our compliance team or perhaps even
21 during the course of a FINTRAC examination.

22 Q So in the absence of an unusual financial
23 transaction report or an audit, you wouldn't
24 know that that transaction had occurred; is that
25 fair?

1 A Well, you would -- let me qualify that. You
2 wouldn't -- it wouldn't be reported in the
3 system as an unusual financial transaction, but
4 it could be discovered because of a large cash
5 transaction report that would be generated by
6 the service provider.

7 Q Okay. So is the concern here that River Rock is
8 trying to avoid reporting to BCLC, or that
9 they're trying to avoid reporting to FINTRAC, or
10 do you know?

11 A Well, I don't think that they were trying to
12 avoid doing anything in that regard. I would
13 suggest that there was probably -- they didn't
14 comprehend that when it comes to reporting
15 unusual or suspicious financial transactions,
16 the dollar amount is not the only consideration
17 that must be made. It's dollar amount,
18 circumstances leading up to the transaction, the
19 individual involved. Just a myriad. So I'm not
20 sure how that took place or why they would have
21 felt that \$50,000 was some reporting limit that
22 anything below that within a VIP room was not
23 required to be reported.

24 Q But when he says it's too much of a coincidence
25 and players must have been informed, he's

1 suggesting that players must have been informed
2 that it would not be reported if it was under
3 \$50,000; correct?

4 A That's what it sounds like.

5 Q Okay. And the second issue he identifies in
6 this email is that individual players who have
7 combined buy-ins over a 24-hour period exceeding
8 \$50,000 in buy-ins in 20s are also not deemed
9 suspicious, as only the individual buy is looked
10 at. And you were aware of that issue at this
11 time; correct?

12 A Yes. When it was presented to us by
13 Mr. Alderson, yes.

14 Q And he says -- he goes on to say:

15 "We believe it is a cynical attempt by the
16 site to avoid reporting buy-ins as
17 suspicious."

18 Did you share that view at the time that it was
19 a cynical attempt by the site to avoid reporting
20 buy-ins as suspicious?

21 A I don't think I really formed any opinion there
22 in that regard. It was more along the lines of
23 is there a training concern here, and I believe
24 in this instance here I actually reached out to
25 Great Canadian casinos director of surveillance,

1 Mr. Friesen's response. And he says:

2 "This is not written in our policy, so an
3 auditor will not find this non-compliant."

4 What did you understand Mr. Friesen to mean by
5 that when you read it?

6 A I'm not sure, actually. I think I responded to
7 Ross myself on that and gave him a breakdown,
8 so ... It almost appears to me that what he's
9 saying there is that somebody on the Great
10 Canadian side had made a decision to do this
11 this way, but it certainly wasn't something that
12 was being condoned by BCLC.

13 Q What did you understand him to mean when he said
14 this is an AML strategy? I take it he's
15 referring to the \$50,000 threshold there.

16 A I'm not sure.

17 Q Okay. And if you go down to the last three
18 lines he says:

19 "As indicated, the \$50,000 threshold was
20 just a simple determination made at River
21 Rock because of the volume of
22 transactions. You can alter this at
23 will."

24 Was that your understanding at the time that
25 BCLC could alter the threshold at will?

1 A As far as reporting transactions?

2 Q Well, he says the \$50,000 threshold was just a
3 simple determination made at River Rock because
4 of the volume of transactions. What did you
5 understand him to mean by that?

6 A I'm not sure.

7 Q What did you understand him to mean when he told
8 Mr. Alderson that Mr. Alderson could alter that
9 threshold at will?

10 A Okay. I'm not sure.

11 Q Okay.

12 MS. LATIMER: Madam Registrar, I ask that you put,
13 please, exhibit 113 before the witness.

14 Q And turn to page 2, please. And right at the
15 bottom of page 2, you'll see that it's the
16 header from an email from Mr. Dickson to you
17 dated February 3rd, 2012, and the subject is
18 "\$100 bills at the River Rock"; correct?

19 A Yes.

20 Q If we go to page 3, please, Madam Registrar.

21 Mr. Dickson here outlines what he describes
22 as a trend developing where River Rock is not
23 submitting section 86 reports regarding
24 suspicious cash buy-ins where \$100 bills are
25 presented. And he -- were you aware of that

1 trend at this time in February of 2012?

2 A No, I was not.

3 Q He describes an occasion where BCLC discovered a
4 patron who left the River Rock several times and
5 returned shortly after with a large amount of
6 cash in hundreds, and this totalled
7 approximately \$5 million and the River Rock was
8 directed to forward a section 86 report;
9 correct?

10 A Sorry. Can you just zoom in on that. Thank
11 you. I think that 5 million was a typo, but
12 regardless ...

13 Q What did you think it was supposed to be?

14 A Probably 500,000.

15 Q Okay. So let's say it's \$500,000 in \$100 bills
16 in the River Rock had to be directed to forward
17 a section 86 report and they say they did not
18 consider \$100 bills suspicious. And were you
19 aware of that at the time?

20 A After I received the letter from Mr. Dickson.
21 Prior to that, no, I was unaware of that, and
22 that certainly wasn't the training that was
23 being delivered to the service providers at the
24 time, so in this instance, I believe I reached
25 out to, again, Great Canadian casinos to

1 determine what was going on there.

2 MS. LATIMER: If you go back to the previous page,
3 please, Madam Registrar.

4 Q Here is your response, also dated February 3rd,
5 2012, and you express the view in the last
6 paragraph, you say:

7 "We understand that the site is busy and
8 there may be some incidents that go
9 undetected, but to simply not report
10 incidents because \$100 bills are being
11 used is the wrong road to travel down."

12 And that was your view at the time; correct?

13 A Yes.

14 MS. LATIMER: And if you go back one page, please,
15 Madam Registrar, to page 1. This is
16 Mr. Alderson's response the same date, and he
17 says:

18 "The issue has been raised a number of
19 times, including the \$50,000 threshold for
20 20s, and that he disagrees with the use of
21 thresholds."

22 And he ends by saying:

23 "The standard response has always been
24 it's a service provider staff resourcing
25 issue in surveillance and that BCLC

1 management have agreed to the thresholds,
2 but they will try harder."

3 Was it the case that BCLC management had
4 previously agreed to the threshold?

5 A No.

6 Q Mr. Alderson -- it's your evidence that
7 Mr. Alderson was mistaken about that?

8 A Oh, he was definitely mistaken about that for
9 sure, yes. But it sounds like here what he's
10 saying is a standard response and I'm assuming
11 from the service providers, that certainly
12 didn't come from -- certainly not from myself or
13 Mr. Friesen or any BCLC management at the time.

14 Q You don't appear to take issue with that point
15 in your response to Mr. Alderson, which comes
16 just above this email. You say you just spoke
17 to Pat and he will be speaking to you and
18 clarifying with his staff to ensure they are not
19 simply focusing in on denominations and are
20 taking into account the big picture on these.
21 So at least as of February 2012, you took steps
22 to talk to Mr. Ennis to ensure that the case was
23 corrected; correct?

24 A Yes.

25 Q And in response, Mr. Beeksma says -- and I'm

1 summarizing -- that it depends who's on shift
2 and some staff haven't gotten the memo, and the
3 last email from you is the top of this page, and
4 you say:

5 "Some I'm going to suggest choose not to
6 get it."

7 A Right.

8 Q Did you believe that the River Rock staff were
9 deliberately avoiding making suspicious
10 transaction reports at this time?

11 A I think there was some challenges with a few of
12 their people, and Mr. Ennis was made aware of
13 that, and I know that measures were being taken
14 to address that at the site. Because certainly
15 none of this was being sanctioned by BCLC.

16 Q When you say "some I'm going to suggest choose
17 not to get it" --

18 A Right.

19 Q -- who did you have in mind when you said that?

20 A I can't remember. But there was a few
21 surveillance people there. I can't remember
22 their names.

23 Q And what was the issue with those surveillance
24 people?

25 A I think, again, the AML program was starting to

1 evolve. There were, say, several, but there
2 were some that had been in the gaming industry
3 for so long and they looked upon the federal
4 regulations. They thought actually that this
5 was something that was contrived by BCLC to
6 implement an AML program. They didn't recognize
7 that this was federal legislation and that
8 reporting had to be completed as per the
9 regulations. So I'm not sure what their mindset
10 was or why they thought those terms, but I guess
11 there was a -- it doesn't matter what business
12 you're in; you're going to always have some
13 challenges potentially with some of your
14 employees, and all we could do at the time was
15 bring it to the attention of the management at
16 Great Canadian to address the matter, and I
17 believe in this case for sure they did move in
18 that direction.

19 Q Did you bring it to Mr. Ennis's attention?

20 A Oh, definitely. He would have been their
21 supervisor, yes.

22 Q When you brought it to his attention, would you
23 have told him who it was that you thought were
24 choosing not to get it?

25 A I believe so, if I recall who it was, but I

1 don't right now. For sure.

2 Q Would you have made that communication in
3 writing?

4 A No. I probably would have just phoned him.

5 Q Why?

6 A Because we had that working relationship.

7 Q Okay. In 2012 --

8 MS. LATIMER: Well, actually, Mr. Commissioner, I
9 note the time. And I'm just moving off of this
10 document, so I'm in your hands.

11 THE COMMISSIONER: How much further -- how much
12 longer do you anticipate you'll be, Ms. Latimer?

13 MS. LATIMER: I'm about halfway through.

14 THE COMMISSIONER: Okay. So we're not going to move
15 measurably ahead today towards finishing, so I
16 think what we'll do is adjourn until tomorrow
17 morning at 9:30. All right.

18 Anything further to deal with before we
19 adjourn, Mr. McGowan?

20 MR. MCGOWAN: No, Mr. Commissioner.

21 THE COMMISSIONER: All right. Thank you.

22 MR. MCGOWAN: I will just add it has been our
23 practice to put the live stream archive video up
24 on the website the day after the hearing. We
25 are making efforts to get today's video up as

1 quickly as possible because I understand there
2 were some things that may have been missed
3 because of issues with the live stream.

4 THE COMMISSIONER: And the website will carry the
5 full hearing?

6 MR. MCGOWAN: Yes, that is my understanding.

7 THE COMMISSIONER: Okay. Thank you. We'll adjourn
8 until tomorrow at 9:30.

9 THE REGISTRAR: This hearing is adjourned until
10 9:30 a.m. on October 30th, 2020. Thank you.

11 **(WITNESS STOOD DOWN)**

12 **(PROCEEDINGS ADJOURNED AT 1:30 P.M. TO OCTOBER 30, 2020)**

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