

**Commission of Inquiry into  
Money Laundering in British Columbia**

**Public Hearing**

**Commissioner**

The Honourable Justice  
Austin Cullen

**Held at:**

Vancouver, British Columbia  
via video link

Thursday, May 28, 2020

## APPEARANCES

Brock Martland, QC Patrick McGowan	Cullen Commission
Cherisse Friesen Chantelle Rajotte	B.C. (Ministry of Finance and Gaming Policy and Enforcement Branch)
B.J. Wray Katherine Shelley	Canada
Ludmila Herbst, QC Catherine George	Law Society of B.C.
Ron Usher	Society of Notaries Public of B.C.
William Smart, QC	B.C. Lottery Corporation
Mark Skwarok Melanie Harmer	Great Canadian Gaming Corporation
Christine Mainville Carly Peddle	Robert Kroeker
Robin McFee, QC Maya Ollek	James Lightbody
Chris Weafer Patrick Weafer	B.C. Real Estate Association
Morgan Camley Carina Chiu	BMW
Latoya Farrell	B.C. Civil Liberties Association
Jo-Anne Stark Kevin Westell	Canadian Bar Association, B.C. Branch

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Simon Lord (for the Commission)  
Examination by Mr. McGowan, Counsel for the Commission

Vancouver, B.C.  
May 28, 2020

1  
2  
3  
4 THE REGISTRAR: Good morning, everyone. Thank you for  
5 waiting. The hearing is now resumed.

6 THE COMMISSIONER: Mr. McGowan, I believe you have  
7 conduct of today's proceedings on behalf of the  
8 Commission.

9 MR. MCGOWAN: Yes. Good morning, Mr. Commissioner.  
10 The first -- the witness for today will be Mr.  
11 Simon Lord, a senior officer with the National  
12 Crime Agency out of the United Kingdom. He is  
13 scheduled to testify today and tomorrow, and I  
14 think we have good time to complete his evidence.  
15 We should be in a position at the end of today to  
16 let you know whether we anticipate using the full  
17 day tomorrow.

18 THE COMMISSIONER: Thank you.

19 MR. MCGOWAN: The witness will affirm.

20 MR. LORD: Yes, good morning.

21 THE REGISTRAR: Sorry, Mr. Lord. Can I read you the  
22 oath first? Thank you.

23  
24 SIMON LORD, a witness called  
25 for the Commission, affirmed.  
26

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

29 A Yeah. My name is Simon Peter Lord. Simon,  
30 Sierra India Mike Oscar November, S-i-m-o-n, and  
31 Lord, Lima Oscar Romeo Delta, L-o-r-d.

32 THE REGISTRAR: Thank you.  
33

34 EXAMINATION BY MR. MCGOWAN:  
35

36 Q Good morning, Mr. Lord.

37 A Good morning.

38 Q You can hear me okay?

39 A Yeah, no problem at all.

40 Q Good. You're coming through loud and clear as  
41 well. Just a housekeeping matter as we start, I  
42 understand that while we might normally think to  
43 address you as Officer Lord, you've asked today  
44 to be addressed as Mr. Lord, primarily because  
45 you're here, while with the blessing of your  
46 employer, not in your official capacity of  
47 representing them.

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1 A Yeah. So although I'm appearing essentially as  
2 an expert witness who also happens to be a law  
3 enforcement officer.

4 Q Yes. And you haven't produced any written work  
5 product specifically for the Commission, but  
6 you'll be relying and giving your evidence today  
7 on your many years of experience and work you've  
8 previously written; is that right?

9 A That's correct, yes.

10 Q Okay. And speaking of your experience, you  
11 provided us with a copy of your CV setting out  
12 some of that experience?

13 A Yes.

14 MR. MCGOWAN: Madam Registrar, I wonder if we might  
15 pull up Mr. Lord's CV just momentarily on the  
16 screen. Perhaps scroll down to the first page.

17 Q This is the first page of your CV that you  
18 provided us?

19 A Yes, it is.

20 MR. MCGOWAN: Mr. Commissioner, I wonder if that might  
21 be the next exhibit.

22 THE COMMISSIONER: Very well. I think we're at  
23 Exhibit 10, are we, Madam Registrar?

24 THE REGISTRAR: Yes, Exhibit 10.

25 THE COMMISSIONER: Thank you.

26

27 EXHIBIT 10: Curriculum vitae of Simon Lord

28

29 MR. MCGOWAN:

30 Q Mr. Lord, I thought we might just start by  
31 walking you through, for the benefit of the  
32 Commissioner and the participants, some of the  
33 experience you've had. You're currently a senior  
34 officer with the National Crime Agency, and  
35 within the National Crime Agency you work  
36 primarily within the National Assessment Centre?

37 A That's correct, yes.

38 Q And you bring to that position 30 years of  
39 experience investigating serious and organized  
40 crime with the last 15 years primarily dedicated  
41 to investigating, understanding and addressing  
42 money laundering?

43 A Yeah, that's right.

44 Q And I gather through those years of experience,  
45 you've gained some particular expertise in some  
46 specific areas of money laundering, correct?

47 A Yes, that's correct.

- 1 Q And some of those include informal value transfer  
2 systems and the criminal abuse of those systems?
- 3 A Yes.
- 4 Q The use of cash in the criminal economy and its  
5 transport internationally?
- 6 A Yes.
- 7 Q The criminal exploitation of money services  
8 businesses?
- 9 A Yes.
- 10 Q The use of international jurisdictions for money  
11 laundering purposes?
- 12 A Mm-hmm.
- 13 Q And trade-based money laundering?
- 14 A Yes.
- 15 Q I gather you started your law enforcement career  
16 with Her Majesty's Customs and Excise Criminal  
17 Intelligence Section; is that correct?
- 18 A Criminal Investigation, yes.
- 19 Q Yes. And that was -- pardon me. That was April  
20 1990?
- 21 A That's right, yes.
- 22 Q Okay. And you spent some time there up until  
23 2004, when you moved to the Financial Crime Team  
24 within that unit?
- 25 A Yes. Prior to that I'd been working on various  
26 different types of criminality, including things  
27 like tax fraud, drug trafficking, cigarette  
28 smuggling, things like that. But in 2004 I moved  
29 to a dedicated financial crime team where  
30 everything that we did was looking at primarily  
31 money laundering.
- 32 Q And in that capacity did you receive some formal  
33 training and experience specific to money  
34 laundering?
- 35 A Yes. Yes, I did.
- 36 Q Yes, carry on
- 37 A So I did -- there was training in money  
38 laundering, in enhanced financial investigation  
39 skills, in confiscation, in cash seizure  
40 investigations and various other things like  
41 that.
- 42 Q And you subsequently carried that experience into  
43 the Serious Organized Crime Agency in 2013?
- 44 A That's right, yes.
- 45 Q And what was your role there?
- 46 A Essentially when I started in SOCA, I was part of  
47 a team that was addressing various aspects of

1 money laundering. Essentially, although I moved  
2 from one agency to another, the type of work I  
3 was engaged with was pretty much the same. So I  
4 was involved in the investigation and prosecution  
5 of serious money laundering offences and all the  
6 -- and the whole gamut of that, including  
7 arrests, searches, interviews of witnesses and  
8 suspects, all of those sort of routine things  
9 that you would expect to do in a routine  
10 investigation.

11 Q And ultimately you moved to the National Crime  
12 Agency when it was formed, correct?

13 A Yes. Everybody who was in the Serious Organized  
14 Crime Agency was automatically absorbed into the  
15 National Crime Agency when it was formed.

16 Q Okay. Now I'm going to ask you in a little more  
17 detail about the National Crime Agency in a few  
18 minutes, but I wonder if you just might tell the  
19 Commissioner in a sentence or two what that  
20 agency is.

21 A Yeah. It's essentially the UK's federal policing  
22 body. Most of the policing in the UK is done by  
23 one of about 43 regional police forces. There  
24 are groups within the police where those forces  
25 come together to pool their resources and look at  
26 serious and organized crime. But the National  
27 Crime Agency effectively sits above all of that.  
28 It covers the whole of the UK, including Scotland  
29 and Northern Ireland. And we have the  
30 responsibility essentially to lead the UK's  
31 response to serious and organized crime, and that  
32 is across the whole range of organized crime. So  
33 as well as the more obvious stuff like drug  
34 trafficking and money laundering and things like  
35 that, we also deal with organized immigration  
36 crime, modern slavery, human trafficking, child  
37 sexual exploitation and abuse, counterfeit  
38 currency -- a whole range of things essentially,  
39 and that's all the NCA's responsibility.

40 And as I say, as well as having an  
41 operational response itself, it also has the  
42 ability to task other law enforcement agencies,  
43 depending on what it is perceived as the  
44 operational priorities of the UK at that  
45 particular time.

46 Q Okay. And you're working within the National  
47 Assessment Centre, and that is situated within

- 1 the NCA's intelligence hub; is that right?
- 2 A That's correct, yeah.
- 3 Q Okay. And what are your duties there currently?
- 4 A So I work on the economic crime team within the  
5 NAC, the National Assessment Centre, and in  
6 specifically on the money laundering desk. And  
7 my role essentially is to ensure that I have a  
8 thorough and complete understanding of the money  
9 laundering threats that are faced by the UK at  
10 any point in time. And my role is to sort of  
11 explain those threats to colleagues in the  
12 National Crime Agency, other law enforcement  
13 agencies, and also in the private sector in terms  
14 of orally but also in terms of writing  
15 intelligence assessments and so forth.
- 16 Q And those intelligence assessments sometimes are  
17 reduced to reports which are, I gather,  
18 distributed not just within law enforcement but  
19 elsewhere as well?
- 20 A Yes. So across law enforcement in the UK but  
21 also to the private sector, so to banks and  
22 various other bodies such as MSVs, money  
23 laundering professionals, things like that, also  
24 overseas partners and people like that. So  
25 across the whole range of people who would have  
26 an interest in understanding and tackling money  
27 laundering within the UK.
- 28 Q And speaking of international partners and  
29 distribution, you're currently involved in a  
30 project, a collaboration between the Gulf States  
31 and the United Kingdom to improve a joint  
32 response to money laundering; is that right?
- 33 A Yes. So the -- obviously the Gulf States, most  
34 people will recognize, is of importance when  
35 trying to tackle financial crime, in particular  
36 money laundering. And what we're doing is  
37 we're -- we have a project where we're liaising  
38 closely with the authorities in the Gulf States,  
39 particularly the UAE, to assist them in  
40 developing their response to the money laundering  
41 threat.
- 42 Q Okay. On page 3 of your CV, you talk about some  
43 engagement you have with international partners  
44 in your official capacity. I wonder if you might  
45 tell the Commissioner a little bit about that  
46 role.
- 47 A Yeah. I've been lucky enough to spend a fair



- 1 amount of the last 15 years liaising with  
2 international partners on money laundering  
3 issues. And I'd also, prior to that when I  
4 worked in HM Revenue and Customs. So I've worked  
5 with agencies in USA, in the United Arab  
6 Emirates, in Australia, Canada, and New Zealand;  
7 places like Turkey, India, Israel, Sweden -- a  
8 whole range of countries -- in terms of  
9 addressing and dealing with organized crime in  
10 general but money laundering in particular.
- 11 Q And has that experience given you a lens not only  
12 into the UK's experience but also the experience  
13 of other jurisdictions with respect to organized  
14 crime and money laundering?
- 15 A Yeah, absolutely. I mean, the main thing that --  
16 one of the things that you have to do when you're  
17 trying to address money laundering in the UK is  
18 understand the extent to which what you are  
19 seeing is specific to the UK or whether it's a  
20 problem that's faced internationally, because if  
21 it is, then you can -- there's a number of things  
22 you can do. You can reach out international  
23 partners, agree to joint working, agree to  
24 leverage off each other's capabilities, but also  
25 learn from them in the ways in which partners  
26 tackle a particular issue and, you know, assess  
27 whether that is actually a good process that you  
28 could put in place in the UK.
- 29 Q Okay. You've also done some work with the  
30 Financial Action Task Force?
- 31 A Yeah. So between around about 2012 and mid-2015,  
32 mid/late 2015, I worked on two FATF typology  
33 reports, one looking at hawala and other similar  
34 service providers and the other looking at money  
35 laundering through the physical transportation of  
36 cash. Essentially as an extension of my role  
37 doing the intelligence work within the -- first  
38 of all the SOCA and then the National Crime  
39 Agency, essentially to ensure that the  
40 understanding that the UK has in respect of these  
41 issues is other people from other jurisdictions  
42 can make use of it as well, and also to check  
43 that their understanding accords with ours.
- 44 Q Okay. You also contribute to the Five Eyes Law  
45 Enforcement Group, specifically on the topic of  
46 money laundering?
- 47 A Yeah. So I spent a couple of years around about

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1 sort of 2016-2017 on the Five Eyes Law  
2 Enforcement Group. There's a subgroup called the  
3 Money Laundering Working Group, and I did quite a  
4 lot of work in that space for around about 18  
5 months, two years. And then on top of that, I'm  
6 -- there's currently a group called the  
7 International Money Controllers Practitioners  
8 Group, which is a Five Eyes group, and that's  
9 looking at the specific topic of international  
10 money laundering controllers and informal value  
11 transfer systems and the way in which they're  
12 abused by criminals.

13 Q Maybe I should have started by asking you who the  
14 Five Eyes are and what the Five Eyes Law  
15 Enforcement Group is.

16 A Yeah. The Five Eyes Law Enforcement Group  
17 essentially comprises the main law enforcement  
18 bodies from what is known as the Five Eyes  
19 countries. So we're talking about the UK, the  
20 USA, Australia, Canada, and New Zealand. And  
21 essentially it's a forum whereby the  
22 practitioners from those groups can come  
23 together, share information about financial  
24 crime, talk about ways to tackle it, and also, as  
25 I mentioned before, leverage each other's  
26 capabilities in tackling transnational problems.

27 Q And why are those countries called the Five Eyes?

28 A That's a good question. I don't know.

29 Q Okay. You're also involved extensively in  
30 training both to law enforcement and the private  
31 sector; is that right?

32 A Yeah. So one of the many things that I do as  
33 part of my role looking to understand and address  
34 money laundering is to pass on my experience to  
35 other people to ensure that they sort of have --  
36 can learn from the experience that I've gathered  
37 as part of my law enforcement career, but not  
38 just me but from my colleagues as well. So I do  
39 the -- we run an Expert Laundering Evidence  
40 course. I know we're going to talk about that a  
41 little bit. But the Expert Laundering Evidence  
42 course, I've been delivering that with a  
43 colleague for the last four years. I've  
44 delivered training, in 2018 in the UAE I spent  
45 two weeks delivering money laundering training to  
46 the Emirati Police. And I've delivered forums on  
47 various different topics to do with money

1           laundering across law enforcement in the UK but  
2           also to the private sector, to banks, to the Law  
3           Society, to various bodies like the Institute of  
4           Money Laundering Prevention Officers and people  
5           like that. So I do quite a lot of talking in  
6           terms of, you know, helping other people to  
7           understand and address the issues.

8           Q    Right. And you've presented or done training  
9           internationally with other law enforcement groups  
10           such as the FBI or the New Zealand Financial  
11           Intelligence Unit?

12          A    Yeah. So for three years in a row, I was a  
13           speaker at the FBI's Advanced Money Laundering  
14           Conference in the USA. I've also -- I was  
15           invited -- also in 2016 I was invited by the New  
16           Zealand Financial Intelligence Unit to be the  
17           keynote speaker at the conference they run with  
18           ACAMS every year, and that was at the National  
19           Museum of New Zealand in Wellington. And I've  
20           spoken in places like Australia and other  
21           jurisdictions as well.

22          Q    Okay. You've testified in a number of cases in  
23           the United Kingdom?

24          A    Yeah. I mean I -- so I do intelligence work now.  
25           But up until relatively recently, I was a law  
26           enforcement officer. I still have all of my law  
27           enforcement officer powers. And in the course of  
28           undertaking work against organized crime, you  
29           know, having my own case work and all the rest of  
30           it, I testified extensively in courts. And I'm  
31           also now a member -- in fact I'm the Deputy  
32           Coordinator of the NCA's Expert Laundering  
33           Evidence cadre. And I give evidence quite  
34           frequently in courts of law in respect of money  
35           laundering typologies and what have you in  
36           respect of the cases that I'm allocated.

37          Q    Okay. We'll come back because I'm going to ask  
38           you some more about that expert evidence cadre in  
39           a little bit. You've been retained as an expert  
40           not just in the United Kingdom but  
41           internationally as well?

42          A    Yeah. I've given evidence -- I've provided  
43           expert evidence to a case in Canada which I know  
44           has been talked about quite a lot. That was the  
45           project E-Pirate. I've also provided evidence to  
46           a case in Switzerland and I've also provided  
47           evidence -- well, it was actually investigative

1 advice to a case in New Zealand as well.

2 Q Okay. With respect to the E-Pirate  
3 investigation, you were retained and provided  
4 some advice, but ultimately didn't testify in  
5 that case; is that right?

6 A That's right. I provided an expert statement but  
7 I -- I didn't actually end up giving evidence in  
8 court.

9 Q Okay. And I should maybe just pause to flag at  
10 this point that you have some constraints in your  
11 ability to discuss the E-Pirate case. As I  
12 understand it, the details of that case are not  
13 something you're at liberty to discuss, things  
14 like the names of individuals or organizations  
15 other than a couple that are widely disseminated  
16 in the public domain, and investigative  
17 techniques are things that you've not been given  
18 authority to speak of, correct?

19 A That's right, yeah. I mean, I think it's  
20 important for everyone to appreciate that in this  
21 particular case, my role as an expert witness is  
22 to look at the evidence that's presented to me  
23 and to sort of put it into context essentially.  
24 So to use my experience to describe money  
25 laundering techniques and then to give an opinion  
26 as to the extent to which the evidence I'm  
27 presented with is consistent with the techniques  
28 I've seen previously.

29 Q Right. And you have been authorized in your  
30 evidence today to discuss at a general level the  
31 money laundering typologies that were identified  
32 in that investigation and how those may be  
33 similar or different to typologies or methods  
34 observed elsewhere or in other jurisdictions; is  
35 that right?

36 A Yeah, that's right. So that's the extent of my  
37 involvement in the case. I'm not actually privy  
38 to the way the case was investigated or to  
39 anything behind it. All I've seen is the  
40 evidence, and I can only comment on the evidence.

41 Q Okay. We'll come back to that a little bit  
42 later. I expect in your evidence you're going to  
43 address some fairly detailed and nuanced  
44 approaches to money laundering. But I thought I  
45 might just start by asking you a very basic  
46 question, and that is, in a general sense, what  
47 is money laundering and what is the aim of the

1 criminals and organizations that engage in money  
2 laundering?

3 A Yeah. Essentially money laundering at its most  
4 basic is the act of making the origin of  
5 criminally derived funds appear legitimate. In a  
6 short sentence, that's essentially what it is.  
7 It's extremely difficult nowadays for criminals  
8 involved in all manner of types of criminality to  
9 use their ill-gotten gains, and the art of money  
10 laundering is to make it appear that the funds  
11 that they've made have a legitimate source so  
12 they can, you know, do what they will with them.

13 Q We sometimes see money laundering explained as  
14 having various stages, several stages, and I  
15 think the most common ones refer to placement,  
16 layering and integration. I wonder if you might  
17 explain to the Commissioner your understanding of  
18 what those terms mean and whether you agree that  
19 that is the typical structure of a money  
20 laundering operation.

21 A Yeah. Well, in a nutshell, I don't agree that  
22 that is the typical money laundering structure.  
23 That's one of those things that in my view has  
24 become truth by repetition.

25 Now, if you Google "money laundering," at  
26 some point you will bump up against this theory  
27 that all money laundering systems consist of  
28 three stages, and that's placement, layering and  
29 integration. And briefly, what that means is  
30 placement is supposedly the introduction of  
31 criminal funds into the legitimate financial  
32 system. Layering is supposed to involve moving  
33 the funds through different bank accounts very  
34 quickly and breaking it up into smaller  
35 transactions so as to hide where the money came  
36 from. And integration is said to be the act of  
37 getting it to the point where it's cleaned, if  
38 you like, and so that it can be used effectively.  
39 The problem being that in most money laundering  
40 cases I've looked at, most of those stages or any  
41 of them don't exist.

42 And it's probably worth exploring that a  
43 little bit more. So in the UK, the definition of  
44 money laundering is essentially -- first of all,  
45 it relies on the definition of criminal property.  
46 So property is any type of property whatsoever  
47 that has been derived from criminal conduct,

1 represents any person's benefit from criminal  
2 conduct. And the act of money laundering in the  
3 UK law is defined as converting, concealing,  
4 disguising, transferring, or removing criminal  
5 property from the jurisdiction. And there are  
6 also subsidiary elements to that which include  
7 acquisition, retention, use, and control of  
8 criminal property and various other things like  
9 that, and conspiracy.

10 Canadian law, as I understand it, is very  
11 similar. And I've had a look at s. 462.31 of the  
12 *Criminal Code* in Canada, and as I understand it,  
13 money laundering in that piece of legislation is  
14 described as using, transferring, sending,  
15 delivering, transporting, transmitting with  
16 intent to conceal or concert property, knowing or  
17 believing that it has a criminal origin.

18 Now, when you break that down, essentially,  
19 in the UK and in Canada, something as basic as  
20 selling a kilo of cocaine, hiding the money in  
21 the boot of your car, and either driving it  
22 through the Channel Tunnel to France or maybe  
23 from Vancouver to Toronto, is actually a money  
24 laundering offence because you are transporting  
25 or transmitting or removing criminal property  
26 from a jurisdiction.

27 Now, that being the case, I struggle to see  
28 where placement, layering, and integration comes  
29 into it.

30 So although I would say it can happen like  
31 that, you know, and there are examples I've seen  
32 where -- and there's a case I'm currently looking  
33 at where that is what has happened, where money  
34 has been introduced into the financial system and  
35 then it's been shuttled quickly to lots of bank  
36 accounts. It certainly by no means is the  
37 standard that you would see everywhere.

38 So yeah, it's talked about a lot, but like a  
39 lot of things in money laundering, it's not  
40 actually true.

41 Q And what dictates, from your experience, whether  
42 the criminal or organization would go through the  
43 stages of placement, layering, or integration or  
44 take some other approach?

45 A Well, essentially, one of the things that we tend  
46 not to do as law enforcement officers is to try  
47 and view things from the criminal's perspective.

1 And I'm of the view that it's very important to  
2 try and do that because it helps you to  
3 understand why things have happened in a certain  
4 way and also how you might be able to stop it  
5 happening.

6 And the view I take -- and this is what I  
7 always say when I'm beginning a lecture on money  
8 laundering -- is essentially you have to look at  
9 the criminal decision-making process. So the  
10 first element of that would be the criminal makes  
11 money from organized crime in some way so he  
12 might sell a kilo of cocaine or heroin or sell  
13 some illicit cigarettes or commit a robbery or  
14 something like that. So once he's actually got  
15 the money, the second thing he's going to say to  
16 himself is: What do I want or what do I need to  
17 do with this money now I've made it? The third  
18 process is: Where do I need it to be in order to  
19 achieve that, and in what form? And the fourth  
20 point is: How am I going to get it there? And  
21 that is actually what [indiscernible] how money  
22 laundering works. You have to consider the  
23 criminal has got the money and wants to do  
24 something with it. And that is how -- and that  
25 is how they're going to think. And the important  
26 thing that follows on from that is that different  
27 types of criminality are not always going to --  
28 you know, the funds arising from that are not  
29 always going to be laundered in the same way.

30 So as an example, you could be in the  
31 situation where a criminal sells a kilo of  
32 cocaine this week, and because he's bought it on  
33 credit he needs to pay his supplier. Now, in the  
34 UK, there's a good chance his supplier might be  
35 in somewhere like the Netherlands or overseas.  
36 In which case the criminal would probably want  
37 the money in euros, because that's the currency  
38 of the country where it needs to go, and so he  
39 might need -- and he might elect to do something  
40 like hide it in the car and drive it out of the  
41 UK to the Continent.

42 The following week, he might sell another  
43 kilo of cocaine. He's paid off his supplier, and  
44 so this time he decides he wants to buy a car  
45 with it. So somehow he's got to get that money  
46 into the financial system in such a way as to  
47 make the person who's selling him the car believe

1 that it's legitimate.

2 And so the predicate offence is the same two  
3 weeks running but the money has been laundered in  
4 two totally different ways. And I think it's  
5 really important to understand that because I  
6 think there is a general perception amongst some  
7 areas of society that drug trafficking -- money  
8 laundering always happens in this particular way  
9 and things like that, whereas in fact it's  
10 entirely down to what the criminal wants to do  
11 with it.

12 Q And I guess depending on the criminal's  
13 particular goals, there are various methods or  
14 typologies which can be employed?

15 A Yeah. So there's a whole range of things. So  
16 you've got those four stages: making the money,  
17 using it, where do I need it, and how am I going  
18 to get it there. But impacting upon all of that  
19 will be certain external forces like, you know, I  
20 need to get it into a bank but I don't know the  
21 best way to do that so I might need to -- let's  
22 say, for example, I'll try and put it into the  
23 bank account of a company. Well, I might need an  
24 accountant to hide the money for me to make it  
25 look legitimate. So I need to find an accountant  
26 but I don't know an accountant. Or he might say,  
27 well, I did it like that last time and it worked,  
28 so I'll just try that again.

29 So there's a whole range of external forces  
30 that come into play which are going to affect the  
31 way in which the criminal thinks. And as I say,  
32 it's a lot more complex than placement, layering,  
33 and integration, is the short answer.

34 Q Right. We're going to talk about some specific  
35 typologies today, like trade-based money  
36 laundering and the use of the informal value  
37 transfer system.

38 A Mm-hmm.

39 Q But let me ask you this general question. Do  
40 these typologies operate in silos or are they  
41 often integrated and used in conjunction with one  
42 another?

43 A Very much. It's like a huge Venn diagram  
44 essentially with big areas of cross-over. So  
45 informal value transfer systems very frequently  
46 involve an element of trade-based money  
47 laundering in some way. That might be to the use



1 of criminal funds to settle an otherwise -- you  
2 know, a transaction -- a trade transaction  
3 between two unrelated parties. You might be in a  
4 situation where in order to balance the cash  
5 pools in an IVTS mechanism, people might smuggle  
6 cash from one jurisdiction to another. You will  
7 have a situation where you might get a  
8 professional enabler involved. You know, there  
9 might be a movement of goods from one location to  
10 another in order to settle a transaction. So  
11 whole different ways, and they all overlap and  
12 intersect.

13 The key thing, as I say, is that all of  
14 these concepts that we talk about -- IVTS, trade-  
15 based money laundering, things like that -- are  
16 all essentially law enforcement concepts.  
17 Criminals don't think about -- you know, I have  
18 yet to find the criminal who says, I think I'll  
19 use trade-based money laundering this time. What  
20 he's actually going to do, he says, oh, my mate's  
21 got a company so I'll put the money in the  
22 company. He can buy some goods with it and  
23 export them to Colombia and I'll sell them there  
24 and that's my money realized. It's trade-based  
25 money laundering but the criminal doesn't think  
26 of it like that.

27 Q Right. Has your work in the UK and  
28 internationally given you any insight into  
29 whether different jurisdictions see predominantly  
30 different methods of money laundering or whether  
31 there are similar methodologies employed across  
32 jurisdictions?

33 A It depends where you go, and it also depends on  
34 the structures in place in the location which  
35 you're looking at. So for example, in somewhere  
36 like Hong Kong, which is a trade and finance hub  
37 for the whole of the Far East, you're going to  
38 get people taking advantage of the fact that  
39 the -- you know, its been opened up for  
40 investment so it's very easy to gain access to  
41 corporate structures. It's very easy to open a  
42 personal bank account; not so easy to open a  
43 business bank account.

44 So the way in which money will be laundered  
45 in Hong Kong will be different to how it's  
46 laundered in -- well, in somewhere like Africa,  
47 where it might just be just sticking a whole load

1 of cash in the boot of a car and moving it from  
2 one place to another.

3 That said, most what you might describe as  
4 western jurisdictions -- so I'm talking about the  
5 UK, USA, Canada, Australia, Western Europe,  
6 things like that -- in my experience, see pretty  
7 much the same thing. Certainly, we do a lot of  
8 work -- I mean, I've already mentioned I've done  
9 a lot of work with Five Eyes partners, but I've  
10 also done quite a lot of work in Europe as well.  
11 And in general terms, what we see in the UK is  
12 mirrored by what we see in the USA and Canada and  
13 Western Europe and places like that.

14 Q Okay. And what you're seeing in those western  
15 countries you made reference to, are you seeing  
16 criminal organizations primarily laundering their  
17 own funds or are they making use of professional  
18 money launderers to do that for them?

19 A It depends -- to a large extent it depends on how  
20 much it is they're trying to launder. So if  
21 you've got an organization which is -- street  
22 dealing, if you like, dealing small amounts of  
23 drugs -- and in the UK we have what are known as  
24 county lines where there are people who are in  
25 relatively rural locations who are dealing small  
26 amounts of drugs to the local community, supplied  
27 by people from the larger conurbations, they tend  
28 to launder their own money because it's a  
29 question of, you know, I need to pay the supplier  
30 or I want to buy a new pair of trainers or a  
31 blingy watch or something like that. So they  
32 will tend to do it that way because the amounts  
33 of money that they're talking about might be in  
34 the few thousand pounds, maybe it's ten or  
35 fifteen thousand pounds, and you can do that  
36 relatively easily.

37 If you have successfully sold 20 kilos of  
38 cocaine and you're looking at something like  
39 600,000 pounds, 650,000, maybe even 700,000  
40 pounds in UK terms, that's a lot of money, and  
41 generally people turn to a specialist money  
42 laundering crime group in order to facilitate  
43 that for them.

44 Q Do you have a sense of whether the use of  
45 professional money launderers or groups dedicated  
46 to laundering the funds of others is on the rise?

47 A My feeling is it's largely static, I think,

1 because it has been something that we've been  
2 seeing for a long time, generally, in the law  
3 enforcement perspective. I mean, certainly as  
4 long as I've been looking at this, in the last 15  
5 years, all we've been bumping up against is  
6 professional money laundering organizations. And  
7 a lot of these groups that are operating have  
8 operated more or less untouched for long periods  
9 of time. You do get new ones emerging and some  
10 of them fall off the radar. But in general  
11 terms, I would say the picture is pretty static.  
12 I think it's something that's pretty much  
13 embedded in the way that money laundering works  
14 globally.

15 Q Thank you. I wonder if you could address the  
16 Commissioner on whether there are features that  
17 make a jurisdiction more or less attractive to  
18 money launderers or more or less vulnerable to  
19 money laundering activity.

20 A Yeah. I mean, there are a whole range of things.  
21 I mean, the first thing I would say is a lot of  
22 the things that make a jurisdiction a risk for  
23 money laundering are things that are shared by  
24 most western countries. So the UK and the USA,  
25 Canada, places like Germany and things like that,  
26 but also places like Hong Kong, the United Arab  
27 Emirates and places like that.

28 There are a variety of aspects of their  
29 economy that are shared which are there to  
30 attract inward investment and what have you, but  
31 attracts good money but also bad money. So the  
32 UK, for example, we're a trade and finance hub  
33 for western Europe, as is Germany, as are various  
34 other countries. We've got relatively simple  
35 access to corporate structures. We've got a  
36 highly developed banking system. You know, the  
37 rule of law is in place. So all of those things  
38 attract good money as well as bad. I mean, one  
39 of the issues that the UK faces is that we are  
40 host to an awful lot of money that has been  
41 generated by crime in other jurisdiction and ends  
42 up here.

43 So you know, we have people who are Eastern  
44 Europeans, for example, who might be involved in  
45 bribery and corruption and things like that, and  
46 they would like to come to the UK and live, thank  
47 you very much. They would like to buy a property

1 near Harrods or something like that. Because  
2 people just like it here.

3 Similarly, other jurisdictions, like the UAE  
4 for example -- it's probably worth touching on  
5 this actually. The UAE gets, in my view, a bit  
6 of an unfair depiction in some places. It's seen  
7 as like a hotbed of money laundering. But the  
8 truth is -- the first thing that's important to  
9 say is, in all of the work that I've done, I have  
10 never seen actually an Emirati citizen involved  
11 in money laundering. That's the first thing.

12 And the second thing is, is that the reason  
13 that the UAE is such a money laundering risk.  
14 Firstly, it's the fact that -- like the UK, like  
15 the USA, like Hong Kong -- it's the trade and  
16 finance hub for the Middle Eastern region. It's  
17 in close proximity to Iran and there's quite a  
18 bit -- there's quite a bit of shipping that goes  
19 backwards and forwards. In around about 1983,  
20 the then ruler of the UAE, Sheik Zayed Al Nahyan,  
21 decreed that the economy of the country should be  
22 opened up to foreign investment and what have you  
23 because he understood that basing your entire  
24 economy on expendable natural resources was not a  
25 good idea.

26 So the UAE went all out to try and attract  
27 foreign investment by opening up free zones and  
28 what have you and making it easy to live and open  
29 up a company and get bank accounts and various  
30 other things like that. It's got a very high  
31 expatriate population. Only about 12 percent of  
32 the population of the UAE are actually Emirati.  
33 Everybody else are sort of lower skilled migrant  
34 workers, and those are the type of people who  
35 tend to be unbanked, and so those are the type of  
36 people who tend to rely on the informal economy.  
37 So a big informal economy has emerged to suit the  
38 needs of those people, and it's that type of  
39 thing that gets abused.

40 And so generally, it's not really the UAE's  
41 fault it is where it is. It is just -- by  
42 opening up its economy to become a trade and  
43 finance hub and to make it a successful country  
44 that doesn't just rely on its natural resources,  
45 it attracts bad money as well as good. And  
46 essentially it's all of those things. If you  
47 were to look at any jurisdiction and tick off all

1 of those things: Have they got lots of MSBs,  
2 migrant workers -- unbanked migrant workers? Is  
3 it a trade and finance hub? Is access to  
4 banking, corporate structures, easy? All of  
5 those things. That's what, in my experience,  
6 makes a country vulnerable to money laundering.

7 Q Having spent some time working in Canada, and  
8 British Columbia specifically, I wonder if you  
9 can offer any comment on whether there are  
10 features of the Canadian or even British Columbia  
11 landscape that would make it more or less  
12 vulnerable to money laundering.

13 A I mean, generally Canada is pretty well run. You  
14 know, you look back at -- I mean, Canada was  
15 inspected by FATF in 2016 and didn't come out of  
16 the MER too badly. There were some areas in  
17 which Canada was criticized in terms of legal  
18 arrangements and beneficial ownership and things  
19 like that. But, generally, Canada is pretty well  
20 run. So you've got a developed financial system.  
21 You've got a lot of trade links all round the  
22 world. You can get access to corporate  
23 structures quite easily. And you also have --  
24 certainly in British Columbia I know there's a  
25 large Chinese population, and unfortunately,  
26 you're going to be vulnerable to the abuse of the  
27 type of informal value transfer systems that are  
28 used by people in that sort of community.

29 Now, I'm not in any way suggesting that the  
30 Chinese community are all criminals or anything  
31 like that. It's just that within certain  
32 populations, you tend to find that there are  
33 different types of IVTS. In the UK, for example,  
34 we see it quite a lot with Iraqi Kurds. We've  
35 got a lot of people from places like Pakistan and  
36 India and things like that, who tend to rely on a  
37 particular type of IVTS to move money for  
38 entirely legitimate reasons a lot of the time.  
39 But those systems can tend to be abused.

40 So Canada -- but I wouldn't say Canada is  
41 any more or less vulnerable to money laundering  
42 than -- and certainly British Columbia -- than  
43 any other large western country really.

44 Q Okay. You used the term IVTS. That's informal  
45 value transfer system?

46 A Yes.

47 Q Okay. One of the things you said when you were

1 talking about features that make a jurisdiction  
2 attractive to money launderers or vulnerable to  
3 money laundering was the rule of law. And that  
4 maybe seems a little counterintuitive. I wonder  
5 if you could address that.

6 A Yeah. When I said the rule of law, what I'm  
7 talking about is the effectiveness of your  
8 regulatory regime. So one of the issues that  
9 some countries that have opened up their economy  
10 to investment face is that the -- you've got to  
11 be very careful if you're going to do that, that  
12 your desire to open up the country and to attract  
13 inward investment and everything that brings with  
14 it doesn't outstrip your ability to regulate it  
15 effectively. And one of the most important  
16 things is your ability to be able to understand  
17 how -- not just how the regulation -- you know,  
18 the normal banking system would work, but also  
19 how informal structures work as well. And you  
20 have to be able to understand and make, sort of,  
21 informed choices about the extent to which you're  
22 going to bring -- you're going to try and  
23 regulate that informal economy.

24 The informal economy generally is important  
25 to an awful lot of groups, and in places like  
26 Syria or in Afghanistan and Somalia, it's  
27 generally the only way in which you can get money  
28 into the country. And you're going to have  
29 people within your country that are going to want  
30 to use those mechanisms to move money for  
31 entirely legitimate purposes into those  
32 countries.

33 So what you need to be able to do is make an  
34 informed judgment as to whether you need to put  
35 extra measures in place to regulate those systems  
36 to ensure that they don't become abused. So when  
37 I talk about the rule of law, that's essentially  
38 what I mean.

39 Q Okay. Thank you. One of the things I expect  
40 we'll hear is that because money laundering  
41 operations are designed to be secret and the  
42 techniques employed are designed, by their  
43 nature, to go unseen and obscure the source of  
44 funds, it's a crime that is particularly  
45 difficult to investigate or has been challenging  
46 for some law enforcement bodies. I wonder if you  
47 can address the difficulties that are associated

1 with investigating it and the extent to which you  
2 think it is challenging.

3 A Yeah. I mean, it's difficult -- I mean, from my  
4 perspective, I don't think it's challenging at  
5 all, but that's because I've -- you know, I've  
6 been living this for the last 15 years. I think  
7 people think it's more complicated than it is. I  
8 mean, money laundering, like I've said, is  
9 essentially hiding the origin of criminal funds.  
10 So you don't -- it isn't that complicated to be  
11 able to do that.

12 A lot depends on the extent to which you  
13 actually understand what your legislation says.  
14 So as I've mentioned, in the UK, once you've got  
15 over the definition of criminal property, any  
16 type of property which represents any person's  
17 benefit from criminal conduct -- so that's  
18 absolutely anything which has come from crime --  
19 pretty much anything that you do with it is money  
20 laundering. And part of the trick is to enable  
21 the people who have to investigate these things  
22 to understand what it is they're trying to  
23 investigate and what it is they're trying to  
24 prove.

25 I mean, the law in Canada is pretty similar  
26 to the law in the UK. And once you explain to  
27 someone -- well, number one, you've got to prove  
28 it's criminal property, and there are various  
29 ways in which you can do that. Number two,  
30 what's he done with it? Well, he's driven it  
31 across a border or hidden it under his bed or put  
32 it into a bank account. Well, that's money  
33 laundering.

34 And so you don't need to over-complicate  
35 things by making it difficult. I think there is  
36 generally a perception that money laundering is a  
37 difficult thing to grasp. I personally don't  
38 think it is. And one of my roles, both within  
39 the Expert Laundering Evidence Cadre but also in  
40 the National Assessment Centre is to demystify  
41 these things and to help people understand what  
42 money laundering actually is and what they have  
43 to go back and prove it.

44 And to a large extent, that's the reason  
45 that in the UK we've got the Expert Laundering  
46 Evidence Cadre, because we -- and certainly  
47 before around about 2010, there was a situation

1 where people would try and present a complex  
2 money laundering case in a court, but the  
3 prosecutors didn't understand it, the judge  
4 didn't understand it. To some extent the  
5 investigators didn't either. And so how was the  
6 jury going to understand it? And so we realized  
7 that there was a necessity for people to be able  
8 to explain things in nice, clear and simple terms  
9 to the jury so that they will be able to  
10 understand it and make the decisions that were  
11 appropriate to the evidence that was being  
12 presented.

13 Q Okay. Thank you. I'm going to ask you a little  
14 bit about the United Kingdom's law enforcement  
15 approach to combating money laundering. And I'd  
16 like to start by having you describe for the  
17 Commissioner the National Crime Agency and the  
18 National Economic Crime Centre that's embedded  
19 within that.

20 A Yeah. So the National Crime Agency, like I've  
21 already said, is the UK's federal policing  
22 agency, and it's got a multiplicity of functions.  
23 And one of the things that was different about  
24 the National Crime Agency which, when it was  
25 formed out of what was the Serious Organized  
26 Crime Agency, was it had a greater focus on  
27 economic crime. So people realized that --  
28 economic crime was investigated in the Serious  
29 Organized Crime Agency but it didn't really have  
30 a home per se. But when the National Crime  
31 Agency was set up, there were various commands  
32 underneath the overall structure, and one of  
33 those was the Economic Crime Command. And that  
34 was set up, as the name suggests, to deal with  
35 all types of economic crime, so fraud against the  
36 private sector, money laundering, and also things  
37 like counterfeit currency and what have you.

38 And as that went forward, the decision was  
39 made sort of around about sort of 2017 or  
40 thereabouts, that there needed to be like a  
41 separate agency or a separate body within the  
42 National Crime Agency, whose role it would be to  
43 sort of drive the UK's response to economic crime  
44 and money laundering in a more, sort of, coherent  
45 way. And that was the reason why the National  
46 Economic Crime Centre was set up. So it's  
47 operationally independent, but it's housed within



1 the NCA. This is the National Economic Crime  
2 Centre. And it consists of staff from seven  
3 different agencies. So as well as the NCA,  
4 you've got the Serious Fraud Office; the  
5 Financial Conduct Authority, the body that  
6 regulates banks and what have you for prudential  
7 purposes; City of London Police, which is one of  
8 the forces that has the primary responsibility  
9 for fraud in the UK; HM Revenue and Customs, who  
10 as well as having a sort of national law  
11 enforcement remit in terms of tax crime and the  
12 money laundering that comes out of it, is also  
13 the regulator for a large part of the financial  
14 sector, in particular money service businesses.  
15 There's the Crown Prosecution Service, who are  
16 the UK's prosecutor; and the Home Office, who  
17 essentially own the policy of what the NCA does.

18 And essentially -- so the NECC has got three  
19 main priorities, and that's serious money  
20 laundering, private sector fraud, and asset  
21 denial. It does other things as well but those  
22 are the three main priorities.

23 And essentially, what it has to do is -- the  
24 role of the NECC is to understand the threat  
25 initially, and to a large extent that's where I  
26 come in because the understanding that comes out  
27 of the National Assessment Centre helps the NECC  
28 to understand the threat. Then, once you  
29 understand the threat, then you can define the  
30 priorities that you have in terms of tackling the  
31 threat and also what partnerships you have  
32 available to you which might help you work on  
33 your priorities.

34 Then you can task and coordinate the  
35 response, so, you know, getting other agencies on  
36 board, working in partnership with different  
37 people in order to address the issue. And then  
38 you have to essentially drive the delivery and  
39 assess the impact of what it is you've done.

40 And there are various other -- so that's the  
41 overall aim, and there are various bodies that  
42 sit within the NECC, which include the Drug Money  
43 Laundering Intelligence Task Force, which is the  
44 UK's public-private partnership, so the body  
45 through which we share information with the  
46 financial sector.

47 There's the UK Financial Intelligence Unit.

1 So that's the UK's FIU as you would say,  
2 operationally independent but sits within the  
3 NECC. The Expert Laundering Evidence Cadre,  
4 which I'm a part of. That sits within it as  
5 well.

6 And there are various teams that deal with  
7 things like fraud, money laundering, bribery and  
8 corruption, asset denial, the Gulf strategy that  
9 we talked about, and coordination and planning.  
10 And essentially that's what it does. There are  
11 approximately -- it's difficult to say how many  
12 people work there because there are continually  
13 people being seconded in and seconded out from  
14 various bodies and what have you, but it's in  
15 three figures, the number of people that deal  
16 with it. So as I say, essentially it doesn't  
17 have any operational staff itself, so it doesn't  
18 actually have people that go out and arrest  
19 people. The operational response is coordinated  
20 by NECC, but the actual going out and arresting  
21 people bit is done by staff within the police and  
22 within the NCA and what have you, just general  
23 law enforcement officers.

24 Q Okay. You said you're in three figures in the  
25 NECC. Do you have a sense of roughly the number  
26 of positions that are assigned to the NECC and  
27 also the NCA?

28 A Well, the NCA in total has got about four and a  
29 half thousand staff. That's going up to 6,000 in  
30 the not too distant -- there's just been embarked  
31 on quite a serious recruitment campaign, and the  
32 aim is in the next 12 to 18 months to get the NCA  
33 up to, as I say, 6,000.

34 In terms of the NECC, as I say, I can't  
35 really put a figure on it. I have actually asked  
36 but I haven't got a response back yet from anyone  
37 telling me what the actual figure is. But as I  
38 say, it's in the hundreds.

39 Q Okay.

40 A But as I say, that includes things like the UK  
41 Financial Intelligence Unit, which has got lots  
42 of staff within it itself, and what have you.

43 Q And within the NECC, is it primarily police  
44 officers or are there also other professionals  
45 such as accountants or analysts who are embedded  
46 in that organization?

47 A So in terms of the -- so the analysis is done

1 primarily by the National Assessment Centre. So  
2 as I say, that's where I sit, and that's the  
3 function of the NCA, whose job it is to  
4 understand and to sort of communicate the threat.  
5 And so that's where the analytical function for  
6 financial crime sits. So I'm one of the people  
7 who does that.

8 We don't have any accountants, but we do  
9 have specialists in fraud, and I mentioned the  
10 Serious Fraud Office is part of the response. So  
11 you have people within the Serious Fraud Office  
12 who are -- the SFO has their own accountants and  
13 people like that. So we do have specialists in  
14 various different types of things.

15 It's also worth, I think, touching on the  
16 capabilities of the JIMLIT, the Joint Money  
17 Laundering Intelligence Task Force, because -- I  
18 don't know whether you were going to come on and  
19 talk about that a little bit later on, but I can  
20 cover it now if you think it would be useful.

21 Q No, I was, but now would be convenient.

22 A Yeah, okay. So the Joint Money Laundering  
23 Intelligence Task Force was set up in response to  
24 government coming to the NCA and -- I think it  
25 was the Bank of England at the time -- saying  
26 it's about time you lot started talking to each  
27 other properly and sharing information about the  
28 threat. It was piloted for a 12-month period in  
29 2015, and I think it's probably fair to say that  
30 it took a huge amount of good will on all sides  
31 to make the pilot work.

32 One of the key things that the JIMLIT does  
33 is it enables the sharing of operational  
34 intelligence between law enforcement and the  
35 private sector. Now, the piece of legislation  
36 that created the National Crime Agency, which is  
37 the *Crime and Courts Act 2013*, contains within it  
38 a very wide gateway, information-sharing gateway  
39 effectively, s. 7 of the *Crime and Courts Act*  
40 *2013*, and that's available on the Internet if  
41 people want to look it up. It's on  
42 [legislation.gov.uk](http://legislation.gov.uk).

43 So the *Crime and Courts Act 2013*, s. 7.

44 That is a gateway that essentially says anybody  
45 is allowed to share information with the NCA if  
46 it would help in the execution of its functions.  
47 And what it also says is having received

1 information, the NCA can share it with whoever it  
2 thinks it is appropriate to share it with, also  
3 in the execution of its functions.

4 And when the JIMLIT was trialled, there was  
5 a lot of discussion about whether that gateway  
6 was sufficient to give law -- not just law  
7 enforcement, but also financial institutions, the  
8 legal basis on which they could share stuff with  
9 us and not get sued by their customers  
10 essentially. And a lot of the work that went  
11 into setting up the pilot of the JIMLIT in 2015  
12 was around about that. But there had to be a --  
13 there had to be a willingness to share, if you  
14 like, almost like a dare-to-share attitude  
15 amongst everybody. And like I say, it took an  
16 awful lot of good will for that to happen. But  
17 the pilot was successful, and in 2016 it became  
18 business as usual within law enforcement in the  
19 UK.

20 And I think it's fair to say that, from my  
21 perspective, it's probably one of the biggest  
22 shifts in law enforcement capability that I've  
23 seen in the last 30 years, bearing in mind that  
24 I've been a law enforcement officer all of this  
25 time. The ability to routinely share operational  
26 information on cases that have not yet come to  
27 court, that might still be in the covert  
28 operation phase with financial institutions, and  
29 for them to keep your information secure and to  
30 go off and then search their systems and come  
31 back and give you information about your subjects  
32 and give you information you might not already  
33 have known, is a real step change, is a real game  
34 changer as far as it's concerned.

35 And it works on both sides. Not only does  
36 it provide a much better response from law  
37 enforcement, but it also means that the financial  
38 sector is privy to an awful lot of information on  
39 current money laundering typologies that they  
40 wouldn't ordinarily have access to. And what  
41 that does is it works in everybody's favour  
42 because it means that they can, you know, build  
43 that into their risk management methods and also  
44 make decisions as to how they're going to tackle  
45 the threat.

46 And the third thing that it does, most  
47 significantly, is if you are looking at a

1 particular type of money laundering or a  
2 particular set of situations, it gives you more  
3 options on how you can tackle it. So you can now  
4 pursue, maybe, a hybrid approach with the  
5 financial institution concerned.

6 So essentially that's what it does. There  
7 are about 40 financial institutions that  
8 contribute to it, so most of the major banks in  
9 the UK but also people like Western Union,  
10 MoneyGram and the post office in the UK, and also  
11 law enforcement agencies, so the NCA, City of  
12 London Police, the Metropolitan Police, HMRC,  
13 Serious Fraud Office. So there's an operational  
14 response but there are also working groups  
15 underneath it as well. So there are expert  
16 working groups in order to build the  
17 understanding of different typologies, like  
18 trade-based money laundering, international  
19 bribery and corruption, organized immigration  
20 crime, terrorism finance and things like that.

21 And the most recent development is that we  
22 are now expanding it out into the insurance and  
23 accountancy sectors as well. So it's -- like I  
24 say, it's probably one of the most significant  
25 things that's happened in the law enforcement  
26 space, in my view, in the last 30 years.

27 Q Okay. You talked about public-private  
28 partnerships and the ability to share  
29 information, and the examples you gave were  
30 financial institutions. Are there other private  
31 sectors that the JIMLIT shares information with  
32 or brings into its process?

33 A Well, like I say, there's -- it's being built  
34 into the insurance and accountancy sector now. I  
35 mean, the most -- one of the most significant  
36 things about it is now is that it is -- it's  
37 embedded into the law enforcement landscape, the  
38 concept of actually sharing information with the  
39 private sector much more. So the sort of things  
40 that I've been doing as a -- you know, in my role  
41 as an expert witness and things like that and  
42 talking about various different money laundering  
43 threats -- you probably would not have done 10 or  
44 15 years ago. So you know, going out and giving  
45 a talk on the current money laundering typologies  
46 to the Institute of Money Laundering Prevention  
47 Officers, for example, or to the Law Society or

1 things like that, you know, to lawyers and people  
2 like that, sharing that information routinely,  
3 and essentially trusting each other that you're  
4 not going to do anything inappropriate with the  
5 information that you're being given. It's  
6 embedded the whole idea of public-private  
7 partnerships into the law enforcement space,  
8 which is a hugely positive development.

9 Q The agencies that are members of the NECC, do  
10 they have access to and can they search  
11 information gathered by the Financial  
12 Intelligence Unit?

13 A Yeah. I mean, the FIU is part of the -- it's  
14 part of the NECC anyway. If you're involved in  
15 financial crime, in the response to financial  
16 crime in some way, shape or form, generally you  
17 will be given access to the SARs database. So  
18 the FIU does lots of various different things,  
19 it's got an outreach team and what have you. But  
20 one of its principal roles is the receipt,  
21 analysis and dissemination of suspicious activity  
22 reports. As a matter of routine, all of those  
23 reports are entered onto a database called Money  
24 Web, and generally, if you're a financial  
25 investigator in the UK, whether you're in the  
26 NECC or whether you're in a police force or  
27 anything like that, if your role and  
28 responsibility involves financial crime, you have  
29 access to that database.

30 Now obviously, that's for intelligence  
31 purposes only. And if you want to get the  
32 information in a form in which it can be used in  
33 court, then you have to go through the process of  
34 obtaining a court order to be able to do that.  
35 But in general terms, yeah, most people have  
36 access who need it to the FIU's information.  
37 There's a whole project ongoing at the moment in  
38 terms of how we develop SARs and how we use them  
39 and all the rest of it. There's a whole --  
40 there's a step change in process in terms of how  
41 we're dealing with that information at the  
42 moment.

43 Q Okay. The National Crime Agency and the NECC,  
44 are they focused solely on criminal investigation  
45 and prosecution, or do they also delve into or  
46 coordinate with civil asset recovery?

47 A No, we do -- we do -- essentially with the -- the

1 NCA -- in the UK it's referred as the four-Ps  
2 approach. So what you're talking about -- and  
3 the four Ps are pursue, protect, prevent, and  
4 prepare.

5 So pursue is defined as the traditional  
6 going out and locking people up, so arresting  
7 people and put them in prison, what have you,  
8 like that. But also we're expected to go along  
9 the lines of protecting as well, so it's sharing  
10 information with businesses and private sector in  
11 order that they can build systems and what have  
12 you to protect themselves from the threat of  
13 criminality.

14 Prevention. There's preventing. We try and  
15 get involved in the way -- in stopping people  
16 being involved in criminality in the first place.  
17 And also there's a prepare function, which is  
18 essentially getting people in the situation where  
19 they know what to do if they are in some way  
20 affected by organized crime.

21 So it isn't just a sort of going out and  
22 knocking people's front doors off and arresting  
23 them and putting them in prison. The NCA has a  
24 much wider remit than that. And as part of that,  
25 we have a wide range of civil powers as well as  
26 criminal powers which we can call upon in order  
27 to execute our functions.

28 So for example, generally if you're in the  
29 process of trying to prosecute somebody for money  
30 laundering and you can't make it work, what you  
31 can do is refer that case to our Civil Recovery  
32 and Tax Branch. And what they can do is use  
33 their civil recovery powers to go after assets  
34 that are derived from the proceeds of crime but  
35 which you can't get at by traditional law  
36 enforcement techniques.

37 So they can actually sort of -- actually go  
38 after the asset itself. But in a situation where  
39 they can't actually get at the asset, they have  
40 tax raising power. So if you can prove that  
41 someone's got a lot of income that they can't  
42 account for, they can tax it and things like  
43 that. So yeah, there's a whole range of things.  
44 And civil powers are something that financial  
45 investigators use routinely.

46 So we use civil powers to conduct detain  
47 cash investigations where we essentially look at

1 the cash wads and then the individual. We use  
2 civil powers to go after the content of bank  
3 accounts. We have new power which enables us to  
4 forfeit money in bank accounts.

5 And the law was changed in the UK back in  
6 2017 to bring in a raft of new powers, one of the  
7 most impactful of which at the moment -- and  
8 we're just using it for the first time now -- is  
9 something called unexplained wealth orders, where  
10 we say to someone, in effect, you've got a huge  
11 amount of money and you can't explain it, so tell  
12 us where you got it from. And if we don't  
13 believe you, we're going to take your money off  
14 you. That's a very simplistic way of looking at  
15 it, but it's compelling people -- it's putting  
16 the onus on the individual to explain that their  
17 money was from a legitimate source rather than us  
18 trying, having to prove it the other way round.  
19 And we've got --

20 Q I wonder if you could just--

21 A -- there's a high profile case going through the  
22 courts in the UK at the moment in respect of  
23 that.

24 Q I wonder if you could just spend a minute talking  
25 about -- explaining to the Commissioner what  
26 unexplained wealth orders are and what the  
27 rationale for introducing them in the United  
28 Kingdom was.

29 A Yeah. So it's essentially that. So the  
30 rationale was there was generally a recognition  
31 that there were an awful lot of people in the  
32 United Kingdom who had huge amounts of money that  
33 didn't seem to have any sort of explicable -- any  
34 sort of legitimate way of explaining where it had  
35 all come from. So one of the -- I mean, as an  
36 example of that, the case -- it's quite high  
37 profile and it's all over the Internet, so this  
38 isn't in any way sensitive.

39 There is a lady who is the wife of someone  
40 who is from an Eastern European country, who is  
41 currently in prison for an absolutely colossal  
42 bank fraud. And essentially his wife, who has  
43 got no means of -- or no serious form of  
44 wealth -- serious form of income in the UK has  
45 bought a golf course and has got a six million  
46 house -- probably even more than that. It might  
47 be more than 10 million -- house near Harrod's.



1 She spent half a million quid in Harrod's. She  
2 had access to a Learjet and all sorts of things  
3 like that. And she doesn't appear to be able to  
4 explain where she's got all this money and all  
5 these assets from.

6 And essentially the purpose of the  
7 unexplained wealth order is to say to those  
8 people, we need you, now -- the process is you  
9 have to explain to us where you've got those  
10 assets from, and if you can't, then we will go  
11 through the process of recovering them.

12 Q And is there any need to identify or prove a  
13 predicate offence?

14 A No. I mean, because it's done to the simple  
15 standard of proof. You just have to do it so  
16 that there is a balance of probabilities that the  
17 money came from some type of -- you know,  
18 essentially, if the person can't prove where they  
19 got it from to our satisfaction, then the money  
20 is taken away. I'm not an expert in the actual  
21 application per se of the order, but as I say,  
22 the information on the first one that was used in  
23 the UK is all over the Internet at the moment.  
24 It was originally subject to reporting  
25 restrictions but those were lifted not that long  
26 ago. And the lady in question can be found on  
27 the Internet quite easily.

28 Q I gather the formation of the NECC, one of the  
29 goals in creating that body was to increase  
30 coordination and information sharing?

31 A Yeah, that's right. So like I said, the whole  
32 point is understanding the threat and then  
33 defining what the operational priorities are.  
34 And your operational priorities are going to  
35 include who your potential partners are in  
36 actually tackling the problem. So it's very much  
37 a collaborative approach in dealing with a  
38 particular issue.

39 So it might be that -- I mean, we'll talk  
40 about it later on, I'm sure. But there was a  
41 project called Project Princekin recently in the  
42 UK which was where Barclays Bank came to the NCA  
43 through the JIMLIT and said, we've identified an  
44 issue which is an abuse of one of the systems  
45 that we have in place, and we'd like to work with  
46 the NCA in order to tackle the issue. And we had  
47 an entirely collaborative response to that, not

1 just including the NCA but lots and lots of other  
2 law enforcement partners as well in terms of  
3 dealing with the threat. So very much a --  
4 rather than trying one -- one agency trying to  
5 arrest its way out of a problem, it's  
6 understanding that there are lots of people who  
7 can have different impacts on a situation by  
8 bringing their -- by the entity leveraging their  
9 powers, bringing everyone together.

10 Q And prior to the introduction of the NCA and the  
11 NECC, was there a perceived lack of coordination  
12 that was hampering law enforcement, or lack of  
13 information sharing?

14 A I don't know that it was -- I don't know that  
15 there was a perceived lack. I think -- it wasn't  
16 like there was a situation where lots of people  
17 were sitting round saying, oh my god, we really  
18 can't do this. There was always a desire to make  
19 the most of what you had and make the most of  
20 what everybody else had. And as I say, it was  
21 the government and -- I mean, the former Prime  
22 Minister, Theresa May, when she was the Home  
23 Secretary and the head of the Home Office, that  
24 the order came down on high that people need --  
25 the law enforcement and the financial sector  
26 needed to coordinate more in terms of tackling  
27 the threat, which is what led to the setting up  
28 of the JIMLIT.

29 Q Okay. And that coordination, I gather, has led  
30 to some successes. And maybe you can just share  
31 with the Commissioner one of those successes, the  
32 one you just referred to --

33 A Yes, Project Princekin. And this comes into the  
34 issue of Chinese underground banking, which I  
35 know we're going to talk about a little later.  
36 Barclays Bank identified a situation whereby  
37 individuals -- it all centred around automated  
38 service devices in Barclays branches. And what  
39 these are is like ATM-plusses, if you like. So  
40 as well as taking -- as well as withdrawing money  
41 in cash, it also enabled you to pay money into a  
42 bank account using these devices. And what  
43 Barclays identified was that there were  
44 individuals who were going into Barclays  
45 branches, who were Barclays customers -- so they  
46 held accounts with Barclays -- and they were  
47 accessing the machine with their Barclays debit

1 card or whatever you -- and then they were paying  
2 cash into back accounts but not their own. They  
3 were paying an awful lot cash into bank accounts,  
4 sometimes hundreds and hundreds of different bank  
5 accounts, which were not theirs. And some of  
6 these individuals deposited cash up to the value  
7 of around about three million pounds a time.

8 And Barclays had identified -- I can't  
9 remember what the final figure was, but it was up  
10 in the hundreds of these high net worth  
11 depositors who would put cash into a total of  
12 around about 20,000 different bank accounts. All  
13 of this was linked to Chinese underground  
14 banking. And as I say, we in the NCA had no idea  
15 this was going on, and it was Barclays' internal  
16 analysis that was able to identify this, and  
17 Barclays came to the NCA through the JIMLIT and  
18 said, we would like to work with you to tackle  
19 this issue.

20 And one of the ways in which we dealt with  
21 this was that in June last year, Barclays Bank  
22 identified to us around about 95 bank accounts  
23 which had got huge amounts of cash in them that  
24 had been deposited by people who were not the  
25 account holder, and was just sitting there, and  
26 enabled law enforcement agencies all the way  
27 across the UK simultaneously to apply for account  
28 freezing orders -- that's essentially a cash  
29 seizure on a bank account -- in order to recover  
30 the funds from those bank accounts which we  
31 believe were the proceeds of crime.

32 And as I say, that was a joined-up approach  
33 that would not have worked had we not had the  
34 public-private partnership arrangements in the  
35 UK.

36 Q Thank you. Throughout the Commission we're going  
37 to be hearing further evidence about the UK's  
38 approach to combatting money laundering. But I  
39 wonder if you might just address one theme that I  
40 expect we'll be hearing more about, and that is  
41 the significance of transparency, for example in  
42 property or corporate ownership, and the UK's  
43 approach to that.

44 A Yeah. So a while ago now -- I mean it's --  
45 essentially one of the main ways in which people  
46 launder money is through things like shell  
47 companies, through access to corporate

1 structures. And I've already mentioned that easy  
2 access to corporate structures is one of the  
3 things that make a jurisdiction vulnerable to  
4 money laundering.

5 Now, it is a fact that in the UK you can buy  
6 a company for less than you can buy a cinema  
7 ticket essentially. Which is not ideal, but, you  
8 know, the idea is, is to make, you know, doing  
9 business easier in the UK.

10 There are lots and lots of company formation  
11 agents in the UK that buy lots of companies off  
12 the shelf and just store them for a while, and  
13 then someone will come along and say, I'd like to  
14 buy a company, and they'll say yeah, okay, 50  
15 quid, here you go, and will give them a company  
16 off the shelf and they can go off and do what  
17 they like with that company.

18 Now, there are some companies that will, for  
19 an enhanced fee, provide you with a company and a  
20 bank account. Now, once you've got that, then  
21 the world's your oyster, essentially, where  
22 you're free to money launder. So it's really  
23 really important to be able to understand who it  
24 is who's behind a corporate structure like that.  
25 Bear in mind that we're talking about limited  
26 companies, which are legal entities in their own  
27 right.

28 So it's really important that we have --  
29 that there is a transparency of beneficial  
30 ownership within any jurisdiction, not just the  
31 UK but anywhere else. And a few years ago now --  
32 it was actually under the David Cameron  
33 government, I think -- there was a drive to open  
34 up public access to the company register so that  
35 you could see, at least on the first level, who  
36 beneficial owners were of companies. And that is  
37 now the Companies House Service and you can  
38 search the Companies House -- the UK Companies  
39 House online. And you type in the name of a  
40 company and it will tell you who the directors  
41 and the beneficial owners and the shareholders  
42 are and will give you access to all the papers  
43 that are filed and all the rest of it.

44 Now, if you're really savvy as a criminal,  
45 what you'll do is you'll have the directors of  
46 your shell company, will just be another shell  
47 company in another jurisdiction. So there's a

1 limit to how far you can dig down into that.

2 One of the things that, in a bid to address  
3 that, is the UK is currently in arrangements with  
4 some of the Crown dependencies, some of the  
5 overseas jurisdictions, like the British Virgin  
6 Islands and Gibraltar and places like that, to  
7 get access to beneficial ownership information  
8 from them as well.

9 Now, that's an issue that's been -- that's  
10 come up against some problems. The point being  
11 that this is a really important thing for you to  
12 address. You know, ultimately you want to know  
13 who the person is who was in charge of the  
14 company when that 100,000 pounds went through  
15 that bank account. Because ultimately you can  
16 prosecute a company, but it's much easier to  
17 prosecute the person who actually was in control  
18 of a bank account at the time.

19 So that's essentially where you are with  
20 beneficial ownership. Any country really needs  
21 to -- and certainly if it wants to appease FATF,  
22 needs to be able to demonstrate that it has some  
23 sort of control over the beneficial ownership  
24 status of its corporate structures.

25 Q You talk about this corporate registry being  
26 searchable. Is it searchable by law enforcement  
27 or by anyone?

28 A By anyone. It's on the Internet. The company  
29 register in the UK, it's called  
30 companieshouse.gov.uk and it's searchable by  
31 anybody.

32 Q Okay. Does United Kingdom take a similar  
33 approach to the beneficial ownership of property?

34 A Less so the beneficial ownership of property.  
35 There is the -- all property in the UK is  
36 registered with a body called the Land Registry,  
37 and those documents are not open to the general  
38 public, but they are accessible by law  
39 enforcement. So you know, I can, for example,  
40 make an application to the Land Registry and get  
41 back, in intelligence form only initially, who  
42 owns what property and whether there are any  
43 encumbrances on it, so whether there's a mortgage  
44 or a loan or anything like that secured upon it.

45 Q One of the things I expect we'll be hearing  
46 evidence about is the significance of the  
47 involvement of lawyers in money laundering

- 1 transactions and some of the challenges that  
2 arise with investigating transactions when a  
3 lawyer or a lawyer's trust account had been used.  
4 I wonder if you could address that.
- 5 A Yeah. So lawyers are an important part of the  
6 system because they give you access to all sorts  
7 of things like that. So if you want to buy a  
8 property in the UK, I think it is theoretically  
9 possible for you to do your own conveyancing.  
10 But 99.9 percent of the property in the UK  
11 generally has to go through a lawyer. And so if  
12 you are able to obtain the services of a corrupt  
13 lawyer or a lawyer who is prepared to look the  
14 other way or not do its proper due diligence in  
15 respect of that, then it gives you access to a  
16 whole range of things, not just property but also  
17 lawyers who are involved in the formation of  
18 trusts and other sort of complex corporate  
19 vehicles and things like that. If a lawyer is  
20 willing to facilitate criminal activity, it's a  
21 big boon if you're a criminal yourself.
- 22 Q Yes. Now, lawyers in Canada presently don't  
23 report suspicious transactions to -- they are not  
24 required to.
- 25 A Yeah. And I saw that was part of the criticisms  
26 that FATF had in 2016.
- 27 Q Yes. Is that different in the United Kingdom?
- 28 A Yeah. Lawyers are part of the regulated sector.  
29 They have to report suspicious transactions. And  
30 there is a body called the Solicitors Regulation  
31 Authority, which is the anti-money laundering  
32 supervisor for lawyers. So yeah, they're part of  
33 the regulated sector. And just like a bank, just  
34 like an MSB, just like anybody else, they have to  
35 do all the due diligence, SARs, suspicious  
36 transaction reports and consent, all that sort of  
37 business.
- 38 Q Okay. I'd like to move on and address some  
39 questions about the Expert Evidence Cadre. I  
40 wonder if you might just start by explaining to  
41 the Commissioner what that is.
- 42 A Yeah. So the ELE Cadre -- I mentioned it a  
43 little bit earlier on. In around about, sort of,  
44 2008, 2010, when we started dealing more with  
45 some of the more complicated types of money  
46 laundering, there was a situation arose where  
47 cases were failing because people didn't

1 understand them essentially. The people who were  
2 presenting the case in court, so the  
3 investigators and sometimes the prosecutors  
4 themselves, didn't understand it. The judge  
5 didn't necessarily have much experience in  
6 dealing with this type of activity. And when  
7 you're in that type of situation, the jury aren't  
8 going to get it either.

9 So the NCA already had at this point in time  
10 an expert cadre in respect of drug trafficking.  
11 So people who could go into court and to explain  
12 the sort of evidence that you typically got in a  
13 drug trafficking investigation -- so things like  
14 ledgers and drug prices and cutting agents and  
15 various different things like that. And so it  
16 was deemed -- it was thought a sensible idea to  
17 see whether we could end up with a bunch of  
18 individuals, a cadre of individuals who were  
19 subject matter experts in their own right, who  
20 could demystify money laundering to a jury to  
21 enable them to understand the evidence properly  
22 and to make the appropriate decisions based on  
23 the evidence in front of them. And that's what  
24 the ELE Cadre did.

25 So it was set up -- the first course that  
26 was run -- there's a two-week training course  
27 essentially, and the first course was run in  
28 March 2010, and there were about half a dozen  
29 people trained in respect of that. Not everybody  
30 ended up giving evidence, but a few people did.

31 It was realized by around about sort of late  
32 2012 that the demand for the service of these  
33 individuals -- I've always said about being a  
34 money laundering expert witness, it's a little  
35 bit like being a good plumber. You know, once  
36 you've helped a court to understand the evidence  
37 in a particular case, you tend to get jobs by  
38 recommendation, so people will come up to you and  
39 say, well, you provided really good evidence in  
40 that case, can you assist me on this, and what  
41 have you.

42 And it got to the point where there weren't  
43 enough experts to go around, if you like. So in  
44 March 2013, there was a second Expert Laundering  
45 Evidence course which was run, and me and my  
46 colleague, Brian Ludlow, who is the coordinator  
47 of the ELE Cadre -- so he's the one who's in

1 charge of its day-to-day running -- we were both  
2 on that course. And so we started off just by  
3 being experts and giving expert -- and I'll come  
4 on to what an expert does in a bit. And  
5 essentially since then there have been a number  
6 of additional courses. My colleague, Brian, took  
7 over the running of the cadre in 2015. And  
8 between 2016 and 2019 -- we haven't run a course  
9 this year, but later in the year possibly --  
10 Brian and myself, we essentially redesigned the  
11 Expert Laundering Evidence course completely.  
12 And Brian and myself are now that people who  
13 actually train the individuals and we mentor them  
14 and we oversee the running of the cadre and what  
15 have you.

16 The cadre has got -- so Brian is full time  
17 in charge of the -- he's the coordinator and he's  
18 in full-time charge. I work essentially part  
19 time, so I've already said that my role is in the  
20 National Assessment Centre. But in addition to  
21 that I'm also the deputy coordinator of the ELE  
22 Cadre. And then we've got two support staff as  
23 well. And as a result of all the training we've  
24 done, we have now got 34, I think it is, expert  
25 witnesses, including myself and Brian, from 13  
26 different law enforcement agencies, who are able  
27 to provide expert evidence on complex money  
28 laundering cases.

29 In addition to the experts we have from the  
30 13 UK law enforcement agencies, we have also  
31 trained people from overseas. So we -- the  
32 people who have been on the course and have  
33 subsequently become accredited as experts are  
34 from the National Police in the Netherlands, RCMP  
35 -- every course that we've done since 2016 has  
36 had at least two RCMP officers on it, sometimes  
37 three -- the FBI, Homeland Security, the DEA, New  
38 Zealand Police, Australian Federal Police. The  
39 Australian Federal Police have their own Expert  
40 Laundering Evidence Cadre, but all of their  
41 experts were trained by us, so they've all been  
42 on our course. And we've also trained two  
43 officers from An Garda Síochána, who are the  
44 police force of Northern -- of the Irish  
45 Republic.

46 So that's essentially what it is. It's made  
47 up of law enforcement individuals from across the



1 law enforcement spectrum. And we provide a range  
2 of different services to law enforcement. The  
3 first and the most important is that we act as  
4 independent and impartial experts on money  
5 laundering cases. And the independence and the  
6 impartiality is the most crucial thing about  
7 this.

8 And this would be the case on E-Pirate, for  
9 example. So to give you my perspective on that.  
10 So on E-Pirate, I had no prior knowledge of the  
11 investigation whatsoever. We were approached by  
12 the RCMP as to whether we could provide an expert  
13 to put some context around the money laundering  
14 typologies that were in place on that particular  
15 case.

16 Because I'd had no prior involvement in the  
17 investigation, I was totally sort of divorced  
18 from it and all the rest of it. My role was to  
19 look at the evidence and to assess the extent to  
20 which the evidence was consistent with my  
21 understanding of certain money laundering  
22 typologies. And that's what I did.

23 So I was provided with a report by RCMP  
24 which summarized the evidence essentially, and a  
25 hard drive with all of the evidence on it, so  
26 things like interviews of suspects, surveillance  
27 logs, interviews of witnesses, CCTV, witness  
28 statements, results of checks and what have you.  
29 And my role was to look at all of that and say,  
30 do I think there's money laundering going on here  
31 and what type of typologies do I think are in  
32 action? And essentially what I'm going is I'm  
33 giving an opinion. I'm in no way saying to a  
34 jury, this is definitely money laundering. This  
35 person, I think, is guilty and therefore you  
36 should convict him.

37 What I'm saying is, this is my understanding  
38 of how money laundering typologies work, and I  
39 know that because I've got an extensive CV and  
40 I've been looking at money laundering for the  
41 last 15 years, so I know what I'm talking about.  
42 So the typologies work like that. And in this  
43 case, in my opinion, the evidence is consistent  
44 with that typology.

45 The extent to which the jury place weight on  
46 my testimony is entirely up to them and down to  
47 the directions of the judge.

1           What I don't do at any stage is suggest to  
2 anyone that someone is guilty of money  
3 laundering. And what I don't do, and I have not  
4 done at any stage in my career, is direct an  
5 investigation in a particular way, because that  
6 would no longer render me impartial.

7           The important thing to say about the ELE  
8 Cadre is that it is our role to demystify money  
9 laundering to a court. And that means that we  
10 are more than willing, and have done in the past,  
11 to provide services to the defence as well as to  
12 the prosecution. I personally have never done  
13 that, but the ELE Cadre has done that.

14           It's also important for us to take --  
15 everybody who's in the cadre is a law enforcement  
16 officer. And the reason that that is, is that if  
17 you want to understand what money laundering and  
18 what the evidence is supporting money laundering,  
19 then -- you can be an academic, but it's  
20 enormously helpful to actually know what it looks  
21 like from the coalface, if you like.

22           When we are presenting our evidence in a  
23 case, we have to take the investigator's hat off  
24 and just look at things objectively from the  
25 point of view of, like I've explained, this is  
26 how the typology works and the extent to which  
27 that is consistent. And that means that there  
28 will be situations -- and I've personally been in  
29 a situation -- where someone will come to you  
30 with a case and say, I'd like you to be the  
31 expert witness in respect of this. Can you look  
32 at this case? And I look it and say, actually I  
33 don't think that is money laundering. I'm  
34 terribly sorry. And so I can't assist you.

35           And an example of that is Brian and I were  
36 approached by someone from one of the police  
37 forces in the UK and they came to us with a huge  
38 amount of analysis they'd done on bank accounts  
39 in respect of these particular individuals, and  
40 it was clear from the bank account that they were  
41 running an informal value transfer system. And  
42 it was their case that because it was an informal  
43 value transfer system, it was therefore money  
44 laundering. And we had to explain, I'm totally  
45 sorry, but it's an informal value transfer system  
46 all right, but that does in any way, shape or  
47 form necessarily mean it's money laundering. And

1 some of the things that we would look for to see  
2 whether there was abuse of the IVTS system for  
3 money laundering are not there in your particular  
4 case. So we can't help you. I'm sorry.  
5 Actually, I don't think you've got a case.

6 And that's the important thing, is that we  
7 have to be independent and impartial.

8 Q Right.

9 A That's in respect of giving evidence in a case.  
10 What we can also do is, if we are approached by a  
11 law enforcement body, and they might say to us,  
12 okay, well, we're doing a drug trafficking  
13 investigation and maybe a money laundering  
14 investigation, and there's a guy in this  
15 investigation who's one of our suspects and he  
16 runs an MSB, money service business. We haven't  
17 got a clue what we need to ask this guy because  
18 we don't understand how MSBs work.

19 And in a situation like that, what one of us  
20 might do is say, okay, we will provide advice to  
21 your investigation, and it might be the situation  
22 that we will help -- we will sit down with you  
23 and help to plan in interview strategy for the  
24 MSB owner when he's arrested and what have you.

25 In a situation like that, if I was to do  
26 that, I would not be the expert witness in the  
27 case because I've provided investigative advice  
28 and assistance, and in some way I've directed the  
29 case. If subsequently they decide they would  
30 like an expert witness to explain stuff to the  
31 court, I would then have to be kept separate from  
32 the guy who was actually brought in to do the  
33 evidence, because he would have to remain  
34 impartial and basically wouldn't be able to see  
35 the assistance I've provided.

36 So that's that. So there's the expert  
37 evidence. There's the case advice. And then  
38 generally there is the training side of things.  
39 Because we understand how money laundering works,  
40 as well as training new expert witnesses, we also  
41 do quite a lot of training of other people to  
42 help them to understand money laundering a little  
43 bit better. And we do a huge range of that. And  
44 we've done that in lots of different countries.  
45 I've trained in all sorts of places like Turkey  
46 and the UAE and various other places like that.  
47 And we engage with people like the UNODC and

1           Europol and various bodies, providing that sort  
2           of support. So there's a huge range of stuff  
3           that we do.

4        Q     Right. You talk about demystifying the topic of  
5           money laundering and simplifying it so  
6           investigators and judges and juries can  
7           understand it. How do you train the members of  
8           the cadre to simplify the topic?

9        A     The selection process involves -- it's quite a  
10           rigorous selection process. So the number one  
11           thing in the selection process is, are you an  
12           experienced court witness. Because that's the  
13           ground state of an expert witness. At some point  
14           you're going to be called to stand in a witness  
15           box in front of a jury and explain this to them.  
16           So the first thing is, they have to be an  
17           experienced court witness and they have to be  
18           experienced in giving evidence in front of a  
19           jury. So that's the first thing.

20           The second thing is, when we select people,  
21           we ask them -- we give them a topic essentially  
22           and say, go away and rehearse this topic, and  
23           then when you come and apply, part of the  
24           selection process is you have to explain that  
25           topic to us. And if they get it all about their  
26           ears and they really don't know what they're  
27           talking about and they're stuttering and falling  
28           over, they don't get through the process. It's  
29           as simple as that.

30           Part of the training course is -- so the  
31           first week of the training course is, you know --  
32           and what we don't -- there's a little bit of  
33           front-loading in respect of money laundering  
34           typologies and things like that, a little bit of  
35           that. A couple of days. But when they come to  
36           us, they're already expected to have the  
37           understanding and knowledge of money laundering  
38           on board. We don't take people who are fresh out  
39           of college because they wouldn't be able to --  
40           they're not experts essentially. You have to  
41           have the CV to start off with.

42           So one of the things that we do -- the first  
43           week is all about the law surrounding the use of  
44           expert evidence, so what you can say and what you  
45           can't say, you know, what the legal basis of what  
46           you're saying is and all that sort of stuff. The  
47           second week is we give everybody a big pile of

1 evidence in respect to a fictitious case. All  
2 the evidence is real but it's been pulled from  
3 lots of different cases. We put a fictitious  
4 case together and we say, right, go away and  
5 write a witness statement. So that's the first  
6 test, is they have to be able to write down in  
7 the form of a witness statement what their  
8 analysis of the evidence is. So first of all,  
9 they have to explain the typologies, and then  
10 they have to say, this is what the evidence is  
11 and this is how it's consistent with that  
12 typology in that witness statement. So it's a  
13 test of their written ability to get that point  
14 across.

15 And then, lucky chaps, what we do is we turn  
16 the training room into a courtroom, and we get  
17 two QCs in there and we subject them to half an  
18 hour of hostile cross-examination by two QCs in  
19 order to see the extent to which they are capable  
20 of standing up to cross-examination in the box  
21 and also getting their point across in a clear  
22 and cogent manner.

23 The course is now accredited under Skills  
24 for Justice, which is a UK procedure whereby  
25 there's a set of standards that you have to go  
26 through in order to do this. And so at the end  
27 of it the course is pass or fail now. It never  
28 used to be. From the 2019 course onwards, it is.  
29 It's a pass or fail thing. And you have to prove  
30 that you are competent in order to be let go.  
31 And then once you've done that, they are not then  
32 released straight out into the open. We then go  
33 through a process of continual professional  
34 development and mentoring and what have you, in  
35 order to ensure that by the time they actually  
36 get to the point where they're doing it for real,  
37 they know what they're talking about and they  
38 know what they're doing.

39 Q And I gather there's a peer review process  
40 embedded within this?

41 A There is, yeah. So a statement is allocated to  
42 an expert witness. The expert witness goes away  
43 and does all of the stuff that you would expect  
44 them to do. They look at all the evidence. They  
45 write the witness statement. They analyze the  
46 evidence and, as I say, express an opinion as to  
47 how it's consistent and all that sort of

1 business.

2 What we then insist on is at least three  
3 peer reviews from other members of the cadre and  
4 we have a roto by which people rotate on to and  
5 off to. So when a statement comes in, it is sent  
6 out to the other experts and essentially they  
7 pick holes in each other's evidence. You know,  
8 they say yes, that's a really good statement. I  
9 agree with you. A couple of typos here or there.  
10 Or I'm not sure you've quite got that point  
11 across you're trying to make. Or in extreme  
12 cases, I don't think actually you're right in  
13 your analysis there.

14 And then that then goes back to the  
15 individual to make any changes that they see fit,  
16 and there is then a final sign-off of the  
17 statement by either Brian or myself in which we  
18 make sure that it complies with all of the legal  
19 requirements of an expert statement and just to  
20 make sure nobody's missed anything in terms of  
21 what's in the statement.

22 So it's an extremely rigorous process, and  
23 basically you don't get an expert statement on  
24 your case unless it's gone through that process.  
25 Nobody is allowed to self-task. All the tasking  
26 comes in to the centre and we then allocate it to  
27 people. So no one self-tasks. And statements  
28 have to be peer-reviewed by us and signed off by  
29 us before they're used in court.

30 Q Okay. How many RCMP officers have you trained or  
31 have been through this program?

32 A Well, there's been at least two on every course  
33 we've run since 2016, so I would say probably  
34 around about nine, ten, something like that.  
35 Those are the ones that I've personally trained.

36 Q Okay. And do you know if any of those were from  
37 British Columbia?

38 A Yeah, [indiscernible]. I mean, I could mention  
39 names. But yeah, some of the people who work in  
40 Vancouver have been on that course.

41 Q Can you give me a sense of how many are from  
42 British Columbia?

43 A At least two or three.

44 Q Thank you.

45 MR. MCGOWAN: Mr. Commissioner, I'm about to move on  
46 to another topic. I wonder if this might be a  
47 convenient for a break.

Simon Lord (for the Commission)

Examination by Mr. McGowan, Counsel for the Commission

1 THE COMMISSIONER: Yes. Thank you, Mr. McGowan. We  
2 will take 15 minutes. And once again, I remind  
3 people to turn off both their microphones and  
4 their cameras during the break. Thank you.

5

6

(WITNESS STOOD DOWN)

7

8

MR. MCGOWAN: Thank you.

9

(PROCEEDINGS RECESSED)

10

(PROCEEDINGS RECONVENED)

11

12

13 THE REGISTRAR: Thank you for waiting. The hearing is  
14 now resumed. Please ensure you're muted unless  
15 you are speaking.

16

17 THE COMMISSIONER: Thank you, Madam Registrar. Yes,  
18 Mr. McGowan.

17

18

MR. MCGOWAN: Thank you.

19

20

SIMON LORD, a witness,  
recalled.

21

22

23 EXAMINATION BY MR. MCGOWAN, continuing:

24

25 Q Mr. Lord, I understand part of your role with the  
26 National Crime Agency is to assess and gain an  
27 understanding of the extent of the risk money  
28 laundering poses to the United Kingdom and beyond  
29 its borders, and I wonder if through that process  
30 you've come to gain an understanding of the  
31 damage that can be caused to communities if money  
32 laundering is committed in those communities.

33

34 A Yeah. I mean, it depends what you're referring  
35 to by communities really. I mean, the money  
36 laundering in general terms causes damage across  
37 the board in a jurisdiction. It can have quite  
38 far-reaching effects. If there is a general  
39 perception that your country is vulnerable to  
40 money laundering, it can make people less willing  
41 to do business there because they think they  
42 might, say unwittingly, become embroiled in it.  
43 In a situation like that, obviously then that  
44 acts as a block to inwards investments and to  
45 trade and things like that. It makes the  
46 borrowing of a country much more expensive. You  
47 know, they have to borrow at higher rates on the  
currency markets. That can have all sorts of

47

1 impacts in terms of the amount of money that's  
2 able to be spent on things like welfare and  
3 benefits and hospitals and public services within  
4 a country.

5 So money laundering in general terms is  
6 destructive to a country as a whole. And also  
7 then you can start looking at the impacts on  
8 individual communities, where some communities  
9 can get a really bad reputation and unjustifiably  
10 because there is a general perception that the  
11 activities of that individual community might be  
12 somehow generally involved in criminality.

13 So yeah, there's all sorts of ways in which  
14 money laundering is generally a bad thing to have  
15 happening where you live.

16 Q I wonder if you can talk a little bit more about  
17 how a perception that a country is vulnerable to  
18 money laundering might impact on the ability of  
19 other nations or companies to do business there  
20 or its ability to borrow.

21 A Yeah. So this is where the Financial Action Task  
22 Force comes into it. So one of FATF's roles --  
23 and I know we'll talk about this a little bit  
24 later. But FATF was set up in 1989 with the  
25 purpose of ensuring a consistent approach to  
26 dealing with money laundering and terrorism  
27 finance across the globe. There are 39 member  
28 countries in FATF, but virtually all countries in  
29 the world comply with FATF's recommendations.  
30 Less so, Iran, and not so, North Korea.

31 So everybody expects more or less the same  
32 type of response because FATF sets out uniform  
33 standards for the way people should be dealing  
34 with it. And so if a country is somehow  
35 perceived as not complying with that approach and  
36 somehow making themselves vulnerable to money  
37 laundering, it can get a whole country a bad  
38 reputation and can put people off from doing  
39 legitimate business in that location.

40 And the UAE has suffered really  
41 unfortunately with this because there are all  
42 sorts of, you know, media reports out there which  
43 unfairly, in my opinion, tag the UAE as being a  
44 hotbed for money launderers. And there's no  
45 doubt that money laundering does take place  
46 there, but the -- you know, people can perceive  
47 that everybody who lives in a country is somehow



1 tied up in that criminality. And like I said, in  
2 the UAE, I've personally never seen a UAE citizen  
3 involved in money laundering. It's an abuse of  
4 the systems that they put in place to attract  
5 inwards investment.

6 So -- and like I say, as soon as you are  
7 seen as a bad place to do business, if your  
8 regulatory structures aren't in place, if there  
9 are lots of ways in which your country can be  
10 abused, then people simply don't want to put your  
11 money there. And then when that happens, you  
12 know, as I say, inwards investment is blocked,  
13 remittances go down, the cost of borrowing goes  
14 up, the amount of money available for public  
15 services goes down, taxation rises, and all sorts  
16 of things like that.

17 So it really is imperative that countries  
18 get on top of this type of thing because  
19 otherwise they can suffer ill effects from it.

20 Q Thank you. That might be a useful or a  
21 convenient point to transition into a discussion  
22 of the Financial Action Task Force. We are going  
23 to have further evidence coming specific to this  
24 topic, but because I'm going to ask you about  
25 some of the reports you drafted for them, it  
26 might be useful to introduce the topic a bit  
27 through you.

28 I wonder if you could explain to the  
29 Commissioner what the Financial Action Task Force  
30 is.

31 A Yes. So FATF, also known as the Groupe d'Action  
32 Financière (GAFI). It was formed in --  
33 essentially the mandate for it was set out in the  
34 G7 Summit in Paris in 1989. It was given an  
35 initial mandate for 30 years, although in 2019  
36 actually it's been given now that it's been  
37 reviewed and been given an open-ended mandate.  
38 And essentially its initial role was to examine  
39 money laundering and terrorism financing  
40 techniques and trends.

41 In 1990, the FATF did some work and came up  
42 with a list of 40 recommendations which it said  
43 all countries should pay attention to in order to  
44 make their financial systems more resilient to  
45 the threat of money laundering and terrorism  
46 financing. So those are the 40 recommendations,  
47 the famous FATF 40 recommendations, and they

1 cover all manner of things like -- I think  
2 recommendation 1 is the risk-based approach.  
3 It's sort of things like the extent to which  
4 businesses are brought into the regulated sector.  
5 It covers stuff like cross-border transportation  
6 of cash by natural persons, what your money  
7 laundering offence should look like, the scope of  
8 your money laundering offence -- a whole range of  
9 things.

10 Then in 2001, added to the 40  
11 recommendations were eight special  
12 recommendations which were mainly designed to  
13 deal with terrorism finance. There were  
14 initially eight and there was a ninth one added  
15 in 2004. So there were 40 recommendations and  
16 nine special recommendations at that point.

17 And then in 2012, FATF revised the whole of  
18 the 40 and the nine together and just amalgamated  
19 everything into the 40 FATF recommendations.

20 So that's the first thing. That's the  
21 standard setting that FATF does. And the idea,  
22 as I say, is to make sure that everyone has a  
23 more or less coordinated approach to the way in  
24 which money laundering and terrorism financing is  
25 addressed in terms of legislation, operational  
26 response and all the other ways.

27 What FATF does in addition to that is it  
28 conducts a mutual evaluation review process. So  
29 on a rolling basis, FATF will go round to all of  
30 the member countries and will conduct a detailed  
31 investigation into the way a particular country  
32 is compliant with the 40 recommendations. And  
33 initially this was a technical compliance  
34 approach, so it was making sure that your money  
35 laundering offence covered all the right bases  
36 and things like that.

37 But with the second round of the mutual  
38 evaluations, which started happening around -- a  
39 few years ago now. I can't remember the exact  
40 dates -- FATF started looking at the  
41 effectiveness of your approach. So you're  
42 talking about not only the extent to which your  
43 money laundering law, for example, complies with  
44 the recommendations, but the extent to which you  
45 actually apply it in practice, so whether you are  
46 actually prosecuting people for that type of  
47 thing.

1           So that's FATF -- FATF, I should say, there  
2 are 39 members of FATF, and they include all of  
3 the large countries like the UK, USA, Canada,  
4 China, Russia, people like that, people in  
5 Western Europe. But there are a number of what  
6 are called FATF-style regional bodies, FSRBs, and  
7 lots of countries that are not full members of  
8 FATF are members of FATF-style regional bodies  
9 that apply the same standards and do the same  
10 mutual evaluation process, to the point where, as  
11 I've mentioned, that there are only -- there's  
12 only one country which doesn't engage with FATF  
13 at all. That's the Democratic People's Republic  
14 of Korea, so North Korea. And Iran has drifted  
15 into and out of compliance in respect of FATF,  
16 and at the moment is on a -- it's what's called a  
17 call for action on FATF's website. In it they  
18 are assessed by FATF to have strategic  
19 deficiencies in their approach to tackling money  
20 laundering, and they call upon people to apply  
21 sanctions to try and get Iran to comply.

22           And as I say, Iran have sort of drifted into  
23 close contact with FATF and then out again over  
24 the last years.

25           So FATF sets AML/CFT standards. It promotes  
26 the implementation of those through the mutual  
27 evaluation process. But what it also does, it  
28 has a role in educating people in terms of money  
29 laundering techniques and methods and what have  
30 you.

31           And my involvement with FATF was through  
32 that sort of lens, so we're talking about the  
33 extent to which I was able to contribute to  
34 reports looking at different types of money  
35 laundering typologies. And I've worked on two of  
36 these. I was on the Typology Working Group for a  
37 report which looked at the role of hawala and  
38 other similar service providers in money  
39 laundering and terrorism finance. So I was part  
40 of the Typology Working Group.

41           I contributed to the report but I didn't  
42 author it. The report was actually written --  
43 holding the pen was a chap called Scott Rembrandt  
44 from the U.S. Treasury. But I was involved, as I  
45 say, in some of the drafting and in the peer  
46 review process afterwards. And I was also  
47 fortunate enough to lead a Typology Working Group

1 between 2013 and 2015, which looked at money  
2 laundering through the physical transportation of  
3 cash. And in that respect, I led the process  
4 which looked at producing that report. I drove  
5 the analysis of the -- you know, I sort of did  
6 the evidence gathering in respect of it. I went  
7 to various meetings in Paris and in Dakar -- not  
8 Dakar -- in Qatar and places like that. And  
9 ultimately I was the person who drafted the  
10 report.

11 So the report that's on FATF's website  
12 called "Money Laundering Through the Physical  
13 Transportation of Cash" was written by me. About  
14 20 pages of it, I would say, maybe a bit less,  
15 originally came from colleagues who I'd worked  
16 with in the Dutch Treasury, but it was written in  
17 English with a Dutch accent, if that makes sense.  
18 So although it was -- the content was very, very  
19 good, I had to sort of like change it.

20 When I produce documents, I'm very keen that  
21 it just speaks with one voice, if you like. So I  
22 like to make sure that it's all -- it doesn't  
23 look like it's been assembled from lots of  
24 different people's sort of hashed together stuff.  
25 I like it to sort of all flow as a continuous  
26 product. And so I ended up sort of like helping  
27 to rephrase and reword. But you know, the Dutch  
28 were able to -- a colleague who I became good  
29 friends with contributed an awful lot to that  
30 report and I was eternally grateful.

31 But yeah. So that's the extent to which I  
32 was involved in FATF. I helped to -- helped with  
33 the content of the "Hawala and Other Similar  
34 Service Providers" report and I led the Typology  
35 Working Group, who wrote the "Money Laundering  
36 Through the Physical Transportation of Cash"  
37 report.

38 Both of those are on FATF's website. The  
39 first one, 2013; the second one, October 2015.

40 Q Okay. We're going to get into those reports in  
41 just a bit and discuss them in a little more  
42 detail.

43 You mentioned that the FATF investigates  
44 countries' compliance with the standards that it  
45 sets and that they do so at least in part through  
46 something you refer to as the mutual evaluation  
47 process. I wonder if you might just explain to

1 the Commissioner how the investigation is  
2 conducted and what the mutual evaluation process  
3 is.

4 A Yeah. I mean, I'm not a FATF assessor. The  
5 first thing that you have to do is you apply to  
6 become an actual assessor, and there is a  
7 training course that you go on and FATF teach you  
8 how to go about doing it.

9 But essentially, as I understand it -- I  
10 know some people who are assessors and I've had a  
11 chance to talk with them about their experiences  
12 and how they've gone about it. And in its basic  
13 level, there's a call for evidence, so there will  
14 be a call -- so if a country is going to go  
15 through the MER process, there will be a call for  
16 people to submit information in respect of the  
17 extent to which the -- as I said there are 40  
18 recommendations. There are a number of what they  
19 call immediate outcomes as well, which are looked  
20 at, and which address the effectiveness side of  
21 things. And you know, they cover things like  
22 money laundering prosecutions, regulatory  
23 functions and things like that.

24 So there's a call for evidence on the extent  
25 to which a country can demonstrate their  
26 compliance with these things and the extent to  
27 which their approaches are effective. And then  
28 there will be an onsite review. So FATF  
29 assessors will go -- having looked at all the  
30 evidence, FATF assessors will then go to a  
31 country for a two-week onsite where they will  
32 interview a whole range of people in a whole  
33 range of different situations, so people ranging  
34 from things like regulators, looking at police  
35 officers, looking at ministers, looking at parts  
36 of government and all sorts of things like that.

37 But at the end of that process, they will  
38 have formed an opinion about the extent to which  
39 that country's processes are compliant with the  
40 recommendations. And so they will talk about the  
41 level of compliance with the immediate outcomes,  
42 whether it's low, moderate or high or full. And  
43 then they will talk about the 40 recommendations  
44 themselves and then will talk about partially  
45 compliant, non-compliant, mostly compliant, or  
46 fully compliant.

47 And that report then is submitted to -- it's

1 an extremely long report in almost every case.  
2 That report is then submitted to FATF themselves  
3 in a plenary process where everyone has a chance  
4 to review it, and the country itself has a chance  
5 to come back and address some of the issues  
6 that's been raised in the report. And eventually  
7 the report is signed off by FATF and published.  
8 And the whole process can take a couple of years.

9 Q Thank you. You mentioned typology reports, and  
10 you've been involved in the crafting of a couple  
11 of them. What is the purpose of those reports?

12 A It's essentially to -- we talked a little bit  
13 earlier on about making people aware of the way  
14 that money laundering works in certain  
15 circumstances, which can have benefits in a  
16 variety of ways, including helping people to  
17 address it from a law enforcement perspective,  
18 but also enabling people to -- you know, from  
19 across the globe, because these things are made  
20 publicly available on FATF's website. So anybody  
21 can look into it and use the information within  
22 them to address money laundering issues in  
23 whatever environment they find themselves in. So  
24 if you're a bank, you can build into your risk  
25 assessment process. So that's the purpose. And  
26 you know, they like to get experts on board in  
27 order to deal with these things.

28 I haven't been involved in this for a while,  
29 so the process by which they decide that a report  
30 is going to be commissioned, I'm not currently  
31 cited on. But back in the -- when I -- I know  
32 when we did the cash one, for example, FATF had  
33 conducted an audit of all of the reports that it  
34 had commissioned and had discovered that dealing  
35 with cash laundering was not one that they'd  
36 covered. And so they decided to commission a  
37 report on cash laundering because it was a gap in  
38 what was there, and I applied to be the Typology  
39 Working Group leader and I was accepted to do  
40 that, initially with a colleague, but later on  
41 just by myself.

42 Q And is there an opportunity for the member  
43 countries to contribute to the body of knowledge  
44 which informs the report?

45 A Yeah, a hundred percent. So it's an entirely  
46 collaborative process. So the first thing that  
47 happens is the working group leader is appointed,

1 and as I say, in the case of the FATF one, it was  
2 me. For the hawala one it was a chap I mentioned  
3 called Scott Rembrandt from the U.S. Treasury.

4 What then happens is there is a call for  
5 people to join what's called the Typology Working  
6 Group. So this is a group of people from  
7 different countries who think that they have  
8 something to offer in respect of the typology  
9 being discussed, and who can sort of add value to  
10 what it is you're trying to do. So people are  
11 then sort of -- and generally, you know, if you  
12 want to be on a Typology Working Group, I think  
13 it's unusual for you not to be allowed onto it.

14 FATF meets on a quarterly basis, I believe  
15 it is. I can't remember as it's been a while  
16 since I've been there. But it meets on a  
17 quarterly basis in Paris, and at those meetings  
18 it's a chance for the Typology Working Group to  
19 come together from different countries and to sit  
20 down and talk about how we're going to progress  
21 the typology and what we're going to put in it  
22 and things like that.

23 So everyone then - I mean - so with the cash  
24 one that I was involved with, and it was the same  
25 process with the hawala one, we collaboratively  
26 decided what the report should be looking to  
27 cover, and then we looked at how we were going to  
28 gather the evidence in respect of the questions  
29 that we -- what we needed to cover. And  
30 certainly for the FATF one and for the hawala one  
31 as well, we then came up with a questionnaire --  
32 it was about 20 pages, if I remember rightly --  
33 which had a load of questions on it which asked  
34 individual countries to say about, you know, how  
35 they address certain things and what their  
36 opinion was on certain things.

37 So that questionnaire was circulated through  
38 FATF and the FATF-style regional bodies, and then  
39 all of that evidence -- all of the responses to  
40 those questionnaires come in and then have to be  
41 sort of assessed. All that information has to be  
42 analyzed.

43 The other thing that we do is there is a  
44 call for case examples, because one of the best  
45 ways of illustrating a point in one of these  
46 reports is to get a case that shows what's  
47 actually happened, you know, a real case where

1 something's happened. And so we applied for lots  
2 of case examples.

3 Certainly in respect of the cash one, we had  
4 about 70 responses to the questionnaire and  
5 literally from all over the world, from places  
6 like Kazakhstan and Yemen and St. Vincent and the  
7 Grenadines and all sorts of places like that, as  
8 well as the obvious countries like the UK,  
9 Russia, and things like that, and we had hundreds  
10 of individual cases.

11 So then -- the process then is -- and I'll  
12 mention about the fact that I'd already decided  
13 that I was going to physically write in. But  
14 then it's a question of pulling all the  
15 information together, and this is where -- very  
16 lucky to be working alongside some very good  
17 people from the Tunisian Financial Intelligence  
18 Unit and also from the Dutch Treasury, because  
19 they were then able to volunteer to take away all  
20 of the information that we received through the  
21 questionnaire process and to do the analysis on  
22 that and to visualize it in terms of charts and  
23 all the rest of it. So there was a lot of that  
24 done.

25 And then it's a question of pulling all that  
26 together in a report, the report going to the  
27 Typology Working Group for initial comments and  
28 assessments and suggestions on how it can be  
29 amended, and then there's a peer review process  
30 where it goes out to the whole of the FATF and  
31 people write in some comments. And it took up  
32 about 18 months of my life, this whole process  
33 did. It was enjoyable but it was challenging in  
34 some respects as well.

35 Q So I gather, given the process that's undertaken,  
36 these reports aren't specific to any one  
37 jurisdiction or any particular locale?

38 A No. It's designed to give a reflection of  
39 some -- you know, some FATF-style regional bodies  
40 and some countries will do smaller reports which  
41 just focus on a particular area. But certainly  
42 in terms of the hawala one I was involved with  
43 and the cash one, it was global. It was a global  
44 representation.

45 Q I wonder if we might now move to discuss the  
46 typology report respecting hawala and other  
47 similar services that you were involved in.



Simon Lord (for the Commission)

Examination by Mr. McGowan, Counsel for the Commission

1 A Yes.

2 MR. MCGOWAN: Madam Registrar -- and I'll just say for  
3 the benefit of participants, Mr. Lord's two FATF  
4 reports are attached to our FATF Overview Report,  
5 which is Exhibit 4. They're appendices BB and LL  
6 to that Overview Report.

7 Madam Registrar, I wonder if you might just  
8 pull up the first page of the FATF report  
9 entitled "The Role of Hawala and Other Similar  
10 Service Providers in Money Laundering and  
11 Terrorist Financing."

12 Q That's your report, sir?

13 A Well, as I say --

14 Q It's the report you were involved in? Pardon me.

15 A I was involved in the production of it, yeah. I  
16 didn't actually -- I wrote some of it and I  
17 contributed to the writing of other parts. But  
18 in terms of actually putting the whole thing  
19 together, as I say, it was a guy from the U.S.  
20 Treasury who was principally involved in that,  
21 and he was the Typology Working Group leader.

22 Q Thank you.

23 MR. MCGOWAN: Mr. Commissioner, I don't intend to ask  
24 that to be marked. It's already before you as  
25 part of Exhibit 4.

26 Q So you crafted part of it and I --

27 MR. MCGOWAN: You can pull it down now, Madam  
28 Registrar.

29 Q I gather you're familiar with the report?

30 A Yeah, absolutely. Yeah.

31 Q And you view it as authoritative?

32 A Oh, most definitely, yeah. I mean, the -- like I  
33 say, the nice thing about these reports -- so in  
34 terms of -- one of the things that happened in  
35 terms of producing it was there was a -- the  
36 questionnaire thing I've already described was  
37 sent out and lots of responses came back to it.  
38 But there was then a meeting to discuss the  
39 report in Dakar, in Senegal, and I went along to  
40 that meeting with my colleague who I was working  
41 with on the report. And we sat round a table  
42 with people from Pakistan and from China, from  
43 the Netherlands, from France, from the USA and  
44 lots of different things like that. And  
45 everybody contributed to the discussions in  
46 respect to the report, and all of that was  
47 absorbed into the report. So in terms of -- and

Simon Lord (for the Commission)

Examination by Mr. McGowan, Counsel for the Commission

1           these are all people who are experts in their own  
2           field. So in terms of the content that went into  
3           it, it's about as authoritative as you could get  
4           at that point in time. So yeah, most definitely.

5       Q     Okay. Now, hawala and other similar services are  
6           more common in some countries than others, I  
7           gather.

8       A     Yeah.

9       Q     And let me just maybe first ask you, did you  
10          receive contributions from countries -- just  
11          western countries or countries where some of  
12          these services are more common as well?

13      A     No. I mean, like I mentioned, I mean, Pakistan  
14          and China were two of the contributors to the  
15          report. I mean, you have to bear in mind that  
16          the responses went to the chap in the U.S.  
17          Treasury and not me. But in terms of the -- you  
18          know, sitting round the table and talking about  
19          this type of stuff, it was a range of people from  
20          western countries like the UK and the Netherlands  
21          and the USA to countries like, as I say,  
22          Pakistan, from China and various other countries.  
23          There was a chap there from Liberia, for example,  
24          who was giving us the benefit of understanding  
25          how these things had evolved in his country after  
26          civil war and stuff like that. So yeah, from  
27          across the spectrum.

28      Q     And hawala and other similar services, are these  
29          all informal value transfer systems? Is that  
30          what we're talking about?

31      A     Yeah. So the first thing that we had to overcome  
32          was part of the process. The original title of  
33          the report was going to be just "Hawala and Its  
34          Role in Terrorism Financing and Money  
35          Laundering." And a lot of us came to the  
36          discussions in Dakar to say that actually that's  
37          not entirely the correct way of addressing it,  
38          because informal value transfer systems, when you  
39          want to talk about them in a bit more detail,  
40          they share common characteristics but they don't  
41          all operate in the same way. You know, the way  
42          that Chinese underground banking works, for  
43          example, is not the same as might be the Black  
44          Market Peso Exchange or something like that.

45                 And so hawala is a particular type of IVTS  
46          that emerged in South Asia and the Middle East  
47          and what have you many centuries ago. But it's

1 not the type of IVTS that works out of China,  
2 that works out of Somalia, that works out of  
3 various other things.

4 And so one of the things that we had to come  
5 up with was a phrase that was -- included hawala  
6 but wasn't just hawala, which is how we ended up  
7 with "Hawala and Other Similar Service  
8 Providers." It's a little cumbersome but it, you  
9 know, "HOSSP." If you call it like that, then  
10 that's what it comes to.

11 So yeah. It's -- there are a lot of places  
12 where this type of service exists. But as I say,  
13 they evolve to meet local circumstances.

14 One of the things I always say when I talk  
15 about this -- and this is one of things that we  
16 bring out when we're doing the training for the  
17 Expert Laundering Evidence Cadre, is you need to  
18 understand what the purpose of an IVTS mechanism  
19 is. And the example I always quote is like the  
20 recent conflicts in Iraq and Syria. So obviously  
21 we were in a situation where Daesh had taken over  
22 large proportions of those countries. But in  
23 terms of the actual people firing guns at each  
24 other and trying to blow each other up, the  
25 number of people involved in that were probably  
26 not much more than maybe 250-300,000, maybe  
27 400,000 people.

28 But the population of those countries  
29 combined, I think that Syria is 20 million people  
30 and Iraq is 40 million people. All of those  
31 people, the rest of those people who weren't  
32 actively involved in the fighting, have then got  
33 to go on and try and live their lives in some  
34 way, shape or form. So you know, they want to  
35 get their kids to school. They want to put fuel  
36 in their car. They want to earn money. They  
37 want to be able to buy food and all that sort of  
38 stuff.

39 And when you're in a conflict-affected state  
40 and the financial systems around you have  
41 collapsed, an informal value transfer system is  
42 what emerges to fill the gap. And so that's why  
43 you get them in lots of different places where  
44 the financial system is either not there at all  
45 or is unreliable or is not trusted by the local  
46 authorities.

47 And as I say, it's really important to get

1 that across. IVTSS are legitimate mechanisms  
2 that arrive for a legitimate purpose and are  
3 widely used legitimately. But they are abused  
4 for money laundering and terrorism finance  
5 purposes too. And it's important to be able to  
6 realize what's legitimate, for legitimate  
7 purposes, but also what's abuse.

8 You're on mute, Patrick.

9 Q Sorry, thank you. What was the scope of the  
10 project that you set about for the FATF in this  
11 instance?

12 A It was essentially that. So it was the -- to  
13 understand what the legitimate uses were and how  
14 these systems manifest themselves, but also to be  
15 able to recognize when the systems were being  
16 abused for money laundering and terrorism finance  
17 purposes. So it's being able to look at the good  
18 and spot the bad essentially.

19 Q Okay. I wonder if you could just in a general  
20 way explain the features of an informal value  
21 transfer system and how it works.

22 A Yeah. Essentially, it's money transmission at  
23 its most basic. Quite a lot of the time these  
24 type of systems are tied to specific geographic  
25 regions, ethnic communities and what have you,  
26 and essentially what they do is they arrange for  
27 transfer and receipt of funds or equivalent value  
28 without the physical need to transfer the funds  
29 themselves. So you're transferring value but not  
30 necessarily the funds. So there won't be a  
31 straight line remittance from point A to point B  
32 through the banking system. It will be someone  
33 will make a deposit of funds in one location and  
34 will receive an equivalent value in another  
35 location, less fees and commission, but without  
36 there actually being a physical connection  
37 between the two. And they generally involve a  
38 process which I generally refer to as cash  
39 pooling. So the people who are involved in these  
40 type of networks have available to them pools of  
41 funds in different locations, not always cash.  
42 Sometimes it's money in bank accounts, sometimes  
43 it's trade. But pools of funds in different  
44 locations and you receive the payment into one of  
45 those pools and make a payment out of another  
46 one. And then over time there will be a  
47 settlement arrangement between the pools to keep

1           them in balance. Because obviously if all the  
2           money went one way, you would end up with lots of  
3           money in one place and not in another, and you  
4           would have to have some sort of settlement  
5           mechanism in place.

6           So settlement can take place through trade,  
7           through cash, through net settlements over a long  
8           period of time, quite often through the banking  
9           system. They're informal in so far as this type  
10          of stuff often happens outside of the formal  
11          financial system, but by no means all the time.  
12          They often interact with financial systems as  
13          well.

14          Like I mentioned, the key thing about them  
15          is that although they are abused, there's no  
16          doubt about it, for criminal purposes, they are  
17          widely used for legitimate purposes across the  
18          globe, reasons of geography, culture, lack of  
19          banking access, all sorts of reasons like that.

20          For example, in places like Syria, for  
21          example, where there's still an awful lot of  
22          difficulty, NGOs -- non-government organizations  
23          -- charities, extensively use IVTS to get aid  
24          money from the U.S. and British governments into  
25          those sort of locations to try and help the  
26          population. Somalia is the same. So they're  
27          extensively used for those purposes as well.

28          In general terms, it's cash in/cash out, but  
29          by no means not always. Certainly remittances  
30          are generally sort of you pay cash into one and  
31          then you receive cash at the other end, but the  
32          cash isn't actually physically transported. It  
33          comes from settlement. But it can be settlement  
34          through other methods as well, including things  
35          like through bank accounts and such like that.

36          All sorts of reasons why these people choose  
37          to use them. I've mentioned about the fact that  
38          they are sometimes the only option where there is  
39          war, conflict, strife, things like that. But  
40          also things like -- it can also be things like  
41          pricing, speed, cultural preference. But  
42          sometimes, because criminals perceive them as to  
43          be safer than putting their money through  
44          legitimate financial systems.

45          And the other thing I think it's important  
46          to realize -- and this is something that we talk  
47          about on the Expert Evidence Cadre quite a lot --

1 is there are shades to how these systems work.  
2 So at one end of the scale -- and we call this  
3 the complicity scale -- at one end of the scale  
4 you have businesses which are entirely compliant  
5 with local regulations, do customary due  
6 diligence. If they're required to be registered,  
7 they are. And they do everything that they can  
8 to stop their systems being abused.

9 But then there are people who are basically  
10 just not competent in running these sort of  
11 businesses and allow things to slip through.  
12 There are some people who are willing to turn a  
13 blind eye. There are some people who actively  
14 collaborate with criminals. And there are some  
15 businesses which have been set up for the sole  
16 purposes of money laundering and terrorism  
17 finance.

18 One of the key things when you look at that  
19 is understanding where somebody is on that  
20 complicity scale because that will enable you to  
21 best assess the way in which you can combat the  
22 issue that you have in front of you.

23 So if someone is just a bit of an  
24 incompetent, then a bit of training and a bit of  
25 assistance to put the right systems in place and  
26 all the rest of it might be necessary. If  
27 someone is criminally complicit, then arresting  
28 them and prosecuting them is the right thing to  
29 do.

30 So obviously there's a whole range of  
31 approaches that you can put in place and there's  
32 -- you know, and the extent to which you engage  
33 with the regulator -- put regulatory pressure on,  
34 things like that.

35 Q Right. Your report describes three types of  
36 informal value transfer systems: traditional,  
37 hybrid, and criminal.

38 A Yeah, that's right. And that's a reflection of  
39 that essentially.

40 Q Yes.

41 A So you've got the pure traditional ones, which  
42 are the ones where -- like I've mentioned about  
43 NGOs in Syria, where the sole purpose of the  
44 remittance is to allow people to go about their  
45 daily lives, to receive money from the diaspora  
46 in overseas countries and what have you, enable  
47 NGOs to work. So those are the pure ones.

1           Hybrid ones are ones like I've mentioned  
2           which are in the middle of the complicity scale,  
3           which are -- do some legitimate stuff and some  
4           non-legitimate stuff for whatever reason, whether  
5           it's blind eye or what have you.

6           And then there are the criminally complicit  
7           ones whose role is to actively sort of engage in  
8           criminal activity, terrorism finance, things like  
9           that.

10          Q       Even in circumstances where an individual is  
11           using some form of informal value transfer system  
12           for a legitimate reason, do they sometimes engage  
13           with criminal proceeds through that process?

14          A       Yeah. The way that mechanisms work -- it's  
15           probably a good idea to go back and consider the  
16           idea of a cash pool in this sort of situation.  
17           So we're talking about a situation where people  
18           in one location -- there can be criminal funds  
19           coming into the cash pool. Now, I've already  
20           said, for the purposes of transferring the value  
21           overseas on behalf of a criminal -- now, I've  
22           already said that the money doesn't physically  
23           move from the location where it's received.  
24           That's the whole point of it. There is no actual  
25           -- and it's a value transfer system. Which means  
26           that the person who's involved in the IVTS  
27           mechanism has got to find something to do with  
28           that cash because he has to make it work for him.  
29           Generally there's a profit to be made or  
30           something like that.

31           So what you can effectively do is repurpose  
32           that cash in order to settle a remittance coming  
33           the other way, so that the drug trafficker, say,  
34           wants the money transferred out of the system,  
35           but it might be that someone wants to receive  
36           money in that jurisdiction from someone from  
37           overseas. And so one of the ways in which people  
38           can be caught up in the system is the use of  
39           criminal funds which are repurposed to a  
40           completely legitimate transaction coming the  
41           other way. And we see that quite a lot. That's  
42           a feature of the Chinese underground banking,  
43           which I know we're going to talk about later.

44           But also there's a process called cuckoo  
45           smurfing, which I can explain in a little more  
46           detail. And that's essentially what it is,  
47           taking criminal money, putting it into the bank

1 account of someone who's expecting a remittance  
2 from another country for a legitimate purpose.

3 Q You used the word "smurfing" there.

4 A Yeah.

5 Q I wonder if you could just explain to the  
6 Commissioner what that refers to.

7 A Yeah. So there is a general perception amongst  
8 criminals, and it still exists now, that if you  
9 take a large amount of money and you break it  
10 down into much smaller amounts, and then pay  
11 those smaller amounts into a bank account, that  
12 that will somehow go below the radar and won't  
13 attract law enforcement's attention. That  
14 perception generally is not true. But it's  
15 referred to as smurfing, or structuring in the  
16 USA. I believe the term "smurfing" came out in  
17 about the 1980s. Everyone knows smurfs are like  
18 a lot of little blue identical small people  
19 running about, and it's the process of there  
20 being lots and lots of small identical deposits  
21 in one place, which is supposed to come under  
22 perceived reporting restrictions. I mean, in the  
23 UK there is not a financial limit for reporting  
24 suspicious activity reports. But people still  
25 seem to think that if you're paying in less than  
26 5,000 pounds, it won't get reported. It's not  
27 actually true. And actually banks are really,  
28 really good now at spotting -- banks know exactly  
29 what smurfing or structuring is. And one of the  
30 things that is almost guaranteed to get a  
31 suspicious activity report generated is when some  
32 breaks down a big amount of money into lots of  
33 little bits and pays it in over a series of days  
34 into the same bank account. Banks are very good  
35 at spotting that. But that's essentially what  
36 smurfing is.

37 Cuckoo smurfing is the process of using  
38 criminal money and putting it into a legitimate  
39 bank account, but the analogy only works if you  
40 know what a cuckoo is.

41 Q All right. Are there features of certain  
42 jurisdictions which make them more likely to  
43 attract operators who run informal value transfer  
44 systems?

45 A Yeah. I mean, so like I say, culturally there  
46 are a lot of people -- I mean, something like 50  
47 percent of the world's population is unbanked. I



1 mean, that's the first thing. So if you are in a  
2 situation -- if you're in a jurisdiction where  
3 access to the formal banking system is difficult  
4 or non-existent, then like I've said, informal  
5 value transfer systems emerge to fill the gap.

6 There are also cultural reasons why people  
7 prefer to use IVTS. Some people just don't trust  
8 banks. In Iran, for example -- I know because  
9 I've spoken to a chap who was from the Institute  
10 of Persian Studies in one of the universities in  
11 the UK -- there is a general feeling that you're  
12 an idiot if you put your money where the  
13 government can see it. So people like that  
14 prefer to use an informal value transfer system  
15 because they don't want people who -- basically  
16 they don't want scrutiny of where their money is  
17 and where it's going and where it's going and  
18 what it's being used for and things like that.

19 So generally a population with a mistrust of  
20 the banking system or a country where the banking  
21 system is either not very good or non-existent --  
22 Somalia is a good example of that. There's  
23 hardly a banking system at all there. Places  
24 like Afghanistan, where war, civil unrest has  
25 destroyed the banking system. That's where  
26 you'll get IVTS. But also in places like the  
27 UAE, for example, where something like at least  
28 85 percent of the population is non-Emirati.  
29 They are low paid migrant workers who've gone  
30 there to earn a bit more money, and they will use  
31 IVTS as a way of transferring money back to their  
32 families, things like that. So there are a whole  
33 range of reasons why people will use IVTS.

34 Q And what about countries like Canada or the UK?  
35 Are there features of those countries that might  
36 lead to the presence of IVTS?

37 A Yeah. I mean -- the point about the situation in  
38 countries like the UK and Canada and the USA is  
39 that we don't make a definition in between IVTS  
40 and a money service business. So in the UK, the  
41 definition of a money service business is any  
42 undertaking -- let me see if I'm getting this  
43 right -- any undertaking which by way of business  
44 operates a currency exchange office, transmits  
45 money or any representation of monetary value by  
46 any means, or cashes cheques made payable to its  
47 customers. Now, what that means is that if you

1 are operating an informal value transfer system,  
2 you are transmitting money or a representation of  
3 monetary value by any means, and that means  
4 you're actually officially a money service  
5 business and you're caught by the regulated  
6 sector. And so you are obliged under law to  
7 register with HM Revenue and Customs and the  
8 Financial Conduct Authority, to conduct due  
9 diligence, to know your customer, to monitor  
10 transactions and things like that.

11 So IVTS does exist in the UK because there  
12 are people who do this type of stuff and don't  
13 register with HMRC and the FCA as they are  
14 supposed to. And those are within certain  
15 communities where they simply prefer -- there is  
16 a general distrust of authority, and people just  
17 prefer not to engage with them.

18 So I mentioned a little bit earlier on, we  
19 see quite a lot in the UK, people in the Iraqi  
20 Kurd community conducting IVTS activities, often  
21 for entirely legitimate reasons because they want  
22 to send money back to their family in Erbil or  
23 Kirkuk or somewhere like that. But they've  
24 chosen not to register with -- or they don't  
25 realize they have to register with HMRC.

26 And the same is true of most jurisdictions.  
27 So in Canada it's the same. You know, your  
28 definition of an MSB is more or less the same as  
29 ours, and it's the same in the USA as well. So  
30 one of the things about IVTS is it's important to  
31 recognize that in some countries, it is simply a  
32 money service business.

33 Q I wonder if you can explain to the Commissioner  
34 the way in which criminal organizations either  
35 use existing informal value transfer systems to  
36 launder funds or create such systems to  
37 facilitate the laundering of funds.

38 A The way in which we see these sort of things  
39 abused -- and I'll give you an example of one I  
40 was looking at. And again, it related to people  
41 in the Iraqi Kurd community.

42 Generally the people who conduct these type  
43 of operations, it's a myth that they are  
44 underground, if you like. They are usually  
45 highly visible within the community that they  
46 serve, and quite a lot of these mechanisms serve  
47 a particular community or ethnic group. And

1 that's because they have the ability to receive  
2 funds in one jurisdiction, but more importantly  
3 the ability to pay out were people like Western  
4 Union and things like that probably wouldn't. So  
5 I mean, you know -- so an Iraqi Kurd-based IVTS  
6 system is going to be able to pay out in places  
7 like Sulaymaniyah and urban Kirkuk, where --  
8 which are going to be beyond the reach of most  
9 money transmission systems. And they're going to  
10 be operated by people who come from that  
11 jurisdiction and who know how things work and who  
12 have the contacts back home in order to make that  
13 happen.

14 So in this particular case I was looking at,  
15 there was -- essentially they had control -- the  
16 people who were operating in the form of IVTS had  
17 control of a number of bank accounts set up in  
18 the names of individuals into which they could  
19 receive money for the purpose of transferring it  
20 back to northern Iraq and places like that, to  
21 Kurdistan.

22 There was no actual direct line transfer.  
23 There were occasional movements of goods in  
24 between the two ends to make the two ends  
25 balance, but there was no actual online transfer  
26 because people wanted to send money out from  
27 Kurdistan as well as send money in. In that  
28 situation, what you had was lots of people doing  
29 minor remittance, and minor remittances tend to  
30 be relatively low value, so a few hundred pounds  
31 here, there, a few hundred pounds there, maybe up  
32 to 1,000 pounds if it was for a business-related  
33 transaction. And you could look across all of  
34 the deposits that were being made and you could  
35 see that most of that was what was going on. But  
36 in the middle of that, there was a deposit for  
37 45,000 pounds, which was completely out of  
38 character with everything else. And the simple  
39 situation was that one of the guys in that  
40 community had got himself involved in drug  
41 trafficking and he knew that there was a guy in  
42 his community who could facilitate the transfer  
43 of money back to Kurdistan, and went along and  
44 said, you're the money guy. I'll give you 10  
45 percent if you transfer this money for me. And  
46 where the guy normally makes like two or three  
47 pounds per transaction, he was going to make a

1 couple of hundred pounds on that one payment.

2 And so he took the money.

3 And it's essentially like that, is the way  
4 that people come into it. And eventually, if  
5 someone allows that to happen more and more, they  
6 develop a reputation for allowing that to happen  
7 more and more and the dirty money starts pushing  
8 the good money out of the door, and the guy can  
9 make lots more money by making a commission.

10 Because he can essentially charge what he likes,  
11 you know. If someone comes along and says, I've  
12 got all this money, he says yeah, okay. Well,  
13 it's going to cost you 20 percent for me to send  
14 it, and the guy is willing to pay it, it's very  
15 hard to resist that temptation. So that's  
16 generally the way in which those happen.

17 The way in which we see IVTS operating  
18 mostly, though, is through professional money  
19 laundering networks who operate across the globe  
20 and essentially move money from -- move value  
21 from one location to another on behalf of  
22 multiple groups. And they may have some  
23 legitimate customers, but they have an awful lot  
24 of criminal ones as well, and the criminal ones  
25 tend to outweigh the legitimate ones.

26 Q I wonder if you could just walk the Commissioner  
27 -- we'll come to a map you created to display  
28 this graphically in a minute. But I wonder if  
29 you could just in a general way walk the  
30 Commissioner through how a professional money  
31 launderer uses an IVTS to facilitate the  
32 laundering of funds.

33 A Okay. There's an important distinction to make  
34 here, is generally the criminal doesn't know how  
35 it works. All the criminal knows is he meets a  
36 guy in a carpark at whatever time, hands over a  
37 bag of cash to the guy who is the representative  
38 of the money launderer, and all he knows is he  
39 receives a bag of cash in another location, in  
40 another currency, a short while later, less a  
41 commission. And as far as he's concerned, he's  
42 buying currency in another location with currency  
43 he's deposited in, say, the UK or Canada or  
44 something like that.

45 The way it actually works is the guy who  
46 runs the IVTS network, like I've mentioned  
47 before, has got pools of funds in numerous

1 different locations, and he receives the money  
2 into one location and he's got -- let's say for  
3 the sake of argument that someone wanted to  
4 transfer the money from the UK to Spain. There  
5 will be a handover of cash in the UK, and then a  
6 short while later there are details passed about  
7 the guy who's going to receive the funds in  
8 Spain, and the reverse happens in Spain. So  
9 someone who works for the IVTS operator takes  
10 money from the cash pool that's available to him  
11 there -- and it's going to be in euros as opposed  
12 to in sterling in the UK -- and just hands that  
13 to the guy who was meant to receive it. And the  
14 more these businesses operate, the more locations  
15 they have where there are different pools of  
16 funds, as I say, either in cash or in bank  
17 accounts or whatever, and the more this is likely  
18 to happen. So the same guy the next week might  
19 say, can you move my funds to the Netherlands for  
20 me? He says, yeah, I can do that. I've got  
21 pools of funds there. Give me the cash. And a  
22 couple of hours later he gets the cash in the  
23 Netherlands.

24 And that's essentially how it works, payment  
25 into a cash pool and payment out. It's the  
26 method of settlement between the cash pools and  
27 how they're kept in equilibrium that is the  
28 exercise that the IVTS operator has to work out.  
29 And that's where the London Underground map, as  
30 it's so called, comes into it. It's the diagram  
31 -- I have to explain this in court all the time  
32 essentially to juries on how this works. And so  
33 I felt the need to have one diagram with  
34 everything on it so that people could see how the  
35 system works in totality and how it was kept in  
36 equilibrium. And that's what that diagram is.

37 MR. MCGOWAN: Well, maybe that's a convenient time to  
38 move to the diagram. Madam Registrar, if you  
39 could please pull up the IVTS map. And Mr.  
40 Commissioner, just while she's doing that, I'm  
41 just going to step away from the screen for a  
42 second and close a window. There's some  
43 construction that's started next to me.

44 Q Can you see that, Mr. Lord?

45 A I can, yeah. I've got -- you can't see it, but  
46 behind my laptop I've got a big screen with it on  
47 so I can --

Simon Lord (for the Commission)

Examination by Mr. McGowan, Counsel for the Commission

1 Q I have the same.

2 MR. MCGOWAN: Mr. Commissioner, I wonder if I just  
3 might ask, can you see the document at a  
4 sufficient size that you can make out the words  
5 and the graphics?

6 THE COMMISSIONER: Yes, I can. Thank you.

7 MR. MCGOWAN: Okay. Madam Registrar --

8 Q Maybe I'll ask you, Mr. Lord. I gather it would  
9 be convenient for this portion of your evidence  
10 to leave this map up on the screen so people can  
11 see it.

12 A Yeah. You need to be able to see it so I can  
13 take you through it.

14 MR. MCGOWAN: Madam Registrar, if we could just leave  
15 that on the screen then.

16 Q And, Mr. Lord, rather than me asking you  
17 questions and trying to fumble my way through  
18 this map, I think I'll let you just take it over  
19 and explain it to the Commissioner.

20 But maybe just before we do, I'll ask --  
21 this map, has it been given a nickname by your  
22 colleagues?

23 A Yeah. It's known as the London Underground map,  
24 and that's because of all the various different  
25 colours and arrows all over it. What I've tried  
26 to do is each individual step of the process and  
27 each settlement, I've tried to colour coordinate  
28 so you can see where the money goes in and comes  
29 out of the system and how the value is  
30 transferred. And I've tried to illustrate it  
31 through the control of the guy in the middle, the  
32 international controller, who I've put in Dubai  
33 because that's where some of them are, but not  
34 all in that respect. And the idea is to  
35 demonstrate how money is ingested into the  
36 system, is repurposed within the system and  
37 disposed of, and how the value moves in between  
38 different parts of the system, all at the same  
39 time, but it's kept in equilibrium.

40 So I'll try and go through it in as brief  
41 steps as I can, and please step in if you think  
42 I'm going too fast or you don't understand  
43 anything I've said.

44 So the key to the system is the chap in the  
45 middle who's highlighted in yellow, and this is a  
46 guy who we refer to as the international  
47 controller. This is a description that we've

1 developed over a period of time which is  
2 reasonably well recognized now in law  
3 enforcement, certainly in the Five Eyes  
4 countries, as the guy who is in overall control  
5 of the informal value transfer system that is  
6 being used.

7 And an example of a guy like this, to bring  
8 this up, is a chap called Altaf Khanani, who was  
9 prosecuted by the DEA in the USA a few years ago,  
10 and he ran a network essentially which worked  
11 like this.

12 The important thing to say about this is we  
13 know this is how it works. We spent a long time  
14 pulling together evidence from numerous different  
15 cases and looking at the way in which this sort  
16 of thing impacts across the globe from different  
17 law enforcement partners. So we're as confident  
18 as we can be that this is how the system  
19 operates. So we're not guessing. We know this  
20 is how it works.

21 So as I've said, the key to it is the guy in  
22 the middle, the guy who's highlighted in yellow  
23 was the international controller.

24 And as I've mentioned, the system works  
25 [indiscernible - recording] there being pools of  
26 funds in lots of different locations around the  
27 world. And you'll see on the diagram we've got  
28 cash pool 1, which is in the UK. There's a UK  
29 flag there. Underneath that at the bottom  
30 there's cash pool 2 in the Netherlands, then  
31 there's one in Turkey, cash pool 3, and one in  
32 Iran, cash pool 4, and one in Pakistan, cash pool  
33 5. And the point about it is is that  
34 international controllers have funds in all of  
35 these different jurisdictions and are able to  
36 juggle payments coming in and out of the system.

37 I've made this UK-centric because I explain  
38 this in UK courts, but you could substitute  
39 Canada or the USA or Australia or whatever for  
40 the UK, and the system works in exactly the same  
41 way. And I've presented on this diagram in  
42 places like Australia and in Canada and in the  
43 USA and things like that, and everyone agrees  
44 this is how it works.

45 So we'll concentrate, if we can, on the guy  
46 who has got the bold lettering underneath him in  
47 cash pool 1 in the UK. He's the UK collector.

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1 And what his role is, is to meet with the guy  
2 who's the criminal who's the originator of the  
3 cash and to collect it and to count it and to  
4 hang onto it and then to dispose of it according  
5 to the directions he receives from the  
6 controller.

7 There is a guy to his right who's called a  
8 coordinator, and he might be someone who has  
9 overall control of lots of different cash  
10 collectors in a particular area. And it's not  
11 unusual for a controller to have more than one  
12 coordinator. I mean, it's like a pyramidal  
13 structure if you like. There'll be a  
14 coordinator, probably at least one, in each  
15 jurisdiction, possibly more than one, and each  
16 coordinator may well have two or three cash  
17 collectors working underneath.

18 Over to the left you have a UK criminal  
19 who's a drug trafficker. Doesn't have to be a  
20 drug trafficker. It can be someone involved in  
21 any type of criminal activity. But I've used  
22 drugs basically because everyone understands that  
23 drugs are illegal, and so this is the laundering  
24 of proceeds of drug trafficking.

25 You'll see that he has got available to him  
26 150,000 pounds which he's made by selling drugs,  
27 and in the UK that equates to probably around  
28 about three and a half, four kilos of cocaine.  
29 The price of cocaine in the UK at the moment is  
30 around about thirty-five to forty thousand  
31 pounds.

32 So he has been put in touch with the  
33 controller, may have used him before or has been  
34 put in touch with this guy through an  
35 intermediary. And there is still some debate  
36 about how that contact process works. But  
37 nonetheless, he gets in touch with the controller  
38 and says, I have got 150,000 pounds here and I  
39 would like that value to appear in the  
40 Netherlands. And you will see that the Dutch  
41 criminal down the bottom left-hand side of the  
42 diagram is the guy who supplied the drugs to the  
43 UK criminal, and the purpose of the transaction  
44 is for the UK guy to pay the Dutch guy. So what  
45 he needs is for his cash to appear in euros in  
46 the Netherlands.

47 So he hands over the cash to the UK



1 collector, and generally they do that by what's  
2 called a token-based cash exchange. And I'll  
3 come on to explain that in a little more detail.  
4 I think we're going to cover that later, Patrick.

5 So the cash is handed over to the UK  
6 collector. The UK collector will then take the  
7 cash away to a safe location -- often his own  
8 home or a safe house -- and he will run it  
9 through a cash counting machine generally and he  
10 will report to the controller how much he's  
11 received. And he'll also report on anything that  
12 needs to be deducted from that total amount. So  
13 quite often there will be torn notes, there will  
14 be counterfeit notes, things like that. There  
15 will be shortages in the count and what have you  
16 which will need to be deducted. Because  
17 ultimately the controller is only going to pay  
18 out what he's received, less his commission.

19 So the controller receives a note of the  
20 count. So what he then does, he then gets in  
21 touch with the Netherlands collector, who you can  
22 see in cash pool 2, who is sitting on cash that  
23 he's received from the Dutch criminal underneath  
24 him. That cash has been given to him by the  
25 Dutch criminal because he wants it to appear in  
26 Turkey, and likewise there's a guy in Turkey who  
27 wants his money to appear in Iran, and what have  
28 you like that. And so you can see that the money  
29 has been ingested into the cash pools in various  
30 different locations through people who want the  
31 value moved somewhere else.

32 So the controller gets in touch with the  
33 Dutch collector and says, okay, what I need you  
34 to do is hand over 150,000 euros or the  
35 equivalent of 150,000 pounds in euros to this guy  
36 whose details I will pass on. Generally there  
37 will be a phone number and a token number. I'll  
38 explain how tokens work later on.

39 In this case -- and this is an important  
40 point to make out -- the Netherlands collector  
41 says, well, actually I haven't got enough money.  
42 I haven't got enough money in the cash pool to be  
43 able to settle that remittance on your behalf.  
44 So he reports that back to the controller. The  
45 controller isn't going to go back to the criminal  
46 and say, sorry, can't do it. Here's your cash  
47 back. He will always -- I've never encountered a

1 situation where the controller will say no to a  
2 transaction.

3 So what the controller does is he knows lots  
4 of other people who are engaged in the same type  
5 of activity as he is, and so to the left of the  
6 diagram you see there is a second controller,  
7 controller 2, who is also in the UAE. Now, these  
8 people are in competition with each other, but  
9 they will also work together as circumstances  
10 allow if it facilitates their business. So what  
11 the first controller does, the guy highlighted in  
12 yellow, is get in touch with the second  
13 controller and say to him, brother, I need  
14 100,000 pounds worth of euros in the Netherlands.  
15 Can you -- have you got that? And on this  
16 occasion the second guy says, yeah, I can give  
17 you that, he says, but what are you going to give  
18 me in return? How are you going to pay me?

19 Sorry, excuse me while -- it's just gone off  
20 my laptop.

21 He says, yeah, I can supply that to you. He  
22 says, what are you going to do? He says, well,  
23 I've got 150,000 in the UK and I can give you  
24 some of that in exchange for euros in the  
25 Netherlands. Yeah, that's not a problem, he  
26 says.

27 So the next thing that happens is the  
28 controller gets back in touch with the UK  
29 collector and he instructs him to take 100,000  
30 pounds of the 150 that he's collected and hand  
31 that over to a different collector working for  
32 the second controller. And there will be a  
33 handover between two collectors working for  
34 different groups. And I've actually dealt with  
35 cases where this has been the case, where the  
36 instructions are coming from two different  
37 controllers in different locations. And it's a  
38 handover in order to settle the balance of cash  
39 pools in between two different people.

40 So the cash is handed over in the UK, the  
41 100,000 pounds, and then there is a reciprocal  
42 handover of 106,000 euros in the Netherlands to  
43 the Netherlands collector in the cash pool. Are  
44 we following this so far? Patrick, just nod if  
45 you get this so far. Yeah? Okay.

46 So now the Netherlands collector has got  
47 enough money in his cash pool and is now able to

1 settle a transaction on behalf of the UK criminal  
2 to the Dutch criminal. So he then takes all of  
3 the cash in his possession, he gets in touch with  
4 the Dutch criminal through the mobile phone  
5 number he's got, and there is a token-based cash  
6 handover to the Dutch criminal. And all of that  
7 will take place probably in an afternoon. And  
8 that red transaction, in terms of the red arrows,  
9 has now been settled. And all the UK criminal is  
10 aware is he's handed over cash to a guy in the UK  
11 in a Sainsbury's carpark -- that's a supermarket  
12 in the UK, sorry -- and he's received a payment  
13 in a similar situation to the Dutch criminal in  
14 the Netherlands. So the UK drug trafficker is  
15 happy.

16 But the important thing to realize is now  
17 the UK collector in the cash pool 1 is still  
18 sitting on 50,000 pounds of criminal cash. And  
19 the controller needs to find something to do with  
20 that money because he needs to make it work for  
21 him to make a profit. And I should say that the  
22 cost to the UK criminal for the handover in a  
23 process like that is between six and eight  
24 percent usually of the value. It can be more, it  
25 can be less, depending on things like how  
26 reliable the customer is, the extent to which  
27 there's Scottish, Northern Irish notes, you know,  
28 generally what the controller thinks he can get  
29 away with charging is what he will. But it works  
30 out generally around about six to eight percent.

31 So the UK collector is now sitting on 50,000  
32 pounds in the UK which he has to find something  
33 to do with -- the controller has to find  
34 something to with. So the next thing that  
35 happens is, over to the right in cash pool 5,  
36 there is a Pakistani company which is importing  
37 goods from China. And what we're going to talk  
38 about now is trade-based money laundering and how  
39 trade is integrated into the whole system.

40 So the Pakistan company is importing goods  
41 from China. Now, the import -- the value of the  
42 goods that it's importing is in this case  
43 \$75,000. And I've tried to make the figures more  
44 or less add up so people can see how it's kept  
45 into equilibrium.

46 So the Pakistan company wants to import the  
47 goods but it is going to be liable for VAT and

1 customs duty and various other charges in respect  
2 of the value of the goods. So he arranges with  
3 the Chinese company, the Pakistan importer does,  
4 to only invoice him for half of the value of the  
5 goods. So the goods are worth 75,000, but when  
6 they arrive in Pakistan their accompanying  
7 paperwork suggests they're only worth 37 and a  
8 half thousand pounds. And the Pakistan company  
9 pays the 37 and a half thousand dollars -- sorry,  
10 I'm talking about pounds. It should be  
11 dollars -- 37 and a half thousand dollars to the  
12 Chinese company, and so the payments and the  
13 invoice match up and everyone thinks it's all  
14 legal and above board.

15 But of course what that means is the Chinese  
16 company is down on the deal because it's sold  
17 \$75,000 worth of goods and has only received half  
18 the payment for it, and the Pakistan company's up  
19 on the deal because it's got goods and it's only  
20 paid half the value for it. What happens is  
21 there has to be a settlement to the Chinese  
22 company for the full value of the goods that it's  
23 exported, and the way that that works is the  
24 Pakistan company makes a payment to an exchange  
25 company in Pakistan that is complicit with the  
26 international controller. And so they make a  
27 payment of 37 and a half thousand dollars, and  
28 that money is then sitting and is there for the  
29 controller to use for some other purpose.

30 At the same time, we have a situation where  
31 the UK collector is contacted by the controller  
32 and he is instructed to take 25,000 pounds worth  
33 of the 50,000 pounds he's got left and to put it  
34 into the bank account of -- when I did this, MSBs  
35 in the UK could still get bank accounts. It's  
36 much more difficult for them now, but there are  
37 still ways around it. So he puts it into the  
38 bank account of a company, for example, that  
39 might be involved in sort of -- a shell company  
40 involved in this type of activity.

41 Commingled with that, there may well be  
42 money from UK migrants who quite legitimately  
43 want to send their funds back to Pakistan. The  
44 money that's in the high value dealer company or  
45 the MSB -- that's what H3D (phonetic) is. It's a  
46 company that deals with a lot of cash. That  
47 money is then sent to a money remittance company,

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1           like an FX trader or something like that, with an  
2           instruction to pay 37 and a half thousand dollars  
3           to the Chinese company. And that is a settlement  
4           for the balance of the payment that they should  
5           have received from the Pakistan company but  
6           didn't.

7           And the important thing to realize here is  
8           if you were following the old adage of "follow  
9           the money," what you would see is the UK  
10          criminal's money going to the UK collector, it  
11          going into an MSB company and going to China, and  
12          you'd be saying to yourself as a financial  
13          investigator, well, why does my guy want his  
14          money in China? And the fact is he doesn't, and  
15          his money hasn't gone to China. His money has  
16          actually popped out in the Netherlands, but the  
17          actual money that he put into the collector has  
18          been used for a different purpose, to settle a  
19          trade transaction in between two completely  
20          independent people.

21          So that is that situation sorted. The  
22          Pakistan company has actually made the full  
23          payment for the goods and the Chinese company has  
24          received the full remittance. But in so doing,  
25          there has been a separate crime committed in  
26          Pakistan because there's been tax evasion and  
27          what have you, and a trade transaction has been  
28          integrated into the whole method of settlement  
29          between cash pools.

30          The UK collector is still sitting on 25,000  
31          pounds of the UK criminal's drug money. He's  
32          been paid so the controller needs to find  
33          something to be done with it. So we'll move now  
34          over to the right-hand side of the diagram, and  
35          what you have is an Iranian company on the far  
36          right side of the diagram, which you can see, the  
37          green hash line there is importing medical goods  
38          from a UK company. And this is based on a real  
39          example I've seen.

40          Now, medical goods have never been subject  
41          to sanctions. We all know that Iran has been  
42          subject to sanctions on and off over various  
43          times imposed by the EU, USA and they've gone off  
44          and come back on again. Generally medical goods  
45          have never been sanctioned so there's always been  
46          a way in which an Iranian company can import  
47          goods for medical purposes. The UK company has

1 got all the right export licenses and is  
2 exporting the goods legitimately. However,  
3 because Iran is still subject to sanctions, it's  
4 almost impossible for the Iranian company to make  
5 a direct bank transfer to the UK company to pay  
6 for the legitimate goods that it's received.

7 So what happens instead is the Iranian  
8 company makes a payment to the Iranian saraf -- a  
9 saraf is a money exchanger like an MSB in cash  
10 pool form. So they make a payment which is the  
11 equivalent of 20,000 pounds plus commission, to  
12 the Iranian saraf, and say, can you make this  
13 payment to the English company. And the saraf  
14 says yes, I can do that for you. No problem.  
15 And what he does is he does is he sells that  
16 transaction to the controller for a profit,  
17 because the controller needs to buy up  
18 transactions coming into the UK. And do you  
19 remember I mentioned about the cuckoo smurfing,  
20 about the legitimate remittances? The controller  
21 needs to find inwards remittances into the UK  
22 that he can use the cash that he's got from the  
23 criminal to satisfy. And that's what he does.  
24 He gets the bank details of the UK company that  
25 has supplied the goods to the Iranian company,  
26 from the Iranian company, and then he gets in  
27 touch with the collector, the UK collector, and  
28 says, take 20,000 pounds of that 25,000 you had  
29 left and pay it into the bank account of that  
30 company, that UK company that has supplied the  
31 goods.

32 And so that transaction has now been  
33 settled. The Iranian company has paid and the UK  
34 company has received it, but there has been a  
35 value transfer from Iran to the UK in order to  
36 balance the cash pools.

37 And the final part of the jigsaw is in the  
38 UK there is an Iranian student that is studying  
39 medicine, again quite legitimately -- got the  
40 visa and everything like that -- his father is a  
41 doctor in Iran and wants to pay his son's tuition  
42 fees and to pay for his accommodation and things  
43 like that. And essentially the same process  
44 works. The Iranian doctor goes to the saraf in  
45 Teheran. He makes a payment of 5,000 pounds  
46 equivalent in Iranian rials, which is a  
47 bucketload of them, to the Iranian saraf. The

1 saraf communicates the son's bank account details  
2 to the controller, who passes it on to the UK  
3 collector, and the UK collector takes the final  
4 5,000 pounds that he's received and drops it into  
5 the son's bank account.

6 And that is what we refer to as cuckoo  
7 smurfing. So it's the use of funds received from  
8 a criminal which have subsequently -- the value  
9 of which have been transferred overseas, but the  
10 criminal funds are used to complete a separate  
11 and legitimate inward remittance into the UK.  
12 And that's essentially how the diagram works.

13 Did you follow that? Do you understand how  
14 that goes? Yeah? And as I say, we know that  
15 this is how it works. We've got lots and lots of  
16 examples of this and what have you. And we've  
17 got information from all sorts of sources so we  
18 know that this is how it operates. And I've seen  
19 that personally in a number of different cases  
20 where I have dealt with this type of activity.

21 Q Thank you. Have we concluded with the diagram  
22 now, Mr. Lord?

23 A Yeah. If you're happy that you understand it,  
24 then yeah. The important thing to emphasize is,  
25 in general terms, most IVTS mechanisms operate in  
26 this sort of way. Cash pools -- I mentioned it  
27 before. Payment into one, payment out of  
28 another, and a settlement mechanism which  
29 balances it all up in between.

30 MR. MCGOWAN: Thank you. Well, Mr. Commissioner, I  
31 think I'm going to ask that this be marked as the  
32 next exhibit, please.

33 THE COMMISSIONER: Very well. I think we are at  
34 Exhibit 11 now. Is that correct, Madam  
35 Registrar?

36 THE REGISTRAR: Yes, Exhibit 11, Mr. Commissioner.

37 THE COMMISSIONER: Thank you.

38  
39 EXHIBIT 11: IVTS Network Map  
40

41 MR. MCGOWAN: We can pull that down from the screen  
42 now, Madam Registrar. I see you've done that.  
43 Thank you.

44 Q Mr. Lord, during your explanation, you made  
45 reference to token transactions. I wonder if you  
46 might just take a moment and explain those to the  
47 Commissioner.

Simon Lord (for the Commission)

Examination by Mr. McGowan, Counsel for the Commission

1 A Yeah. So a token. So one of the features of  
2 this type of activity, of informal value transfer  
3 systems, I mentioned is the fact that at some  
4 point, the guy who's made the money from the drug  
5 trafficking or whatever criminality it is, has to  
6 hand that cash to the guy who is the  
7 representative of the money laundering mechanism.  
8 Now, the difficulty they face is most of the time  
9 they'll never have met each other before, and  
10 these handovers -- I mean, I mentioned 150,000  
11 pounds in the diagram. That's by no means  
12 unusual. We're not talking about small amounts  
13 of money. It's a big hold-all -- big heavy hold-  
14 all full of cash, and it's clearly important for  
15 the guy who's handing it over to make sure he's  
16 handing it to the right guy, because there will  
17 be all sorts of consequences if he subsequently  
18 found that he'd given it to a stranger or  
19 something. All sorts of unfortunate consequences  
20 for him.

21 So a system had to be developed whereby,  
22 first of all there was some type of  
23 identification involved where a person could be  
24 sure that he was giving the money to the right  
25 guy, but secondly, so that the money laundering  
26 network could issue a receipt for the handover  
27 because one of the important parts of the system  
28 is that once cash is received by the money  
29 laundering network, they accept responsibility  
30 for the safe delivery of the funds to the remote  
31 location. And what that means is once they've  
32 accepted it, if by some unfortunate chance the  
33 collector gets two miles down the road and gets  
34 arrested by the police and has the cash seized,  
35 the money laundering network will still pay out.

36 Now, that's an important facet of the  
37 system. It builds in an element of insurance  
38 almost, in a funny sort of way, to the criminal,  
39 and it ensures that they keep on going.

40 The point about it is, is that the money  
41 laundering network -- it's not at all unusual for  
42 money laundering networks to be dealing with  
43 millions of pounds a week in this sort of way.  
44 And so they can afford to stand the loss of the  
45 odd cash seizure going missing. Bearing in mind  
46 that every time that they do this, they're  
47 charging six to eight percent of the total amount



1 that they've picked up. It doesn't take long  
2 doing that for you to accumulate enough money to  
3 be able to stand the loss of a few of these  
4 things.

5 So what is the mechanism that has evolved in  
6 terms of making sure, first of all, that you're  
7 giving it to the right person, secondly, that  
8 there is a receipt passed? Now, clearly what you  
9 don't want is a situation where someone writes in  
10 a duplicate receipt book "Received from Mr. Joe  
11 Blogs the sum of 150,000 pounds for safe delivery  
12 to the Netherlands." Nobody -- obviously if  
13 you're a criminal, that would be suicide.

14 So what you have to do is come up with  
15 something which is going to blend into normal  
16 activity. These things are known as tokens. And  
17 that is -- and they're known as tokens in the  
18 criminal fraternity. That isn't a law  
19 enforcement concept that we've come up with.  
20 Criminals refer to these things as tokens  
21 themselves. We've become aware of that because  
22 obviously we do things like analyze telephones  
23 and what have you when we arrest people and we  
24 look at communications and things.

25 So the situation is it works on the basis of  
26 a unique serial number on a bank note. So what  
27 happens is -- in the diagram, where the  
28 controller gets in touch with the collector and  
29 says, go meet this guy in the supermarket  
30 carpark, the first thing they will ask him is,  
31 give me a token number. And what the collector  
32 will do is look in his wallet, take out a bank  
33 note, usually the lowest value one he can find --  
34 in the UK it's generally a five-pound note. But  
35 if you've got a wad of Indian one-rupee notes, so  
36 much the better. And he will quote the serial  
37 number on that bank note to the controller, the  
38 key thing being that there is only one bank note  
39 in existence which has that serial number on it,  
40 so it's completely unique.

41 The controller will then transmit that  
42 serial number by whatever method he chooses,  
43 whether it be by the old-fashioned text message,  
44 or it might be on WhatsApp or Viber or Messenger  
45 -- some sort of messaging system -- to the guy  
46 who's going to hand the cash over. And he will  
47 also pass over the mobile phone number and

1 sometimes the car details of the guy who's going  
2 to collect the cash.

3 So the criminal who's got the bag of cash  
4 turns up in the carpark, sees a car that he's  
5 been described, has made the arrangements with  
6 the guy over the mobile phone, generally through  
7 a Satmap device or something like that, and then  
8 the two people will come together and the  
9 collector will take out of his pocket the bank  
10 note with the unique serial number on it. There  
11 is only one bank note with that serial number on  
12 it so it proves incontrovertibly that the person  
13 in possession of the bank note is the guy to whom  
14 you should hand the cash. Because nobody else  
15 can have that bank note. The bank note has been  
16 provided by the collector to the controller to  
17 the criminal, and the criminal's got those  
18 details and so he knows that the guy in  
19 possession of that bank note is the guy he should  
20 be handing it to.

21 The bank note generally is handed over in  
22 exchange, because what that then does is it acts  
23 as a receipt for the guy who's handed the cash  
24 over, so he can go back and show his boss in the  
25 event of a loss. He says, now look, I've got the  
26 token, they've got the money. It's their problem  
27 if they've lost it. So it acts as a form of  
28 receipt and also as a transfer of acceptance for  
29 responsibility of the money.

30 That system is in use all round the world,  
31 wherever I've gone, wherever I've lectured in  
32 this type of thing. It is being used in  
33 Pakistan, in India. It's being used in  
34 Australia, New Zealand, Canada, in the USA, in  
35 the Netherlands, in Spain. It's in use  
36 everywhere. The interesting thing about it is  
37 that criminal organizations know that we know how  
38 it works. But it's such a perfect system they  
39 haven't found anything better to -- they haven't  
40 found anything better to replace it with. And so  
41 I can guarantee that this type of activity has  
42 been happening all across the streets of the UK,  
43 in Canada, in British Columbia, in everywhere  
44 else, and it's been happening lots of times  
45 today.

46 Q Interesting. Thank you, Mr. Lord.

47 MR. MCGOWAN: Mr. Commissioner, I wonder if this might

Simon Lord (for the Commission)

Examination by Mr. McGowan, Counsel for the Commission

1           be a convenient time to a break, and I'm going to  
2           suggest maybe just a 10-minute break.  
3   THE COMMISSIONER: Yes, that's fine, Mr. McGowan.  
4           We'll take 10 minutes. Thank you. And once again,  
5           I just remind everyone to turn off both their  
6           cameras and their mic.

7

8

(WITNESS STOOD DOWN)

9

(PROCEEDINGS ADJOURNED)

(PROCEEDINGS RECONVENED)

10

11

12

13   THE REGISTRAR: The hearing is now resumed. Please  
14           ensure you're muted unless you are speaking.  
15           Thank you.

16

17

SIMON LORD, a witness,  
recalled.

18

19

20   THE COMMISSIONER: Thank you. Yes, Mr. McGowan.  
21   MR. MCGOWAN: Yes, Mr. Commissioner. Thank you.

22

23

EXAMINATION BY MR. MCGOWAN, continuing:

24

25   Q   Mr. Lord, I understand after being involved in  
26           the crafting of the typology report that we've  
27           been working our way through, you subsequently  
28           had further opportunity to investigate the  
29           prevalence and use of informal value transfer  
30           systems in the United Kingdom, which ultimately  
31           led to you authoring two additional reports on  
32           that topic; is that right?

33   A   Yes. Are you referring to the Chinese ones  
34           [indiscernible]?

35   Q   Yes.

36   A   Yeah. Yes, that's right.

37   Q   And maybe I will first pull up --

38   MR. MCGOWAN: Madam Registrar, if you could pull up  
39           the report titled "Ethnic Chinese Money  
40           Laundering in the UK," the NCA report.

41   Q   This is one of the reports that you authored  
42           dealing with that subject?

43   A   Yes, it is.

44   MR. MCGOWAN: Mr. Commissioner, if that could be the  
45           next exhibit, please.

46   THE COMMISSIONER: Very well. That will be Exhibit  
47           12.

1 THE REGISTRAR: Exhibit 12.

2

3 EXHIBIT 12: Report entitled "Ethnic Chinese  
4 Money Laundering in the UK"

5

6 MR. MCGOWAN: If that could come off the screen, Madam  
7 Registrar, and if we could next have the second  
8 NCA report dated October 2019, "Chinese  
9 Underground Banking and 'Daigou'."

10 Q That's another report drawing on your work in the  
11 United Kingdom on this topic?

12 A That's right.

13 MR. MCGOWAN: If that could be an exhibit, please.

14 THE COMMISSIONER: Yes. That will be Exhibit 13.

15 THE REGISTRAR: Exhibit 13.

16

17 EXHIBIT 13: Report entitled "Chinese  
18 Underground Banking and 'Daigou'"

19

20 MR. MCGOWAN:

21 Q Thank you, Mr. Lord. And I'm going to take you  
22 through these reports in a little bit of detail.  
23 But before doing so, I just want it to be clear,  
24 and I think you want it to be clear, that the  
25 focus of these reports was on a discrete group of  
26 operators and not intended to be any sort of  
27 generalization about any particular culture or  
28 society.

29 A No. It's one of those awkward things where, with  
30 an IVTS mechanism like this, you can't describe  
31 it without talking about the ethnicity of the  
32 people involved. But I want to make it  
33 perfectly clear that I am in no way suggesting  
34 that, first of all, everybody who uses this type  
35 of mechanism is a criminal or that Chinese  
36 individuals in particular are all criminals or  
37 whether they're more inclined to be involved in  
38 criminal activity or anything like that. It's  
39 nothing to do with that. It is simply the fact  
40 that -- I mentioned about the fact that certain  
41 money laundering mechanisms and certain forms of  
42 IVTS emerge in sort of ethnic corridors, if you  
43 like, and this is just one of those. So we have  
44 people who are, I mentioned earlier on, involved  
45 in IVTS in between the UK and Kurdistan. And  
46 this is IVTS in between the UK and China

47 Q Right. And I'm sure you'll agree the vast

- 1 majority of Chinese expatriates who work and live  
2 abroad are perfectly law abiding.
- 3 A Absolutely, one hundred percent, yeah.
- 4 Q Right. And this report, I gather, is designed to  
5 address a relatively small group of individuals  
6 who seek to circumvent the law and launder the  
7 proceeds of their crimes and the proceeds of the  
8 crimes of others?
- 9 A Yes. And again, it's criminal abuse of the  
10 system really. The operation of the system is  
11 out with the laws of China, but for the most part  
12 -- most of the people who are involved in it are  
13 simply trying to move legitimate money, albeit  
14 through a mechanism that's illegal in its country  
15 of origin.
- 16 Q Right. And the observations you make in this  
17 report, I gather, are instructive for the  
18 situation in the United Kingdom. Are they also  
19 instructive for experiences elsewhere, including  
20 in Canada?
- 21 A Yeah. One of the things -- I've been looking at  
22 this in some detail since at least early to  
23 middle 2018, and I've done quite a lot of  
24 consulting of international partners in respect  
25 of it. And one of the things that has taught me  
26 is that what we are seeing in the UK is not at  
27 all unusual. The same system or a variation of  
28 the same system are operating in the UK, in the  
29 USA, in Canada, in Australia, in New Zealand,  
30 most European countries. So yeah, the UK  
31 experience is not unique by any stretch of the  
32 imagination.
- 33 Q What was the purpose for which you authored these  
34 two -- and I should clarify. You were the author  
35 of these reports?
- 36 A Yes, I wrote them both. Yeah.
- 37 Q And what was the purpose for which you authored  
38 them?
- 39 A Well, like I said, one of the -- one of my roles  
40 in the National Assessment Centre is to basically  
41 ensure that the UK has a current and up-to-date  
42 understanding of all of the money laundering  
43 threats. In respect of the threat from Chinese  
44 underground banking, "Ethnic Chinese Money  
45 Laundering in the UK," it had always been there  
46 and there had always been -- you know, the system  
47 was always being operated. And in fact I sort of

1 started to -- became more and more aware of it  
2 when I was doing the report for FATF in 2012. I  
3 mentioned about the fact that there was a guy  
4 from China. He was from the anti-money  
5 laundering bureau of the People's Bank of China,  
6 as it happened. He was part of the Typology  
7 Working Group. And one of the presentations he  
8 did was talking about Chinese underground banking  
9 in China and what they do about it as a form of  
10 IVTS. So I've always been aware of it. But in  
11 around about 2015 in the UK, we started noticing  
12 it more. And opinions are divided as to whether  
13 the activity had always been carrying on on a  
14 particular level and we just hadn't spotted it,  
15 or whether the actual amount of this type of  
16 stuff that was going on was increasing. My  
17 personal opinion is that all of a sudden there  
18 was an upswing in the volume of money laundering  
19 and the number of cases that we were seeing. It  
20 wasn't just a case of we spotted it more.

21 And one of the most significant things that  
22 we spotted with it was that the people who -- the  
23 criminals who were pushing their money through  
24 the system, who were abusing the system, were not  
25 just Chinese. The mechanism had always existed  
26 for Chinese people laundering money through a  
27 Chinese mechanism. But now we started to see  
28 people who were involved in drug trafficking who  
29 were white British organized crime groups up in  
30 the North of England or Albanian drug trafficking  
31 groups or Western Balkan drug trafficking groups  
32 -- all sorts of people for whom it appeared that  
33 Chinese money launderers were providing the  
34 service.

35 So because of that, and because it appeared  
36 that similar attention was being paid to this in  
37 other countries as well, I suggested to the  
38 people I work with in the National Assessment  
39 Centre that we should maybe study it in a bit  
40 more detail and produce reports. And as I said,  
41 the purpose of the report is twofold. Number  
42 one, to inform law enforcement and to put things  
43 into context. But secondly, to make the -- and  
44 I've talked about public-private partnership and  
45 information sharing before -- to make sure that  
46 our partners in the private sector were also  
47 aware of it so they could build the information

1           into their risk management methods and  
2           techniques.

3           Q     And was one of these reports originally intended  
4           to be internal and one to be distributed more  
5           widely?

6           A     Yeah. So the one that's called "Ethnic Chinese  
7           Money Laundering in the UK" -- there's actually  
8           two versions of this. The original one was  
9           issued -- I'm sure everyone is aware. There's a  
10          government-protected marking system in place in  
11          the UK and in all other countries, and you can  
12          share more sensitive information as long as you  
13          protect it appropriately. And the first version  
14          of the "Ethnic Chinese Money Laundering in the  
15          UK" assessment was issued for internal government  
16          use only at "official sensitive" level, which  
17          meant that only people that were cleared to see  
18          sensitive intelligence could see it. However, it  
19          became apparent that there was a lot of interest  
20          in this topic, especially from the private  
21          sector. And so we worked then to redact out the  
22          sensitive intelligence in the original version  
23          and to bring the classification down to  
24          "official," which meant that we could share it  
25          with anybody in the private sector, because we  
26          could see that there was a justifiable purpose  
27          for doing that, you know, like I mentioned in  
28          order for the private sector to manage risk  
29          effectively.

30                 And so that's what that is. The version  
31          you've got in front of you is the official  
32          version with the sensitive stuff redacted out.  
33          But nothing was taken out which would affect the  
34          understanding of the typology, if you like. It  
35          was only some of the source of the intelligence  
36          and, you know, and the response and things like  
37          that that we had to take out.

38          Q     Right. And the two reports we've just marked  
39          cover a lot of the same ground; is that fair?

40          A     They do, yeah. So the one that's been released  
41          as "Chinese Underground Banking and 'Daigou'" was  
42          released for a specific purpose. I mentioned  
43          Project Princekin a little bit earlier on, the  
44          initiative with Barclays and the JIMLIT and the  
45          NAC, that was produced mainly for that.  
46          Essentially the reason we did it was because -- I  
47          mentioned on Project Princekin that there was a

1 day of action where 95 or so bank accounts were  
2 identified with lots of money in that had come  
3 in, we believe, from criminal activity. And  
4 there were going to be mass applications for  
5 account freezing orders on -- all in one day.

6 We were aware in the Expert Laundering  
7 Evidence Cadre that we were likely to get 95  
8 requests for assistance in these cases because  
9 this type of stuff is the sort of thing we --  
10 it's our bread and butter, explaining how  
11 typologies work and what have you. We clearly  
12 couldn't deal with 95 requests all at once. So  
13 what we needed was a document that set out how  
14 Chinese underground banking and daigou and what  
15 have you worked and how they're abused by the  
16 criminal fraternity, that could be used in way in  
17 which people who were applying for court  
18 orders -- for account freezing orders for  
19 forfeiture could include that document in the  
20 papers which would essentially not supplant but  
21 sort of fulfil the role that an expert would in  
22 demystifying the procedures to a court. And  
23 that's what that document was for.

24 But subsequent to that we made it available  
25 to anybody who wants it really. It's available  
26 on the NCA's website if you log into the NCA  
27 website. And it's been widely distributed to all  
28 sorts of people. And in fact, both of these  
29 reports -- like I say it's widely distributed.  
30 We've actually given copies of both of these  
31 reports to the Chinese government.

32 Q And the other report has also been distributed to  
33 some extent as well in --

34 A Yeah, very widely. Very widely. It's been  
35 shared amongst the -- everybody who was a  
36 contributor to the JIMLIT has got a copy. We've  
37 sent it to law firms. We've sent it to -- like I  
38 mentioned, I did a presentation to the Institute  
39 of Money Laundering Prevention Officers, which  
40 include staff from insurance companies, money  
41 service businesses, and all the rest of it.  
42 Anybody who's asked for a copy of it, we've given  
43 a copy.

44 Q Okay. So maybe what I'll do is spend a few  
45 minutes in your paper titled "Ethnic Chinese  
46 Money Laundering" and walk you through that with  
47 some questions about some of the points you



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1 address in the report.

2 A Yeah.

3 Q Maybe I'll start by asking you, what does the  
4 term "ethnic Chinese money laundering" refer to?

5 A So what we're talking about here is the abuse of  
6 an informal value transfer system that operates  
7 within the Chinese community. And as I say, it's  
8 -- I'll emphasize again, I'm not saying that  
9 everybody who uses this mechanism are criminals.  
10 It's a form of IVTS that has grown up in a  
11 particular community and is as a result of local  
12 conditions, but it is abused by criminals for  
13 money laundering purposes. So when I say ethnic  
14 Chinese money laundering in the UK, it's an abuse  
15 of a system that is specialist to the Chinese  
16 community, but the money that's being laundered  
17 through it is coming from a whole range of  
18 criminals and not necessarily just Chinese  
19 individuals.

20 Q You say in the first paragraph of the report:

21  
22 Money laundering by UK based groups  
23 comprised of ethnic Chinese nationals  
24 presents a significant threat to the UK.  
25

26 A Yes.

27 Q And the scale of the threat has been  
28 unquantified. I wonder if you could explain what  
29 that threat is, what the risk or the harm that  
30 flows from that is, and any progress you've made  
31 since drafting this report in quantifying it.

32 A I'm always wary about putting figures on things.  
33 The difficulty is, if you put a figure in a  
34 report, everyone just quotes the figure and  
35 doesn't read the report. So I -- and the truth  
36 is, if anyone says that they can accurately  
37 quantify this, then they're lying, quite frankly,  
38 because there are so many different things that  
39 emerge and there's so many different systems and  
40 so many different ways of measuring it.

41 It's certainly into hundreds of millions of  
42 pounds in the UK and could well be into billions  
43 of pounds. As an illustration of that, the abuse  
44 of the Barclays Bank accounts that we mentioned  
45 in Project Princekin, in this 12-month period,  
46 that was 120 million pounds. And that's just one  
47 bank. And there are a whole load of different

1 banks in the UK. So we are certainly talking  
2 hundreds of millions and potentially into  
3 billions.

4 Like I say, the situation we were in is that  
5 we were reasonably well acquainted with the  
6 different types of money laundering that were  
7 taking place in the UK, and then all of a sudden  
8 -- well, I say all of a sudden -- but there was  
9 an inexorable rise in the number of these cases  
10 that we were seeing, to the point where almost  
11 every case that we tripped over there was a  
12 Chinese cash collector in it.

13 And so we got to the point where we were  
14 thinking, well, actually this is a really  
15 significant threat. This is something that has  
16 emerged over the last few years and is now a  
17 really significant threat. I mean, it's  
18 something that we have to deal with because it's  
19 not something that we'd been seeing for a long  
20 period of time.

21 So essentially that's what I mean. It's a  
22 significant threat to the UK. The interesting  
23 thing is at the moment, under the COVID-19  
24 restrictions, because it relies on individuals of  
25 Chinese descent who are quite often Chinese  
26 citizens, and it also relies on the use of bank  
27 accounts set up by Chinese students in the UK, a  
28 lot of those people have returned to China.  
29 Under the COVID-19 restrictions, the threat has  
30 actually diminished quite significantly. But  
31 once it all comes under control, we're expecting  
32 it to step up again.

33 Q Have you done any analysis to why that risk  
34 escalated so significantly in recent years?

35 A To be honest, I don't know what the answer to  
36 that is. I wish I did. I suspect it's a  
37 combination of things like a bigger risk  
38 appetite. So with the control networks that I  
39 described earlier on, hundred, hundred and fifty  
40 thousand pounds at a time, Chinese groups were  
41 willing to take three, four, five hundred  
42 thousand pounds in one setup. They have the  
43 capability of paying out -- I mentioned about the  
44 fact that cash pools, more or less anywhere where  
45 there is a significant Chinese diaspora will --  
46 we will see this type of mechanism operating.  
47 And as you're aware, there are significant

Simon Lord (for the Commission)

Examination by Mr. McGowan, Counsel for the Commission

1 Chinese communities all round the world. So they  
2 have a capability of paying out anywhere where  
3 criminals want their money.

4 And the other thing is, is they are highly  
5 competitive on price. We understand that the  
6 charges that are being levied by Chinese money  
7 launderers undercut some of the more traditional  
8 groups. So obviously the criminals are going to  
9 go for them.

10 Q Right. I wonder if you could just give the  
11 Commissioner an example how a criminal  
12 organization might exploit the informal value  
13 transfer system, Chinese underground banking, to  
14 launder funds.

15 A So it essentially works -- it's a supply and  
16 demand thing. The system has arisen in the UK  
17 and China largely because the Chinese government  
18 is more than happy for people to make lots of  
19 money in China. It's got a socialist sort of  
20 market economy. But the Chinese government want  
21 all that money to stay in China, thank you very  
22 much, because obviously it makes the country  
23 richer and what have you.

24 So what they do is they impose a limit on  
25 the amount of money that individual citizens are  
26 allowed to transfer out of China on an annual  
27 basis. And they also impose restrictions on what  
28 you're allowed to do with the money when you  
29 transfer it out. So the first thing -- so the  
30 restriction is \$50,000. That is quite widely  
31 publicized, but we've done some work through our  
32 liaison officers who are in China to get copies  
33 of the actual legislation. In nearly all  
34 circumstances -- not exclusively, but in nearly  
35 all circumstances the maximum amount of foreign  
36 exchange that an individual citizen can purchase  
37 in a year is \$50,000. And you have to do that  
38 through a foreign exchange settlement account  
39 with a bank. So there are no -- Western Union  
40 and MoneyGram do operate in China but only  
41 through bank branches and they're actually more  
42 expensive than the banks themselves.

43 So essentially, if you're going to transfer  
44 money out of China, you have to do it through a  
45 bank, so you have to go in and you have to buy  
46 the foreign currency off the bank essentially,  
47 and they will do the transfer for you. And the

1 rules, which are set by the State Administration  
2 of Foreign Exchange, are overseen and applied by  
3 the bank. So if you go into a bank and you say  
4 you want to transfer money out of China, the bank  
5 are going to ask you what it's for. And if it  
6 doesn't meet one of the criteria that are set out  
7 by the State Administration of Foreign Exchange,  
8 the bank will simply refuse to do it.

9 One of the things that you are not allowed  
10 to do with your funds when you transfer out of  
11 China is to buy property with it. That is seen  
12 as an individual direct investment and is  
13 prohibited by the Chinese government. You can  
14 invest overseas if you're a Chinese individual,  
15 but you have to go through something called the  
16 Qualified Domestic Institutional Investor  
17 Program, which, as you might imagine --  
18 everything in China is state controlled and the  
19 QDII process is state controlled and the Chinese  
20 government have -- essentially control what money  
21 goes where and how it can be seen and all the  
22 rest of it.

23 Now, what we have is a situation in the UK  
24 where wealthy Chinese citizens want to get their  
25 money out of China and buy property in the UK.  
26 And it's not just in the UK. It's in Vancouver  
27 and it's in all of the big cities all round the  
28 world. It's in Auckland in New Zealand, it's in  
29 Australia and all the rest of [indiscernible].

30 So Chinese citizens who are wealthy don't  
31 want to comply with the government's restrictions  
32 in terms of where their money goes. So they want  
33 to get their money out but the government won't  
34 let them, so they are forced to turn to an  
35 informal mechanism for doing it.

36 Now, what that creates is a demand for funds  
37 in the UK -- we're talking about the UK here --  
38 and what we also have on the same token are  
39 criminals in the UK who have got lots and lots of  
40 cash which they have made from drug trafficking  
41 and other crimes, and they want the money moved  
42 out of the UK somewhere else. And what the  
43 Chinese underground banker is able to do is put  
44 the two halves of that transaction together.

45 So it's a supply and demand thing. There is  
46 a supply of cash derived from criminal activity  
47 in the UK and there is a demand for inward

1 remittances from China to the UK for what would  
2 be regarded as illicit purposes in China. We  
3 would probably regard it as a legitimate transfer  
4 of funds from China to the UK to buy property.  
5 That's not criminal. It is in China but it's not  
6 in the UK. And the Chinese underground banker  
7 puts the two halves together.

8 So what happens is the Chinese cash  
9 collector, who is working for the controller --  
10 the Chinese controller for want of a better word  
11 -- meets the criminal in the carpark, as I've  
12 already described, takes the cash off the  
13 criminal and then uses that cash to pay it into  
14 the bank account of the individual who wants to  
15 buy property with it in the UK. But also for  
16 other purposes. There are other reasons people  
17 want to move money out of China, and we'll come  
18 to what that is in a minute.

19 Clearly the criminal has to get something  
20 out of it. There's no point in him giving his  
21 cash to a Chinese guy in the UK and the Chinese  
22 guy buying property with it. That's not the  
23 money laundering process. The criminal wants his  
24 cash somewhere else. If you're a drug trafficker  
25 and you're importing cocaine, then you may well  
26 want it in South America, and what the Chinese  
27 controller is able to do, like I've previously  
28 described, is receive the cash in the UK and make  
29 an equivalent payment, less a commission, in  
30 somewhere like South America on behalf of the  
31 criminal.

32 In return, what happens -- so the guy in  
33 China who wants to transfer his money out of  
34 China, he makes a payment to a bank account  
35 controlled by the individual in China, and he  
36 then receives cash in the UK in return for the  
37 payment into the bank account. And clearly that  
38 money in the bank account then, the controller in  
39 China can do what he likes with it. So it's an  
40 offsetting arrangement essentially and a cash  
41 pooling arrangement.

42 So on the one hand, it supports remittances  
43 out of China to the UK for reasons which the  
44 Chinese government would regard as illicit but we  
45 would probably see as a legitimate transaction.  
46 And it also supports the transfer of the value of  
47 the criminal funds out of the UK to somewhere

1 else. And that's essentially how the process  
2 works.

3 Q And I gather the ready supply of cash in the UK  
4 from illicit purposes is part of what feeds and  
5 fuels this dynamic?

6 A Yeah. It's supply and demand, like I say.  
7 There's a demand for money in and there's a  
8 demand for money out, and there's lots of cash  
9 from drug trafficking and various other sources  
10 which is available for use for that purpose.  
11 It's repurposing criminal funds essentially.

12 Q You mention in the report and discuss something  
13 called daigou.

14 A So what daigou is, is it's personal shopping. I  
15 mean, I'm told that daigou is a Chinese word  
16 which means buying on behalf of. I've never been  
17 able to confirm that, but until I hear to the  
18 contrary, that's what I'm going to say. And what  
19 you're essentially -- what you're talking about --  
20 -- it arose in a small way with people who have  
21 come to the UK buying things like designer  
22 handbags and sending them back to China and  
23 selling them there, because these type of things  
24 are heavily counterfeited in China or are not  
25 available while the genuine article is subject to  
26 significant tariffs and stuff.

27 So people realized that they could buy  
28 designer goods in the UK, export them to China,  
29 sell them there and make a profit. Now, that's  
30 okay, but the difficulty is, of course, when you  
31 sell them in China your money's in China. If you  
32 want to continue operating that system, you've  
33 somehow got to get the money back out of China,  
34 back to the UK again, in order for you to  
35 continue this type of activity. And that's where  
36 the Chinese underground banking comes in.

37 Now, we've also seen -- it's not just  
38 designer goods. We've also seen it with infant  
39 formula. There was a lot of this in Australia.  
40 Back in around -- I can't remember -- 2008,  
41 something like that, there were some stories in  
42 Chinese media of babies that had been fed  
43 counterfeit infant formula milk and had died as a  
44 result of it, which meant there was a big demand  
45 for the genuine stuff sourced from western  
46 countries. And people were going into like  
47 supermarkets in Australia and things like that

1 and buying up whole shelves full of baby milk and  
2 packing it up and sending it off to China and  
3 making huge profits into it.

4 As I say, and that's what daigou is. But  
5 the difficulty is, of course, as I say, it relies  
6 on the same set of circumstances, money in China  
7 that has to be removed from China, which is  
8 satisfied by cash from criminals being used to  
9 purchase the goods in the UK, or anywhere else  
10 for that matter. And daigou is something that  
11 manifests itself everywhere you look. It's in  
12 Canada, it's in the UK, it's in Australia, it's  
13 in New Zealand, it's in France, Belgium, Spain,  
14 everywhere.

15 Q Okay. You have a section of your report that  
16 addresses gambling and a connection between  
17 gambling and Chinese underground banking. I  
18 wonder if you could walk the Commissioner through  
19 that.

20 A Yeah. So it's essentially the same issue. In  
21 China most gambling is illegal. You can do  
22 things like sports betting and stuff like that,  
23 but if you want to gamble serious amounts of  
24 money in a casino, that is not a permissible  
25 purpose for your \$50,000 essentially. So if you  
26 want to move, say -- you want to come to the UK,  
27 you want to come to B.C., you want to come to  
28 Australia or something like that and go on a  
29 gambling holiday, which -- gambling is deeply  
30 embedded in Chinese society and lots of people  
31 like to do it, but the government has taken steps  
32 to make it illegal. So if you want to continue  
33 with your gambling practices, you can't remove  
34 your money from China to gamble it in another  
35 location because the bank won't let you. So  
36 you're forced into the same type of money  
37 laundering mechanism.

38 And so what we see in the UK -- and this is  
39 reflected in Australia and in Canada as well --  
40 is that people come to the UK and they receive  
41 cash from a money launderer to enable them to  
42 gamble in a casino. The important thing to  
43 realize is the gambling process is a symptom of  
44 the money laundering and not part of the money  
45 laundering process itself because what's  
46 happening is the individual who is gambling is  
47 making a payment from a bank account in China to

1 the Chinese IVTS operator and in return he's  
2 receiving cash which has come from criminals in  
3 whatever country he happens to be in.

4 So the actual placement of the cash with the  
5 gambler and the use in a casino is not part of  
6 the money laundering mechanism. It is simply a  
7 reflection of the fact that the guy who's doing  
8 the gambling can't get his money out of China to  
9 do it. And again, it's a supply and demand  
10 thing. A guy wants his money in a casino and the  
11 Chinese underground banker is able to take  
12 criminal money and satisfy that remittance.

13 Q So the value of the amount that's laundered may  
14 have been legitimately earned by the Chinese  
15 gambler?

16 A Yeah. So the guy who's gambling it, yeah. I  
17 mean, it may well be that he's a wealthy  
18 individual and he's got lots of money and he just  
19 wants to fritter it away unnecessarily. So it  
20 could be derived from an entirely legitimate  
21 source, but the money he's gambling in B.C. or in  
22 Australia or in the UK, wherever it happens to  
23 be, has come from a criminal source. But he may  
24 not be aware of that.

25 Q The actual funds that are used in the casino?

26 A Yeah. And what happens --

27 Q -- [indiscernible - overlapping speakers] you're  
28 putting forward?

29 A Yeah. That's -- and I'm pretty sure that that's  
30 the case. Because that's the way it works  
31 everywhere else. If I take you back to the  
32 Iranian system I was describing, it's a similar  
33 situation to that. It's a bit like what we would  
34 call cuckoo smurfing. So if someone wants to  
35 move their money out of Iran, can't, so they go  
36 to a saraf in Iran and they -- that transaction  
37 is sold to the controller and they use criminal  
38 cash in the destination to fund that inward  
39 remittance, and it's the same in respect of  
40 gambling. And what happens is the UK criminal  
41 receives a payment out of a cash pool somewhere  
42 else in return for him paying his money into the  
43 -- you know, making it available in the UK or  
44 Canada or wherever it happens to be.

45 You always have to remember what the  
46 criminal gets out of it. There is no -- there is  
47 no benefit to a criminal to just give his money



1 to somebody to play in a casino and lose. You  
2 know, if you have spent all that time and effort  
3 and the risk of arrest and all the rest of it  
4 importing cocaine, giving it to a guy who's only  
5 going to lose it all on the tables is not a money  
6 laundering mechanism. That's just a way of  
7 wasting the money. The criminal has to get  
8 something out of it, and that's the important  
9 thing about all of these mechanisms. So he's  
10 handing his cash over to someone in whatever  
11 jurisdiction it is. He's receiving his funds  
12 somewhere else. It's not a loan that's being  
13 given to the guy -- I'll give you this money and  
14 you give it me back later. He's actually  
15 receiving a payment somewhere else in turn for  
16 him having these funds over in that location.

17 Q And what's the benefit of the payment somewhere  
18 else to the money launderer or criminal  
19 organization?

20 A Well, it means that if he's in a situation where  
21 he wants to pay his supplier -- if you're a drug  
22 trafficker, for example, you might be importing  
23 cocaine from Brazil, then you need to pay for the  
24 drugs in Brazil. So you pay your money over to  
25 the underground banker in whatever location you  
26 happen to be in where you're selling the drugs,  
27 and in return you receive a payment from a cash  
28 pool in Brazil to pay your supplier. Or it might  
29 be that -- it might be the situation, for  
30 example, where you actually want your money in  
31 China, but the gambler has paid money to the  
32 controller in China and he can make a payment to  
33 you out of that money that he's received in  
34 China.

35 And that's the mechanism. It's transferring  
36 the value of the criminal funds to another  
37 location on behalf of the criminal.

38 Q And in the United Kingdom, following along from  
39 the gambling example, how is the cash typically  
40 delivered to the gamblers?

41 A It can be in a whole variety of ways. The most  
42 common thing that happens in the UK is the abuse  
43 of Chinese student bank accounts. And this is  
44 what I was talking about, about the Project  
45 Princekin thing. The first port of call in the  
46 process that we see overwhelmingly and the most  
47 common thing is that cash is collected from the

1 criminal and then it's deposited into a bank  
2 account that's been set up by a Chinese student.

3 And what happens is -- so in the UK -- it's  
4 important to realize in the UK that we have more  
5 Chinese students than any other ethnic group  
6 [indiscernible]. Last year to June -- I think it  
7 was June or July 2019 -- we issued 107,000  
8 student visas to Chinese individuals who want to  
9 come to the UK to study -- entirely legitimately.  
10 And they're more than welcome to come in.

11 Actually they are a valuable source of funds to  
12 the education sector in the UK.

13 What happens is, when they get to the UK --  
14 and again, we know this because some of the  
15 people that we've interviewed in respect of the  
16 use of their bank accounts told us this. All  
17 Chinese students, in fact almost everybody in  
18 China, uses a social messaging platform called  
19 WeChat. It's very similar to WhatsApp except  
20 that it's got a payment function built on the  
21 back of it that can be used to transfer money as  
22 well. And like everybody has, there are WeChat  
23 groups for their family and what have you and  
24 people set up WeChat groups in universities for  
25 people on different courses and things like that.  
26 They're mostly Chinese students.

27 What happens is, those WeChat groups are  
28 infiltrated by representatives of the money  
29 launderer in the UK, and the Chinese students are  
30 offered the opportunity to make a little bit of  
31 extra money. And what they say is, you're doing  
32 money remittance on behalf of Chinese citizens in  
33 the UK who are unbanked and want to send their  
34 money back to China. And all you're going to do  
35 is make your bank account available to us and you  
36 will receive money into the bank account and then  
37 you've just got to send it with a wire transfer  
38 where we tell you to, and in return for that you  
39 can keep some of the money that you receive. And  
40 there are some Chinese students who are able to  
41 make two or three thousand pounds a month by  
42 doing this.

43 Like I mentioned, with Barclays and the  
44 Princekin example, they identified 20,000  
45 compromised accounts into which this type of cash  
46 had been paid, and nearly all of them had been  
47 set up by Chinese students studying in the UK.

1                   And essentially that's what will happen.  
2                   The cash goes into those accounts and then a  
3                   payment will be made to the gambler in order for  
4                   him to go and to do the gambling. Or, in an  
5                   extreme example, the guy might pick the cash up  
6                   off the criminal and go and meet the gambler  
7                   outside a casino and just physically give it to  
8                   him.

9                   Q    Going back to the student bank account example,  
10                   what are you doing in the UK to combat that?

11                   A    Well, there's range of different things. I  
12                   mentioned that we have in the UK a four-P  
13                   approach: pursue, prevent, protect, prepare. So  
14                   the first thing is, is we were able to  
15                   identify -- we had the day of action that I  
16                   mentioned earlier on about bank accounts.  
17                   Barclays identified 95 bank accounts to us, lots  
18                   of money in them, and then we can go out and  
19                   apply for account freezing orders and to forfeit  
20                   the money in the bank accounts. Because what  
21                   we're saying is the person who operates the bank  
22                   account may not be a criminal but the funds in  
23                   the bank account are because we -- you know, our  
24                   understanding of the mechanism is, that's cash  
25                   that's been taken off a criminal and paid into  
26                   that account as the first stage in the money  
27                   laundering process. So that's the first thing we  
28                   can do is we can apply for account freezing  
29                   orders on those accounts.

30                   The other thing that we've been undertaking  
31                   is that we have done some work with the Chinese  
32                   government. We've been engaging with the Chinese  
33                   government on this. We've spoken to the Chinese  
34                   Embassy and we've been working with the Chinese  
35                   government to get the message out to Chinese  
36                   students who come to the UK not to get involved  
37                   in this type of activity. Basically to put the  
38                   word out to sort of say, this is what you are  
39                   likely to encounter when you come to the UK.  
40                   Don't get caught up in it. Because the other  
41                   thing -- aspect that's important to consider is  
42                   that if you get involved in doing this on a  
43                   routine basis, you actually fall under the  
44                   definition of a money service business in the UK,  
45                   transmitting money or any representation by way  
46                   of business. And that means you can be  
47                   committing a criminal offence of not registering

1 as a money service business.

2 The other thing that we've done is that  
3 we've actually gone into universities with the  
4 agreement of the university and we've been  
5 gathering all the Chinese students together in a  
6 lecture theatre and we're saying to them, this is  
7 the situation. This is what we are seeing in  
8 terms of how this money laundering mechanism  
9 works. And if any of you are doing this through  
10 your bank accounts, you need to be aware of it is  
11 not money remittance on behalf of poor unbanked  
12 Chinese individuals in the UK. You are actually  
13 the first stage in the money laundering process.  
14 So do not let your accounts be compromised in  
15 that way.

16 And the other thing we do is we go out and  
17 arrest people if we think they're actually  
18 complicit, obviously. There's that side of it.

19 MR. MCGOWAN: Mr. Commissioner, I note the time. This  
20 would be a convenient time to break until  
21 tomorrow morning.

22 THE COMMISSIONER: All right. Thank you, Mr. McGowan.  
23 We will adjourn 'til tomorrow morning at 9:30.

24 MR. MCGOWAN: Thank you.

25 A Thank you.

26 (WITNESS STOOD DOWN)

27  
28 THE REGISTRAR: The hearing is adjourned for the day  
29 and will recommence on May 29th, 2020, at 9:30  
30 a.m. Thank you.

31  
32 (PROCEEDINGS ADJOURNED TO MAY 29, 2020, AT  
33 9:30 A.M.)  
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