

**PROCEEDINGS AT HEARING
OF
NOVEMBER 12, 2020**

COMMISSIONER AUSTIN F. CULLEN

INDEX OF PROCEEDINGS

Witness	Description	Page
	Proceedings commenced at 9:30 a.m.	1
Larry Vander Graaf (for the commission)	Examination by Ms. Latimer	1
	Proceedings adjourned at 11:26 a.m.	103
	Proceedings reconvened at 11:40 a.m.	103
Larry Vander Graaf (for the commission)	Examination by Ms. Latimer (continuing)	103
	Proceedings adjourned at 1:57 p.m. to November 13, 2020	228

INDEX OF EXHIBITS FOR IDENTIFICATION

Letter	Description	Page
C	Briefing note prepared for Cheryl Wenezenki-Yolland dated November 26, 2014	228

INDEX OF EXHIBITS

No.	Description	Page
181	Sworn affidavit of Larry Vander Graaf dated November 9, 2020	2
182	Curriculum vitae of Larry Vander Graaf (document 00001549)	3
183	Letter from Derek Sturko to Vic Poleschuk dated March 28, 2003	66
184	Email from Larry Vander Graaf re Patron Gaming Fund Account Discussion dated September 14, 2009	66

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

November 12, 2020
(Via Videoconference)

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

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

THE COMMISSIONER: Thank you, Madam Registrar.
Yes, Mr. McGowan or Ms. Latimer.

MS. LATIMER: Yes, good morning, Mr. Commissioner.
Our witness today is Larry Vander Graaf.

THE COMMISSIONER: Thank you.

**LARRY VANDER GRAAF, a
witness called for the
commission, sworn.**

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

THE WITNESS: My name is Larry Peter Vander Graaf.
My first name is spelled L-a-r-r-y. My last name is spelled V-a-n-d-e-r, space, G-r-a-a-f.

THE REGISTRAR: Thank you.

THE COMMISSIONER: Yes, Ms. Latimer.

EXAMINATION BY MS. LATIMER:

Q Good morning, Mr. Vander Graaf. Can you hear me okay?

A Yes, I can.

Q Okay. Excellent.

1 MS. LATIMER: Madam Registrar, can we please have
2 affidavit number 1 of Mr. Vander Graaf placed
3 before the witness, please.

4 Q And, sir, you recognize this as your affidavit 1
5 that you swore to give evidence in these
6 proceedings; correct?

7 A That's correct.

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

10 THE COMMISSIONER: Very well. That will be
11 exhibit 181.

12 THE REGISTRAR: Exhibit 181.

13 **EXHIBIT 181: Sworn affidavit of Larry Vander**
14 **Graaf dated November 9, 2020**

15 MS. LATIMER:

16 Q And, Mr. Vander Graaf, you have in your
17 affidavit in the first few paragraphs set out
18 some of your professional experiences; is that
19 correct?

20 A That's correct.

21 Q And you've also provided to commission counsel a
22 curriculum vitae with a bit more detail; correct?

23 A That's correct.

24 MS. LATIMER: Madam Registrar, could I have
25 document 00001549 placed before the witness,

1 please.

2 Q And, sir, you recognize this as a curriculum
3 vitae that you provided to commission counsel?

4 A Yes, I do.

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

7 THE COMMISSIONER: Very well. That will be
8 exhibit 182.

9 THE REGISTRAR: Exhibit 182.

10 **EXHIBIT 182: Curriculum vitae of Larry Vander**
11 **Graaf (document 00001549)**

12 MS. LATIMER:

13 Q And, Mr. Vander Graaf, you were an officer with
14 the RCMP between 1969 and 1998; correct?

15 A That is correct.

16 Q And you held various positions with the RCMP.
17 The last one was as an officer-in-charge of the
18 anti-drug profiteering integrated unit between
19 1991 and 1998; is that right?

20 A That's correct.

21 Q And that unit's name was subsequently changed to
22 the Integrated Proceeds of Crime Unit; correct?

23 A No, the integrated -- yeah. Pardon me. Yes,
24 you're correct.

25 Q Okay. Could you tell the Commissioner a little

1 bit about the work and makeup of that unit,
2 please.

3 A Yes, Mr. Commissioner. That unit was formed
4 federally by the Solicitor General's ministry in
5 Ottawa, and that work was set up with three
6 Department of Justice lawyers, some RCMP
7 personnel, Vancouver Police, Canada customs and
8 support staff. And the idea was that we would
9 identify, seize and forfeit the proceeds of
10 crime, but mainly drug trafficking illicit
11 drugs. And that unit was a five-year
12 initiative, but it was extended further as the
13 assets grew, I guess. It extended further than
14 five years. It was supposed to be five years,
15 but it went on quite a bit further than that.

16 Some of the cases that we were involved in,
17 and I'm certainly not taking credit for those
18 cases, but I was a supervisor on some of them,
19 was the Project Eventually, which was called the
20 Ice Queen. And it was -- when we went over --
21 it was a methamphetamine trafficker out of
22 southeast Asia that purchased some property in
23 Kerrisdale, and as a result of that we had to go
24 to China for six weeks -- and I'm calling that
25 PRC -- and investigate the predicate offence in

1 provided training in respect of money laundering
2 and proceeds of crime; is that fair?

3 A Yes. I was fortunate that I was an instructor
4 at the RCMP academy, so I had some lecturing
5 ability. And as a result of that, coupling it
6 with the proceeds of crime ADP unit, I was lucky
7 enough to get some lecturing around the world
8 basically on structuring, layering, commingling
9 assets. Some of the places were -- in the
10 national undercover course I taught one year,
11 and then the international observer's course out
12 of Ottawa where we had police officers from all
13 over the world come in there and we would
14 lecture to them.

15 I wasn't the only lecturer; there was a
16 number of other lecturers on those courses, but
17 as a result of having certain expertise and they
18 all thought I could speak okay that I was -- I
19 did some travelling around the world. South
20 America, places like Panama and Bogotá,
21 Columbia. A lot of lecturing in the United
22 States with the US agencies. Where else was I?
23 I was in British Columbia Justice Institute.
24 Like I said, Bogotá, Prague, Czech Republic,
25 Panama. A number of other places around the

1 world --

2 Q And --

3 A -- where I lectured.

4 Q The target audience of those lectures included
5 law enforcement personnel and also sometimes the
6 judiciary and lawyers and undergraduate
7 students; is that correct?

8 A That's correct. It was really a -- it was an
9 opening level conferences whereby you would
10 give -- what Canada is doing after Bill C-61 was
11 enacted and we were doing proceeds of crime
12 investigations and how we were structured across
13 the country, they were interested in what we
14 were doing there.

15 Q And in 1998 you were hired by the Gaming Audit
16 and Investigation Office as an investigator;
17 correct?

18 A That's correct.

19 Q And you were eventually promoted to manager
20 within that office?

21 A Yes, I was.

22 Q Can you explain sort of the mandate of that body
23 and the nature of the work you did while you
24 were at that office?

25 A The Gaming Audit Investigation Office was formed

1 as a result of the Nanaimo Commonwealth Holding
2 where the funds were going into the NDP coffers,
3 and it was to be an arm's length investigation
4 audit body that would oversee the gaming in the
5 province. And it was comprised of accountants,
6 some police officers, a number of civilian
7 people, and we had -- I think we had even one
8 lawyer there. And we were responsible for
9 looking at the gaming commission, the Gaming
10 Policy Enforcement Branch.

11 The lottery corporation at that time was
12 only doing lotteries, but that was our
13 responsibility. It was structured specifically
14 for that, independent from all the rest of
15 gaming activities in the province.

16 Q Thank you.

17 Madam Registrar, I don't need this document
18 displayed any longer.

19 Mr. Vander Graaf, were there issues with
20 loan sharking in these early days in BC casinos?

21 A In the early days when the casinos were small
22 and there was a number of them, like the
23 Mandarin, Royal Diamond, the Holiday Inn and
24 things of that nature, there always was loan
25 sharks around, and they were -- but they were

1 small because the bets were low. And I don't
2 meant they were small in stature. There wasn't
3 a whole pile of them, but they were downtown in
4 Vancouver. And Vancouver Police was -- had two
5 people -- or two police officers on their gaming
6 unit, and they were well aware of what was going
7 on downtown with the loan sharks. But it wasn't
8 to the point that it needed extensive
9 interceding because it was low bets.

10 Q Okay. And in 2002 GPEB was established and you
11 were appointed to a position within that
12 organization; correct?

13 A That's correct. When the government changed,
14 there was a new philosophy and there was a new
15 *Gaming Control Act*. Prior to that it was
16 operating on policy and direction. The lottery
17 advisory board or commission was -- lottery
18 board, I think, and then it went to the *Gaming*
19 *Control Act*. And the Liberals brought in the
20 *Gaming Control Act*.

21 Q And I understand that GPEB was made up of a
22 number of different divisions. Do you recall
23 what those were?

24 A Yes. There was -- originally there was only --
25 we were together as two units: one was in

1 Victoria and one was in Vancouver. We had some
2 outlying areas in Prince George, Kelowna and
3 Victoria, but we subsequently -- as we evolved
4 the investigation units started up in Burnaby,
5 the audit unit was in Burnaby, the registration
6 unit was in Victoria, the policy centre was in
7 Victoria and we had three regional offices, the
8 same ones I previously mentioned.

9 Q And in 2007 you became the executive director of
10 the GPEB investigation division; is that
11 correct?

12 A Yes. On or about.

13 Q And GPEB is the regulator, as I understand. And
14 who did you understand that GPEB regulated while
15 you held that position?

16 A Who we regulated? We regulated the industry.
17 We were in the same -- we were both outlined in
18 the act, but we were the oversight of the
19 lottery corporation and the service providers.

20 Q Okay. And I'd like to turn to exhibit A of your
21 affidavit, please. And here you have attached a
22 number of documents, the first of which is a
23 copy of a memorandum dated December 16th, 2002.
24 It's at page number 2 in the upper left-hand
25 corner. Are you with me?

1 A Yes, I do.

2 Q And this is a memorandum from you to all gaming
3 service providers providing instructions for
4 reporting to GPEB pursuant to Section 86 of the
5 *Gaming Control Act*; correct?

6 A That's correct.

7 Q You set out under the heading "What Must Be
8 Reported" and it says:

9 "Any suspected or real conduct, activity
10 or incident that affects the integrity of
11 gaming and horse racing, including (but
12 not limited to) the following *Criminal*
13 *Code* and *Gaming Control Act* offenses
14 occurring within legal gaming venues."

15 And if you look down, the fourth bullet point is
16 money laundering and the sixth bullet point is
17 loan sharking. And then you say:

18 "Offenses occurring outside a legal gaming
19 venue must be reported if it involves a
20 registered gaming service provider or
21 registered gaming worker."

22 Correct?

23 A That's correct.

24 Q And that -- what you set out there accurately
25 reflects the obligation that was placed on

1 service providers at that time; correct?

2 A That's correct.

3 Q And you agree that in the pages that follow in
4 exhibit A, what follows -- for example, if you
5 look in the top left-hand corner at page 7, what
6 follows from time to time are memoranda that
7 consolidate and replace the one we were just
8 looking at; correct?

9 A That's correct. Section 86 of the *Gaming*
10 *Control Act* was the reporting requirement all of
11 the service providers. And like you say, as it
12 developed, we took on a larger role in
13 reporting, lottery corporations reporting,
14 charities were then reporting wrongdoing.

15 Q Okay. And each of these replacements, I
16 suggest, continues the obligation to report,
17 amongst other things, money laundering,
18 including suspicious currency transactions and
19 loan sharking. Is that consistent with your
20 recollection?

21 A That's correct.

22 Q If you turn to page 8, the second paragraph from
23 the bottom, it says:

24 "Your obligation to report integrity
25 issues to GPEB does not alleviate you of

1 any contractual requirements to report to
2 the BC Lottery Corporation."

3 And is it fair that you understood during your
4 tenure with GPEB that service providers had
5 additional reporting obligations, both to BCLC
6 and to GPEB, both separate from each other?

7 A That's correct.

8 MS. LATIMER: Okay. Madam Registrar, can I have
9 document GPEB0068.0001 placed before the
10 witness, please.

11 Q And, sir, you recognize this as a letter dated
12 March 28th, 2003. If you go to the third page
13 of this letter, it's from Derek Sturko, who at
14 that time was the General Manager of GPEB, and
15 it's to Vic Poleschuk, then the President and
16 CEO of BC Lotto Corporation, and it copies you
17 and others; correct?

18 A That's correct.

19 MS. LATIMER: And if we go back to page 1, please,
20 Madam Registrar.

21 Q The subject of the letter is "Reporting of
22 Offences - Section 86(2) *Gaming Control Act*";
23 correct?

24 A Correct.

25 Q Under the heading "Reporting By the BC Lotto

1 Corporation" it says:

2 "Section 86(2) of the *Gaming Control Act*
3 requires the BC Lottery Corporation to
4 notify the Branch, without delay, about
5 any conduct, activity or incident
6 occurring in connection with a lottery
7 scheme or horse racing, (including
8 incidents at a gaming facility or in
9 relation to any of the Corporation's
10 lottery products) that may be considered
11 contrary to the *Criminal Code* of Canada,
12 the *Gaming Control Act* or *Gaming Control*
13 *Regulations*, or that may affect the
14 integrity of gaming or horse racing. This
15 includes, but not limited to."

16 And then I just draw your attention to (e) money
17 laundering, and (g) loan sharking. Correct?

18 A That's correct.

19 Q And that accurately reflects the obligations
20 that were placed on BC Lottery Corporation at
21 this time; correct?

22 A That's correct.

23 Q And that was the lotto corporation's obligation
24 throughout your tenure at GPEB; correct?

25 A That's correct. But I should make one point

1 here while you're doing this is that when the
2 86 Reports were required to be sent to -- from
3 the service providers to Gaming Policy
4 Enforcement Branch investigation division, there
5 was a side spin-off whereby the 86 Report was
6 copied to BCLC. It wasn't mandated by law
7 because we had a legal decision that said that
8 we were the person to report to, but as a
9 courtesy, Derek Sturko decided they were going
10 to get copies.

11 Q Okay. If you go to page 2 of this letter, the
12 first full paragraph at the top under the letter
13 N there, it says:

14 "The Corporation need not report incidents
15 already reflected in 'Section 86 Reports'
16 forwarded to Investigation Division by
17 service providers ..."

18 And I guess that's to cover off that point you
19 just mentioned; correct?

20 A Exactly, yes.

21 Q Okay. And then it goes -- the letter goes on to
22 discuss reporting by service providers. And the
23 letter says:

24 "A service providers' obligation to report
25 incidents under Section 86 of the *Gaming*

1 Control Act is a condition of
2 registration. A service provider's
3 failure to report is an offence under
4 Section 97(2) --"

5 I'm not sure if that's (e) or (c).

6 "... of the act. Any clarification of
7 services providers reporting obligations
8 or requirements should be sought from the
9 Investigation Division of the Branch. The
10 Corporation should not direct or advise
11 service providers on reporting
12 requirements."

13 And I've read that correctly?

14 A That's correct.

15 Q And that was your -- did you understand at the
16 time when you were in your position at GPEB that
17 a failure to report by service providers was a
18 failure of an obligation that was a condition of
19 registration under the act?

20 A Yes, it was.

21 Q Did you understand that to mean that the failure
22 to report could result in a refusal, suspension
23 or cancellation of registration?

24 A It could, yes.

25 Q Did you understand that a failure to report was

1 also an offence under the act?

2 A Yes, it was.

3 Q And did you understand that a person who
4 committed an offence under the act could be
5 subjected to penalties under the act?

6 A Yes.

7 Q And during your tenure with GPEB did you find
8 that service providers were generally compliant
9 with their reporting obligations under the act?

10 A Yes, they were. And if there was an incident
11 that was a little slippage and you advised them,
12 they would immediately correct the problem.

13 Q Okay.

14 A Generally.

15 Q And did you find that service providers were
16 generally compliant including in the requirement
17 that they report money laundering and loan
18 sharking under the act?

19 A Yes.

20 Q And to the best of your knowledge during the
21 period of time you were with GPEB were any
22 licences refused, suspended or cancelled for
23 failure to report money laundering or loan
24 sharking under the act?

25 A Not that I can recollect.

1 Q And to the best of your knowledge during the
2 period of time you were with GPEB were there any
3 penalties for failure to report money laundering
4 or loan sharking under the act?

5 A I don't believe so.

6 Q Okay. Was BCLC also generally compliant in its
7 reporting obligations?

8 A I think generally they were, yes. But I think
9 we have to -- but I think I have to mention that
10 remembering that the 86 Reports that we were
11 getting from the service provider were going to
12 BCLC, and BCLC was not subject to reporting
13 those to us. And I would suggest -- maybe
14 you're going there and I'm ahead of the game
15 here, but -- is that they -- the limited amount
16 we would get reported to us from BCLC was
17 outside of what the service provider reported to
18 us.

19 Q Right. And what recourse did GPEB have against
20 BCLC if it failed in its reporting obligation?

21 A None.

22 Q Would its failure to report -- would that have
23 been an offence under the act?

24 A Not that I'm aware of.

25 Q Would it have attracted any penalties under the

1 act?

2 A Not that I'm aware of. They weren't a service
3 provider.

4 Q Okay. At this time what powers -- during your
5 tenure at GPEB what powers did you understand
6 GPEB investigators to have to protect the
7 integrity of gaming?

8 A They were Special Provincial Constables under
9 the *Police Act*, and they were -- under 81 of the
10 *Gaming Control Act* they were investigators
11 assigned under the act for investigations, which
12 would be violations of the terms and conditions
13 of registration. And the Special Provincial
14 Constable provision would allow us to
15 investigate, I would say, minor *Criminal Code*
16 Part VII offences. That was generally what we
17 were required to do. And some lottery offences
18 under the code, but generally we were under the
19 *Gaming Control Act* rather than the *Criminal*
20 *Code*.

21 Q Okay. And to the extent they were investigating
22 suspicious cash transactions, for example, what
23 could they do with the fruits of that
24 investigation? Could they make reports?

25 A Yes, they could. They could go -- they would

1 get an 86 Report on a suspicious currency
2 transaction from the service provider, and then
3 they would make a file and work on that the file
4 to try and identify something about the
5 individual or whatever was taking place in
6 relation to that incident.

7 Q Could they give directions to service providers?

8 A I don't think they could give them direction. I
9 think they could demand things from them, but I
10 don't believe they could give them direction.

11 Q Okay. Could they give directions to BC Lotto
12 Corporation investigators?

13 A No.

14 Q Could GPEB investigators themselves impose
15 penalties?

16 A No. Other than -- maybe the service provider,
17 there might have been an offence for fail to --
18 terms and conditions to reply -- fail to comply
19 with the terms and conditions of registration.
20 Under 97 you would, but it would be an
21 administrative sanction under registration, not
22 the investigation division.

23 Q Could they make recommendations about such
24 things as penalties, suspensions, cancellation
25 or refusal of registration?

- 1 A Yes, we could.
- 2 Q Who did those recommendations go to?
- 3 A They would go to the executive director of
- 4 registration in Victoria, generally. And he had
- 5 a structure, a managerial structural underneath
- 6 him that would deal with it. They had corporate
- 7 registration, they had persons' registration.
- 8 So if you were dealing with an individual, you
- 9 would forward you recommendation on a report,
- 10 probably a report of findings to the corporate
- 11 registration person if it was a company. Or you
- 12 would forward on an individual to the personnel
- 13 registrar, if I can put it that way. And they
- 14 would make the decision.
- 15 Q Okay. What about GPEB directors, like
- 16 Mr. Schalk, who we'll come to talk about more?
- 17 Did they have additional powers over and above
- 18 what the investigators had?
- 19 A No.
- 20 Q So --
- 21 A Other than supervisory status over the people
- 22 that worked for them, but from a legal
- 23 standpoint, no.
- 24 Q And yourself as the executive director, did you
- 25 have additional powers over and above what the

1 investigators had, did you understand?

2 A No, I did not.

3 Q Okay. What about the General Manager?

4 A The General Manager had power. He was the
5 overall integrity -- responsible for the overall
6 integrity of gaming. That was the title. We
7 were all responsible for the integrity of
8 gaming. We were all responsible for looking at
9 wrongdoing, and I use that word and -- from the
10 investigation division, but the real authority
11 was from the General Manager, the ADM, who was
12 responsible for the overall integrity of gaming.
13 Although that position, because of the structure
14 of the *Gaming Control Act*, on occasion would
15 have to go to the minister to support some of
16 his decisions.

17 Q Okay. Do you -- what additional powers did you
18 believe that the General Manager had that you
19 did not have?

20 A I believed that the General Manager could direct
21 the -- direct to, an integrity issue, British
22 Columbia Lottery Corporation. But, again, that
23 may have been the power, but I'm not sure that
24 it happened that way when there was things that
25 would impact what the lottery corporation was

1 doing significantly. Therefore he would have to
2 have permission, if I may say that word, or
3 agreement from the minister of the day.

4 Q What was the basis for your belief that the
5 General Manager required permission from the
6 minister of the day to issue directives?

7 A I'm sorry, could you repeat that one again.

8 Q As I understood your evidence, you said the
9 General Manager needed permission to issue
10 directives from the minister. Do I have that
11 correct?

12 A No. He wouldn't be doing it from the minister,
13 but I remember seeing on occasion that if he
14 wanted to do something on a minor investigation
15 or things of that nature or something to deal
16 with the lottery corporation, he was usually
17 copied on it, on that, so there was an
18 agreement, I would suggest, that the General
19 Manager and the minister had been in
20 conversation or had some agreement on the issue.

21 Q And the basis for your belief that there was
22 this agreement is because you saw that sometimes
23 the minister would be copied on
24 correspondence of this --

25 A On occasion, yes. The lottery retail

1 investigation was one that was an example of
2 that. And I think we're going to get into that,
3 but maybe -- if we were -- in 2007 we went into
4 the lottery corporation to see some lottery
5 retailer files, and the minister was behind
6 that. And I was directed to do a function, but
7 you knew that the minister was going to be
8 behind a maneuver that we were making that the
9 General Manager was directing us to do.
10 Something of that magnitude.

11 Q Okay. And I want to talk to you a little bit
12 now about the relationship between GPEB and the
13 police unit known as IIGET. I understand that
14 IIGET operated from 2003 to 2009. Is that
15 correct?

16 A That's correct.

17 Q And can you describe the relationship between
18 IIGET and GPEB.

19 A IIGET was started as a result of illegal video
20 lottery terminal investigations up in the
21 northern part of British Columbia. And there
22 was a number of them taken -- they were ripping
23 people off. They were paying 30 percent out.
24 They were illegal game machines. Prince George
25 did a significant amount of investigation. I

1 just have to give you a little background on
2 that. And then what happened was they decided
3 well, we needed some illegal gaming enforcement
4 because the two people on -- or investigators on
5 Vancouver Police were doing various lottery
6 investigations, illegal lottery terminal
7 investigations in the city of Vancouver.

8 So the idea was originally that we were
9 going to get 12 full-time RCMP officers, and
10 from GPEB's standpoint I always thought those
11 people were all going to be located in the Lower
12 Mainland. But what happened was the RCMP put
13 the people, two in Prince George, two in
14 Kelowna, two in Victoria and six in Vancouver.
15 So -- and we were supposed to be in a full-time
16 partnership with them. The partnership was
17 supposed to be -- we were going to have GPEB
18 investigators working alongside RCMP officers.

19 Well, it became -- very quickly it became
20 realized, I'd say within two or three -- within
21 a year and a half or so -- I can't remember the
22 dates all the time, but we realized that the
23 partnership wasn't going to work. We had
24 various legal opinions as to what the Special
25 Provincial Constable could do versus what the

1 police could do, and really there was no
2 comparison. We had no -- we had no ability to
3 do surveillance. We were using our own
4 vehicles. We had no ability to arrest. Arrest
5 powers under Special Provincial Constable are
6 basically the same as a civilian where you would
7 hold the person and wait until somebody -- a
8 police officer came, et cetera, et cetera. We
9 couldn't do undercover work, we couldn't do
10 wiretap. All of that type of work was beyond
11 the scope of the Special Provincial Constable.

12 So we eventually moved from a full
13 partnership into a coordinated approach. We
14 adapted to that. And we -- the NCO in charge of
15 the IIGET unit, a staff sergeant at the time,
16 and the delegated person to be his counterpart
17 was Mr. Joe Schalk. And Mr. Schalk and that
18 person were the operational points of the IIGET.

19 I was delegated a different role. I was
20 sort of -- I still had to look after the regions
21 as well as the other investigative issues in the
22 Lower Mainland, so I didn't really operationally
23 run IIGET. Even though when you see -- you'll
24 see some of the paper there it looks like that's
25 the idea, but I really didn't do that.

1 We had a number of NCOs from the RCMP go
2 through IIGET. Probably four or five people go
3 through IIGET in charge. And we -- and we had
4 staffing issues too. In the Gaming Policy
5 Enforcement Branch we were not up to snuff in
6 the people we had to commit to that. And I
7 think there's some paper around on that as well.
8 But we did the best we could and tried to
9 support the police.

10 We had some issues also with the RCMP in FOI
11 and things of that nature. We were being asked
12 by Victoria to submit things for FOI for
13 provincial authority, but it became very quickly
14 the RCMP had to be the front focal point of
15 IIGET. And they were running it, and we were
16 the support agency providing what limited
17 support we could do.

18 Now, they had police officer problem
19 staffing issues as well. I mean, they -- at one
20 time they were down to five or -- four or five
21 people on the IIGET side from the RCMP. And you
22 have to look at the timing of it. In 2003,
23 2004, 2005, we were doing very -- we were tasked
24 with things in legal gaming, the investigative
25 division. The IIGET units -- Tom Robertson and

1 Fred Pinnock ultimately came in, replaced Tom,
2 but there was two or -- a couple of other people
3 before them and one after them. They were doing
4 the illegal gaming portion of investigative
5 activity throughout the province. That was
6 always my understanding of what their role was.
7 Although, as we know, police officers can
8 enforce the *Criminal Code* anywhere, any time in
9 Canada, so there was no restriction placed in
10 that MOU, other than the funding aspect of it,
11 if I could put it that way.

12 And I'd been in charge of a number of joint
13 efforts, coordinated law enforcement unit, the
14 ADPIU, where funding was fenced off. And we
15 call it "fenced off" because what will happen is
16 if you don't fence it off, as soon as another
17 priority comes along in policing, the money is
18 slowly shifted over there and the police react
19 to that situation; okay? So that money was --
20 that money was fenced off for illegal gaming.

21 Let's move along a little bit up to about
22 2006 or '07. '07, probably. And the activity
23 in legal gaming venues, the River Rock was --
24 only came around until 2004, 2005, and started
25 to be, you know, a big place to go. And it was

1 built. So there was limited stuff. There was
2 still your loan sharks, there was still, you
3 know, some money laundering, I'm assuming and
4 things of that nature at that time, but not the
5 magnitude that it was going to after 2009 -- or
6 after 2009. And again, I'll talk about that in
7 a minute.

8 But what happened in 2007 was the lottery
9 retailer investigation. And I'm just talking
10 about the impact on IIGET. And the lottery
11 retailer investigation was the Ontario Ombudsman
12 had surfaced an offence of an individual
13 retailer stealing an individual patron ticket.
14 The ticket was a winning ticket, and it was a
15 significant amount of money. BC looked at that
16 and -- looked at it, and we were asked from the
17 investigative side, they said to us, is there
18 issues you have with lotteries? We had been
19 concentrating on casinos at that time. We
20 weren't really looking at the lottery issues.
21 BCLC was dealing with BCLC, those issues. We
22 called BCLC. We actually sent an email to them
23 and we got -- asked them if there was any issues
24 because we were -- we were being asked that and
25 they said no, we didn't feel any issues were

1 there. We took that for -- as face value.

2 When January the 1st, 2007, came along, I
3 received a call from Derek Sturko, and Derek
4 Sturko said to me, you go down to the lottery
5 corporation with a production order under the
6 act; I'll be faxing it to you, and you go into
7 the lottery corporation with your investigators
8 and seize all of the lottery retailer winning
9 ticket files. I'm not -- I don't want to put
10 this in a place that you're thinking that there
11 was massive BC lottery retailer theft of winning
12 tickets in the province at that time. That
13 wasn't the case. But there was some issues and
14 there was some tickets.

15 We went in there and seized it. We
16 produced the production order. And Derek Sturko
17 advised me that the minister -- I believe it was
18 John Les at that time -- was right behind us,
19 and the Ombudsman was leading the investigation
20 and the charge on it.

21 This was unique for us because we were
22 under the *Gaming Control Act*. Both the lottery
23 corporation and the Gaming Policy Enforcement
24 Branch were both under the same minister under
25 the same act. I always felt that there was --

1 could be a conflict in relation to that. I
2 always felt that the revenue generator and the
3 regulator in the same ministry under the same
4 minister had the potential for some problems
5 when the issue surfaced on revenue. Of course
6 the lottery issue wasn't a revenue issue; it was
7 an individual integrity issue. And the way I
8 always equate it is revenue here, integrity here
9 on the scale of justice. And when the
10 lottery -- when the one scale goes up too much
11 or too far, the other one suffers to some
12 degree.

13 Anyway, we go into the British Columbia
14 Lottery Corporation, we seize these files, we
15 take them back and the ombudsman oversees any
16 correction that we feel necessary as a result of
17 these -- the issues we were having with the
18 lottery retailers and potential thefts. And I
19 want to temper this to say, especially on a
20 public forum like this, there was no issues at
21 the end once we got and went right through them.
22 Maybe one or two.

23 But what we did was we worked together on
24 that and -- with the lottery corporation because
25 we needed the cooperation of the two agencies to

1 get to where we wanted to go. But, again, the
2 ombudsman was leading the charge. And Deloitte
3 was in there a little bit, but the ombudsman
4 obviously took over.

5 And I really want to stress how well that
6 worked when we had an independent body
7 overseeing what we were doing. And they were --
8 and she was directing -- the ombudsperson was
9 directing the way we were going to correct the
10 matter. And she was monitoring and requesting
11 results. And they came. And they came. And
12 ultimately -- and I know I've moved off IIGET a
13 little bit. But with the lottery retailer issue
14 on illegal gaming the investigation division had
15 shifted every little resource we had over to
16 that lottery retailer problem because we were
17 concerned about the public protection.

18 And when we -- we went out and we
19 investigated all of those files, and it wasn't
20 until probably 2008 or '09 is when we actually
21 finished doing those lottery retailer win files.
22 And what we did after -- in 2008 or '09 -- I
23 know some of my staff will be watching this and
24 will be saying I've got the dates a little
25 wrong, but that comes with age -- is that what

1 we did is we went out and we did what we called
2 random virtue testing with the lottery
3 corporation's cooperation to some degree, and
4 they gave us winning tickets and we went around
5 and tested those winning tickets to see if any
6 lottery retailers would steal any of the
7 tickets. And we had one maybe or so that was
8 like that, but by the time we'd finished in 2009
9 we were very satisfied -- that's the lottery
10 corporation and us -- that things had been
11 rectified. They'd put in new viewing screens,
12 ticket checkers, all of that stuff, and we were
13 fully satisfied.

14 And I don't want to leave the impression
15 that GPEB investigation division did that. The
16 lottery corporation was a significant player
17 obviously in that. And they did some good work
18 in relation to the - to rectifying that problem.

19 But maybe IIGET suffered a little bit as a
20 result of that because what happened was we had
21 to shift our resources over to legalized gaming.
22 And it wasn't -- IIGET was functioning under Tom
23 Robertson and then later, I mean, Fred Pinnock,
24 Mr. Pinnock later on about 2000 -- I think 2006
25 maybe, 2007. At the -- and I should add there

1 is a consultative board involved in IIGET. And
2 they are the decision maker and were the
3 direction makers of what was going to happen in
4 IIGET. On that board were some pretty
5 strong-willed people. Jamie Graham was on
6 there. Dick Bent. The Director of Police
7 Services, Kevin Begg. Derek Sturko was on
8 there. And in the initial stages the president
9 of the lottery corporation was on that board.
10 And that was a consultative board.

11 I was the middle guy between the
12 consultative board and the two operational
13 people, which we'd call operational NCOs,
14 Mr. Schalk, Mr. Robertson or Mr. Pinnock or
15 Andrew Martin or Wayne Holland. That's the way
16 it was structured and that's the way it went.
17 But the consultative board was the decision
18 maker.

19 So if you -- as we developed when Tom
20 Robertson was there, we developed into looking
21 for statistics to some degree. We developed
22 into three different layers of enforcement on
23 IIGET. You've probably heard that already by
24 now. It was a very high end. The very
25 high end, that's the big internet gaming files

1 that are labour intensive, person intensive,
2 et cetera. Lots of resources, lots of money,
3 lots of time, limited penalty. In the middle
4 was your common gaming houses per se. And I
5 just leave it at that. There was other things
6 in there as well, maybe pyramid schemes and
7 stuff like that, but common gaming houses and
8 things of that nature. On the bottom was your
9 unlicensed lottery schemes.

10 We in GPEB investigation could do the bottom
11 end. We could do the lottery investigations in
12 relation to unlicensed lotteries throughout the
13 province. We could handle that because there
14 was no issues of violence. We didn't need -- we
15 could use our own vehicles to do those things
16 and things of that nature. But we could not do
17 2 and 3 without the real police as I call them,
18 and they were leading that charge on their own.

19 Now, each -- the mandate for those as to
20 which -- which band you would go was put forth
21 by the consultative board. And I believe the
22 meetings were -- I can't remember how many there
23 were and when they were exactly, but there was
24 significant meetings in the beginning of it.
25 And we went through those meetings, and there

1 was some achieving results in the early stage,
2 not -- but it depended on which level you were
3 targeting.

4 Q Okay. Thank you, Mr. Vander Graaf. And I
5 understand that -- you've made reference to the
6 consultative board. And in your affidavit you
7 say at paragraph 96 that:

8 "Representatives of [the lotto
9 corporation] would attend IIGET
10 consultative board meetings and ask what
11 they were getting for the million dollars
12 they were contributing annually to IIGET."
13 Stopping there for a minute. Were you present
14 at the consultative board meetings where those
15 views were expressed?

16 A Yes, I was.

17 Q Who said that?

18 A Vic Poleschuk.

19 Q And what did you understand his concern to be
20 there?

21 A I don't know that it was a concern. I just
22 think it was a comment to -- BCLC was expressing
23 that, that we're putting some money up from a
24 legal standpoint; are we getting any bang for
25 our buck? Because the lottery corporation was

1 putting it up.

2 Q Do you recall when that comment was made?

3 A No, I don't.

4 Q Do you recall what the response to that comment
5 was?

6 A I don't think there was a response. I don't
7 think there was. But I know what happened as a
8 result of some of those things. I've always
9 believed that the lottery corporation
10 executive -- and I want to say this
11 categorically: Vic Poleschuk is a man of
12 integrity, and I know him -- and honesty. I
13 have to say that because I've named him here.

14 And he -- I've never thought that the
15 conducted managed portion of gaming should be
16 involved with an illegal gaming endeavour from a
17 tactical directive standpoint. And ultimately
18 they accepted that belief, and the lottery
19 corporation was only there for financial
20 matters. If we had a meeting and we were
21 talking about financial issues and the way that
22 we'd be operating, they would be in there at
23 that. But other than the operational side, they
24 were excluded generally after that.

25 Q Throughout the course of GPEB's interactions

1 with IIGET, were you aware of disputes between
2 the two organizations as to their respective
3 roles in investigating unlawful activity within
4 legal venues?

5 A There wasn't -- I don't think there was any
6 dispute. If there was, it would be very minor.
7 You have to remember, we know all those people
8 in the investigation division and we knew the
9 RCMP people as well. There would -- there's
10 probably an issue -- I can see what the issue
11 would be. Should they -- could they go into
12 legal gaming or couldn't they go into legal
13 gaming, or were they being paid only to stay in
14 illegal gaming by the lottery corporation and
15 not welcome in legalized gaming.

16 My interpretation of that was -- and I was
17 there from the beginning -- that they were to
18 address illegal gaming enforcement. That was
19 their mandate. Could they do unlawful activity
20 in legal gaming? Absolutely. If there was
21 roles -- there was roles and responsibilities
22 outlined on some document that I've seen as to
23 whether BCLC's role and responsibility, GPEB's
24 role and responsibility and the RCMP's
25 responsibility. Really you didn't have to put

1 the RCMP's responsibility there. They could
2 investigate anywhere, any time, any place they
3 wished that you really couldn't say that a
4 police officer can't respond to something if
5 he's called. Although there is a mandate for
6 the illegal gaming endeavour.

7 So they aren't patched into a memorandum of
8 understanding that it was illegal and I believe
9 that was illegal. I can't find one. I don't
10 know where that MOU is. Maybe somebody has it
11 and it would clarify it for me, but we really
12 believed -- Joe Schalk and I believed the
13 mandate of the IIGET was -- and the funding was
14 for illegal gaming investigation; it wasn't
15 intended to come over to legalized gaming. That
16 was the mandate. But could people go there?
17 Absolutely.

18 We had one NCO go down and seize \$200,000,
19 Chuck McDonald, and -- in one of the casinos. I
20 know -- I remember Tom Robertson talking to me
21 about something he was doing down in there. And
22 so we really didn't inhibit them. If they would
23 have come to the GPEB side of the house and
24 said, are you guys upset because we're going to
25 legal gaming? I would not say we would be

1 upset. We'd say, fill your boots; go for it.

2 Q Do you recall an incident in or around February
3 2005 where the Richmond detachment of the RCMP
4 contacted both GPEB and IIGET, and IIGET became
5 involved in respect of an investigation at the
6 River Rock concerning loan sharking?

7 A I don't -- I wouldn't have recalled it except
8 that I have seen that document now just
9 recently. And it's from a Staff Sergeant Smith
10 of something. It must be -- maybe it's in one
11 of the documents in the binders. I don't know.

12 But it -- I understand that. I don't
13 recall it personally. You know, it wouldn't
14 have been -- it wouldn't have been a big deal if
15 Tom Robertson got a call to go down to the River
16 Rock and he walked by me in the office and I
17 said, hey, you guys, you know, your mandate
18 might be illegal gaming here -- or illegal
19 gaming. But there would -- I want to reassure
20 everybody there was absolutely no way that any
21 of my staff, including Joe Schalk who was the
22 counterpart to that, would ever direct the RCMP
23 not to go and do an investigation.

24 Tom's no wallflower. I know him well, and
25 he's not going to take a direction from me if he

1 figures there's a criminal offence to be taken,
2 and neither would I. So I want to stress that
3 very clearly.

4 Q Did you express the view at the time to Officer
5 Robertson that IIGET's mandate in respect of the
6 integrity of public gaming in BC was limited to
7 illegal venues, not legal venues like River
8 Rock?

9 A No. However, I may have said to him that I
10 believe your -- the mandate of IIGET, and I
11 believe that, the MOU was illegal gaming, but at
12 no time would I ever suggest to him that he
13 could not go to legal gaming.

14 Q Okay. Were there personality conflicts as well
15 between the GPEB staff and the IIGET staff
16 officers?

17 A No. There was -- I think there was a little bit
18 of a conflict between Mr. Pinnock and Mr. Schalk
19 as commanders of those units. They're different
20 people, different opinions, different things.
21 But I think -- I know we had one meeting -- I
22 can recall one meeting we had with Mr. Schalk
23 and Mr. Pinnock. The three of us had a meeting,
24 and I thought we'd ironed things out and I
25 thought it was going along a little better.

1 With Robertson, he was targeting middle
2 level. Mr. Pinnock wanted to take on internet
3 gaming at a high level. I can recall that. And
4 Mr. Pinnock would -- needed many, many more FTE
5 people, I call them -- full-time employees --
6 more police officers to take that on, in my
7 estimation. You know, I'd been involved at the
8 coordinated law enforcement unit when Inspector
9 Ryan took on Starnet, which was an internet
10 gaming investigation.

11 The person power and the time dedicated to
12 that and the court preparation is intense and
13 big. And I don't know that that was the way the
14 consultative board wanted to go. They were
15 looking for, I believe, some type of statistics.
16 Let's establish the extent of unlawful activity
17 in gaming outside of the legal gaming and
18 venues. And the only way you can do that from
19 my perspective was to go out and investigate the
20 mid level, the second level and see what -- the
21 extent of the damage or of the activity that's
22 out there, and investigate some of those
23 offences. And I think that was the direction of
24 the consultative board or generally the
25 direction of the consultative board. But there

1 was staffing issues on the IIGET side.

2 You have to remember the time frame too.

3 2007, 2008, 2009, there was the biggest security
4 endeavour in Canadian history going on in
5 Vancouver: the 2010 Olympics. And the
6 preparation for the 2010 Olympics was
7 significant, and the RCMP was tasked with that,
8 and they're very capable of moving people from
9 one priority to another. And that -- just
10 because the Olympics was in 2010 doesn't mean
11 the prep didn't start in 2006 because that's how
12 big an endeavour that would be. And I'm not
13 making excuses for them in any way. I'm just
14 saying you have to understand what was taking
15 place. As well as us in 2007, '08, '09, we're
16 on the lottery retailer thing.

17 Q You mentioned an incident where you ironed out
18 some issues between Officer Pinnock and
19 Mr. Schalk. And my question is did you
20 understand that issues between those two
21 gentlemen or between your two organizations
22 ultimately resulted in IIGET moving their
23 offices across the hallway?

24 A I don't know -- you know, I've thought about
25 that, but I don't know that that was actually

1 true. I think there was some other issues that
2 were of concern. I was always concerned about
3 the structure of a policing agency with a
4 regulatory agency with a Special Provincial
5 Constable power. That concerned me because the
6 police are doing what police work is and there's
7 issues of informants, agents and things of that
8 nature. And I didn't -- I think we paid for
9 that move, but I don't know that it was as a
10 result of Mr. Schalk and Mr. Pinnock. I
11 wouldn't say that.

12 That move was going to happen anyway, I
13 thought, in 2008 because I felt that the police
14 had to ensure independence. We were running
15 into a few independence issues on the -- between
16 GPEB and the RCMP officers, and I felt that it
17 wouldn't -- it would serve the unit well to have
18 them at arm's length but close, and that's
19 exactly what happened. They went at arm's
20 length and they were close. And I believe we
21 paid for that move. But so say that was as a
22 result of unsettled relationships, I'm not
23 sure -- I certainly didn't look at it that way.

24 Q Did you take the view that the unsettled
25 relationships between IIGET and GPEB were in any

1 way impeding either organization's ability to
2 fulfill their mandate?

3 A No, I didn't because -- again I'm going to
4 explain that. The police -- the consultative
5 board was dictating the mandate within a
6 parameter, but -- they wouldn't tell you exactly
7 what to do, but it was clear when we were with
8 the consultative board that level 1 and level 2
9 investigative actions that I talked about were
10 the priority, to get some statistics up. When
11 you're taking on the big file, it's long-term,
12 lots of money, no stats.

13 Q In your affidavit you say that in 2007 one of
14 the primary issues of concern to the GPEB
15 investigation division was loan sharking; is
16 that right?

17 A That's correct.

18 Q You go on to say that loan sharks were primarily
19 a BC Lottery Corporation responsibility.

20 A That's correct.

21 Q Why do you say that, sir?

22 A They're the ones that had the authority under
23 the act to prohibit undesirables. We didn't
24 have that authority under GPEB. I actually --
25 in the 2009 memo that I think we'll get to

1 eventually, I felt that would be a big advantage
2 to be able to prohibit people. Now, we might
3 not prohibit people for the same reason as the
4 lottery corporation would have, and it didn't
5 appear that there was any appetite to let GPEB
6 investigation division have that authority to
7 prohibit. And it would have taken an act change
8 of the *Gaming Control Act*. And nobody liked to
9 go in -- nobody wanted to go and change the
10 *Gaming Control Act* on any endeavours that I
11 thought at that time because, you know, it takes
12 order in council and all this stuff.

13 And so it was something that the BC Lottery
14 Corporation had, and BCLC -- Lottery
15 Corporation, they exercised their authority on
16 that. I give them credit on that. They tried
17 to ban those loan sharks out that casino and
18 they were prohibiting people, but we didn't have
19 that authority.

20 Q And you asked for the authority to ban patrons;
21 correct?

22 A I believe I did, yes.

23 Q Who did you make that request to?

24 A I believe it was Derek Sturko.

25 Q And what was --

1 A But it wouldn't have -- it won't -- I don't know
2 that it would have been in a formal memo or
3 anything of that nature.

4 Q Do you recall when that request was made?

5 A No, I do not.

6 Q Was it made orally or in writing?

7 A It would not be in -- not in writing for sure.

8 Q Do you know what the response was?

9 A In the 2009 memo, March 2009 memo, one of the
10 recommendations in there is that we should have
11 the power to prohibit. And that was directed to
12 Derek Sturko from three divisions.

13 Q Given that both service providers and the
14 lottery corporation were both obligated to
15 report loan sharking to GPEB, would you agree
16 that it was at least a shared responsibility?

17 A Yes. But I don't remember getting many. Joe
18 Schalk is the guy to talk -- is the person to
19 talk about this because he controls all of the
20 stats and everything in relation to that. So I
21 don't want to jump over what my -- what I have
22 real good knowledge of.

23 I don't recall getting loan shark
24 notifications from BC Lottery Corporation. It
25 was mainly -- I can't remember. I'm going to

1 leave that one. I'm not sure.

2 Q If you say it was the main concern to the
3 division but you weren't getting many reports
4 about it, where did the concerns come from?

5 A Well, the loan sharks are the ones that were
6 supplying the cash into the casinos. We knew
7 that. And it was starting a little bit in 2007.
8 It didn't escalate up to something that was very
9 noticeable from my perspective till 2009 is when
10 really I started paying a lot more attention to
11 the potential for money laundering.

12 And we knew that the -- loan sharks and
13 money laundering seemed to go hand in hand.
14 Even if at the lower level they went hand in
15 hand. And BC Lottery Corporation recognized
16 that as well. In 2007, like we said, they
17 started instigating a lot of loan shark
18 prohibitions at the big casinos. And that's
19 all. We just noticed that.

20 Q You say at paragraph 33 of your affidavit that:
21 "GPEB's role remained bringing suspected
22 loan sharks to the attention of [the BC
23 Lotto Corporation] who, in turn, would ban
24 them from casinos."

25 And my question is given the reporting

1 requirements that we've discussed, in what
2 circumstances would it have been GPEB bringing
3 the loan sharks to BCLC's attention rather than
4 the other way around?

5 A GPEB bringing the loan sharks to lottery
6 corporation's attention. I don't know the
7 answer to that question. The only person that
8 would -- people that would know the answers to
9 that question would be the people that are
10 working in the casino sites because it was not
11 a -- I don't believe a formal thing that the
12 investigators, say, at the River Rock would say,
13 that guy's a loan shark; we're asking you to bar
14 him. They would all know who the loan shark
15 was. That's my suggestion. So it was, I think,
16 a mutual thing to some degree. And I don't
17 think there would've been direction from GPEB,
18 if that's what you're thinking, to say to BCLC
19 to bar somebody, a loan shark.

20 Q Well, I'm reading from your affidavit, sir. In
21 paragraph 33 at the very bottom of page 6 you
22 say:

23 "GPEB's role remained bringing suspected
24 loan sharks to the attention of BCLC who,
25 in turn, would ban them from casinos."

1 was probably proceeds of crime and was of
2 the view that [the lotto corporation] and
3 the service provider should not permit
4 these buy-ins."

5 A Yes.

6 Q At what point did you form the view that this
7 money was probably proceeds of crime?

8 A When I saw the \$20 bills. When I saw huge
9 amounts of \$20 bills is when I made the leap.
10 You're always going to get a certain amount of
11 money into the casino, cash money into the
12 casino. But when the amounts were going up, and
13 I don't know -- when did I say that? What year?
14 Does it say there?

15 Q Well, that paragraph doesn't say, but at
16 paragraph 37 you make reference to --

17 A Yeah.

18 Q -- 2008, where Ed Rampone became concerned
19 that there was --

20 A Yeah.

21 Q -- money laundering.

22 A Yeah. Well, what happened, the bets -- the
23 increased bets created a problem -- not a
24 problem. Increased activity within the gaming
25 environment when I went -- and I think they

1 went -- and I can't remember where they went
2 from, but they went very high. I believe it was
3 \$5,000 a hand or something of that nature at
4 that time. I may be wrong on that number, but
5 they went. And once that started to go up, then
6 the interest started to pique. There was more
7 loan shark activity, and we were paying a little
8 more attention. But don't get me wrong. It's
9 nothing compared to what happened in 2010.

10 2007 there was some activity and the loan
11 sharks were still active. They were bringing
12 the stuff into the floor of the casino before
13 BCLC started -- took a stringent approach on it.
14 They were walking right up to the tables in some
15 of the casinos. You have to remember, everybody
16 in the casino knows who the loan sharks are.
17 The tellers, the cage, everybody does.

18 Q In your affidavit you make reference to the
19 statement by Ed Rampone in or around 2008 where
20 he said there's a money laundering problem at a
21 GPEB branch meeting. Was that view conveyed to
22 BCLC at that time?

23 A I can't say whether it wasn't or it wasn't.

24 Q Would it have been conveyed to the service
25 providers at that time?

1 A I can't say whether it was or it wasn't.

2 Q Okay. Can you turn to exhibit S, please, of
3 your affidavit.

4 A X?

5 Q S. As in snake.

6 MS. LATIMER: And, Madam Registrar, if it helps, it's
7 PDF page 207 I'm looking at.

8 Q And actually, if you can turn to the next page,
9 this is that memo you've been referring to?

10 A Yes.

11 Q This is -- you recognize this as an internal
12 GPEB document dated March 16th, 2009, with the
13 subject "anti-money laundering requirements"
14 directed to Derek Sturko, who was then the
15 Assistant Deputy Minister and Bill McCrea, the
16 Executive Director, internal compliance and risk
17 management; correct?

18 A That's correct. This is the key time. This is
19 the key letter that we started paying attention
20 to what was going on in the casinos from a money
21 laundering standpoint. I can tell you how this
22 went. Derek Sturko came to us at an executive
23 meeting and said -- after me being at executive
24 meetings and saying to him that we've got a
25 little bit of a problem here.

1 And he asked the three divisions -- audit,
2 registration and investigations -- to go and
3 look and see what we had available and had at
4 our disposal to deal with the potential threat
5 of loan sharking. This is when it was
6 recognized. Rampone brought it up in 2008 and
7 it went around the table a bit or a little bit
8 of time, but 2009 after me and my division
9 bugging everybody, again, we -- he had to take
10 some action, and he did.

11 Q And you say you were looking at the potential
12 risk of loan sharking, but the subject is
13 anti-money laundering requirements. And if you
14 look at the third line of this memo, it suggests
15 that you were also looking at the potential risk
16 of money laundering in gaming -- commercial
17 gaming facilities. I take it you connected the
18 loan sharking and money laundering issues in
19 your mind; is that fair?

20 A There's no question. Where there's loan sharks,
21 there was money laundering and when the money
22 laundering picked up, the loan shark activity
23 picked up. By this time they were probably
24 outside of the casino because BCLC had moved
25 them outside with the prohibition orders, but

1 then they were pulling up in the cars in front
2 and it was like a drive-in.

3 Q Okay. And as Executive Director of the
4 investigations division, you were involved in
5 the formulation of this document; correct?

6 A Very much so.

7 Q In the second paragraph it says:

8 "In order to mitigate and/or substantially
9 reduce the potential risk related to this
10 area, it is our recommendation and
11 position that prior to even considering
12 authorizing PGF --"

13 Or patron gaming fund.

14 "-- accounts it is absolutely necessary
15 for the Branch to define in regulation
16 and/or a term condition of registration
17 specific anti-money laundering
18 requirements. These regulations would
19 then become a legal requirement thus
20 allowing regulatory enforcement, if
21 necessary. Without these enforceable
22 legal requirements, it is our position
23 that the present risk in the British
24 Columbia gaming environment is high."

25 And I've read that correctly?

1 A Yes, you have.

2 Q And your view at that time was that in the
3 absence of specific regulations or terms and
4 conditions of registration, you couldn't enforce
5 anti-money laundering requirements?

6 A That's correct.

7 Q And in what follows you set out what these
8 specific anti-money laundering should be;
9 correct?

10 A What we did -- I agree. No, what we did was we
11 defined. We decided to define what would be
12 necessary or what would be suspicious. What
13 would be suspicious. I'm just going to go back
14 a bit because this is important.

15 In 2009 when this letter went in, I was
16 very concerned about the money laundering
17 problem. With my background I saw that, and I
18 said uh-oh, we're getting large amounts of money
19 into the casino in bundles, \$10,000 bundles in
20 elastic bands; that to me smells drug money.
21 And to so that's when this went forward.

22 If you can look -- and just to give you an
23 example, in the first requirements, this was
24 identifying what we would say is suspicious.
25 We're talking about a transaction greater than

1 \$3,000 which comprise only \$20 bill
2 denominations, includes multiple transactions,
3 \$3,000 in a 24-hour period. That's a small
4 number. Very small compared where I went five
5 years from now.

6 But I also want to say clearly I put this in
7 there in 2009, and I was still preaching this in
8 2014.

9 Q And we'll come to that, and -- but as we're
10 looking at this document, where did this
11 threshold come from, this \$3,000 threshold?

12 A We made it up.

13 Q Okay. It's lower than the federal reporting
14 requirement. Was that intentional?

15 A I don't think it was intentional, but
16 sometimes -- we wanted this to go through. We
17 wanted action on this, so we felt \$3,000 at that
18 time would be appropriate. All we were looking
19 at was the 20s. We wanted the 20s stopped
20 because I knew the danger with the 20s. And we
21 just picked that \$3,000.

22 Q Okay. If you go to page 2 of this document,
23 you'll see there's some bullets at the top. And
24 I'm looking at the paragraph just after the
25 bullets.

1 A Yes.

2 Q "Once a transaction or attempted
3 transaction has been deemed to be
4 suspicious and prior to it being
5 completed, the transaction must be refused
6 by the service provider at a commercial
7 gaming facility and immediately reported
8 to GPEB, Investigations Division via a
9 Section 86 Report."

10 A Correct.

11 Q That idea that service providers should refuse a
12 suspicious buy-in, is that a view that was
13 communicated to the service providers at this
14 time?

15 A No, not at this time we didn't. We wouldn't --
16 when we did this memo, the idea was -- and that
17 will be my words for sure -- is that what we
18 were doing is we were preparing this for Derek
19 Sturko. He was the decision maker on the
20 integrity of gaming. And I know you're probably
21 going to come to that anyway. But we just said
22 if it is suspicious -- and we want to protect
23 the integrity of gaming, we all agreed, all
24 three divisions -- you've got to stop taking the
25 money. And so that's what we -- that's why we

1 did that.

2 Q And you didn't feel that absent a regulation or
3 a term or a condition in the registration, that
4 the service providers could be directed to
5 refuse a suspicious buy-in by GPEB?

6 A I wasn't positive they could, but I thought that
7 the General Manager had a lot of power. And
8 certainly with the support of the minister they
9 could do anything with the service provider,
10 quite frankly, or through BCLC. And we'd done
11 this before. We hadn't done this in this venue,
12 but other things like reporting. When we -- the
13 General Manager supported it to BC Lottery
14 Corporation, they then put it in their standard
15 operating procedures, the reporting requirement
16 to the service provider. So there was that --
17 there was that movement of directions to the
18 service provider that we imposed from
19 registration into standard operating procedures,
20 which were imposed on the service provider --

21 Q Okay.

22 A -- at BCLC.

23 Q There are further recommendations in this
24 document in respect of verified wins and
25 policies and procedures for PGF accounts. And

1 if you go to the next page, page 186 of this
2 document, and it sets out certain enforcement
3 instruments; correct?

4 A Yes.

5 Q And the last bullet here is that:

6 "Investigations Division must have legal
7 authority to 'prohibit individuals from a
8 Gaming Facility to preserve the integrity
9 of gaming.'"

10 So I guess at this point you were seeking this
11 barring power in writing; correct?

12 A I think so, yes.

13 Q And I take it at this time GPEB still didn't
14 have that authority; right?

15 A No, we never did.

16 Q And could GPEB direct service providers to ban
17 the patron?

18 A Service providers, no, I don't believe so.

19 Q Could they -- could GPEB direct the lotto
20 corporation to ban a patron?

21 A No.

22 Q And then under the enforcement methods, the
23 first suggestion is that a Section 86 Report is
24 "required for all transactions or attempted
25 transactions that have been deemed to be

1 suspicious." Correct?

2 A Correct.

3 Q Leaving aside the definition of "suspicious,"
4 which is suggested in this document, was it not
5 the case at this time that suspicious
6 transactions did have to be reported by a
7 Section 86 Report?

8 A That's correct.

9 Q Okay. So the only difference here is just it's
10 a different threshold for -- or it's a specific
11 threshold for what is deemed to be suspicious?

12 A That's correct.

13 Q Okay. The third bullet point there is that:
14 "BCLC become a Service Provider for the
15 purpose of registration under the ... Act,
16 giving GPEB Inspectors the legal authority
17 to --"

18 Inspect BCLC facilities. And my question is
19 given you were just discussing the lotto
20 investigation, what was the gap that was being
21 addressed here? Did you not have the authority
22 to inspect BCLC facilities at this time?

23 A I can't remember, quite frankly. I can't
24 remember. I know we had to have the minister --
25 to do that you would've had to have the

1 minister's authority like we did when we went
2 into BCLC. But I think there was authority
3 under the *Gaming Control Act* to audit. And you
4 know, I'm -- that's an audit function; it's not
5 an investigation function we're talking about
6 here. But I think the audit unit had authority
7 to inspect under 79. They did. To inspect the
8 lottery corporation, now that I think about it.
9 Yes.

10 Q Okay.

11 MS. LATIMER: Madam Registrar, could I have GPEB
12 document 0073 placed before the witness, please.

13 Q If you look at the bottom of this page, please,
14 you'll recognize this is an email dated
15 September 11th, 2009, from Bill McCrea to Terry
16 Towns and copying you and others with the
17 subject "patron gaming fund account discussion"?

18 A Yes.

19 Q And Mr. McCrea says he's attaching:

20 "A document where we have captured the key
21 discussion, questions and comments about
22 the PGF proposal."

23 And:

24 "This input has been obtained through GPEB
25 Divisional review ..."

1 And did that attachment include the
2 recommendations we were just looking at?

3 A I don't know.

4 Q Okay. In the second paragraph Mr. McCrea says:

5 "We support the testing of this program
6 with three of the large Vancouver casinos
7 and with three separate service
8 providers."

9 And do you recall whether there was in fact a
10 pilot of the PGF program?

11 A Yes, there was a pilot of the PGF program.

12 Q And did you understand that in its initial form
13 the PGF account was piloted through 2010 at the
14 River Rock, Starlight, Grand Villa and Edgewater
15 casinos?

16 A That sounds right.

17 Q And in response to this email, you reply to
18 Mr. McCrea alone at the top of the page on
19 September 14th.

20 MS. LATIMER: Madam Registrar, could we go to the top
21 of the page, please. Thank you.

22 Q On September 14th. Do you see that?

23 A Yes.

24 Q You say you have given your opinions in various
25 emails. And in the second paragraph you say:

1 "I clearly see this as a policy decision
2 and it has become obvious that government
3 is moving forward with the PGF Account as
4 outlined in the enclosed letter authored
5 by the General Manager. I have attached
6 three documents you will likely already
7 have on file ... I wish to [emphasize]
8 the BCLC requirement to immediately report
9 Suspicious Currency Transactions to Gaming
10 Enforcement, Investigations Division via
11 Section 86 Report."

12 A Yep.

13 Q And what do you take from this paragraph? Were
14 you supportive of the approach that was being
15 suggested at this time?

16 A At this time I was. In 2009 I had no problem
17 with -- any of the cash reduction things I had
18 no problem with as long as they didn't put --
19 allow \$20 bills to be put into those accounts.
20 And that's what -- that's what I would have been
21 saying or referring to here. I have no problem
22 on you doing this, but don't allow cash to be
23 placed in there in \$20 bills or it becomes a
24 bigger problem than we may have at this time.

25 Q I take it that no definition of "suspicious

1 transaction" was ever enacted; correct?

2 A No, it wasn't. And --

3 Q And you weren't given the ability to bar patrons
4 in or around this time; correct?

5 A No.

6 Q Okay. Could you turn, please, back to the
7 affidavit.

8 MS. LATIMER: And I'm looking now at exhibit H,
9 which, Madam Registrar, is at PDF 117.

10 THE COMMISSIONER: Did you want that previous
11 document marked, Ms. Latimer?

12 MS. LATIMER: Oh, yes, please.

13 THE COMMISSIONER: I think there may be one or two
14 earlier documents that have been --

15 THE REGISTRAR: There was one document GPEB0068, this
16 one, that was not marked.

17 MS. LATIMER: Yes, could I have that marked as well,
18 please.

19 THE COMMISSIONER: All right. We'll mark those two
20 documents consecutively, then. I think we're --

21 THE REGISTRAR: Yes.

22 THE COMMISSIONER: 183 and 184 Madam Registrar.

23 THE REGISTRAR: The next one is 183,
24 Mr. Commissioner.

25 **EXHIBIT 183: Letter from Derek Sturko To Vic**

1 **Poleschuk dated March 28, 2003**

2 THE COMMISSIONER: And then 184 is the next one.

3 THE REGISTRAR: The GPEB0073.

4 THE COMMISSIONER: Yes. Thank you.

5 THE REGISTRAR: Okay. Thank you.

6 **EXHIBIT 184: Email from Larry Vander Graaf re**
7 **Patron Gaming Fund Account Discussion dated**
8 **September 14, 2009**

9 THE COMMISSIONER: All right. I'm sorry to
10 interrupt, Ms. Latimer. Carry on.

11 MS. LATIMER:

12 Q I am at exhibit H, and this is a Report of
13 Findings in respect of a "Review of Chip
14 Passing/Suspicious Cash Transactions and Loan
15 Sharking in Lower Mainland Casinos" dated
16 March 15th, 2015. Do I have that right?

17 A Correct.

18 Q And if you turn to page 102, which is at PDF
19 126. But it's 102 in the top right-hand corner.
20 In the first full sentence it says:

21 "The above Report of Findings was
22 forwarded to me, the Executive Director,
23 Investigations and Regional Operations by
24 Derek Dickson ..."

25 And from the heading we see above in that

1 sentence, I take it you forwarded this to the
2 General Manager on April 12th, 2010; correct?

3 A That's correct.

4 Q And that was --

5 A I'll just point out, any of these Reports of
6 Findings that have forwarded -- forwarded on are
7 going to the General Manager and -- from further
8 on. Okay.

9 Q Okay. And that was Derek Sturko at the time?

10 A Yes, it was.

11 Q And if you turn back to page 93 now, which is
12 PDF 117.

13 A 93. Give me a second here. There we go. I
14 think I have it, yep. Okay.

15 Q Okay. And there's the heading "Background"
16 there. And Mr. Dickson is just providing
17 background to this document. He says:

18 "Dealing with loan sharking and money
19 laundering issues are two of the main
20 priorities of the Investigations
21 Division."

22 And that was your view at the time; correct?

23 A That's correct.

24 Q And he says:

25 "Over the past several months I have

1 observed a number of incidents involving
2 Large Cash Transactions (LCT) patrons at
3 Lower Mainland and their continued
4 involvement in chip passing, money
5 exchanging and loan sharking activities.
6 There are many individuals with these
7 types of histories, however, I have
8 conducted a review of four specific LCT
9 patrons that are chronic violators to
10 determine if there is an on-going problem
11 that needs to be addressed and what
12 strategies, if any, need to be considered
13 to ensure the integrity of gaming is being
14 protected."

15 And I read that correctly?

16 A Yes, you have.

17 Q And it was consistent with your understanding at
18 this time that there were many individuals
19 engaged in these types of histories, and these
20 were just simply four examples that concerned
21 chronic violators?

22 A That's correct.

23 Q And then what follows, Mr. Dickson sets out a
24 file review in respect of these four players;
25 correct?

1 A That's correct.

2 Q And if we look, for example, under the first
3 name on page 93, the format is -- if you look
4 under the main there, it's -- what we see is
5 there's a date and then the patron's name and
6 then the casino and then a description of what
7 the suspicious activity was; correct?

8 A That's correct.

9 Q And then the last item there, GPEB11021, is that
10 the GPEB file number?

11 A That will be our file number, yes.

12 Q We understand that each incident that's reported
13 here was the subject of a Section 86 Report by
14 either the lotto corporation or the service
15 provider?

16 A Probably the service provider, yes.

17 Q Can you tell from the entry whether it was
18 reported by the service provider or BCLC, or
19 does the casino just refer to where the incident
20 occurred?

21 A I can't tell by the number. And I wouldn't be
22 able to tell by the number because I never -- I
23 never -- I would never know how even these --
24 these would be generated as a file, but again,
25 Derek Dickson's the one that would know that

1 stuff. That's the operational side.

2 MS. LATIMER: Okay. Can you turn to page 97, please.

3 Madam Registrar, that's 121 on the PDF.

4 Q And here it's -- under the heading "Findings:

5 Suspicious Cash Transactions/Loan Sharking

6 Activity" Mr. Dickson said:

7 "Zhang, Xian, Chen and Qin all have

8 significant buy-ins, with Zhang generally

9 being considered the biggest player in the

10 province, in terms of how much he has

11 bought in for. It is evident that the

12 service providers consider them important

13 customers and are willing to accept the

14 on-going issues with chip passing,

15 inappropriate cash transactions and

16 interacting with known loan sharks."

17 Just pausing there for a moment. Is that

18 consistent with your understanding at the time

19 that service providers were willing to accept

20 ongoing suspicious activities from VIP players?

21 A I would say that -- I would -- if Mr. Dickson is

22 saying that, then I would have that opinion as

23 well. Because if he's saying that to me, I

24 would believe that.

25 Q Okay. He goes on to say:

1 "However, what is troubling is BCLC's
2 acceptance of these blatant violations of
3 their own policies and the open use of
4 loan sharks by these LCT patrons. In some
5 instances these patrons are suspected of
6 actually engaging in loan sharking
7 activity, with no meaningful attempts by
8 BCLC to sanction these individuals."

9 And I've read that correctly?

10 A Yes.

11 Q And in the paragraphs that follow, Mr. Dickson
12 provides slightly more detail about when each
13 player came to BCLC's attention.

14 A Yes.

15 Q And what actions BCLC took against each player.
16 Is that fair enough?

17 A Yes.

18 Q If you turn to page 98. Under the heading
19 "Findings: Player Gaming Fund Account"
20 Mr. Dickson says:

21 "Another issue that needs to be addressed
22 is who is eligible to open a PGFA --"
23 Player gaming fund account. And essentially
24 what Mr. Dickson documents is that some of these
25 players had PGF accounts approved after they

1 were the subject of suspicious transactions; is
2 that correct?

3 A Correct.

4 Q And if you look at the bottom of the page at the
5 very last two lines there, it says:

6 "As noted above, Qin has numerous
7 documented incidents of suspicious
8 activity, including a BCLC investigator
9 documenting that he was of the opinion
10 that Qin was involved in loan sharking
11 activities, yet, he was granted
12 permission, and still has, a PGFA."

13 And then he says:

14 "At present there is no requirement for
15 BCLC to conduct any background checks on
16 PGFA applicants. It is left to service
17 provider, but only to conduct inquiries to
18 ensure the applicant is not prohibited or
19 self-excluded. The onus for a thorough
20 background check should not/cannot be
21 downloaded onto the service providers as
22 they have Itrak access to only their
23 properties ..."

24 And did you understand that was a problem at the
25 time that the responsibility for doing due

1 diligence on these customers was being delegated
2 to the service providers who had incomplete
3 information?

4 A I don't know that.

5 Q Okay. If you turn to page 101.

6 A Yeah.

7 Q Mr. Dickson sets out some recommendations about
8 how to approach the issues outlined in this
9 report; correct?

10 A Yes.

11 Q And the first one is that patrons observed --
12 "Any patron observed to engage in any
13 activities consistent with loan sharking
14 activities should be immediately removed
15 from the venue and subject to --"

16 A barring. Right?

17 A Correct.

18 Q Then the second one is that:

19 "Any patron observed associating with a
20 known loan shark or using the services of
21 a known loan shark is to be immediately
22 removed from the venue and be subject to a
23 Provincial barring."

24 Correct?

25 A Correct.

1 Q And that second one, was that consistent with
2 what was occurring at the time in practice?

3 A Yes, I believe it was.

4 Q Patrons who were using the services of loan
5 sharks to your understanding were --

6 A No, I'm sorry, not patrons. Not patrons. The
7 loan shark would be barred but not necessarily
8 the patron. That would be my understanding.

9 Q Okay. And then -- and I take it you agreed with
10 Mr. Dickson's recommendations at the time?

11 A Yes.

12 Q And if you turn to -- well, the next two
13 recommendations have to do with due diligence
14 for the PGFA accounts; correct?

15 A Yeah.

16 Q And then number 5 says:

17 "BCLC needs to establish a determined
18 number of warnings for patrons engaging in
19 chip passing and cash transactions that
20 BCLC determine not to be suspicious. When
21 a patron exceeds this number, meaningful
22 sanctions should be considered."

23 Did you understand at this time that there was a
24 problem with just serial warnings without any
25 real consequence attaching?

1 A M'mm-hmm.

2 Q And that:

3 "... it is believed that these high level
4 players are being given extreme latitude
5 in violating these procedures due to the
6 fact that they are extremely high volume
7 players."

8 A Yes.

9 Q And did you take the view that that latitude was
10 being extended by both the service provider and
11 BCLC?

12 A That's what I would have read into that, yes.

13 Q Okay. And that that latitude was extended
14 because of the interest in the revenue generated
15 by these players?

16 A Potentially, yes.

17 Q And you say:

18 "It is my opinion that the track record of
19 these four players and the apparent lack
20 of compliance could/does/will bring the
21 integrity of gaming into question."

22 And you ask the director or the Senior Director,
23 Investigations for the Lower Mainland "to draft
24 and forward a letter to BCLC to advise them of
25 our significant concerns in relation to the

1 integrity of gaming." Correct?

2 A That's correct.

3 Q And that was a practice of your division at the
4 time to correspond with the lotto corporation in
5 respect of the content of Reports of Findings
6 that were of concern to you?

7 A At that time, in 2010, is when I considered that
8 their loan sharking -- or pardon me, the money
9 laundering started to really take off. And we
10 then were doing the Reports of Findings, and
11 subject to the Report of Findings, exactly what
12 you're saying, we would send correspondence to
13 the General Manager, to the risk management on
14 occasion, but we would also send letters from
15 either the Director of casino investigations in
16 the Lower Mainland or the Senior Director of the
17 Lower Mainland to send letters to the lottery
18 corporation at the middle management level, but
19 they would copy at a fairly high level.

20 Q And what was the purpose of those letters to
21 middle management at BCLC?

22 A It was to advise them that we were concerned
23 with what was happening in the casinos, and we
24 believed that they should take action in
25 relation to those letters.

1 Q But you didn't feel that you had any authority
2 to require them to take action to address those
3 concerns?

4 A We didn't have any authority. The General
5 Manager may have had, but not the investigation
6 division.

7 Q And did -- they had all the same information
8 that you have?

9 A They get copies of all the Section 86 Reports,
10 the same as we did.

11 Q Okay. You go on to say here that the police of
12 jurisdiction had been notified?

13 A M'mm-hmm.

14 Q And you understood from your years of police
15 work that concrete criminal evidence was needed
16 before a significant investigative action would
17 be undertaken by the police; correct?

18 A That's correct.

19 Q And did you take the view that some lesser form
20 of evidence or lesser degree of proof was needed
21 before service providers, BCLC or GPEB could
22 take action?

23 A Take action? What do you mean? Do you mean
24 investigate the offence or to bar them?

25 Q Either.

1 A Okay. To investigate the offence of money
2 laundering and things of that nature, or money
3 laundering is very -- is difficult because you
4 have to prove the predicate offence before you
5 can prove that the money is derived from the
6 predicated offence, it has to be laundered. In
7 relation to any criminal -- any other criminal
8 activity with these individuals, that would be a
9 responsibility of the police of jurisdiction.
10 We would be a liaison with them in relation to
11 that and they could take activity -- or take
12 action in relation to criminal charges or
13 criminal investigation, if you wanted -- if they
14 wanted to.

15 I don't know if I'm answering that -- the
16 question as you asked it, but there is a
17 responsibility of the police of jurisdiction to
18 investigate criminal matters. There's no
19 question about that. There is a responsibility
20 for the police to deal with offences such as
21 money laundering or possession of the proceeds
22 of crime.

23 The difficulty is that you need special
24 units to -- the latter of those two, you need
25 special units to investigate those. If you have

1 a theft within a casino, the police of
2 jurisdiction can come and investigate that,
3 along with the GPEB. But if you have a money
4 laundering event or something that's going on,
5 you need specialized training to be able to
6 handle those types of investigations.

7 Q Okay. My question is you say -- in this first
8 paragraph, the last three lines, you say:

9 "It should also be noted that these four
10 persons have also been identified to the
11 Police of Jurisdiction but due to the lack
12 of concrete criminal evidence it is
13 unlikely that this will result in any
14 significant investigative action at this
15 time."

16 A M'mm-hmm.

17 Q My question is in the absence of concrete
18 criminal evidence, were you of the view that
19 service providers or BCLC -- well, start with
20 service providers -- could, for example, refuse
21 a cash buy-in from patrons like this?

22 A Absolutely.

23 Q Were you of the view that BCLC or the service
24 provider could impose conditions on players like
25 this in the absence of that evidence?

1 administratively or through the lottery
2 corporation in standard operating procedures.
3 You can do that, and I believe as we get further
4 into it, you'll get the better view or feeling
5 of what I mean when we're talking about money
6 laundering and possession of the proceeds of
7 crime.

8 Q Okay. You say that this report was forwarded on
9 to the General Manager; correct?

10 A That's correct.

11 Q And that was -- was that your usual practice to
12 forward these Reports of Findings on to the
13 General Manager?

14 A Yes, it was.

15 Q And are you aware whether the General Manager
16 disseminated these reports to others?

17 A I have -- no, I do not know.

18 Q Don't know what the General Manager did with
19 these reports of findings?

20 A No. And it will become an issue later on, is
21 that when we were advising the lottery
22 corporation by memo -- and they were responding
23 by memo. We were going back and forth. Of
24 course there was disagreements in the
25 relationship -- in relation to how we should

1 handle things, and that was working in 2011 --
2 or 2010 up until the Kroeker Report. And when
3 we get into the Kroeker Report, we'll see what
4 happened. After 2011, 20 -- into early 2012
5 when we went into the cash alternatives in 2011,
6 in September, and we'll talk -- I know we're
7 going to talk about that -- we backed off
8 sending letters to the lottery corporation, and
9 we did that generally because we were buying
10 into the cash alternatives for the casinos.
11 That's the only reason we backed off.

12 And then when we went back in 2012 to try
13 and do the same thing as we were doing in 2010,
14 we had pushback. Big pushback. And we'll talk
15 about that, I'm sure, as we go through the
16 timeline. But that's -- we were quite happy to
17 be able to send direct manager-to-manager or
18 director-to-director reports that -- or memos
19 that mirrored the Reports of Findings, and that
20 was the process we were using. But once we got
21 past 2010, we weren't doing that anymore. We
22 weren't sending reports of -- letters based on
23 Reports of Findings

24 Q In 2010 how was the relationship between sort of
25 middle management at BCLC and people at the

1 Director and Executive Director level within
2 GPEB?

3 A I didn't think it was as bad as everybody seems
4 to make it out. I think everybody has to
5 understand that the ex-police officers that were
6 working for the lottery corporation -- and they
7 had a number of them at that time -- were good
8 people. We had the different views, though.
9 There was a different view of how we should --
10 and I don't know whether this was -- it could
11 have been a top-down view that was being
12 projected to the lottery corporation and the
13 top-down view that was projected to the
14 investigation division in relation to the
15 handling of suspicious currency and money
16 laundering. That was forming at this time.

17 And what was happening was -- and I'm going
18 to come to your question about the relationship
19 between the investigators -- is that GPEB had a
20 view and BCLC had a view. BCLC, I believe, had
21 the view at this time that they were a reporting
22 agency. They reported Section 86 -- or reported
23 to FINTRAC, they reported to us, et cetera, and
24 that was their responsibility. They reported
25 that to FINTRAC and to GPEB. GPEB was of the

1 opinion that we were investigating the integrity
2 of gaming, and we had to do something through
3 standard operating procedures at BCLC to stop
4 what was taking place. We believed that there
5 had to be a limit on the -- on the amount of
6 \$20 bills that came into the casino within a
7 24-hour period and there had to be a source of
8 funds declaration done on individuals that
9 brought in suspicious currency transactions.

10 BCLC felt that they only were a reporting
11 agency and they -- and that was their
12 responsibility, and we believed the other. And
13 I think that's what caused the -- and we
14 couldn't -- BCLC believed if you couldn't prove
15 beyond a reasonable doubt that it was proceeds
16 of crime or money laundering, then you couldn't
17 prove that. So we're reporting and our job was
18 to report. It was unprovable at that time, so
19 the status quo took place. We believed that
20 there should be a limit on the \$20 bills, that
21 it should be in fact source of funds declaration
22 at the point of entry, and we didn't believe
23 that -- and the key word, again, was integrity
24 of gaming. The integrity of gaming was being
25 compromised. We feel that we had to take

1 action.

2 I still believe to this day as a Crown
3 corporation in Solicitor General's ministry,
4 when we have the integrity of gaming being
5 impacted by large cash infusions that are in
6 \$10,000 bundles with elastic bands around it,
7 that there should've been action in relation to
8 stopping that at the casino from the conduct and
9 manage side.

10 I also believe, as we did in 2009 in the
11 memo, was that there could have been a message
12 sent from GPEB, from the General Manager with
13 the support of the minister that told or
14 directed BCLC to do something in relation to
15 source of funds or limit the 20 or do something
16 to deal with this issue and stop it. And that's
17 where I -- and I know that's a long explanation.
18 But what happened was the investigators on both
19 sides, on BCLC and the investigation division,
20 knew each other from different movies, and I
21 honestly believe that they generally knew what
22 this was we were dealing with.

23 There was a general view amongst -- my
24 people were clear, this money was proceeds of
25 crime. There was no question in their mind.

1 The British Columbia Lottery Corporation would
2 come with the vision -- I'm being told this by
3 my investigators that all they have to do is
4 report, and it can't be proven that it's the
5 proceeds of crime. And that was -- and that's
6 what the difference was. And I think that
7 caused a little bit of friction between the
8 investigative body and our investigative body.
9 I don't think there was a common purpose there.
10 I thought we'd lost the direction as to what we
11 were doing, and I thought management, upper
12 management, should have brought that around into
13 focus, and I thought it would -- the
14 investigative bodies would have worked much
15 better.

16 Q The GPEB's investigation division's desire for a
17 source of funds requirement and desire for a
18 limit on the amount of 20s that could be
19 accepted, were those desires supported by the
20 General Manager?

21 A No.

22 Q Okay.

23 A He got them. We submitted reports to them --
24 him on it. Remember, the General Manager to
25 make a move on this that potentially would

1 A I don't think we -- we looked at it from the
2 investigations side. See, we never really
3 investigated the service provider per se. We
4 had a registration investigation division.
5 So if -- and there's the odd report we'd send to
6 registration that they could do something in
7 relation to that. And I think we did do two or
8 three of them. But you have to remember, we're
9 all sitting at the boardroom table in GPEB;
10 we're having management meetings every two
11 weeks. What's the topic of conversation? The
12 topic of conversation always was, what's
13 happening in the money laundering arena and
14 what's the problems again?

15 And, I mean, we were relentless, I felt, to
16 sometimes nauseam about the issues that were
17 taking place in the casinos. The frustration
18 was terrible on the investigative side of the
19 house of GPEB. We could not -- we were watching
20 this stuff come in in bags and put on the table
21 in the cash cages and we could not do anything
22 about it from the investigative side. We really
23 couldn't. And believe me, we had some very
24 strong people that could do that, but we could
25 not deal with it. And BCLC investigators, I

1 believed that they were having some stress as
2 well when this was going on and that it was
3 happening. And we needed somebody at the upper
4 management above me to deal with this and direct
5 that this had to stop.

6 We did get into an anti-money laundering
7 program in 2011. I mean, we're going to go
8 there in a minute, but I didn't feel that that
9 was going to work. I mean, this was -- we were
10 seeing this -- by late 2010 in the spring, we
11 were starting to see the money really flow in
12 there. And by the time we got around to 2011 to
13 the Kroeker Report that was in 2011, that we
14 were -- the money laundering was on the move,
15 and we needed immediate action.

16 That's why I was strongly suggesting
17 limiting the \$20 bills in a 24-hour period to
18 shut it down. It's like putting a band-aid on
19 your arm when you start bleeding. If you don't
20 do it quickly, it's going to get festered and
21 get much bigger, and we didn't do that. And I
22 still wonder why we didn't do it at the time
23 because I think we could have -- although you
24 would have driven away -- you would have driven
25 away the big players with that recommendation.

1 Q It seems like the service providers were in a
2 much worse position than GPEB and BCLC to
3 identify the kinds of trends that are being
4 described in this report. Is that fair?
5 Because they would only have visibility on their
6 own site?

7 A Say that again.

8 Q Were the service providers in a much worse
9 position than GPEB and BCLC to identify the
10 kinds of trends identified in this report
11 because they had limited access to information,
12 limited only to their own sites?

13 A I don't know about that. I mean, the service
14 providers know what's going on within the casino
15 environment. There's no question of that. I'm
16 not saying that they didn't know what was going
17 on there. They would have less information from
18 a correlated standpoint like a report like this,
19 but they knew what was going on in the casinos.
20 I mean, that place is like a city in itself,
21 especially River Rock. I mean, they all know
22 what's happening there, and I'm sure the staff
23 did as well.

24 But I think the service providers were
25 looking at it and if GPEB didn't do anything

1 about it and say anything and BC Lottery
2 Corporation didn't say anything in relation
3 to -- and I'm talking about taking the money
4 here; that's what we're talking about -- then
5 they felt they were on solid ground to some
6 degree. They might have got a little shaky
7 every once in a while, but I think they thought
8 if they had the two agencies -- one conduct and
9 manage and one that was the regulatory
10 oversight -- not saying a whole lot to them,
11 then they kept doing it.

12 But there was a third recommendation here
13 as well. The same one as we had in 2009: make
14 a term and condition of registration, then
15 restrict the 20s or source of funds declaration
16 through term and condition of registration. If
17 they would have done that, then what would have
18 happened? It would've forced it on the service
19 provider, same as we did with the reporting
20 requirements. This is Larry's logic. Force it
21 on the service provider, put it in standard
22 operating procedures of BCLC. And once you've
23 done that, then the service provider's on board
24 because as soon as you tell the service provider
25 that they have to do something, they would do

1 it.

2 Q Okay.

3 A They were very compliant. Although -- I just
4 want to put a caveat in there -- I don't know
5 what the ramifications would have been to a
6 publicly traded company. I just want to throw
7 that in.

8 Q Okay. Can you turn to exhibit J, please?

9 MS. LATIMER: And, Madam Registrar, that's at
10 PDF 142.

11 Q And are you there, Mr. Vander Graaf?

12 A Yes, I am.

13 Q This is a Report of Finding entitled "Breach of
14 the Integrity of Gaming" dated May 7th, 2010;
15 correct?

16 A Correct.

17 Q And if you turn to page 127 in the upper
18 left-hand corner, you'll see this report was
19 again authored by Derek Dickson, forwarded to
20 Joe Schalk, and then ultimately on the next page
21 forwarded on to you; correct?

22 A That's correct.

23 Q Okay. I'm returning to page 118 of the upper
24 left-hand corner.

25 A 18?

1 Q 118.

2 A I think we have different -- oh, I get it.

3 There you go. Okay. Yes.

4 Q And I'm under the heading "Background" where

5 Mr. Dickson sets out:

6 "On May 4th, 2010, Yu Xiang Zhang, a
7 regular high limit patron, redeemed
8 1.2 million dollars in Starlight Casino
9 value chips into cash. On this occasion
10 Zhang requested that Starlight management
11 supply him with a letter that advised he
12 had cashed in value chips in the amount of
13 1.2 million dollars. Despite the obvious
14 dangers of supplying such a letter,
15 several members of the Senior Management
16 Team from Gateway Head Office reviewed
17 this request and approved a letter be
18 supplied to Zhang."

19 Correct?

20 A I'm familiar with this, yes.

21 Q So this report concerns Mr. Zhang, who was one
22 of the subjects of the report we were just
23 looking at dated March 2010; correct?

24 A That's correct.

25 Q But in this -- in the paragraph that follows

1 transaction and is now problematic for
2 any further law enforcement
3 investigation."

4 A Okay.

5 Q And you were aware of these concerns expressed
6 by IPOC at this time; correct?

7 A Yes, correct.

8 Q And Mr. Dickson goes on to provide a synopsis of
9 what he says are concerning behaviours relative
10 to this patron; right?

11 A Yes.

12 Q And then on page 122 near the bottom, the sort
13 of second paragraph before the bottom, it
14 explains:

15 "Zhang's associate Tsui Hua Lo, who
16 received the letter ... also has a history
17 of engaging in loan sharking activity, and
18 was Provincially --"

19 Barred for a period of time. Correct."

20 A Correct.

21 Q And then if you turn to page 124. On this page
22 Mr. Dickson sets out some collusions where he
23 summarizes the event again; correct?

24 A Correct.

25 Q And then in the bottom paragraph he notes

1 seriously at closer monitoring and
2 possible targeting casinos for future
3 investigations."

4 Was this a view of law enforcement communicated
5 to the service provider at the time?

6 A I don't know that.

7 Q Was the fact that casinos might be more closely
8 monitored and targeted for future investigations
9 communicated to the lotto corporation at the
10 time?

11 A I think we did on this one.

12 Q Okay. And if you turn to page 126.

13 A Yeah.

14 Q There's -- more context is set out here, and I'm
15 looking at the third paragraph.

16 A Yeah.

17 Q Mr. Dickson sets out there was:

18 "... a meeting with BCLC, Ballesty,
19 Barnett and Oan agreed that in the past
20 they have leaned too much towards the
21 customer service side of things for fear
22 of offending VIP patrons and that their
23 vision had been somewhat clouded."

24 Was that consistent with your observations at
25 the time that BCLC and/or service providers

1 leaned too much towards the customer service
2 side of things when there were issues of
3 compliance like this?

4 A I think the service provider did. I'm not --
5 I'm not sure about BCLC at this time. And I'm
6 not sure I'd have any personal knowledge of
7 that, quite frankly. I just think that, you
8 know, they were obviously agreeing that there's
9 too much towards service side of things for fear
10 of offending VIP patrons. He's having a meeting
11 with BCLC and these people here, these other
12 people, and I take it they're from the casino.
13 I'm assuming that that's what he's saying as a
14 result of that meeting, so -- I mean, I'm sure
15 he is that that must have been happening at the
16 time or he wouldn't have put it in the record
17 report.

18 Q Okay. I'm at page 128.

19 A M'mm-hmm.

20 Q And this is where your comments are set out
21 where you're forwarding this on to the General
22 Manager; correct?

23 A Yes.

24 Q And I'm looking about 10 lines down, there's --
25 the beginning of the line has a quote and it

1 A Yes.

2 Q And to the best of your knowledge was action
3 taken by registration?

4 A I can't recall. I don't think so. But, again,
5 I'm just looking at my memory. I remember
6 sending it to them. They've got the report, but
7 whether they took any action in relation to the
8 casino company, I don't know. I can't recall.

9 Q And do you have any recollection of whether
10 there were regulatory penalties?

11 A That's what I'm talking about, regulatory
12 penalties. I don't know. I don't know.

13 Q Okay.

14 A And, you know, if they did and if it would've
15 been significant, I would have remembered. So
16 I'm assuming that if they did something, it
17 wasn't significant. It would be minimal in
18 nature or minor in nature, if I could say that,
19 if anything. Because if there would've been
20 significant penalty to the service provider, I'd
21 have remembered it.

22 Q Okay. I'm moving to another topic,
23 Mr. Commissioner. And I'm happy to continue, or
24 if this is a convenient time to take the break.

25 THE COMMISSIONER: I think we're at the stage where a

1 break, I think, might be appreciated, so we'll
2 take 15 minutes. Thank you.

3 THE REGISTRAR: This hearing is adjourned for a
4 15-minute break until 11:41 a.m.

5 (WITNESS STOOD DOWN)

6 (PROCEEDINGS ADJOURNED AT 11:26 A.M.)

7 (PROCEEDINGS RECONVENED AT 11:40 A.M.)

8 LARRY VANDER GRAAF, a
9 witness for the
10 commission, recalled.

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

13 THE COMMISSIONER: Thank you, Madam Registrar. Yes,
14 Ms. Latimer.

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

16 Q Mr. Vander Graaf, in your affidavit you describe
17 a meeting that you had with Minister Rich
18 Coleman in 2010, and also present, you say, was
19 Deputy Minister Laurie Wanamaker?

20 A Yes.

21 Q And I'm wondering if you can tell the
22 Commissioner a little bit about that meeting,
23 please.

24 A In 2010 I was in my office, in the Burnaby
25 office, and [indiscernible].

1 THE COMMISSIONER: I think we've gone -- I think we
2 lost your audio, Mr. Vander Graaf.

3 MR. MCGOWAN: It appears as if your mute has been
4 turned on, Mr. Vander Graaf.

5 THE WITNESS: I had it off. Sorry about that.

6 THE COMMISSIONER: Perhaps you could start again,
7 Ms. Latimer.

8 MS. LATIMER:

9 Q I was just asking if you could tell us about
10 this 2010 meeting with Minister Coleman and
11 Deputy Minister Wanamaker.

12 A Yes. In 2010 I was expecting a meeting with
13 Derek Sturko and Minister Coleman and Deputy
14 Minister Laurie Wanamaker. And Mr. Sturko got
15 caught in traffic. Minister Coleman and Deputy
16 Minister Wanamaker showed up in my office, and
17 Mr. Coleman walked in and he sat across from me,
18 across the table, and Ms. Wanamaker sat beside
19 me.

20 Mr. Coleman opened the conversation, he
21 said, what about this money laundering? And I
22 said they're bringing it in in \$10,000 bundles.
23 He says, I know lots of people with \$10,000 in
24 their pocket. I said, if it's in \$20 bills with
25 elastic bands on both ends, you better check

1 your friends out.

2 We went on that conversation a little bit
3 further, and -- quite a bit further and I
4 explained to him about the horrendous problem we
5 were having in the casinos with the \$20 bills.
6 That \$20 bills are a problem to drug
7 traffickers, and it's a 6 to \$7 billion industry
8 in Canada, drug trafficking. \$20 bills are a
9 problem. A hundred -- pardon, 110 pounds for a
10 million dollars are \$20 bills and 22 pounds for,
11 you know, equivalent in \$100 bills, so there was
12 always an exchange of money. Money laundering
13 was surfacing as a problem in the casinos. It
14 was an integrity issue to gaming. I felt that
15 we had to do something about it. I felt that we
16 should -- and we went onto a number of general
17 conversation and issues in relation to money
18 laundering, including the fact that I said I
19 could not prove it's the proceeds of crime, but
20 I believed it was drug money.

21 And we had this conversation for probably
22 10 or 15 minutes, a number of topics crossed my
23 mind in relation to that conversation. He
24 listened in its entirety, and after we finished
25 the conversation, the only thing that

1 Ms. Wanamaker said was Rich, we have to do
2 something about this. That was the extent of
3 that conversation. It was in relation to the
4 existing money laundering problem in the Lower
5 Mainland casinos.

6 I then moved on to a conversation in
7 relation to the bars in the Lower Mainland and
8 things of that nature. So we had that
9 conversation. He stayed for probably, I'd say,
10 20 minutes to a half hour. By that time
11 Mr. Sturko had arrived from traffic, and
12 Mr. Coleman and Ms. Wanamaker left.

13 Q Did you, during your conversation with the
14 minister and deputy minister, raise the idea of
15 a ministerial directive to address the problem?

16 A I believed that we should restrict the number of
17 \$20 bills in a 24-hour period in that
18 conversation.

19 Q Did you suggest any means by which that
20 recommendation could be implemented by GPEB?

21 A I don't remember if I did or not. But I
22 definitely said that we should implement the
23 restriction on the \$20 bills in a 24-hour
24 period.

25 Q Did you raise the issue about the source of

1 funds during that conversation?

2 A I don't believe I did.

3 Q Did you after that conversation report on it to
4 Mr. Sturko?

5 A Mr. Sturko had come into the office -- into my
6 office at the later part of the conversation,
7 and I'm sure he was talking with Mr. Coleman on
8 the way back to Victoria. I don't know that for
9 a fact, but I never did bring it up with
10 Mr. Sturko again.

11 Q Did you ever follow up with the minister or
12 deputy minister about whether there could or
13 should be a restriction on the number of
14 \$20 bills coming into casinos?

15 A No, I didn't follow up with it. I didn't feel
16 it was my point. I mean, they were at a level
17 with Mr. Sturko, not of mine. Mr. Sturko, I
18 believed, was well aware of the issues in the
19 casinos.

20 MS. LATIMER: Madam Registrar, could I have
21 exhibit 110 placed before the witness.

22 Q And, sir, you recognize this letter dated
23 November 24th, 2010, from Mr. Dickson to Gordon
24 Friesen and copying you and others with the
25 subject line "money laundering in casinos";

1 correct?

2 A Yes, I do.

3 Q Did you review and approve this letter before it
4 was sent?

5 A I don't think I did.

6 Q Okay. In this letter Mr. Dickson states at the
7 beginning:

8 "Recently we have begun to see a dramatic
9 increase in the amounts of small
10 denomination Canadian currency used for
11 large buy-ins by [large cash transaction]
12 patrons within Lower Mainland Casinos.
13 Although there have been numerous similar
14 suspicious currency transactions, one
15 particular LCT patrons play over a 4 week
16 period at the Starlight Casino illustrates
17 the magnitude of this situation. This
18 Division, the Branch, and the RCMP are
19 very concerned about the potential money
20 laundering by [this patron] in BC
21 casinos."

22 And you remember those concerns held by your
23 division, GPEB and the RCMP about potential
24 money laundering in casinos at this time;
25 correct?

1 groups."

2 A Correct.

3 Q They say --

4 "They are of the opinion that this is,

5 without doubt, large scale money

6 laundering."

7 Were you aware at this time that the RCMP IPOC

8 unit had communicated this view to Mr. Schalk

9 and Mr. Dickson?

10 A I don't know if I was there.

11 Q But that was consistent with your view at the

12 time; is that correct?

13 A Absolutely.

14 MS. LATIMER: And if you turn to page 3, please,

15 Madam Registrar.

16 Q In the last line of the first paragraph, he

17 says:

18 A restriction of allowing a maximum of

19 \$10,000 in \$20 denominations could remedy

20 the situation."

21 Was that a suggestion that you endorsed at this

22 time?

23 A Absolutely. It was my -- my concern was -- and

24 I think I said previously a little bit is that

25 that was not a long-term permanent fix. That

1 was a fix that could have been instituted
2 immediately and that would eliminate -- it may
3 have created some smurfing, you know, under a
4 limit, but it would have eliminated the problem
5 fairly quickly. This letter was -- these
6 letters were directed by myself to write those
7 letters.

8 Q Okay. You directed that they be written, but
9 you didn't review it before it went out?

10 A That's correct.

11 Q Okay. I see here that this is an increase in
12 the threshold that you had suggested in 2009.
13 In 2009 you said 3,000; here you're suggesting
14 10,000. What caused the increase there?

15 A I think the amount of money that was going into
16 the casino, \$3,000 would have been pittance
17 compared to the hundreds of thousands that were
18 going into the casinos at that time. When we
19 were talking about 3,000, it would just be a
20 different percentage of what was going in per se
21 than what is going now.

22 And you will see in the future, I even go up
23 to \$20,000 to try and get some support to
24 prevent -- put a limit on the 20s going into the
25 casinos. And I'll obviously get to that reason

1 why later on.

2 Q Okay. In other words, you were [indiscernible]
3 just to try to make the suggestion more
4 palatable; is that fair?

5 A Exactly. That's what I'm trying to do.

6 Q Okay. And he ends this letter, saying:

7 "... BCLC needs to seek solutions to the
8 obvious, increasing, and continuous money
9 laundering threat that is occurring,
10 particularly involving the flood of small
11 denomination currency, within BC casinos."

12 And did you share the view at this time that the
13 threat of money laundering was obvious,
14 increasing and continuous?

15 A No question. This -- it was really taking off
16 in 2010.

17 Q Beyond sort of urging BCLC to seek solutions to
18 that problem, what was GPEB doing to address the
19 problem at this time?

20 A We were gathering data on all of the individuals
21 and we were speaking very heavily with the RCMP.
22 As you've noticed in the reports, Joe Schalk and
23 Derek Dickson were constantly going to the
24 integrated proceeds of crime unit and dealing
25 with them and trying to get them to instigate

1 action in relation to the money laundering
2 issue.

3 We knew and I always knew that we could
4 never investigate money laundering and proceeds
5 of crime at GPEB. Neither could BCLC. And we
6 knew that. They're too complicated. You need a
7 full-blown policing agency to take a run at
8 them. And so we were trying to initiate some
9 police response to the big picture item, which
10 was money laundering. But that didn't absolve
11 us of the role that we had to play, and we
12 didn't do it.

13 Q Okay.

14 MS. LATIMER: Madam Registrar, can I have
15 exhibit 111, please, placed before the witness.

16 Q And, sir, you recognize this as Mr. Karlovcec's
17 response to Mr. Dickson's letter, and this is
18 response is dated September 24th, 2010, with the
19 subject line "money laundering in British
20 Columbia casinos"; correct?

21 A Correct.

22 Q And on page 2 in the second paragraph
23 Mr. Karlovcec explains that BCLC Corporate
24 Security conducted a thorough investigation in
25 relation to this patron's gaming play between

1 August 31 and September 29th, 2010, and he sets
2 out there the total buy-ins and total net loss
3 after the third paragraph; right?

4 A That's correct.

5 Q Was it your view that large volumes of cash like
6 this were not suspicious or less suspicious if
7 the players were putting the funds at risk?

8 A No. Didn't make any difference to me. That
9 large amount of money that was coming in there
10 in \$10,000 bundles of \$20 bills with the elastic
11 bands from my perspective was proceeds of crime,
12 if not the finer version of drug money. And it
13 didn't matter if you win or lose in my
14 perspective because you didn't get the same
15 money back. You were putting it into the
16 casino, you were putting it at risk and you were
17 getting at back. I still believe -- that was
18 BCLC's philosophy at that time: if you put it
19 at risk, it's not money laundering. I never
20 bought into that.

21 Q Okay.

22 MS. LATIMER: Madam Registrar, can I have
23 exhibit 112, please, placed before the witness.

24 Q And, sir, do you recognize this as a letter from
25 Joe Schalk to Mr. Friesen, and you're copied on

1 3 persons or groups removed from the
2 patron using these instruments to play in
3 the casino. Regardless, money is being
4 laundered. The end user, the patron, must
5 still pay back all of the monies he/she
6 receives in order to facilitate his buy-in
7 with \$20.00 bills and for the person on
8 the initial start of the facilitation
9 process, the money is being laundered for
10 him/her through the use of the gaming
11 venue."

12 And did that accurately reflect your views at
13 the time about what was going on in BC casinos?

14 A I think it does, yes.

15 Q How did you come to understand that the player
16 would have to pay back all of the money he
17 received to buy in with 20s and that's how the
18 money was being laundered?

19 A Well, we believed that the money was -- by this
20 time we were believing that the money was given
21 to the high-limit player, and the high-limit
22 player would take the money and -- from loan
23 sharks or money lenders, whatever you want to
24 call them, taking it into the casino and used to
25 gamble. If they lost money, I think the loan

1 sharks are the person that the -- loan sharks
2 were getting the money back would like that
3 because what would happen is you'd have to pay
4 them back. You never -- just because you lost
5 money going into the casino didn't mean you
6 didn't have to pay it back. And we believed the
7 money was being supplied by loan sharks or maybe
8 a first party or, like, a third party.

9 If you were an actual drug trafficker and
10 you were selling drugs and you made money from
11 drugs and went into casino with the money that
12 you made from the drugs and you put that into
13 play and you lost it, that might be a little
14 different scenario than if you'd borrowed the
15 money from somebody else and lost it and you
16 have to pay it back. And the majority of these
17 high-roller players were borrowing money from
18 loan sharks with people who had access, which I
19 believe, to proceeds of crime. They were using
20 that -- facilitating that through the casinos

21 Q Okay. And you mentioned that after this point
22 in time there was a period where you weren't
23 writing these form of letters to BCLC for a
24 period of time; is that right?

25 A That's correct.

1 Q And why was that again?

2 A Well, what happened was we went -- in 2010, then
3 2011 we went in -- after the conversation with
4 Minister Coleman and the Deputy Minister
5 Wanamaker, Mr. Coleman -- Derek Sturko left in
6 mid January right after that meeting and left
7 the GPEB and went to another ministry. And
8 Mr. Rob Kroeker, Mr. Kroeker was tasked with
9 doing the Kroeker Report. And Mr. Kroeker went
10 from, say, January 15th or 20th all the way
11 around till September of 2011 before he released
12 his report.

13 We might have done -- I can't remember
14 whether we did some in 2011, Reports of
15 Findings, but once we went into the cash
16 alternatives in September 2011 and our new ADM
17 and new General Manager Doug Scott came to play,
18 we backed off because we were -- we had to be --
19 they wanted us to be considered team players.
20 We wanted to be looked at as team players, and
21 we were going to provide the material to the
22 reduction in the cash alternatives. We were
23 going to reduce the cash.

24 Of course we looked at it and said -- by the
25 time we looked at the proposal, we said, this

1 isn't going to work because you're reducing the
2 cash; the only way you're going to reduce the
3 cash that's coming in in the huge amounts is
4 stop taking that money; you can reduce -- they
5 didn't need the cash alternatives. So we -- and
6 that's what happened. We backed off sending
7 letters to BCLC, but there was some pressure as
8 well to not send them. You know, sometimes
9 armed is not good.

10 And so we started doing a support in the AML
11 money laundering area and the reduction of cash
12 in 2011. So we continued on with that right
13 through 2011 and I think up until about 2012
14 before we realized and we knew by this time that
15 this -- we knew before it, but we knew after
16 this that this wasn't going to have a
17 significant impact on the -- what we considered
18 proceeds of crime or suspected proceeds of
19 crime. So that was going around there and the
20 money was still coming in quickly. And we had a
21 new ADM who was new on the job, and we were
22 playing the reduction in cash game, but we
23 really didn't think it would work.

24 Q Okay. I'm going to come back to talk about the
25 events of 2011 with you, but first just to

1 finish off the chain of correspondence. Could
2 you turn, please, to exhibit II in your
3 affidavit.

4 MS. LATIMER: And, Madam Registrar, I'm at PDF 347.

5 Q And I take it, sir, you recognize this as a
6 letter from Mr. Schalk to Bryon Hodgkin at BCLC
7 dated December 27th, 2012, and you're copied on
8 this correspondence; correct?

9 A Excuse me. Yes.

10 Q And did you review or approve this letter before
11 it was sent?

12 A I knew that letter was going. I knew Mr. Schalk
13 was going to send that letter. I said send it,
14 and he did.

15 Q Okay.

16 A But I don't think I -- I didn't read them. I
17 didn't read them. I would trust in him to do
18 what was right.

19 Q Okay. And if you look at the first paragraph,
20 Mr. Schalk says this memorandum is further to
21 the previous correspondence we were just looking
22 at. And I take it this correspondence flowed
23 from Reports of Findings; is that right?

24 A That's correct.

25 Q And he says in the second paragraph that GPEB

1 had conducted a review of suspicious currency
2 transaction reporting for the period between
3 September 1, 2010, and August 31, 2011, and he
4 sets out some of the results from that review;
5 correct?

6 A Correct.

7 Q And if you turn to the next page, please. In
8 the fourth paragraph he goes on to discuss a
9 review of suspicious currency transactions
10 conducted for the period January 1, 2012, to
11 September 30th, 2012?

12 A Correct.

13 Q And he ends by setting out a number of
14 conclusions, including the last one.

15 MS. LATIMER: And I'm on the next page now, Madam
16 Registrar.

17 Q His conclusions are -- the last one, he says:

18 "The continued significant increase of
19 Suspicious Currency being brought into and
20 accepted at several casinos in the Lower
21 Mainland is a cause of great concern
22 to --"

23 Your division, and impacts the integrity of
24 gaming.

25 Correct?

1 A Correct.

2 Q And you shared those views at this time that
3 these concerns had continued on into 2012?

4 A Yes, they had.

5 Q And it's fair to say that this communication
6 resulted in a complaint from BCLC to Doug Scott,
7 who was then the ADM at the time and General
8 Manager?

9 A Yes, I understood Michael Graydon, the president
10 of the lottery corporation, sent him a letter.
11 I didn't -- I hadn't seen the letter, but I'd
12 received an email from Doug Scott. There was a
13 letter and it is -- there is a letter from
14 Michael Graydon and a response from Doug Scott
15 to Michael Graydon. I don't know if you know
16 about that letter, but ...

17 Q Okay. Well, if you could turn, please, to
18 exhibit JJ of your affidavit. I take it you
19 didn't see the letter from Michael Graydon at
20 the time it was sent.

21 A No, I did not. All I saw was the email from my
22 boss, Doug Scott, concerned about the report
23 that Mr. Schalk had sent to Bryon Hodgkin.

24 Q Okay. Well, then we'll start with that email,
25 which is at the bottom of -- begins at the

1 bottom of this --

2 A Where are we again?

3 Q I'm at exhibit JJ, which is if you look in the
4 top left-hand corner, page 293 of the affidavit.

5 A Oh, yes. I've got it. Thank you.

6 Q Okay. I'm looking at the bottom of the page.
7 This is an email from Doug Scott to you at the
8 bottom dated January 16th, 2013, with the
9 subject "investigations letter to BCLC
10 Dec 27th"; correct?

11 A Correct.

12 Q And Doug -- Mr. Scott says:

13 "I received a complaint from Mike Graydon
14 regarding a letter that your office sent
15 to BCLC. He has a number of concerns that
16 on the face of them have weight. I would
17 like to discuss the letter - I'm coming
18 out to Vancouver next week --"

19 And then over the page he says:

20 "-- so perhaps we can meet in person.
21 Just to prep you - the following are
22 questions I have - no need to respond
23 before we meet."

24 And you recall receiving this email from
25 Mr. Scott?

1 A Yes.

2 Q And just so that we understand what we're
3 looking at here, he sets out his questions. And
4 I take it in responding to this email you've
5 embedded your responses into Mr. Scott's email;
6 is that correct?

7 A That's correct.

8 Q So it goes his question, and then the text that
9 follows the question mark is your answer;
10 correct?

11 A That's correct.

12 Q Okay. And so Mr. Scott says first that he has
13 asked that "all formal correspondence going out
14 to BCLC come through my office before being
15 sent," and he asks why that wasn't done in this
16 case. And do you recall that direction being
17 given in the fall of 2012?

18 A I do not recall that direction being given.
19 That doesn't mean that it wasn't, but I have no
20 recollection of that.

21 Q And so you wouldn't know why that direction
22 would be given?

23 A No.

24 Q Is it fair to say that you and Mr. Schalk had a
25 strained relationship with middle management at

1 BCLC at this time?

2 A I think so. We had a different understanding.
3 And I think it goes back to what we were talking
4 about in what we should be doing in relation to
5 the money laundering situation. That would be
6 the strain. You know, we knew them over there,
7 and they knew us, and we had different views on
8 it, and I think that was the strain.

9 Q Okay. And in your response you set out -- after
10 the first sentence you say:

11 "The Investigation and Regional Operations
12 Division communicates both formally and
13 informally on an ongoing basis with BCLC
14 Corporate Security on a number of issues
15 which include Lottery Retailer issues,
16 Money Laundering issues, Voluntary Self
17 Exclusion matters and many more. We
18 continue to communicate openly both
19 formally and informally with Police on
20 these same issues."

21 Correct?

22 A Correct.

23 Q And if you look sort of in the -- and I take it
24 despite the fact that you said that your letters
25 had sort of stopped for a period of time in

1 continuous exchange, correlation and
2 update of our statistical review of mainly
3 Section 86 Suspicious Currency Reporting
4 data with the intent of advising BCLC
5 Corporate Security of the concerns and
6 opinions that the Investigation Division
7 continues to have in relation to suspected
8 money laundering activity and loan
9 sharking activity in BC Casinos. These
10 correspondences were almost always a
11 vetted version of a Report of Findings
12 generated by investigators or supervisors
13 in this Division."

14 And that was your understanding of where the
15 content of these letters came from; correct?

16 A No question. That's where they came from.

17 Q And I take it that's why you weren't reviewing
18 the correspondence before it went out, simply
19 directing that it went?

20 A Yes.

21 Q Okay. And you say further on that you are aware
22 of the memorandum and concurred with the content
23 of the memorandum that --

24 A Yes.

25 Q Then about seven lines from the bottom -- about

1 seven lives from the bottom of the paragraph,
2 you say -- it's the line that begins with the
3 word "letter." Do you see that?

4 A In which paragraph? The same -- 1 or 2?

5 Q The same one, 1. And I'm about seven lines from
6 the bottom.

7 A Oh, yes, I see it.

8 Q And you say:

9 "I was not privy to that conversation."

10 You say:

11 "I must point out that BCLC Corporate
12 Security gets identical copies of all
13 Section 86 Suspicious Currency
14 Transactions from the Service Provider
15 that are reported to [the] Division. All
16 this Division did was continue the
17 analysis and opinions of the empirical
18 data that the Enforcement Division
19 continues to received from the Service
20 Provider."

21 A Correct.

22 Q And so that was your view at the time?

23 A Yes.

24 Q And did you think that that was of assistance to
25 BCLC?

1 A What? To get the 86 reports?

2 Q To get your further analysis and opinions on the
3 Section 86 Reports.

4 A Well, I think what the intent of it was to
5 advise them that we'd done further analysis, and
6 we were telling them that the AML program that
7 we were using, the reduction thing, was not
8 working. Our statistics are showing that there
9 isn't a reduction in suspicious currency
10 transactions, so we felt that we have to do
11 something about this. We had conceded ourselves
12 to be advisors to the AML strategy at that time
13 and provide intelligence.

14 But once we could back up what we were
15 saying that it probably wasn't going to work,
16 then we said okay, well, we're back on the 2010
17 mission of we're going to advise BCLC of what
18 we're seeing from our suspicious currency
19 transactions because they may not have been
20 monitoring them, and then we had our own
21 analysis of what we believed from our Reports of
22 Findings. That's what we were -- that was our
23 intent there.

24 Q Okay. And so that's sort of the concern that's
25 addressed in Mr. Scott's second question is he's

1 essentially saying Mr. McCrea is leading a
2 review of the efficacy of the AML measures and,
3 he's questions why you sent this communication
4 externally instead of allowing it to -- for
5 Mr. McCrea's review; correct?

6 A Correct.

7 Q And you say essentially that the same
8 information was communicated to Mr. McCrea.

9 A Yes.

10 Q And then on the next page you say that the
11 investigation staff believed it is their "role
12 and duty to investigate as Special Provincial
13 Constables and under the *Gaming Control Act* as
14 best they can any matter that may bring or
15 continues to bring the gaming into disrepute."

16 And you say:

17 "This letter was sent from an Enforcement
18 perspective only and was intended to
19 update the situation to BCLC Corporate
20 Security on the data accumulated and
21 analysed from an Investigations
22 perspective."

23 Can you explain what you mean here by --

24 A What was happening is -- what was happening is
25 when we got into the cash reduction phase, we

1 were pigeonholed. Now we couldn't go to BCLC to
2 deal with BCLC. We weren't invited into the AML
3 investigation -- or pardon me, an AML
4 inter-agency group with the service provider and
5 BCLC. Bill McCrea took over that role, and he
6 was assigned that role, and he had been assigned
7 that for a period of time. So we were relegated
8 to collecting data and putting it forward to
9 Bill McCrea for the AML strategy.

10 But we felt we still had another role here
11 because we had an integrity of gaming outside of
12 the AML strategy. So once we were convinced and
13 we were -- had put in the Reports of Findings
14 saying that that we were going to move back to
15 the same role we were doing in 2010 and we were
16 going to start drafting reports to BCLC, and
17 that's what we mean there. We still have an
18 investigative body and decision to do things,
19 yet we still wanted to be seen as contributing
20 to the AML strategy because it was quite common
21 for us to be considered the outsiders or the
22 lone wolves of the group.

23 And I think it was mainly because we were so
24 frustrated with what was happening and we
25 couldn't seem to get traction everywhere. And

1 then when we looked at, like I say, the money
2 reduction thing, that was fine to get more cash
3 into the casinos, but the suspicious currency
4 transactions were going up on a very steep climb
5 and we couldn't get IPOC interested in relation
6 to it at this time. We couldn't get -- we
7 couldn't do really anything to spur it on. We
8 couldn't get past anybody to get anything done.

9 And then there was more studies, more
10 reviews, more of these things. And so we
11 stepped out of the box again as the -- maybe the
12 lone wolf and doing what we did, and that's what
13 we did. And I think -- go ahead.

14 Q No, you go ahead.

15 A I think my staff would agree with that. I mean,
16 a lot of my staff were extremely frustrated by
17 2010 and '11. And I think other staff, and even
18 the lottery corp staff were frustrated as well.
19 I do believe that. And I don't have anything to
20 confirm that, but I do believe it. It was an
21 administrative process that should have been
22 corrected. You can't expect the police to solve
23 the money laundering problem.

24 Just because the police are busy doing what
25 they're doing and they can't react at the time

1 when clearly there was critical mass here to be
2 dealt with, the regulatory body has the
3 responsibility, the regulatory body in conduct
4 and manage. And the police can do their damage
5 later or when they get their act together, which
6 we knew they would sooner or later. But really
7 it's a regulatory role.

8 And you're going to hear more about that
9 from me, I hope, as we get further into it in
10 where this has to develop more.

11 Q Okay. In his questions 3 and 4, he asks why the
12 letter is directed to BCLC when this is -- an
13 AML solution needs to be a joint effort. And he
14 says what's the purpose of the letter; there are
15 no recommendations for action.

16 Did you understand his concern to be
17 essentially that you're laying the blame at the
18 feet of BCLC and he takes exception to that?

19 A Well, he could have. I don't know exactly what
20 he did think. When you see the tone of the
21 other two letters, it's sort of pretty clear to
22 me what happened. But it appeared that he was
23 concerned that he was getting pushback from
24 BCLC. And I think that's what it was. He was
25 concerned that he was getting pushback from BCLC

1 in relation to advising them -- somebody
2 advising them. And once you're armed, of
3 course, you're armed with it; you can't unarm
4 yourself. And I think that was the concern.

5 And it appeared to me -- we were in the AML
6 strategy together to do -- BCLC and the branch
7 to do -- fix the problem of money laundering.
8 Of course I wasn't in those upper echelon
9 meetings, but three years ago -- three years
10 earlier or four years earlier, we were in BC
11 Lottery Corp -- five years earlier we were in
12 BC Lottery Corporation's offices seizing files.
13 We went from an oversight regulator going into
14 the lottery corporation with a production order
15 to a joint AML strategy that we were sort of
16 handcuffed in. We were bound in there. We
17 couldn't go anywhere and do anything from my
18 perspective, except the police and such and
19 such, if you can understand what I'm saying.

20 Q Did you understand at this time that GPEB had a
21 role beyond raising the alarm in addressing
22 these serious concerns that were raised in the
23 memorandum?

24 A It was -- it was. And it was getting very, very
25 noticeable and heavy on the integrity of gaming

1 side. And that's what we were responding to was
2 the integrity of gaming, to try and get interest
3 in doing something that would spark a change
4 rather than wait another two or three years and
5 go through more AML strategies to put a band-aid
6 on the problem we were having with the 20s. And
7 the \$20 bills were the problem.

8 Q Okay.

9 A We knew that as police officers.

10 Q And Mr. Scott ends at number 5 asking why
11 there's reference in the letter to an ethnic
12 group. And what did you understand his concerns
13 there were?

14 A In number 5?

15 Q Yeah.

16 A It appeared to me that -- and I know because
17 I've now seen the other letter, but he was
18 suggesting that if we were using the Asian --
19 patrons of Asian descent would possibly be some
20 kind of racial slant, which of course it wasn't.
21 It wasn't at all. And I don't think Mr. Scott
22 had done that, in all fairness. That was coming
23 from Mr. Graydon, the president of the lottery
24 corporation, was discussions suggesting that.
25 It wasn't Mr. Scott that was saying that. And I

1 responded to it -- well, I responded to it the
2 way it's responded to is basically that there
3 was no racial bias here. It just involves
4 patrons of Asian ethnicity and I was positive it
5 was not to be used in derogatory or defamatory
6 in any way. It was just fact. We all knew
7 that. The lottery corporation would say "the
8 Asian players" and it certainly wasn't a
9 negative connotation to that, but it was
10 interested that it was even brought up, quite
11 frankly.

12 Q Okay. Following this exchange with Mr. Scott,
13 did you continue to communicate your analysis
14 and opinions to the BC Lotto Corporation?

15 A We were shut down.

16 Q Do you think that that constraint on your
17 ability to air those concerns negatively
18 impacted your ability to address the issues
19 relating to money laundering at this time?

20 A I don't know. I don't know if it went that far,
21 but I think it had a bearing on the manner in
22 which you can -- you know, we continued to do
23 our Reports of Findings internally, but we had
24 no mechanism other than paper to send it to
25 BCLC.

1 We didn't have any joint meetings per se
2 with the lottery corporation and us, and maybe
3 we could've done that. You know, maybe that's
4 something we could have done a little better,
5 and we didn't. But it did hamper us in our
6 liaison with the lottery corporation because now
7 we weren't going to send anymore -- we were
8 directed, and, you know, we weren't going to
9 send any more paper to the lottery corporation.

10 Q Did you understand that your concerns were being
11 communicated to the lotto corporation through
12 Bill McCrea or others?

13 A I believed they would because there was a
14 management level above -- not that I was the
15 same level or maybe -- as Bill McCrea, but Bill
16 McCrea was the point person. He was the AML
17 strategist. He was the guy that -- the person
18 that was doing the liaison with the industry and
19 doing the liaison with the BCLC. And like Terry
20 Towns, the corporate VPs of corporate security
21 and Brad Desmarais and them would be dealing
22 with Bill McCrea, not necessarily with me from
23 the investigative side. And that's the way that
24 structure worked.

25 So you had the ADM and the General Manager

1 and Executive Director of risk management
2 dealing with the service provider and BCLC. And
3 that group stayed like that and we were on the
4 sideline.

5 Q Okay. I'm going back to time now to address
6 some issues that arose in 2011, and so I'll ask
7 you to turn, please, to exhibit U.

8 MS. LATIMER: And, Madam Registrar, I am at page 194
9 of the PDF.

10 THE WITNESS: Which one? U. Okay.

11 MS. LATIMER:

12 Q Sorry, I'm at page 218 of the PDF. 194 in the
13 upper left-hand corner, Mr. Vander Graaf.

14 A I've got it.

15 Q And you recognize this as an email from you to
16 Bill McCrea, Terry Van Sleuwin, Sue Birge and
17 Rick Saville and copying Joe Schalk; correct?

18 A That's correct.

19 Q Dated February 26th, 2011; correct?

20 A Yes.

21 Q And who were these -- who are these -- we've
22 talked about Mr. McCrea already. Who are these
23 other individuals who were copied with this
24 correspondence?

25 A Terry Van Sleuwin, she was the Executive

1 Director of Audit; Sue Birge was the Executive
2 Director of Policy and Responsible Gambling; and
3 Rick Saville was the Executive Director of
4 Registration at that time.

5 Q Okay. So this is essentially the Executive
6 Directors of each of the divisions of GPEB; is
7 that right?

8 A That's correct.

9 Q And the subject is "patron gaming funds accounts
10 pilot - BCLC report," and you're essentially
11 offering comments on that report; right?

12 A Yes.

13 Q And you say in the first line that you make one
14 recommendation -- that you're going to make one
15 recommendation; correct?

16 A M'mm-hmm. Yes.

17 Q That recommendation is found on the next page,
18 page 195. And it's at the bottom. And at the
19 bottom on the third line you say:

20 "I recommend a 'Ministerial Directive'
21 that any patron using (\$20.00 bills cash)
22 (in a 24-hour period) over 10K - 20K be
23 forced to deposit those funds in a
24 Canadian Financial Institute."

25 Correct?

1 A Correct.

2 Q And you communicated this recommendation to all
3 the Executive Directors at GPEB; correct?

4 A Correct.

5 Q Was it communicated to anyone else at this time?

6 A I don't believe so. But I'd sent -- just so we
7 know, I've said this recommendation at
8 management meeting, executive meetings
9 constantly almost I would think sometimes to
10 nauseam. And we -- those two things, a source
11 of funds declaration and reduce the 20s, were
12 constantly coming out of our mouths.

13 In this example right here I only can say
14 that the people on this email list were given
15 copies of this. I don't know if it went any
16 further or not. But Bill McCrea would be
17 responsible to replying to BCLC. We never
18 replied to BCLC in relation to any AML issues.
19 All we did was provide the intelligence. So
20 we'd give this to Bill McCrea, and then the
21 correspondence would go from Bill McCrea to
22 BCLC.

23 Q In your affidavit you say that you requested a
24 ministerial directive to this effect many times.

25 A Yes.

1 Q And this recommendation was consistently
2 communicated to the General Manager of GPEB; is
3 that correct?

4 A That's correct.

5 Q And did you ever communicate this request for a
6 directive from the minister directly to the
7 minister?

8 A No.

9 Q Was it up to the -- you relied on the General
10 Manager to determine what recommendations to
11 elevate?

12 A That's correct. The chain of command -- you
13 know, we come from that chain of command thing.
14 We don't jump over people to do something unless
15 it's maybe life or death or something or you're
16 committing something criminal. That's
17 different. But it -- we don't do that.

18 Q Okay. You've made reference to Mr. Kroeker's
19 report and I want to talk about that. That's
20 found at -- a draft of it anyway is found at
21 exhibit V to your affidavit.

22 MS. LATIMER: And, Madam Registrar, this is 221 on
23 the PDF.

24 And if you're with me, this is an email
25 from you to Rob Kroeker dated March 2nd, 2011;

1 correct?

2 A Correct.

3 Q And you were essentially invited by Mr. Kroecker
4 to discuss a draft of the report that had
5 already gone forward to the deputy and the
6 minister; correct?

7 A It appears so, yes.

8 Q And you provided comments in writing in the
9 report that is attached; is that right?

10 A That's correct.

11 Q And so just to understand the document, for
12 example, if you turn to page 200 -- which is
13 224, Madam Registrar -- what we see here is the
14 text of the report and your comments are
15 interspersed in the body of the report, but in
16 this instance they are bolded and underlined; is
17 that right?

18 A That's correct. But it isn't universal.
19 There's a couple places in here where my counsel
20 and I noticed where I'd bolded a couple of
21 things as part of the report.

22 Q Yes. I'm actually coming to that.

23 A Okay.

24 Q So page 210, please. And that's 234 on the PDF.
25 This is, I'm going to suggest to you, an example

1 where you have -- there's the heading "Reporting
2 Obligations." There is text that is mostly not
3 bolded and not underlined, but there are a
4 couple sentences that are bolded and underlined,
5 but that's not your comment; that's an emphasis
6 you're adding to the report. Is that correct?

7 A I'm just having problems here finding it. 209.
8 210. Yeah, I've got it, John, thank you.

9 Which one is that, again?

10 Q So I'm asking, the first sort of half of this
11 page --

12 A Yes.

13 Q -- the text is mostly not bolded and not
14 underlined. That's the text of the report. But
15 there are two sentences here that are bolded and
16 underlined. Is this an example where you've
17 added your own emphasis?

18 A That's correct.

19 Q Okay. That's what you've done there. And then
20 your comments follow in the large chunk of text
21 bolded and underlined.

22 A That's correct.

23 Q Okay. And so at this time -- at this time the
24 comment that you make here under "Reporting
25 Obligations" and I'm starting from your comment.

1 You say:

2 "Allowing BCLC and the Service Provider
3 the latitude to be just curious and only
4 have an obligation to report is somewhat
5 surprising. I do not believe that will be
6 acceptable to public perception. I
7 believe that Crown Corporation obligations
8 should be to a higher standard. Shouldn't
9 a Crown Corporation at least have the same
10 obligation and corporate high road as
11 banks.

12 Alternately, under this logic, I
13 would suggest that it may be prudent to
14 have the regulatory agency on site in the
15 gaming facility, like the OPP in Ontario.
16 This had been suggested previously and was
17 not met with negative push back. It would
18 mean additional resources to this Division
19 but it would fulfill this and a number of
20 other needs. The Regulator would be
21 immediately alerted to the situation and
22 make additional on site inquiries as to
23 the origin of the cash, the identity and
24 background of the individual
25 (investigation). It should also be

1 realized that the Investigation and
2 Regional Operational Division has
3 immediate access to police databases.

4 Alternately the police could be
5 immediately alerted/called."

6 A Correct.

7 Q And after you provided these suggestions in
8 writing to Mr. Kroeker, did you discuss them
9 with him?

10 A I don't know that I did discuss them after I
11 provided it in writing, but I may have discussed
12 it with him prior to this. Mr. Kroeker --
13 when -- in January of 2011 he was tasked with
14 doing this by the Solicitor General. He came
15 over to my office and we had a lengthy
16 conversation in my office in relation to the
17 Kroeker Report and the issues that I saw. And
18 at that time I was still entrenched in the three
19 things that I've mentioned earlier: the
20 restriction of the 20s, the source of the funds
21 declaration and the term and condition of
22 registration. And I wasn't putting that all --
23 obviously the registration's on GPEB. The other
24 two could have been done by BCLC. All of that
25 sort of stuff.

1 I don't know that I communicated to this --
2 the exact stuff in here prior to him writing
3 this report. I don't know that I did that.

4 Q You don't recall -- do you recall what his
5 response to any of these suggestions were?

6 A I didn't get a response to this.

7 Q Okay. It didn't make it into the report, in any
8 event, did it?

9 A No, it did not.

10 Q If you turn to page 218 in the top left-hand
11 corner.

12 MS. LATIMER: This is 242, Madam Registrar.

13 Q And I'm looking at the bottom of this page, your
14 comment is near the bottom, and you say:

15 "I would like to offer a preliminary
16 alternative to the formation of a Senior
17 Officials Committee and Task Force.

18 The two main reasons for concern in
19 BC Casinos have been and will continue to
20 be Loan Sharking and Money Laundering.
21 Most of the time they go hand in hand.
22 The large volumes of \$20 bills in Casinos
23 are of preliminary concern."

24 And then if you turn over the page, you again at
25 the top of this page make the recommendation for

1 a ministerial directive to prohibit large
2 volumes of \$20 bills; correct?

3 A Correct.

4 Q And did you discuss that recommendation with
5 Mr. Kroeker?

6 A I can't recall whether I did or not.

7 Q I take it you didn't receive a response to this
8 suggestion?

9 A No, I did not. Not that I can recall.

10 Q To the best of your knowledge was this
11 suggestion elevated by Mr. Kroeker to the deputy
12 or to the minister?

13 A I don't know if it was or it wasn't.

14 Q Okay. One of the specific findings in this
15 report, if you go back to page 200. And I'm
16 looking at the bottom of the page, was that
17 BCLC -- number 3:

18 "BCLC holds the view that gaming losses on
19 the part of a patron provide evidence that
20 the patron is not involved in money
21 laundering or other related criminal
22 activity. This interpretation of money
23 laundering is not consistent with that --"

24 Going over to the next page:

25 "... is not consistent with that of law

1 enforcement or regulatory authorities.
2 BCLC should [better] align its corporate
3 view and staff training on what
4 constitutes money laundering with that of
5 enforcement agencies and the provisions of
6 the relevant statutes."

7 And you say here that you agree with that;
8 correct?

9 A Yep.

10 Q And what did you understand that to be, that
11 they should better align their view on money
12 laundering with law enforcement and regulatory
13 authorities?

14 A I think what they were -- what he was saying --
15 that we were saying -- and I think I've
16 explained -- I explained that once before
17 already here is that -- but what it was was just
18 because a patron went in and lost some money,
19 that doesn't mean the person wasn't money
20 laundering, especially if it was money from a
21 loan shark. We always profess that you come in
22 with money from the loan shark and you lose
23 money, put it at a loss, the casino would be
24 saying we're not money laundering because they
25 lost the money. And we used to say, don't you

1 think they have to pay it back? You know, how
2 are they going to get the money back? And
3 there's two lines of thought on that. If you
4 have, like I said, the drug trafficker come
5 in -- in fairness, the drug trafficker comes in
6 and spends the money and he loses it, and he's
7 not borrowing from anybody else; there isn't a
8 third party, that's a different scenario.

9 The one we were seeing that was causing our
10 problems was the people coming in with loan
11 shark money, and it didn't matter. If they lost
12 it, I would suggest that the loan sharks would
13 have -- and the people behind the loan sharks
14 would have loved to have got something else than
15 the \$20 bills back. So that was -- they were
16 hoping they lose, I would suggest. And so that
17 I wouldn't agree with. What they're --
18 that's what -- I think that's what Kroeker's
19 saying here.

20 Q In other words, that the money that is being
21 gambled from loan sharks that -- that what?

22 A Well, exactly what I'm saying. Law enforcement
23 would agree that you're money laundering because
24 you're part of the cycle. The money's coming in
25 here. They have to pay the money back to -- in

1 some way, either through a bank account
2 somewhere or a vehicle or a house or a car or
3 something. There would be another mechanism of
4 repayment. The money that's gone into the
5 casino is being -- the casino is being used as
6 a -- I hear the word a lot -- vehicle for the
7 money laundering, and I believe that's true when
8 that happens.

9 And, you know, it's the best case scenario.
10 You want to get rid of the 20s and you want to
11 get the money back or get something back in
12 another area or another place or another field
13 or another thing that -- and get rid of the 20s
14 because that's the problem.

15 Q Okay. I'm turning to exhibit L now, please.

16 MS. LATIMER: And this is at PDF 160, Madam
17 Registrar.

18 Q And this is an email from you to Doug Scott
19 dated November 16th, 2011, with the subject "Yu
20 Zhao - SCT - Report of Findings"; correct?

21 A Correct.

22 Q And on the next page is the Report of Findings.
23 And it's dated November 14th, 2011, and the
24 title is "Money Laundering in River Rock
25 Casinos"; correct?

1 2010, when he bought in at the River Rock
2 Casino for \$199,910 primarily in 20 dollar
3 denominations."

4 And there's a GPEB file number.

5 "On the same date Zhao opened a Players
6 Gaming Fund Account with a \$300,000
7 verified win cheque from the River Rock
8 Casino. Over the next two days Zhao
9 depleted the PGF of all funds, however the
10 PGF remained open. When Zhao arrived at
11 the River Rock Casino on October 17th,
12 2011, and bought in with the first of the
13 \$1,819,880 in small denominations, he
14 still had an active and available PGF for
15 him to wire transfer money from a Canadian
16 bank. This option was not chosen by
17 Zhao."

18 Correct?

19 A Correct.

20 Q And was this a problem at the time that large
21 cash transactions patrons would choose not to
22 use a patron gaming fund account even though
23 they had access to one?

24 A Yes.

25 Q Okay. And then under "Conclusions" Mr. Dickson

1 describes Mr. Zhao as:

2 "... a 26-year-old male who reportedly is
3 Chairman of the Board and CEO of a
4 publicly traded company on the Hong Kong
5 Stock Exchange. Limited background checks
6 fail to identify Zhao as having any
7 criminal background. He however is
8 knowingly using loan sharks and is being
9 used by loan sharks and organized crime to
10 at very least, facilitate the laundering
11 of large amounts of small denomination
12 cash through his play --"

13 And I'm going over to the next page, Madam
14 Registrar.

15 "... through his play at Lower Mainland
16 casinos. The access to the large
17 quantities of cash involved, in small
18 denominations, how the cash is packaged
19 and delivered to the casino are all
20 indicative of the laundering of proceeds
21 of crime on a very large scale.

22 This is yet another example of
23 criminals utilizing casinos in British
24 Columbia to launder significant sums of
25 money, utilizing wealthy Asian

1 businessmen. This concern has been raised
2 on numerous occasions in the past by the
3 Investigations Division. To date, any
4 anti-money laundering strategies deployed
5 by BCLC or the service providers have had
6 little or no impact on the number of
7 reported suspicious cash transactions. As
8 a matter of fact, the numbers of SCTs
9 reported to GPEB and the amounts of
10 suspicious small denomination cash,
11 particularly 20 dollar bills, entering BC
12 casinos continues to increase.

13 No procedural concerns were
14 identified through this investigation."

15 So was it your view at this time that to this
16 date in 2011 any anti-money laundering
17 strategies deployed by BCLC or the service
18 providers had had little or no impact on the
19 number of reported suspicious cash transactions?

20 A The numbers show that, yes.

21 Q And when he says "no procedural concerns were
22 identified," does that mean that everything was
23 reported properly by the service provider or
24 BCLC?

25 A I would think that's what he meant.

1 Q Okay. If you turn to page 144, the last -- your
2 comments are found on this page. And in the
3 last line of your comments is that:

4 "This report should be read in conjunction
5 with other previous reports in this
6 regard."

7 Was it your view that this was but one of many
8 examples of similar activity that was likely
9 money laundering in Lower Mainland casinos at
10 this time?

11 A Yes.

12 Q And are the Reports of Findings attached to your
13 affidavit, some of which we looked at already,
14 simply illustrative or are there other reports
15 that were generated in and around this time, or
16 have we got them all?

17 A There may -- I think all of them are there that
18 I can recall and -- pretty much, I think they're
19 all there.

20 Q Okay. In or around --

21 A We didn't do them every two weeks. We would do
22 them over a longer period of time because it
23 was -- it takes time to put them together and
24 gather the data, eh, from the 86 Reports.

25 Q Okay. In or around 2011 did GPEB direct Great

1 Canadian not to report suspicious cash
2 transactions under \$50,000?

3 A Well, I wasn't involved in that, but from
4 talking to my staff, that was not happening.
5 That was not given -- that direction was not
6 given by my staff and my directors. They
7 adamantly deny that. And I've heard about it,
8 you know, for years now, about that \$50,000
9 threshold, but I've never, ever believed -- when
10 you talk -- when I talked to Mr. Dickson, he
11 categorically denies that doesn't happen --
12 didn't happen.

13 Q Okay.

14 A That's all I can say. It was never surfaced to
15 me.

16 Q You didn't give that direction?

17 A No way. No.

18 Q And if you had heard that such a direction had
19 been given, would that have been consistent with
20 your views of what was required?

21 A No. I would never -- I would have -- I probably
22 did talk to Derek about it or he probably talked
23 to me about it because he knows I would not
24 further ever go along with that. You've got
25 federal laws reporting. You can't just

1 arbitrarily change the amount. I can here for
2 the -- you know, for the source of funds or
3 limit to 20s, but not for reporting to FINTRAC.

4 Q Okay.

5 A Because that would impact the reporting.

6 Q In or around 2012 were you aware that River Rock
7 Casino was not reporting cash transactions that
8 were conducted in \$100 bills?

9 A No, I was not.

10 Q Did you ever tell any GPEB investigators who
11 raised this as a concern that the issue with
12 \$20 bills was big enough and that suspicious
13 transactions conducted in other denominations
14 were of secondary importance?

15 A I would never have said that in that regard. If
16 I did say something it would've been -- no, I
17 didn't say anything like that. 100s were less
18 suspicious than 20s, that's for sure. But 20s
19 were clear to me drug money from the street, and
20 100s are a little bit different.

21 Q Okay.

22 A It would not eliminate them from being reported
23 as a suspicious currency transaction, no way.

24 Q Okay. If you turn to exhibit M, please.

25 A N?

1 Q M as the mother.

2 MS. LATIMER: And, Madam Registrar, it's page 170.

3 THE WITNESS: M, okay. Yep.

4 MS. LATIMER:

5 Q This is a Report of Findings entitled
6 "Suspicious Cash Transactions/Money Laundering,
7 File Review, River Rock Casino" dated
8 February 22, 2012; correct?

9 A Correct.

10 Q And this is, again -- if you want to turn to it,
11 it's at page 149. Under the signature block
12 Mr. Schalk indicates it was forwarded
13 February 22, 2012, to the Executive Director,
14 Investigations and Regional Operations. And
15 that's you at that time; correct?

16 A Yep.

17 Q It doesn't appear that you provided comments on
18 this particular report, but you would have
19 received and reviewed it; correct?

20 A That's correct.

21 Q And if you turn back to page 146, under
22 "background" Mr. Dickson says:

23 "This report is being provided further to
24 previous reports submitted regarding
25 issues involving the extent and quantity

1 of Suspicious Currency Transactions in
2 Lower Mainland gaming facilities. Those
3 previous reports have dealt with specific
4 individuals and general trends as they
5 were reported to and investigated by the
6 Casino Unit of the Investigation and
7 Regional Operations Division of GPEB.

8 All of the information contained in
9 this and previous reports has been
10 disseminated to the RCMP Integrated
11 Proceeds of Crime Unit on a regular and
12 ongoing basis."

13 Just pausing there. Did you have a formal
14 process where these reports were being submitted
15 to the IPOC unit?

16 A No. These reports, no, we didn't have a formal
17 process. But what was happening, 86 Reports
18 were being dropped off on a daily basis. And,
19 again, Mr. Schalk and Mr. Dickson would know the
20 dynamics of that, but I know that was happening.
21 They were dropping them off to IPOC for them to
22 do data entry and things of that nature. So
23 they were doing it on a daily basis at one time,
24 and then they would submit -- this says he's
25 submitting the reports to IPOC, well, then he

1 would've been taking these as well. But they
2 were getting more than this here. They were
3 getting -- RCMP were getting Section 86 Reports.
4 We'd correlate them, and they'd drop them off,
5 some of them, on the way home -- there was one
6 on Highway 10 and 152nd -- and drop them off at
7 the RCMP office. That was going on for a long
8 time.

9 I know there was no -- everyone -- I
10 noticed in Kroeker's report there was no formal
11 relationship like later on with JIGIT, but we
12 were interacting with them on a constant basis.
13 They had some issues. There was a structural
14 change there, massive structural change in the
15 RCMP, was causing us some -- them some issues
16 just for logistics. And we can talk about that
17 at a later time maybe, but they had some issues
18 with logistics more so than us. But we were
19 giving this stuff to them left, right and centre

20 Q So do we understand that you're giving them the
21 Section 86 Reports; correct?

22 A Yes. Yes.

23 Q But were you also giving them these Reports of
24 Findings that is have your further analysis in
25 them?

1 A I believe we were, and that's, I believe, what
2 Derek is saying. Previous reporting have been
3 disseminated to RCMP Integrated Proceeds on a
4 regular and ongoing basis. If he's saying that,
5 that would have been happening.

6 I never intervened in that sort of stuff. I
7 knew they were reporting to the RCMP and dealing
8 with the RCMP Proceeds of Crime Unit, but I
9 would never -- I wouldn't have asked, are you
10 giving them all the reports or anything? I was
11 just assuming they were doing what they were
12 doing, and doing -- I know they were liaising
13 with the police.

14 I did get involved with the police in some
15 of the meetings, but not all of them. And I
16 know all these people of course, eh. And -- but
17 I know they were communicating and dropping
18 stuff off to the police on a continuous basis.

19 Q To the best of your knowledge were the police
20 investigating the issues and allegations raised
21 in your reports at this time?

22 A They -- what happened with the IPOC unit was --
23 and I just hope I have the dates right here; it
24 was 2011 -- that they showed interest, and they
25 were in the structural movement from IPOC to

1 what they call FSOC now or whatever it is, and
2 they were losing people on the IPOC unit. But
3 Inspector Baxter, to his credit, he tried to run
4 some surveillance, and he worked some
5 surveillance for, I don't know, four or five
6 months. And I have to be careful how far I go
7 here with what I say.

8 But we knew that he was active in the area
9 of the River Rock. We didn't know exactly what,
10 and they were doing a police function of some
11 type. And that was very encouraging to us. But
12 what was happening is we knew with the
13 restructure in the RCMP chain, the IPOC unit was
14 being dismantled, so we were losing the area
15 expertise. And I'm not certainly one to tell
16 the RCMP how to do their job; they're bigger
17 people than I am. And they started the units
18 and they put people in these different sections
19 and the expertise would probably be lost for a
20 certain period of time. They'd get it back
21 quickly, but it took time. And that's what was
22 happening. They didn't have the resources to
23 take on that magnitude of a problem. And Baxter
24 knew the content of that thing and knew the
25 magnitude of the problem, and he needed people.

- 1 Q Okay.
- 2 A Did that answer the question a little bit?
- 3 Q Yep, I think so. And then if we look at the
4 report, it contains the outcome of this file
5 review that was completed of all suspicious
6 currency transaction reports for this period of
7 time. And I guess the report speaks for itself.
8 Is that fair enough?
- 9 A Yes.
- 10 Q Okay. So if we could turn to exhibit G, please.
11 And I'm at page 107 on the PDF. This is an
12 email from you -- are you with me, Mr. Vander
13 Graaf?
- 14 A Yes.
- 15 Q It's from you to Doug Scott and Bill McCrea, and
16 it's dated November 19th, 2012; correct?
- 17 A Correct.
- 18 Q And Doug Scott was the General Manager at that
19 time?
- 20 A Yes, he was.
- 21 Q And Bill McCrea was heading up this anti-money
22 laundering cross-divisional working group;
23 correct?
- 24 A That's correct.
- 25 Q And you say in the second sentence that the

1 report and comments in the report:

2 "... are not only based on the empirical
3 data but are as a result of the review of
4 a number of videos associated to the
5 movement of large amounts of cash into the
6 casinos."

7 Correct?

8 A That's correct.

9 Q And I should say you're emailing concerning an
10 attachment which is the "Suspicious Currency
11 Reporting in BC Casinos - 2007-2012"; correct?

12 A Correct.

13 Q So that's the comment you're making on the
14 contents of that report?

15 A That is correct.

16 Q And those are surveillance videos you're
17 referring to?

18 A Yes. We looked at them all the time. They
19 would go down, the investigators, and get those
20 surveillance videos and we used to -- we could
21 watch them in the office and found it
22 interesting to some degree, of course, and
23 watched people drop off stuff at the front door.

24 Because BCLC had done a pretty reasonable
25 job of keeping them out of the casinos by this

1 into the Lower Mainland casinos. As the
2 reports have increased the dollar amount
3 of the suspicious cash entering casinos
4 and increased incrementally as well. It
5 is projected that the number of suspicious
6 cash transaction reports received in 2012
7 will be 1060. The dollar amount of
8 suspicious cash is estimated to be
9 85 million dollars. This report will
10 review the statistical data from 2007-2012
11 and conduct a brief historical overview of
12 suspicious cash transactions during that
13 period, as well as analyzing the current
14 statistics to determine precisely the
15 present state of the suspicious cash
16 transactions/money laundering problem in
17 [BC] casinos."

18 And I've read that correctly?

19 A Correct.

20 Q And Mr. Schalk then describes essentially -- or
21 sorry, Mr. Dickson -- essentially what follows
22 in the main body of the report is what he's just
23 described in that paragraph; correct?

24 A That's correct.

25 Q And if you turn to page 85, it's sort of the

1 middle -- lower part of the middle part of the
2 page. Mr. Dickson sets out here a year-by-year
3 comparison of the Section 86 suspicious cash
4 transaction files; correct?

5 A Yes.

6 Q And those are the reports concerning suspicious
7 cash transactions?

8 A That's correct.

9 Q And Mr. Dickson summarizes below those numbers.
10 He says in the paragraph there:

11 "It was evident that the number of SCT
12 reports was increasing as an alarming
13 rate, however it was not until 2010 when
14 the first 12 month file review was
15 conducted did the amounts of actual
16 suspicious cash being brought into the
17 casinos come to light. The following is
18 the results of that file review conducted
19 August 31st, 2010 [to] 2011."

20 If you go over to the next page, he sets out the
21 outcome of that file review; correct?

22 A Correct.

23 Q And he describes the profile of the patron that
24 was bringing in these large amounts of cash in
25 casinos?

1 A Correct.

2 Q And then he describes in the bottom paragraph
3 that an investigator at the Starlight had
4 compiled a report detailing the amount of
5 suspicious cash being brought into the Starlight
6 Casino for a period of time and that the top
7 individual -- the top individual patron had
8 brought in a total of over \$3 million with over
9 2 1/2 million dollars in \$20 bills; correct?

10 A That's correct.

11 Q He says:

12 "The cash presented was always bundled in
13 bricks of \$10,000, wrapped with an elastic
14 band at either end and carried in
15 inexpensive plastic bags. The bills were
16 always used, older currency. On several
17 occasions this patron lost his bankroll
18 and left the casino to emerge only a few
19 minutes later with another bag of
20 suspicious cash. He was also observed
21 associating with individuals who had
22 previous histories of engaging in loan
23 sharking activities."

24 A That's correct.

25 Q And Mr. Dickson then describes the exchange of

1 letters that we've looked at already; correct?

2 A That's correct.

3 Q And then after the redaction he says:

4 "It was also during this time that GPEB
5 began sharing SCT information with the
6 [IPOC unit]. It was their professional
7 opinion that this was money laundering and
8 that the patrons bringing in this
9 suspicious cash were repaying the loan in
10 a number of different ways. They were
11 also of the opinion that organized crime
12 was involved in supplying the money, and
13 that its likely source was from drug
14 sales. IPOC investigators eventually
15 interviewed this patron and he would
16 confirm the money he uses in the casinos
17 is received from loan sharks."

18 And I've read that correctly?

19 A Correct.

20 Q And you understood that this patron, Mr. Sha,
21 was buying in with money from loan sharks;
22 correct?

23 A That's correct.

24 Q And Mr. Dickson then sets out that the minister
25 commissioned a report from Mr. Kroeker, and

1 we've already looked at that; correct?

2 A Correct.

3 Q And then if you turn to page 88, Mr. Dickson
4 sets out the results of the SCT review, this
5 time for the period of January 1, 2012, to
6 September 30th, 2012. Do you see that?

7 A Yes.

8 Q And then on the next page he explains. In the
9 large paragraph before the conclusions, he says:

10 "During recent discussions with IPOC they
11 advised that they are unable at present to
12 initiate any large scale investigations
13 into money laundering within BC casinos.
14 The current mandate of the RCMP is to
15 prioritize resource allocation towards
16 citizens safety, investigations of
17 gangster activity, and removing guns from
18 the streets. At this time money
19 laundering in BC casinos does not fall
20 within this priority. Representatives of
21 IPOC have also shared this information
22 with BCLC and the service providers. At
23 present GPEB Investigations continues to
24 supply IPOC and CISBC with all SCT
25 investigation reports for intelligence

1 purposes."

2 I've read that correctly?

3 A Yes.

4 Q And that was your understanding at this point in
5 time that IPOC had communicated to your division
6 that they would not investigate any large-scale
7 money laundering -- they would not initiate any
8 large-scale money laundering investigations;
9 correct?

10 A I'm not -- I'm not saying that it was my belief
11 or my understanding. I didn't know that, and
12 it's possible because of the reorganization they
13 had turned their attention to the guns and
14 gangs, they call it, type activity. But I don't
15 know that for sure. And I don't know what their
16 priorities were at that time. But I know that
17 we weren't seeing any major interaction with us
18 or BCLC with respect to money laundering and
19 loan sharking within the casinos' activity. I
20 can say that.

21 Q And you didn't participate in this conversation
22 that's referred to here with IPOC?

23 A No, I did not.

24 Q Would that have been Mr. Dickson or Mr. Schalk
25 or both of them who had that conversation?

1 A Probably both of them, I would think. Maybe
2 not, but it probably would be both of them.

3 Q Okay. But you didn't have any reason to doubt
4 what was reported in this report about the
5 contents of that discussion, did you?

6 A No, I have all the confidence in both of them.

7 Q Okay.

8 A If they say it.

9 Q And so given that they had communicated to you
10 that IPOC was not prepared to prioritize
11 investigating money laundering in casinos, did
12 you or other members of GPEB reach out to other
13 law enforcement agencies to try to get some
14 investigative resources directed at what you
15 perceived to be criminality in BC casinos?

16 A I didn't. And I don't know if they did. The
17 only other one that would be capable, Vancouver
18 PD could handle it, but -- and the RCMP, but
19 CFSEU, the organized crime agency, could, but I
20 don't think we reached out to them. But I don't
21 know that for sure. Joe Schalk would know that.
22 Mr. Schalk would know that more than I would.

23 Q Okay. If you turn to page 91, your comments are
24 found on this page. And I'm looking about maybe
25 eight lines from the bottom. You say -- the

1 line begins with the number 9 in parentheses.

2 Do you see that?

3 A M'mm-hmm.

4 Q About halfway through that line you say:

5 "It is obviously clear to me that the
6 majority of this cash is provided to
7 gamblers through loan sharks whom have
8 likely links to organized crime. It is
9 therefore a simple leap to have reasonable
10 grounds to believe that those funds are
11 the proceeds of crime. That is why the
12 suspicious currency transactions are being
13 diligently reported. I again ask the
14 question and give the answer 'who has
15 \$200,000.00 in \$20 bills wrapped in
16 elastic bands and \$10,000 bundles?'"

17 And that was your view at the time, that that
18 was an obvious answer to that question?

19 A Absolutely.

20 Q And the answer to your mind was what?

21 A Criminals.

22 Q Okay. And did you get a response to that
23 question that you forwarded to Mr. Scott and
24 Mr. McCrea?

25 A No, I did not.

1 Q Did you have --

2 A I wasn't anticipating one either, quite frankly,
3 but I didn't get -- I didn't get a response to
4 that.

5 MS. LATIMER: Okay. I'm turning now to exhibit S,
6 please. Madam Registrar, it's page 207 on the
7 PDF.

8 Q And are you with me, Mr. Vander Graaf?
9 Exhibit S?

10 A Oh, sorry.

11 Q Are you looking at exhibit S?

12 A F.

13 Q S as in snake.

14 A Okay.

15 Q This is an email from you to Bill McCrea?

16 A Yes.

17 Q February 6th, 2013.

18 A Yes.

19 Q And the subject is "anti-money laundering
20 requirements in memo" dated 16 March 2009. So
21 that's at 2009 memo we were looking at earlier;
22 correct?

23 A That's correct.

24 Q And you say at the second sentence:

25 "I recall this memorandum and it

1 originated as a result of a conversation
2 that Ed Rampone initiated at our Business
3 Process Meeting that year. Investigation,
4 Audit, and Registration Divisions were
5 requested by the ADM to prepare this memo
6 and the Executive Director of Audit then
7 forwarded it on the 16 March, 2009. The
8 enforcement recommendations today are
9 basically the same as was recommended in
10 the memo in 2009.

11 I believe that Derek communicated
12 with BCLC at that time on the content of
13 this internal memo, but I am not sure how
14 or what happened."

15 And that was an accurate summary of how this
16 memorandum came about; correct?

17 A That's correct.

18 Q And Derek, you're referring to him in the last
19 line, that's Mr. Sturko; correct?

20 A That's correct.

21 Q And so the recommendations set out in the memo,
22 you understood, had been communicated to British
23 Columbia Lottery Corporation; correct?

24 A I believed that.

25 Q And -- but no --

1 A But I've got no concrete recollection of it. I
2 believe Derek had communicated with BCLC on it,
3 but I can't say that positively.

4 Q Okay. What was the basis for your belief about
5 that?

6 A I don't know why. I don't know why.

7 Q Okay. But at this point in time in 2013, you
8 were still recommending essentially what is set
9 out in this memorandum; is that correct?

10 A That's correct. I've always believed and I know
11 you're -- we're moving quickly, but I've always
12 believed that the police were somebody that
13 would come in, take some people off, do whatever
14 they're going to do. Because I've been to that
15 movie. Then they move on.

16 The only way to deal with this situation
17 right here from my perspective -- everybody
18 would say, the police, the police, the police.
19 I'm the saying regulation, regulation,
20 regulation. Stop it right -- bold, right now.
21 And with restriction on the 20s, source of funds
22 declaration or term and condition registration.
23 The police will come in, and sooner or
24 later they're going to get -- this was going at
25 a pace -- I knew they were going to come back.

1 I mean, it wasn't something, a big brain
2 wave in 2015 that they did that investigation.
3 They had just restructured and staffed up and it
4 was getting so big that they had to take a look
5 at it and move with it. Certainly they were
6 alerted, but they had been alerted much before
7 that.

8 Q Okay. Did Mr. McCrea respond to this
9 communication?

10 A No.

11 Q Did he -- to the best of your knowledge did he
12 elevate it to anyone else?

13 A I have no idea, no.

14 Q Okay. Can you turn to exhibit LL, please.

15 MS. LATIMER: And, Madam Registrar, this is page 359.

16 Q And sorry, this is an email from you to Bill
17 McCrea and copying Doug Scott, Joe Schalk and
18 Derek Dickson with the subject "money trails"
19 dated March 6th, 2013; correct?

20 A That's correct.

21 Q And Mr. Scott would be ADM responsible for GPEB
22 at this time; right?

23 A That's correct.

24 Q And you're responding to an email that refers to
25 a news article about underground banking systems

1 in southeast Asia?

2 A That's correct.

3 Q And at the end of the first line of your email
4 you say:

5 "I don't disagree that there is movement
6 of funds out of China but I would suggest
7 the majority of the movement is through
8 wire transfers, bonds, companies, etc and
9 it is unlikely that these articles are
10 linked to the 200K in \$20 dollar bills in
11 duffle bags we see entering BC Casinos.
12 However, repayment to the loan sharks by
13 wealthy Asian gamblers could well be
14 through funds in southeast Asia. What I
15 am suggesting is [sic] a possibility is
16 that the gambler receives the cash money
17 from loan sharks, who receives the cash
18 money from what I believe is criminal
19 sources, the gambler loses [sic] the cash
20 money gambling at the Casino and
21 ultimately repays his debt in the foreign
22 jurisdiction. This happens in Hong Kong
23 and Macao and has been happening for some
24 time. Our investigations and intelligence
25 do not show any evidence that the SCT

1 funds being used in the Casinos through
2 loan sharks has been cash directly
3 smuggled from South East Asia (87 million
4 reported SCT in BC Casinos last year
5 [approximately] 70% in \$20 bills)."

6 And that was your understanding of how the money
7 laundering was operating in BC casinos at this
8 time?

9 A That's the way -- that's what I believed from
10 the intelligence and talking to my investigators
11 and talking to the people in relation to that is
12 that the loan sharks were lending the money to
13 patrons, high-level players going into the
14 casinos, using the casinos as vehicles and
15 paying them back in other locations. I imagine
16 they paid them back here to some degree too. I
17 don't know exactly how that worked, but that was
18 my general philosophy. I knew there was an
19 exodus of capital out of southeast Asia, \$50,000
20 limit and in a sort of thing, but I never
21 understood why or how if you could move \$20
22 bills from China to Canada or back.

23 So that's -- that was my belief. My belief
24 was that that money -- and I went as far to say
25 as potentially drug money that they were using

1 through the loan sharks. It could've been other
2 things. It could've been other, you know,
3 wrongdoing or other criminal activity, but it
4 looked like, walked like and talked like and
5 that's what I thought it was, was drug proceeds.
6 And that was just an opinion from me, Larry
7 Vander Graaf. And I thought that -- but this
8 was a scenario that seemed very logical to me as
9 to what they were doing.

10 Q And you made some attempts to reach out to
11 Canada Border Service Agency to ask about
12 seizures made of unreported currency entering
13 Canada from southeast Asia; correct?

14 A That's correct, I did. And I sent emails and I
15 talked to them and had some discussions with
16 them on the phone. Some I have, some I don't
17 have. But I can say this much is that any of
18 the conversations that I had never indicated to
19 me a large exodus of small denomination bills
20 entering Canada.

21 Now, anything can happen in money
22 laundering. I want to be clear about that too.
23 I mean, this is not a situation where you can
24 say that's the only possibility. There is other
25 possibilities and other scenarios, but this is

1 the one that I looked at and I said, this looks
2 like what I believe. And I do believe that.
3 But there may be other issues there that I'm not
4 quite familiar with. I understand underground
5 banking to a degree, hawala and things of that
6 nature. But there may be something else there
7 that I'm not completely up to speed on or not
8 aware of.

9 And I just want to put that caveat on there
10 because it's not an absolute because money
11 laundering is a flowing, moving thing, and it
12 never sits still. One hole finish -- closes,
13 another one opens and the criminal activity are
14 the best business -- or criminal activity
15 persons are the best businesspeople going. They
16 can adapt without regulation or anything. They
17 can move. That's all -- I want to put that
18 caveat on it.

19 MS. LATIMER: Okay. Can we turn to exhibit E,
20 please. Madam Registrar, I'm at page 63 of the
21 PDF.

22 THE REGISTRAR: Sorry, Ms. Latimer. Can you repeat
23 the number again.

24 MS. LATIMER: 63.

25 THE WITNESS: I can't hear it either.

1 MS. LATIMER: I'm at exhibit E.

2 THE WITNESS: Okay.

3 MS. LATIMER: 63, Madam Registrar. 63. Thank you.

4 Q And this is, sir, a memorandum from Derek
5 Dickson to Joe Schalk dated November 20th, 2013,
6 and entitled "Organized Crime Groups Operating
7 At Or Near [Lower Mainland] Casinos"; correct?

8 A Correct.

9 Q If you go to page 40, there's handwriting in the
10 lower right-hand corner. Is that your
11 handwriting?

12 A Yes.

13 Q Is this -- so this memorandum is something that
14 was forwarded to you or sent to you?

15 A Yes, it was. It was sent to me -- yes, it was
16 sent to me. It went to Mr. Schalk and then
17 Mr. Schalk sent it to me, and I sent it back to
18 him.

19 Q Okay. If we go back to page 39, the first
20 paragraph, just to provide some context here,
21 says:

22 "As a result of ongoing and now further
23 recent intelligence received from
24 different police agencies, it is confirmed
25 that the influence and existence of

1 several Organized Crime groups in Lower
2 Mainland casinos is expanding. All
3 casinos in the [Lower Mainland] have known
4 associates of [organized crime] groups
5 within their venues, however the situation
6 has become an increasing and even more
7 significant issue at the River Rock Casino
8 in Richmond.

9 GPEB investigators have identified a
10 number of loan sharks and associates of
11 loan sharks that have been confirmed as
12 affiliated to different [organized crime]
13 groups, who are primarily supplying large
14 sums of cash to a significant number of
15 predominantly Asian patrons."

16 And I've read that correctly?

17 A Correct.

18 Q And you were aware that GPEB investigators had
19 identified these loan sharks and their
20 associates affiliated to organized crime groups
21 as supplying these sums of money predominantly
22 to Asian patrons; correct?

23 A They had, and so had the police.

24 Q And did you share that information with the
25 BC Lotto Corporation?

1 A I think the BC Lottery Corporation knew the loan
2 sharks and the people that were associated with
3 organized crime as well as we did. If not, you
4 know, it could even be better. But they knew
5 them well.

6 Q You believed that the BC Lottery Corporation was
7 aware that the loan sharks were associated to
8 organized crime at this time?

9 A I believe they were, yes.

10 Q And what was the basis for that belief?

11 A They're policemen and they talk. And they're --
12 they're ex-policemen, I should say, and they're
13 talking at the casinos with our people. I mean,
14 the relationship at the investigator level I
15 think was still reasonable and they knew each
16 other from other days, and I think they had a
17 pretty good idea who they were.

18 I was in the office and I started to know
19 some of the names of the people that were
20 facilitating stuff. So I believe BCLC corporate
21 security had a pretty good idea who they were.

22 Q Was this information shared with the service
23 providers at this time?

24 A I don't know.

25 Q Okay.

1 A You would have to ask -- you would have to ask
2 Mr. Schalk or Mr. Dickson that.

3 Q Okay. If you go to the next page, Mr. Dickson
4 describes some of the activities of these
5 individuals. And then if you look at the third
6 paragraph just after the redaction, it says:

7 "Police of jurisdiction confirmed that
8 they were aware that this type of activity
9 was occurring in and around the venue and
10 that members of Organized Crime groups are
11 involved."

12 And then there's some conclusions set out here.
13 And the first one is -- well, I apologize for
14 the reading, but I'm just going to read the
15 conclusions, and I have some questions about
16 them. The first one is:

17 "It is believed that presence of Organized
18 Crime groups and around [Lower Mainland]
19 casinos and intervention by our GPEB
20 Investigators involved in investigations
21 related to these types of people could
22 present a safety hazard to them and
23 others. As an organization, GPEB
24 Investigations is not equipped to
25 investigate or interact with known members

1 and associates of [organized crime]
2 groups. The criminal backgrounds and
3 levels of violence employed by these
4 individuals, in my opinion, completely
5 rules out any interdiction strategies
6 directed at curtailing the flow of
7 suspicious currency/loan sharking/money
8 laundering activities in [Lower Mainland]
9 casinos."

10 And did you agree with that conclusion at the
11 time?

12 A I think I did. When you define "interdiction
13 strategies," I think he's not talking about at
14 the cash cage or anything; he's talking about
15 investigating the proceeds of crime or money
16 laundering thing. That's the interdiction. Of
17 interacting with those -- with the people, and
18 I'm sure I'll explain that at a later time in
19 the next day or two, but the interdiction with
20 the patrons could pose a serious safety hazard.

21 The other thing is the GPEB investigators
22 are driving their own vehicles. They're going
23 to the casinos with their own vehicles and
24 things of that nature. And when you start
25 interrupting organized crime with 200-, 300-,

1 declaration, if it was ultimately instilled into
2 the casinos, to whatever degree it was instilled
3 in the casinos, would be an audit function maybe
4 to monitor and audit as the oversight agency.
5 That's the way we saw it.

6 Q Okay. But did you think that the safety hazard
7 to, for example, the service providers or the
8 BC Lotto Corporation would prevent those
9 entities from refusing or directing the refusal
10 of large cash buy-ins at this time?

11 A We didn't see that. We didn't see them refusing
12 them.

13 Q But did you think it was safe to refuse them at
14 this time?

15 A Oh, I think they could have refused them, sure.

16 Q Were the contents of this memo communicated to
17 the General Manager?

18 A Maybe it would verbally. I never sent a copy to
19 him. I know that. I never sent a copy to him
20 that I can recall. But it may have come up in
21 conversation with him. I talked to him on the
22 phone quite often and it may have come up in
23 that conversation, but it certainly wasn't -- he
24 didn't get a copy. I know that.

25 Q Okay. Turning to exhibit O, please.

1 MS. LATIMER: And, Madam Registrar, it's page 182 of
2 the PDF.

3 Q Are you there, sir?

4 A Yep.

5 Q You recognize this as a Report of Findings dated
6 October 2013 and entitled "Suspicious Currency
7 Transactions/Money Laundering in BC Casinos";
8 correct?

9 A Correct.

10 Q And this is another report. This one was
11 authored by Joe Schalk and forwarded to you;
12 correct?

13 A Correct.

14 Q And in the first paragraph Mr. Schalk sets out
15 that this is an update --

16 "[This] update and information is being
17 provided further to previous quarterly
18 reports and ongoing updating of suspicious
19 currency trends and statistics, relative
20 to the flow of suspicious cash into
21 casinos in British Columbia. The
22 information contained in this report will
23 again indicate that all Anti-Money
24 Laundering measures that have been
25 attempted or implemented since 2011 by

1 BCLC and/or the service providers have not
2 slowed the dramatic ongoing increase in
3 suspicious cash coming into predominantly
4 Lower Mainland casinos."

5 Correct?

6 A Correct.

7 Q And at the bottom of the second paragraph he
8 says:

9 "To date, neither BCLC nor the service
10 providers have taken any steps to
11 'diligently scrutinize all buy-ins for
12 suspicious transactions.'"

13 Correct?

14 A Correct.

15 Q And what did he have in mind there -- what did
16 you have in mind there?

17 A "Diligently scrutinize all buy-ins for
18 suspicious transactions." Well, we've always
19 believed that source of funds declarations were
20 the thing to use and the restriction of the 20s,
21 but the source of funds seemed to be the way to
22 go from our perspective. And it could have been
23 instituted, and then what it does is it leaves
24 an audit trail as well, and you would have to
25 deal with the patron at the cash cage at the

1 time of entry. And if it didn't -- and same as
2 the 2009 memo that we said, if it didn't meet a
3 certain criteria, then you don't take the money.

4 See, nobody wanted to say, don't take the
5 money, and -- you know, and that's what
6 really -- and I don't know what they're doing
7 now. I've been gone six and some-odd years, six
8 and some-odd years, six and a half, but I mean,
9 that was the tone in 2013 or '12. It wasn't
10 that. It was, we're going to do a number of
11 enhancements to gaming, but it didn't include
12 don't take the money if it was suspicious to the
13 point where it was obvious.

14 Q Right. So the --

15 A We --

16 Q -- source of funds coupled with refuse the cash
17 is basically --

18 A Yeah.

19 Q -- what you're suggesting here?

20 A I think that they go hand in hand. And, you
21 know -- and that's the way I always looked at
22 it. If you put it in there -- the casino
23 industry didn't like source of funds because
24 potentially, potentially, it could impact
25 revenue. And so they didn't -- and I'm not

1 talking about BC casinos. This was around --
2 you know, all over the -- all over this country,
3 US, everywhere. They didn't like that source of
4 fund thing. They talked about it in FinCEN down
5 there. Apparently they're making a move
6 strongly to do it now because of the cartel
7 influence in places like Vegas, but it wasn't
8 well received by the gaming industry because of
9 the potential loss of revenue. And I think that
10 is an obvious thing.

11 Q Right. And in your comments which begin on
12 page 185 you outline that due diligence and
13 source of funds and know your customer
14 requirements that are lacking.

15 And then if you turn to page 163 at the top
16 of the page, and I'm looking about five lines
17 from the bottom, you end by saying:

18 "The branch does not yet have a defined
19 Regulation and/or Term and Condition of
20 registration, specific to Anti-Money
21 Laundering which outlines appropriate
22 regulatory 'Due Diligence' and I am of the
23 opinion to meet our overall objective of
24 preserving the integrity and the
25 perception of integrity of gaming that is

1 critical."

2 And those were your views at the time?

3 A That's correct.

4 Q And you communicated that at this time to the
5 General Manager; correct?

6 A I communicated it to everybody that I would talk
7 to. I did. I've always seen those three things
8 as the key. And the branch had a responsibility
9 as well. And not -- you know, I look at BCLC,
10 and I'm talking publicly here, but BCLC had a
11 responsibility, I saw, with the standard
12 operating procedures, but the branch had a
13 responsible to too. I mean, we had the ability
14 to do that. And, I mean, I'm just saying that.
15 Term and condition of registration is a GPEB
16 function. It's not BCLC's.

17 Q And was your recommendation, to the best of your
18 knowledge, elevated by the General Manager to
19 others?

20 A I don't know.

21 Q Okay. And turning to exhibit I, please. This
22 is an email between you -- it's from you to John
23 Mazure. It's dated December 2013. Are you with
24 me?

25 A Yes.

1 Q The subject is "comments to GPEB investigations
2 report on money laundering in BC casinos";
3 correct?

4 A That's correct.

5 Q And this is essentially an email chain where
6 Mr. Mazure -- if you look at the second email on
7 the page, Mr. Mazure is forwarding to you
8 comments made on the report we were just looking
9 at and those comments were made by Bill McCrea
10 and Mr. Mazure; correct?

11 A Correct. But there's --

12 I think the wrong report is there, John. Is
13 this okay?

14 I just wondering if this -- there was
15 another report that may have -- should have been
16 here that has comments of Bill McCrea and John
17 Mazure but also has Joe Schalk's and my comments
18 on it.

19 Q I think you'll find that if you look at
20 page 107.

21 A Okay.

22 Q That report -- is that the report you're
23 referring to? And you'll see if you go, for
24 example, to page 109. If you look at the middle
25 paragraph there, that's a comment by Joe Schalk,

1 as I read it.

2 A No. No, I don't think that is the one I'm
3 looking at. There's a report that has what I
4 call the bubbles on the side of Mr. McCrea and
5 Mr. Mazure. And then over on the side -- and I
6 have it here, it's GPEB 188 -- and it has our
7 comments, Mr. Schalk's and my comments,
8 underneath the writing. So what you have on
9 that report 188 is that you have all four of us
10 commenting on it. What happened was that report
11 came to us and then we responded to it and sent
12 it back; okay? So all four comments are on it.

13 I think the one you're looking at that's on
14 here that we had here was -- is only for
15 Mr. Mazure's and Mr. McCrea's comments on it.
16 And it was given to us in error.

17 Q Well, if you look at page -- could you turn,
18 please, to page 113 in the top left-hand corner.

19 A Okay.

20 Q And if you look at the top comment on that page.

21 A Yes.

22 Q You don't recognize that as a comment you are
23 making on this report?

24 A Okay.

25 Q I think the format -- in other words, I think

1 the formatting is different. You're used to
2 seeing on bubbles on the side, but I think this
3 report actually has your comments in it, but
4 they're not in bubbles on the side.

5 A Okay.

6 Q But do you recognize that as a comment you made
7 on this report?

8 A Yes.

9 Q Okay. And so if we could go back, please, to --
10 I want to go -- I want to begin back at the
11 email, please, at page 105.

12 A Okay.

13 Q And if you look at the second email on this
14 page, it's an email from Mr. Mazure. And he
15 says:

16 "Larry, I've added my comments to those
17 provided by Bill, many of which I echo, in
18 the attached document. The context of my
19 comments is to ensure that all findings or
20 conclusions are supported by evidence in
21 the report. As such I have taken a
22 'devil's advocate' approach to the report
23 which results in some pointed questions
24 and concerns raised where I think there
25 are gaps."

1 information that law enforcement had?

2 A Well, there's no question we weren't all -- we
3 didn't have everything that law enforcement had.

4 Q About the cash in casinos in --

5 A No. They would share certain things with us.
6 We may know they were active, but we wouldn't
7 know. If they were doing a full-blown
8 investigation, we wouldn't know. Unless we
9 knew -- even then, their -- when they're doing
10 full-fledged investigations and things like
11 wiretap and undercover and things of that
12 nature, there's nobody on the outside that knows
13 what they're doing, doesn't matter how close
14 ties you are.

15 Q It's asymmetrical information sharing --

16 A That's right.

17 Q -- between your organizations, in other words?

18 A Yeah.

19 Q If you turn now to page 110 and you look at the
20 second big paragraph on this page, you'll see
21 the same comment -- essentially the same comment
22 again is made again by Mr. Schalk. But then
23 after he says -- after the first six lines he
24 goes on to essentially say despite this
25 asymmetry, you know, BCLC security and -- well,

1 he says:

2 "The evidence of patrons coming and going
3 from gaming facilities with loan shark
4 associates, making phone calls and
5 observed coming into or returning to
6 facilities with bags of currency is
7 captured on facility video and is observed
8 by casino surveillance staff and reviewed
9 and observed by BCLC Security and GPEB
10 investigators on an ongoing basis."

11 In other words, there is information that's
12 available to the service provider, to BCLC and
13 to GPEB in the form of observations that are
14 occurring at the casinos; correct?

15 A Sure.

16 Q And on page 111, in the third paragraph,
17 Mr. Schalk sets out his view that:

18 "Police are responsible for how and when
19 they conduct criminal investigations. We
20 are not privy to when and how those
21 investigations are conducted. At present,
22 we believe that this type of enforcement
23 does not hit the radar of the police due
24 to other more pressing needs and duties in
25 an environment of shortage of finances and

1 of qualified investigative staff. We are
2 meeting with police regularly on criminal
3 intelligence. Investigative procedures by
4 the police and criminal intelligence will
5 not/cannot be shared with service
6 providers and BCLC. Therefore, we (GPEB -
7 Service Provider - BCLC) will always all
8 be operating on different knowledge
9 levels."

10 And that's -- again he's just pointing to the
11 fact there's an asymmetry in the information as
12 between the police and your three entities in
13 terms of what you can know about what
14 investigations are being undertaken?

15 A I agree.

16 Q At page 113. In the top paragraph, this is a
17 comment by you, and you say:

18 "The previous Reports of Findings,
19 memoranda and discussions have been
20 forwarded to the ADMs and Bill McCrea. We
21 have also given presentations on [money
22 laundering] and proceeds of crime to [the
23 anti-money laundering cross-divisional
24 working group] --"

25 And that's what those letters stand for;

1 correct?

2 A Yes.

3 Q "-- and the Branch."

4 And you say:

5 "This includes video clips of [suspicious
6 cash transaction] activity at gaming
7 venues. I now believe that we need to
8 make another presentation to the AML group
9 on proceeds of crime and the status of SCT
10 in the Casinos in BC."

11 Why was it your view at this time that another
12 presentation was needed?

13 A I don't know why. This was in 2013; right?
14 December 4, 2013. I think maybe we had -- we
15 hadn't done it for a while. You know, I
16 hadn't -- and I'd -- you know, I had the RCMP
17 PowerPoint lectures and stuff like that. And
18 maybe with some of the data we had, it was time
19 to do it again. And we hadn't done any
20 presentations and put all of our statistics out
21 to the whole branch and, you know --

22 Q Did you have a sense that they weren't getting
23 it at this point?

24 A Well, I think they were getting it. I mean,
25 we're pretty vocal. I mean the management

1 groups, certainly they were getting it. But the
2 people that were working in the investigation
3 division, they knew what was going on,
4 generally. But as far as the other units, like
5 audit and registration and those areas, may not
6 have known specifically the magnitude of what we
7 were doing in investigations, I can put it that
8 way. And maybe the presentation would've been a
9 good idea. That's the only thing I can think
10 of.

11 Q Okay. If you turn to page 115, sort of halfway
12 down the page. You set out here your thoughts
13 where you -- if you look at the second paragraph
14 in this -- sort of looks like the second
15 paragraph in this long part at the bottom, you
16 say:

17 "We are continuously being asked 'prove
18 that the money is the proceeds of crime.'
19 I would like to comment further on the
20 'proof' aspect that reverberates through
21 the comments."

22 Do you see that?

23 A Yes.

24 Q And you took some care in setting out your
25 thoughts on this issue about what level of proof

1 was required; correct?

2 A That's correct.

3 Q And that's accurately summarized in the text
4 that follows; correct?

5 A That's correct.

6 Q And if you go to the next page at the very
7 bottom of the page, you end by saying -- about
8 maybe 10 lines from the bottom, you see there's
9 some underlining there?

10 A Yeah.

11 Q You end by saying just before that underline:

12 "The question I continue to ask and
13 numerous others ask 'why would we not ask
14 the patron the origin of suspicious cash
15 and conduct further due diligence to
16 ensure the integrity or the perception of
17 integrity in gaming.' To answer that it
18 is OK to take these large amounts of
19 suspicious cash without asking the origin
20 of the cash leaves the gaming industry
21 open to severe criticism and negative
22 public scrutiny. It also leaves an open
23 invitation to organized crime at all
24 levels from any location to further
25 infiltrate the casino environment with

1 large amounts of suspicious cash."

2 And that was your view at the time; correct?

3 A That's correct.

4 Q You were vocal and expressing your review that
5 there was a need to determine the source of
6 these [indiscernible] cash transactions;
7 correct?

8 A I always believed that a source of funds
9 declaration could have -- would have worked here
10 to solve the problem. Maybe, you know, that's
11 just my opinion, but we were quite vocal about
12 that.

13 Q What was the reaction of Mr. Mazure to the
14 opinions expressed in this report?

15 A I don't know. I don't think -- I didn't really
16 notice any reaction to it, quite frankly. I
17 never -- I don't recollect a reaction from him
18 on this.

19 Q Okay. Are you aware whether he elevated your
20 recommendations higher than himself?

21 A No, I am not.

22 Q Okay. And suspicious cash transactions
23 continued into 2014; correct?

24 A That's correct.

25 Q If you turn to exhibit P.

1 MS. LATIMER: Oh, Mr. Commissioner, I do see the
2 time, and I'm not done. I'll just tell you that
3 I see the time, and what would you like me to
4 do?

5 THE COMMISSIONER: How much longer do you plan to be
6 or do you think you'll be, Ms. Latimer?

7 MS. LATIMER: Maybe half an hour.

8 THE COMMISSIONER: Okay. Okay. Well, Mr. Vander
9 Graaf, are you capable of carrying on for a bit?

10 THE WITNESS: Absolutely, Commissioner.

11 THE COMMISSIONER: All right. Unless there's anyone
12 else who requires an adjournment or a break, I
13 think we can carry on if you're satisfied,
14 Ms. Latimer.

15 MS. LATIMER: Sure.

16 THE COMMISSIONER: All right.

17 MS. LATIMER:

18 Q I'm at exhibit P. And are you with me at that
19 exhibit?

20 A Yes.

21 Q This is a Report of Findings dated August 2014,
22 and it's authored by Rob Barber and approved by
23 Derek Dickson; correct?

24 A Correct.

25 Q And this would've been forwarded to you at the

1 time; correct?

2 A That's correct.

3 Q And under the summary here, it says:

4 "During gaming on September 24 & 25, 2014,
5 Kesi Wei bought-in at the VIP Room of the
6 [River Rock] for a total of \$1,000,070.00
7 during two separate cash transactions.

8 The cash used in the first buy-in
9 consisted entirely of \$20.00 bills and
10 amounted to \$500,040.00.

11 The cash used in the second
12 transaction consisted almost entirely of
13 \$20.00 bills."

14 And it sets out the denominations. And then it
15 says:

16 "Wei was also the recipient of two chip
17 passes during the gaming event.

18 The first chip pass was \$7,000.00
19 cashed in Bo Bao.

20 The second chip pass was \$55,000.00
21 passed in by Qi Li."

22 And I've read that correctly?

23 A That's correct.

24 Q Do you recall these transactions that are
25 discussed here?

1 A No, I don't.

2 Q Do you recall whether Qi Li was a dealer at the
3 Edgewater casino at this time?

4 A No, I don't.

5 Q Could you turn to page 168. Under "Background,"
6 it sets out each of the participants -- a bit
7 about each of the participants with the
8 exception of Qi Li, and then there's some
9 handwriting. Is that your handwriting?

10 A Yes, it is.

11 Q And what -- I can't make it out. What do you
12 say there?

13 A I said:

14 "Paul Jin - known loan shark associated
15 Chinese Organized Crime activities."

16 Q Okay. And if you look at the "Background," it's
17 indicated here that Mr. Wei was a recent arrival
18 from China but now providing a local address,
19 and he's been involved in numerous suspicious
20 cash transactions and has history of chip/cash
21 passing activities.

22 Another participant:

23 "Jiang has only recently appeared at the
24 [River Rock]. His relationship to Wei is
25 unknown.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

Tam -- "

And that's Kwok Chung Tam; is that correct?

A That's correct.

Q "-- is currently prohibited from BC casinos as a result of suspected loan sharking activities. He is an associate of Paul King Jin."

And that was known at the time; correct?

A That's correct.

Q And:

"Kwan is also currently prohibited from BC casinos as a result of suspected loan sharking activities."

And also an associate of Paul King Jin.

Correct?

A That's correct.

Q And if you turn to exhibit PP, please.

MS. LATIMER: It's at page 375, Madam Registrar.

375.

THE WITNESS: I'm sorry, what was that again? 275?

MS. LATIMER:

Q 317 at the top left-hand corner, and it's exhibit PP.

A I'm sorry, I'm lost here.

THE REGISTRAR: Sorry, Ms. Latimer, you said

1 exhibit T earlier.

2 MS. LATIMER: P as in Paul.

3 THE REGISTRAR: P.

4 THE WITNESS: Okay. I have P. Yes.

5 MS. LATIMER:

6 Q So this is a briefing document; correct? It's
7 initiated by you to John Mazure, and it's dated
8 October 8, 2014?

9 A No, I'm not on the wrong document. That's not
10 what's up there right now.

11 MS. LATIMER: Madam Registrar, you should be at
12 page 375, please. 375.

13 THE COMMISSIONER: Ms. Latimer, is the confusion that
14 it's PP as in Peter Peter or one Peter?

15 MS. LATIMER: Yes, it's double P as in Peter Peter.

16 THE WITNESS: Okay. Thank you, Commissioner. I've
17 got it now. Yeah.

18 THE COMMISSIONER: Or I guess double Paul.

19 THE WITNESS: Okay.

20 MS. LATIMER:

21 Q Okay. This is a briefing document, and you
22 recognize this as a briefing document initiated
23 by you sent to John Mazure, who is the ADM of
24 GPEB, and prepared October 8th, 2014?

25 A That's correct.

1 Q And the title is "One Million Dollar Suspicious
2 Currency Transaction Buy-In"; correct?

3 A That's correct.

4 Q You describe the cash transactions we were just
5 discussing in this briefing document; correct?

6 A That's correct.

7 Q And then four lines from the bottom on that
8 first page -- four lines from the bottom you
9 say:

10 "Wei seen outside casino associating with
11 Kwok Tam, (barred from Casino for
12 suspected loan sharking) Jain Rong and Bo
13 Bao. All are associated with known
14 high-level loan shark Paul Jin. Jin is
15 well known by all and known to associate
16 with organized crime."

17 And that was the state of your knowledge at that
18 time?

19 A That's what I was receiving from my staff.

20 Q And you communicated that to the General
21 Manager?

22 A That's correct.

23 Q And are you aware whether the General Manager
24 communicated that to anyone else?

25 A No, I am not.

1 Q And over on the next page, please. Four lines
2 from the bottom under the heading "Background"
3 you say:

4 "This was the largest suspicious currency
5 transaction report and the person
6 buying-in with the suspicious currency was
7 observed associating outside and receiving
8 cash from persons barred from the casino
9 for loan sharking activities. The loan
10 sharks are in fact associated with a
11 specific known loan shark and an organized
12 crime associate."

13 And then you say:

14 "The investigation is ongoing. Police
15 have been advised of our Report of
16 Findings."

17 Correct?

18 A Correct.

19 Q And what police unit was notified of this Report
20 of Findings?

21 A I would assume it would be the RCMP.

22 Q There's a list of people here who were copied
23 with this; is that correct?

24 A That's correct.

25 Q And it was the Executive Director of Audit,

1 Terry Van Sleuwin; correct?

2 A That's correct.

3 Q And Executive Director of Registration, Len
4 Meilleur?

5 A That's correct.

6 Q I can't make out who the others --

7 A Robin Jomha, Director of Corporate Registration,
8 and then all the directors probably of my -- of
9 the investigation division.

10 Q Okay. Was this communication shared with BC
11 Lotto Corporation?

12 A No, it would not have been.

13 Q Was this information shared with the service
14 providers?

15 A Probably not. But -- no, it would be not.
16 Remember, they're getting these 86 Reports like
17 we are.

18 Q Right. Okay. I'm turning now to exhibit Q.

19 MS. LATIMER: Madam Registrar, on the PDF it will be
20 195.

21 THE WITNESS: There it is. Okay. M'mm-hmm.

22 MS. LATIMER:

23 Q And this is a Report of Findings dated
24 October 27th, 2014, entitled "Suspicious
25 Currency Transactions/Suspected Money Laundering

1 in BC Casinos" correct?

2 A That is correct.

3 Q And, again, if you turn to page 174, this was
4 authored by Joe Schalk and then forwarded to you
5 for comment, and your comments are set out on
6 page 174; correct?

7 A Yes.

8 Q And under the heading if you go -- if you go
9 back to page 171, this is -- again, it's:

10 "... a status update on the present status
11 of suspicious currency/suspected money
12 laundering information trends and
13 statistics as it applies to gaming in
14 casinos in British Columbia as of October,
15 2014."

16 A Correct.

17 Q And it provides:

18 "... information which clearly indicates a
19 significant and continuing rapid
20 acceleration of suspicious cash coming
21 into predominantly Lower Mainland
22 casinos."

23 And that's what was observed at that time?

24 A That's correct.

25 Q And says that:

1 "It will also again indicate that all
2 Anti-Money Laundering measures have been
3 put into place since 2008 have not slowed
4 or decreased the flow of suspicious
5 currency coming into our casinos."

6 Correct?

7 A Correct.

8 Q And it simply provides a status update. It
9 says:

10 "... further to an extensive report
11 submitted in November 2013 and could be
12 read as a continuation of that report."

13 And we looked at that report; correct?

14 A Yes.

15 Q Okay. And then -- and basically that's what
16 follows is the update; correct?

17 A That's correct.

18 Q And --

19 A Those are all comments by Mr. Schalk, yep.

20 Q So under the statistical overview there's
21 information provided to communicate ongoing
22 reviews and concerns for the -- it says:

23 "The following statistical information is
24 provided to communicate ongoing reviews
25 and concerns for the [anti-money

1 laundrying cross-divisional working
2 group]."

3 So I take it this report was disseminated to the
4 anti-money laundrying cross-divisional working
5 group?

6 A I can't recall. It definitely went to the
7 General Manager, I know that. But I'm not sure
8 who it was distributed to. There's no email
9 attached to it. No.

10 Q On page 172 there's a public interest immunity
11 redaction?

12 A Okay.

13 Q And some numbers are provided that -- and then
14 sort of five lines down Mr. Schalk says:

15 "These numbers also correspond with the
16 finding of GPEB's Audit and Compliance
17 Division as reported in their '2013/14 AML
18 Recap' report of 16 June 2014."

19 Do you see that?

20 A Yes.

21 Q And it sets out some of their findings there?

22 A M'mm-hmm.

23 Q And were you aware that GPEB's audit and
24 compliance division was also looking into these
25 issues and making consistent findings at this

1 time?

2 A Yes, they were. And they had -- I don't know
3 how I'm going to say -- they were a little
4 bit -- on occasion a little slow coming in, but
5 once they came into this, they came in and did a
6 very good job. I thought they really identified
7 some of the issues in relation to the \$20 bills,
8 and they were doing audits around that time,
9 and I thought those audits were fairly well done
10 from what I saw.

11 Q Okay. If you turn to page 173 at the top,
12 Mr. Schalk notes that the amount of large
13 denomination -- he says:

14 "Also of interest is the fact that there
15 appears to be a rise in the amount of
16 large denomination casino playing chips
17 leaving the casinos."

18 And that issue concerning casino chips leaving
19 the casinos was one you were alive to at this
20 time?

21 A I didn't know that, but I'm assuming if
22 Mr. Schalk wrote that that's what was happening.

23 Q Were you aware casino chips were being used by
24 loan sharks as a store of --

25 A Yes, I was aware.

1 Q Okay. Your comments are found on page 174?

2 A Yeah.

3 Q And you say in the first sentence under that
4 heading "Forwarded 27 October, 2014." You say:

5 "The Investigation and Regional Operations
6 Division has continuously reported out and
7 sounded the alarm to the Branch on the
8 volume of suspicious currency that is
9 entering into the BC Casinos unchallenged
10 (origin of currency) by the Service
11 Providers."

12 A M'mm-hmm.

13 Q And it was your view that the challenge should
14 have been made by the service providers at this
15 time?

16 A I think the service provider would -- I'm
17 talking source of funds declaration here is what
18 I'm thinking. You know, that's what I was
19 talking about when I'm talking about that, the
20 origin. And even if BCLC -- maybe they're doing
21 it now, I don't know -- source of funds origin,
22 they could direct the service provider to do it
23 through standard operating procedures. The
24 service provider would be the one that was doing
25 it, whether they instigated it -- instituted it

1 industry, including casinos."

2 Do you see that?

3 A I agree with that.

4 Q And was it your view that GPEB was failing in
5 those legal and moral obligations that you
6 outline?

7 A I did. I believe that we should -- could have
8 instigated a term and condition of registration
9 with the ministerial's concurrence -- minister's
10 concurrence to deal with this, and I thought we
11 could have done that at that time.

12 By this time, by 2014 in the fall, we're
13 getting -- like, there was a million dollars in
14 there. There was -- you know, there was a
15 criminal killing where somebody -- that happened
16 and et cetera, et cetera. Things like that.
17 And it was getting to the point where it had to
18 be dealt with and -- somewhere. So as these
19 reports were being written, we were getting
20 stronger and probably a little more frustrated
21 that nothing was being done. And that's where
22 this is coming from. And I can see it when I
23 read it now in hindsight that's where that's
24 coming from. But I believed we had to do those
25 things

1 Q Okay. On page 175 in the bottom paragraph
2 there, you outline again that:

3 "The 'know your client' requirement of the
4 service provider at the present time is
5 not sufficient and does not include the
6 critical component of knowing and carrying
7 out appropriate extensive due diligence at
8 the entry point on the 'origin of funds.'"

9 And you say that:

10 "Taking these large amounts of suspicious
11 cash without asking the origin leaves the
12 gaming industry open to severe criticism
13 and negative public scrutiny."

14 Then if you skip down four lines from there, you
15 reiterate. You say:

16 "As previously stated, it is imperative
17 that the Branch have a defined enforceable
18 regulation and/or term and condition of
19 registration on the service provider,
20 specific to Anti-Money Laundering. It
21 must be enforceable and have noncompliant
22 [sic] consequences to have any effect or
23 impact on the huge amounts of unchallenged
24 suspected proceeds of crime entering
25 casinos."

- 1 A Right.
- 2 Q And that was your consistent recommendation in
3 or around this time; correct?
- 4 A Yes, it was.
- 5 Q And was this report sent to the General Manager?
- 6 A Yes, it did.
- 7 Q Did you receive a response to this report?
- 8 A No, I did not.
- 9 Q Do you know if Mr. Mazure disseminated this to
10 anyone higher up in the hierarchy?
- 11 A No, I do not.
- 12 Q Okay. You -- at the end of your affidavit you
13 talk about your termination from your position
14 within GPEB.
- 15 A That's correct.
- 16 Q You say you believe you were terminated because
17 the government knew you would continue to speak
18 openly about money laundering problems which
19 could result in the implementation of measures
20 that would reduce gaming revenue to the
21 government; correct?
- 22 A That potential, yes.
- 23 Q And what's the basis for that belief?
- 24 A Well, I believe that they could have stopped the
25 money laundering with the recommendations that

1 we were making from the division in --
2 investigation division, and they didn't. And
3 there's only one, I think, reason why they
4 wouldn't do that, and I'm talking about source
5 of funds declaration or registration -- terms
6 and condition of registration that it may
7 impact -- may, may impact the bottom line
8 revenue.

9 And that's -- that's a general fact, a known
10 fact that if you impose restrictions on the
11 industry to not take in as much money, it's
12 going to impact the revenue. And these things
13 may have impacted revenue. That's what I --
14 that's the only rationale I have on that.

15 Q Did anyone in a position of authority over you
16 advise you that you were being terminated for
17 the reasons set out in your affidavit?

18 A No.

19 Q Is it just your personal belief?

20 A That's correct.

21 Q Were you --

22 A And it's my personal belief. That's all.
23 That's my personal belief.

24 Q Okay. Were you aware that in or around 2013 or
25 2014 the Treasury Board or cabinet selected BC

- 1 Lotto Corporation for a Crown review?
- 2 A Yes, I was.
- 3 Q And that review entailed an examination of the
- 4 overall effectiveness of the corporation in
- 5 delivering on their mandates and priorities?
- 6 A Yes, I did.
- 7 Q And that review touched on GPEB and the
- 8 anti-money laundering strategies just because
- 9 GPEB has a regulatory role over the lotto
- 10 corporation?
- 11 A That's correct.
- 12 Q And an Associate Deputy Minister, it was
- 13 Ms. Wenezenki-Yolland who had responsibility for
- 14 internal audit and advisory services, who
- 15 perform that review; correct?
- 16 A That's correct.
- 17 Q And that Crown review recommended that GPEB and
- 18 BCLC clarify their respective roles and
- 19 responsibilities; correct?
- 20 A That's correct.
- 21 Q It didn't recommend any restructuring of GPEB
- 22 and it didn't remember any terminations;
- 23 correct?
- 24 A That's correct.
- 25 Q And you're aware that in or around April 2014

1 there was a second review which was an internal
2 administrative review conducted by HR
3 professionals within the corporate services
4 divisions at the Ministry of Finance?

5 A Yes.

6 Q And are you aware that that review was initiated
7 under the direction of the General Manager, John
8 Mazure?

9 A I wasn't at the time. I am now.

10 Q Okay. Are you aware that it was that internal
11 review that recommended significant
12 restructuring of GPEB?

13 A I am now aware of that.

14 Q And when you say you are now aware of that, do
15 you mean because you've had an opportunity to,
16 in the course of preparing for this examination
17 review, documents you weren't previously aware
18 of?

19 A That's correct. Six years later.

20 MS. LATIMER: Okay. Did any -- and I guess Madam
21 Registrar, I'll ask that GPEB4090 be placed
22 before the witness, please.

23 Q And this is the document that you're referring
24 to, sir? It's a briefing note dated
25 November 26th, 2014.

1 A That's correct.

2 Q This was a briefing note prepared for
3 Ms. Wenezenki-Yolland and it contains
4 Mr. Mazure's recommendations; correct?

5 A Correct.

6 Q And in this document it's Mr. Mazure who
7 recommends your termination and Mr. Schalk's
8 termination; correct?

9 A That's correct.

10 Q And you hadn't seen this until recently when you
11 were preparing to give evidence at this
12 commission; is that correct?

13 A That's correct.

14 Q And when you reviewed this document, was there
15 anything in this document that changed your view
16 about the basis for your termination?

17 A I don't think so.

18 MS. LATIMER: Okay. Mr. Commissioner, I don't ask
19 that this be marked as an exhibit proper because
20 I don't think this witness can identify it, but
21 I do ask that it be marked for identification,
22 please.

23 THE COMMISSIONER: Madam Registrar, where are we at
24 with our --

25 THE REGISTRAR: That will be exhibit C for ID.

1 **EXHIBIT C FOR IDENTIFICATION: Briefing note**
2 **prepared for Cheryl Wenezenki-Yolland dated**
3 **November 26, 2014**

4 THE COMMISSIONER: All right.

5 MS. LATIMER: Mr. Commissioner, those are the
6 questions that I have for today, but I was
7 hoping that I could confer with my colleagues
8 before officially ending my examination.

9 THE COMMISSIONER: Yes, certainly. All right. We
10 will adjourn until tomorrow morning at 9:30,
11 then.

12 THE REGISTRAR: This hearing is adjourned until
13 9:30 a.m. on November 13, 2020. Thank you.

14 **(WITNESS STOOD DOWN)**

15 **(PROCEEDINGS ADJOURNED AT 1:57 P.M. TO NOVEMBER 13, 2020)**

16

17

18

19

20

21

22

23

24

25