



OPERATIONAL ALERT

December 2019

Operational alert: Laundering the proceeds of crime through a casino-related underground banking scheme

Issued in partnership with the Combined Forces Special Enforcement Unit (CFSEU) – British Columbia (BC)



This operational alert provides money laundering indicators that were observed in FINTRAC disclosures sent to law enforcement in relation to the initial focus of Project ATHENA: suspicious casino-related transactions, particularly those involving bank drafts, that are suspected to have roots in underground banking.

Underground banking refers to banking activities that take place outside of the formal financial system. Typically, underground banking activity runs parallel to and operates independently of the formal banking system. Beyond that, it is difficult to arrive at a standard definition of underground banking because it is complex and open to interpretation depending on the jurisdiction. For the purposes of this operational alert, underground banking will refer to the criminal abuse of Informal Value Transfer Systems (IVTS).

IVTS involves dealers who facilitate the transfer of value to a third party in another jurisdiction without having to physically move it. Settlement between brokers occurs through cash, trade, or other means. For many communities and diasporas, IVTS is the cheapest and most effective way to send or receive remittances. Well-known forms of IVTS include hawala, hundi, and fei ch'ien. In fact, many cultures embrace it and depend on it to send funds to loved ones in countries that lack a formal banking system. Because they are engaged in money services business (MSB) activity, IVTS are regulated under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and are required to register as an MSB with FINTRAC. However, IVTSs are often exploited in an effort to evade sanctions, state currency control restrictions, and to facilitate criminal activities such as money laundering. In such cases, IVTSs morph into underground banking, becoming non-compliant with the law and void of any regulatory scrutiny. For example, professional money launderers—individuals who specialize in laundering the proceeds of crime on behalf of criminals and organized crime groups—regularly use underground banking schemes to rid their hands of substantial amounts of illicit proceeds of crime.



Project ATHENA:

a public-private partnership to combat money laundering activity in Canada through the lawful sharing of information. The objectives of the project are to improve the collective understanding of the money laundering threat, inform and strengthen financial systems and controls, and to disrupt money laundering activity.

Underground banking and the formal banking system inevitably intersect when certain transactions demand the use of the formal banking system, such as the purchase of financial instruments. It is at this juncture where financial activity that is rooted in underground banking can be partially observed by regulated financial institutions and become subject to FINTRAC reporting.

Project ATHENA, a public-private partnership focused on combatting money laundering in Canada, initially began as a CFSEU – British Columbia probe into the use of bank drafts at casinos in Lower Mainland, British Columbia. Due to the Project's early findings which uncovered money laundering occurring beyond the casino sector and a strong desire to combat money laundering in other sectors, Project ATHENA expanded to a national focus and increased its scope to include real estate, luxury vehicles and high-value goods.

At the heart of Project ATHENA is the lawful sharing of information. Information sharing across the public and private sectors increases awareness of current and emerging threats. This leads to systemic and operational enhancements and to better detection, prevention and disruption of criminal activity. Moreover, it fosters an environment of collective ownership of activities that contribute to making Canada a less conducive environment for money laundering.

The roles of bank drafts and money mules

Cash has always been preferred by criminal organizations because it is anonymous, untraceable, and a form of final settlement. However, suspicious casino-related transactions reported to FINTRAC in relation to Project ATHENA have heavily focused on the use of bank drafts. This phenomenon can likely be explained by a few factors: the liquidity and quasi-anonymity of bank drafts; the security risk and unwanted attention that comes with carrying around bulk cash; and, perhaps most importantly, the intense media scrutiny and government intervention regarding the use of bulk cash in casinos. It should be noted that some financial institutions and casinos have since taken mitigating action related to these factors, notably by adding identifying information on bank drafts, and requiring casino patrons to provide a source of funds receipt for casino buy-ins over \$10,000 Canadian dollars.

FINTRAC considers a money mule to be an individual who, wittingly or unwittingly, transfers or transports proceeds of crime on behalf of a criminal organization or money launderer. FINTRAC suspects that many of the individuals reported in suspicious casino-related transactions involving Project ATHENA were money mules. Two types were observed. The first type commonly reported their occupation as 'student' or simply 'unemployed'. Their bank accounts demonstrated in-and-out activity, with a high volume of cash deposits from various unknown sources, which were then used to purchase bank drafts payable to third parties or casinos. The second type of money mule often reported their occupation as 'homemaker' and typically exhibited the following account activity: cash deposits from unknown sources, wire transfers from third parties or trading companies, the purchase and redemption of various investments, and casino-gaming activity.

The described indicators, along with other details in this operational alert, represent FINTRAC's unique assessment of suspicious transaction reporting over a specific period involving casino-related transactions in relation to Project ATHENA. On their own, these indicators may not be indicative of money laundering activities and should not be considered a comprehensive overview of money laundering activities involving these types of transactions. However, financial institutions and casinos should assess them, in combination with what they know about their client, in order to determine if there are reasonable grounds to suspect that a transaction or attempted transaction is related to the commission or attempted commission of a money laundering offence. It is worth noting that FINTRAC also uses these indicators, along with the facts and context, to assess reporting entities' compliance with their suspicious transaction reporting obligations.

General money laundering indicators present in Project ATHENA disclosures

The following indicators are referenced from FINTRAC's [money laundering and terrorist financing indicators - financial entities](#). They represent the most commonly-reported general indicators observed by FINTRAC in suspicious casino-related transactions involving Project ATHENA.

- The transactional activity (level or volume) is inconsistent with the client's apparent financial standing, their usual pattern of activities or occupational information (e.g. student, unemployed, social assistance, etc.).
- Size or type of transactions atypical of what is expected from the client.
- Accounts used for pass-through activities (e.g. to receive and subsequently send funds to beneficiaries).
- Funds transferred in and out of an account on the same day or within a relatively short period of time.
- Transaction consistent with publicly known trend in criminal activity.
- Transaction is unnecessarily complex for its stated purpose.
- Large and / or rapid movement of funds not commensurate with the client's financial profile.

Money laundering indicators present in underground banking and casinos

The following indicators were observed by FINTRAC in suspicious casino-related transactions involving Project ATHENA and should be assessed by casinos:

- Client deposits a high volume of bank drafts to patron gaming fund account or regularly uses bank drafts as a form of gaming buy-in.
- Client is accompanied to a casino by an individual who is subject to a gaming ban.
- Client is a resident of a jurisdiction that is subject to currency control restrictions or sanctions and has no local ties to family or business.

Money laundering indicators present in underground banking and financial institutions

The following indicators were observed by FINTRAC in suspicious casino-related transactions involving Project ATHENA and should be assessed by financial institutions:

- Client's account is funded by various means, such as cash deposits, casino cheques, wire transfers from third parties or trading companies, or investment redemptions such as Guaranteed Investment Certificates. From there, the funds are primarily depleted by credit card payments, account transfers or transactions involving casinos, such as bank draft issuances, point of sale purchases or ATM cash withdrawals.
- Client's account is credited by numerous casino cheques whose memo indicates that the funds are not the result of casino winnings.
- Client issues multiple bank drafts to oneself or to third parties that are ultimately used at one or more casinos.
- Client's account appears to be used exclusively for casino gaming activity at one or more casinos. For example, there is no evidence of everyday banking such as payroll or bill payments. Instead, the activity consists of casino cheque deposits, bank draft issuances to casinos or point-of-sale purchases, or ATM cash withdrawals at casinos.
- Client's occupational information (e.g. homemaker, unemployed, student) is inconsistent with the pattern of financial account activities (e.g. account shows high volume of casino gaming activity).
- Client's account activity appears to be circular in nature. For example, client deposits casino cheques followed by the purchase of bank drafts that are ultimately used at one or more casinos. Soon after, casino cheques—whose memo indicates that the funds are not the result of casino winnings—are deposited back into the account.
- Client's account shows a high volume of cash deposits whose source of funds is unknown.
- Client's account shows high volume of casino gaming activity (such as deposits of casino cheques or bank draft issuances to casinos) and transactions involving high-value goods (such as real estate or luxury vehicles).
- Client's credit card activity is predominately casino related and the balance is paid off using cash payments.

- Client reports ongoing source of funds in their account to be casino winnings but no matching debits to casinos are identified.

Reporting to FINTRAC

To facilitate FINTRAC's disclosure process, please include the term **Project ATHENA** or **#ATHENA** in Part G—Description of suspicious activity on the Suspicious Transaction Report.

(See also, [Reporting suspicious transactions to FINTRAC](#)).

For more information on professional money laundering and underground banking, see the Financial Action Task Force (FATF) report on [Professional Money Laundering](#).

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