

# The Breakfast Club IIROC Vancouver PCMLTFA – Modernization and cool stories...

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# Presenter



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- Partner in MNP's Investigative and Forensic Services and Western Canada AML Leader / National Forensics Technology Leader
- Certified Anti- Money Laundering Specialist (CAMS)
- Certified Fraud Examiner (CFE), Certified Information System Security Specialist (CISSP), Certified Computer Examiner (CCE)
- Former IT Network Administrator
- Detective - Edmonton Police Service Technological Crimes Unit
- Deloitte - Financial Advisory Services
- Former Vice President - Association of Certified Fraud Examiners – Calgary
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# Presenter



## Hayley Labbé

National AML Practice

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- Senior Manager in MNP's Vancouver Investigative and Forensic Services – AML Specialist
- Certified Anti- Money Laundering Specialist (CAMS)  
More than 20 years of management expertise in the financial services industry, with both money service business and banking experience at large global organizations.
- Former Director of Compliance, Canada and the Caribbean, for Western Union.
- Various head office functions within the financial services sector,
- Acting head of anti-money laundering compliance for a large Canadian Schedule II bank.
- Member of the federal Department of Finance Private/Public Advisory Committee on AML/Counter Terrorist Financing.

# Presenter

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## Amanda I. Archibald

VP, Compliance

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- Amanda has been in the financial services industry for 20 years and is licensed in both Canada and the US and is a Certified Anti- Money Laundering Specialist (CAMS).
- She has worked with Stock Transfer Agents, Publicly listed companies and Asset Management firms within Canada and the US.
- Currently chairs the IIROC AML Sub-Committee, and represents Canada as the Securities Sector Anti Money Laundering subject matter expert with the Department of Finance's Public and Private Sector Advisory Committee.
- Amanda joined Raymond James Ltd. in January, 2008 as Manager, Compliance & AROP. She has since become the firm's VP, PCG Compliance. In her current role, she oversees development and management of the firm's AML and Privacy programs, the Branch Review program and the PCG compliance regime. She is also heavily engaged in Regulatory initiatives, compliance education and project management at Raymond James.

# Overview

- State of the nation - Securities Industry
- Update on the recent proposed changes to the PCMLTFA
  1. Identification of Clients
  2. Agents and Mandataries
  3. Affiliates & Risk
  4. Suspicious Transaction Reports
- The Silk Road – Greed and the down fall of an FBI and DEA agent

## State of the Nation – Securities Industry

- IIROC Guide to AML under review – update delayed until proposed regs finalized
- Fintrac Examinations
  - Mandate to audit securities sector over the next twelve months.
  - Shift in focus from policy to effectiveness
- Typical Findings
  - Weak risk assessment
  - Should detail products and services, geographic locations of clients; specific factors to business lines
  - Executive sign-offs on the procedures
  - Training program - should be specific to the firm.

## Department of Finance Update - FATF Mutual Evaluation

- Process focuses on effectiveness in addition to technical compliance.
- Four countries have been assessed under the new process (Spain, Belgium, Norway and Australia)
- Results generally landing in the “moderate” effectiveness range (the ratings scale is: low – moderate – substantial – high).
- The Canadian Government has performed a self-assessment and considers that its results may be consistent with the results of the countries assessed so far.
- Expected that Canada will be deemed ‘soft’ on penalties due to the relatively low number of administrative monetary penalties levied by FINTRAC.
- Department of Finance position that Canada intends to work with Private Sector on effectiveness opposed to levying significant fines
- However, increase in Administrative Monetary penalties expected

## Department of Finance Update - Assessment of Inherent Risks

- Inherent ML/TF vulnerabilities are presented for 27 economic sectors and financial products.
- Many sectors and products deemed highly vulnerable to money laundering and terrorist financing.
- Domestic banks, corporations (especially private for-profit corporations), certain types of money services businesses and express trusts were rated the most vulnerable, or very high.
- High risk associated with high volume, velocity and frequency of transactions.
- Businesses with exposure to high-risk jurisdictions that have weak AML/ATF regimes and significant ML/TF threats.

<http://www.fin.gc.ca/pub/mltf-rpcfai/index-eng.asp>



## Major Changes

### Plan for November 2015

1. Identification of Clients
2. Agents and Mandataries
3. Affiliates & Risk
4. Suspicious Transaction Reports

### Plan for November 2016

1. Politically Exposed Persons
2. Various and Sundry
3. What's Missing?
4. Other Important AML News

<http://tinyurl.com/NEWAMLREGS2015>

# Proposed Regulatory Overview

- Recent regulatory changes have impacted Securities industry
  - Feb 1, 2014 – Business Relationships, ongoing monitoring and risk assessment.
  - June 20, 2015 – Information sharing with affiliates for STR reporting
  - July 3, 2015 – proposed amendments (Nov 2015 implementation expected for some initiatives, Nov 2016 for others)
  - Sept 2015 – more expected!
- The changes are designed to address FATF gaps, budget implementation measures, a few studies, and sector gripes.

# Identification of Clients

Once the regulations are published you will have:

- More identification options
- Expanded definition of recognition
- Signature and signature card – Electronic concepts

# Identification of Clients

Option	Refer to	Verify	Keep a Record of
1. Government ID	Photo ID Federal, provincial, or foreign government (not municipal)	Name & Photograph	Type of Document Reference Number Issuing Authority & Place Expiry Date
2. Authorized Body	Information from body or its agent/mandatary authorized in Canada to verify identity	Name & Address OR Name & Date of Birth	Source & Type of Information Reference Number Date of Verification
3. Credit File	Credit file of at least 3 years' duration	Name & Address & Date of Birth	Source of Information Reference Number Date of Verification

# Identification of Clients

Option	Refer to	Verify	Keep a Record of
4. Combination of Methods	Any 2 Different Reliable Sources	Name & Address OR Name & Date of Birth OR Name & Confirmation of Account with a Financial Entity (deposit, credit card, loan)	Source & Type of Information Account or Reference Number Date of Verification
5. Affiliate	<ul style="list-style-type: none"> <li>i) In country affiliated reporting entity</li> <li>ii) Out of country affiliated would-be reporting entity</li> <li>iii) Member of the same credit union central</li> </ul>	Name & Address & Date of Birth	Confirmation of Ascertaining Name of the Other Entity Manner of Ascertaining Information Applicable to Method Date of Verification

# Agents and Mandataries

- Reporting entities can rely on an agent or mandatary to ascertain identity on their behalf.
- Reporting entities can rely on measures previously taken by an agent or mandatary if one of these situations applies
  - If the agent was acting in their own capacity, even if not because of the regulations
  - If the agent was acting under a written agreement or arrangement with another person or entity required to take measures

# Agents and Mandataries

- Conditions of agent or mandatary reliance:
  - Agreement or arrangement
  - Obtain the record keeping information
  - Be satisfied that the information is valid, current, and ascertained in accordance with regs.

# Affiliates & Risk

- An entity would be affiliated with another entity if:
  - one of them is wholly owned by the other;
  - if both are wholly owned by the same entity; or,
  - If their financial statements are consolidated.



# Affiliates & Risk

[New methods once regulations published, except with respect to risk assessment and suspicious transactions – 12 month after publication]

- Affiliation with another entity is important, because:
  - An entity can rely on the verification of ID by an affiliate
  - The proposed risk based approach provisions requires a risk assessment that includes the risks of the activities of any affiliate (the fifth element)
    - Additionally “any new developments in respect of, or the impact of new technologies on, the person’s or entity’s clients, business relationships, products or delivery channels or the geographic location of their activities (the sixth element)

# Affiliates & Risk

[New methods once regulations published, except with respect to risk assessment and suspicious transactions – 12 month after publication]

- Affiliation with another entity is important, because:
  - Information sharing
    - By June 20, 2015, substantially all reporting entities in Canada will need to have developed and implemented policies and procedures to exchange information with affiliated reporting entities (domestic or foreign) for the detection of suspicious transactions and the assessment of money laundering risk. Additionally, they'll need to apply Canadian standards to any foreign subsidiaries that would be a reporting entity in Canada if located here (to the extent permitted by foreign laws).

# Suspicious Transaction Reports

- Insertion of “that could reasonable be expected to raise”

## Subsection 9(2) of the PCMLTFSTR

*The report shall be sent to the Centre within 30 days after the day on which the person or entity or any of their employees or officers detects a fact respecting a financial transaction or an attempted financial transaction **that could reasonably be expected to raise** reasonable grounds to suspect that the transaction or attempted transaction is related to the commission of a money laundering offence or a terrorist activity financing offence.*

## Subsection 54.2(3) of the PCMLTFR

*Subject to section 62 and subsection 63(5), if a financial entity or any of its employees or officers detects a fact **that could reasonably be expected to raise reasonable grounds to suspect** that a person who is an existing account holder is a politically exposed foreign person, a politically exposed domestic person, a head of an international organization or a family member of, or person who is closely associated with, one of those persons, the financial entity shall, in accordance with subsection 67.1(3), take reasonable measures to determine whether the account holder is such a person.*

# Politically Exposed Persons

Definition broadened to include:

- Politically Exposed Foreign Person – PEFP (Current)
- Immediate family of the person (Current)
- Politically Exposed Domestic Person – PEDP (New)
  - Definition: Holds or held – Governor general, lieutenant governor or head of government; member of the Senate or commons or legislature; deputy minister or equivalent; ambassador or attache/counselor; military officer (general+); president of a wholly owned Canadian/provincial corporation; head of a government agency; mayor etc.

# Politically Exposed Persons

## Definition broadened to include:

- Head of an international organization – HAIO (New)
  - Definition: Means the head of an international organization that is established by the governments of states or the head of an institution of any such organization.
- Close Associate of the person (New):
  - Definition: Close business and personal associates, based on connections the FI knows or should reasonably know.
- Collectively will be referred to as “PEPs”

# Politically Exposed Persons

[New requirement 12 months after regulations published]

- When is a PEP a PEP?
  - Once a PEP always a PEP?
  - But a PEP is only a PEP for 20 years after holding a prescribed position (known as the PST, or potential stealing time)
- Determination and Approval – from a 14 day to 30 day window
- No longer just asking the question...
  - If a financial entity or any of its employees or officers detects a fact that could reasonably be expected to raise reasonable grounds to suspect that a person who is an existing account holder is a PEP... take reasonable measures to determine whether the account holder is such.

# Various and Sundry

## **Securities Dealer** - [New definition once regulations published]

- New definition excludes a person acting exclusively on behalf of a securities dealer (so that only the company they work for is the reporting entity). The current definition includes all authorized to engage in the business of dealing in securities.

## **Reasonable Measures** - [New definition once regulations published]

- All provisions requiring reasonable measures would require the documentation of the measures taken and outcomes.

## **Client Credit Files** - [New requirement 12 months after regulations published]

- Clarify records to be kept in a credit file that are relevant to client credit arrangements.

# What's Missing?

... and what's coming in September?

December 2011 Consult	Budget Implementation Act	FATF Standards
Ministerial Directives		Simplified CDD
Prepaid Cards (CDD/CBCR)	Virtual Currencies	STRs for Failed CDD
Extended CDD Obligations	Enhanced Sanctions Regs.	Authorized to Act (>3)
Age of Corporate Docs.		Other FIs: Leasing, Factoring, Finance, E- Money, Payment Providers, Cheque Cashers
\$0 EFT Threshold		
STR (Activities)		
Listed Corp. Exclusions		



# Other Important AML News

- House of Commons Report on Terrorist Financing  
<http://tinyurl.com/TFREPORT123>
- Senate Report on Digital Currency  
<http://tinyurl.com/DigitalCurrency123>
- New Risk Based Approach Guidance  
"Furthermore, you also have to consider the beneficial owners of an entity for their impact on risk, if you are required to obtain this information."  
<http://tinyurl.com/FINTRACRBA123>
- Policy Interpretation Culling

# The Silk Road – Greed, Crime and Punishment

- “Black market cyber bazaar” – US \$1.2 billion in transactions
- Existed on the Dark Web from 2011 to 2013
- “Ebay of all things illegal”
- Primarily sold drugs and the only form of payment was Bitcoin.
- Operated by “Dread Pirate Roberts” aka Ross William Ulbricht or “DPR”
- Justice Department seized 174,000 bitcoins (approx. 2 Million US Dollars) and the website itself



# The Silk Road – Greed, Crime and Punishment

The screenshot shows the Silk Road anonymous market interface. At the top, it displays the site name 'Silk Road anonymous market', user messages (1), orders (0), and account balance (\$0.00). A search bar is present with a 'Go' button. Below the search bar, there are sorting options: 'sort by: bestselling' and a checkbox for 'Domestic only'. The main content area lists several items for sale:

- Cocaine Energy Drink - Banned**: Price \$0.74, seller: namedeclined(100), ships from: United States of America. Includes an image of a red 'Cocaine' energy drink can.
- Kefir grains - water kefir**: Price \$0.83, seller: etizolam(97), ships from: United States of America. Includes an image of white kefir grains.
- 3Jane Stealth Listing Feedback**: Price \$0.00, seller: 3Jane(100), ships from: Canada. No image is shown.
- Kefir grains - milk kefir**: Price \$0.90, seller: etizolam(97), ships from: United States of America. Includes an image of white kefir grains.

A left-hand navigation menu lists various categories such as Food, Beverages, Apparel, Art, Books, etc.



# Law Enforcement Actions

## Baltimore Silk Road Task Force

- DEA Agent Carl Mark Force IV
  - Lead undercover agent aka ``NOB``
  - Posed as an international drug dealer
- Secret Service Agent Shaun Bridges
  - Computer Forensics Expert on the investigation
- During the course of the investigation they both became experts in Bitcoin



# Law Enforcement Actions

## Force

- Makes contact and establishes ongoing communications with DPR
- Insists they use PGP (Pretty Good Privacy) to encrypt all of their communications
- Fails to provide the encryption keys to the task force
- In June 2013 provides fake documents to DPR for 400 Bitcoins =USD \$40,000
- Deposits the Bitcoins into a personal account not controlled by the Justice Department
- In Aug he provides investigation intelligence documents to DPR for 525 Bitcoins = USD \$50,000
- Makes an entry in his case notes “AGENTS NOTE: DPR made no such payment”



# Law Enforcement Actions

## Force

- “French Maid” aka Carla Sophia
  - Unauthorized Undercover persona
- Task Force interviews Mark Karples – CEO of the now defunct Mt. Gox digital currency exchange.... Which is another story for another day...
- Karples provides a name who he believes is DPR.
- French Maid offers DPR the name provided to the task force for \$100,000 in Bitcoins
- Payment was paid to Force’s personal account at CampBX



# Law Enforcement Actions

## Force

- “Death from Above”
  - Another unauthorized Undercover persona
- Homeland Security Investigations (HSI) provides Force with a new suspect name
- Force provides DPR with the new suspect name and personal details
- Force claims to be an ex Green Beret who was friends with C.G. and now that he knows DPRs identity he is coming for him unless he pays \$250,000 in Bitcoins
- No evidence the Payment was ever paid to Force as the identity was incorrect.



# Law Enforcement Actions

## Force

### CoinMKT

- California based digital currency exchange
- Force invests \$110,000 in Bitcoins in the business
- Force becomes the Chief Compliance Officer although the CEO expressed concerns about a conflict of interest with his role at the DEA.
- Force offers to use his police databases to run individuals who are providing venture capital in CoinMKT.
- A client named “R.P.” made three \$10,000 withdrawals
- Force had his account frozen and told CoinMKT to tell R.P. that he was under a federal investigation
- DEA analyst found nothing to support suspicion of money laundering by R.P.





# Law Enforcement Actions

## Force

- Force issues an administrative subpoena to CoinMKT to seize the funds remaining in R.P.s account.
- CoinMKT determined a glitch in their system was limiting withdrawals to \$10,000.
- Force sends several emails to R.P. stating he was under investigation for structuring and his failure to respond was confirmation that he was abandoning his funds in account.
- Account contained \$37,000 in cash and \$297,000 in virtual currency value.
- CoinMKT transferred the funds to another account controlled by Force set up for the DEA.
- Force tells CoinMKT to issue a cheque to the US Marshalls for the \$37,000 balance of cash



# Law Enforcement Actions

## Force

- One month later Force transfers the virtual currency balance of \$297,000 into his personal Bitstamp account.
- Then transfers \$201,000 to his personal chequing account.
- Over two years Force withdrew \$776,000 from this account into his personal chequing account.
- Transferred \$235,000 from his bank account to an offshore account in Panama.
- Began to move funds into Scottrade and E\*Trade accounts



# Law Enforcement Actions

## Bridges

- Was the Computer Forensics expert on the task force
- C.G. was arrested in a controlled buy of 1 kilo of cocaine
- C.G. became an informant for the task force and turned over administrator credentials for the Silk Road website
- Bridges was assigned the role of site administrator
- Shortly after the task force took over, numerous thefts from the bitcoin balances of the vendors took place. A user account was given elevated privileges and then used to remove bitcoins from other accounts
- DPR became aware of the thefts and suspected C.G. and communicated with NOB(Force) to arrange a hit to kill C.G.





# Silk Road anonymous marketplace

**January 25, 2013**  
20,073 bitcoins are stolen from Silk Road and Silk Road vendors and deposited into bitcoins address  
127B3qwztPyA67uq63LG8G5izwhFcJ7j4A

**January 26, 2013**  
1,475 bitcoins are sent from  
127B3qwztPyA67uq63LG8G5izwhFcJ7j4A  
into MtGox bitcoins address  
1BnYoj218dcGhhgGcQBmbsimrh6GzJjrtB

**January 26, 2013**  
another 955 btc are sent from  
127B3qwztPyA67uq63LG8G5izwhFcJ7j4A  
into MtGox bitcoins address  
1BnYoj218dcGhhgGcQBmbsimrh6GzJjrtB

**As of January 26, 2013,**  
**MtGOX account**  
1BnYoj218dcGhhgGcQBmbsimrh6GzJjrtB  
controls at least **2,430 stolen bitcoins**



**Between March and May of 2013,**  
**MtGOX account**  
1BnYoj218dcGhhgGcQBmbsimrh6GzJjrtB  
makes 9 wires to Quantum International LLC, into Shaun Bridges' Fidelity Account

Date	Amount	Approx. BTC Price	Approx. Number of Bitcoins Sold*
3/6/2013	\$ 98,511.08	\$ 42.00	2345.50
3/8/2013	\$ 98,968.00	\$ 44.00	2249.27
3/13/2013	\$ 99,968.62	\$ 46.92	2130.62
3/18/2013	\$ 99,968.74	\$ 51.00	1960.17
3/19/2013	\$ 99,968.64	\$ 59.00	1694.38
4/5/2013	\$ 99,968.08	\$ 142.00	704.00
4/16/2013	\$ 99,969.34	\$ 68.00	1470.14
4/26/2013	\$ 99,969.32	\$ 136.00	735.07
5/7/2013	\$ 25,559.37	\$ 109.00	234.49
			<b>13289.15</b>

\*if sold on the day  
it was wired out

**MTGOX**  
**May 9, 2013**  
BRIDGES served as the affiant on a multi-million dollar seizure warrant for Mt. Gox and its owner's bank accounts



# Law Enforcement Actions

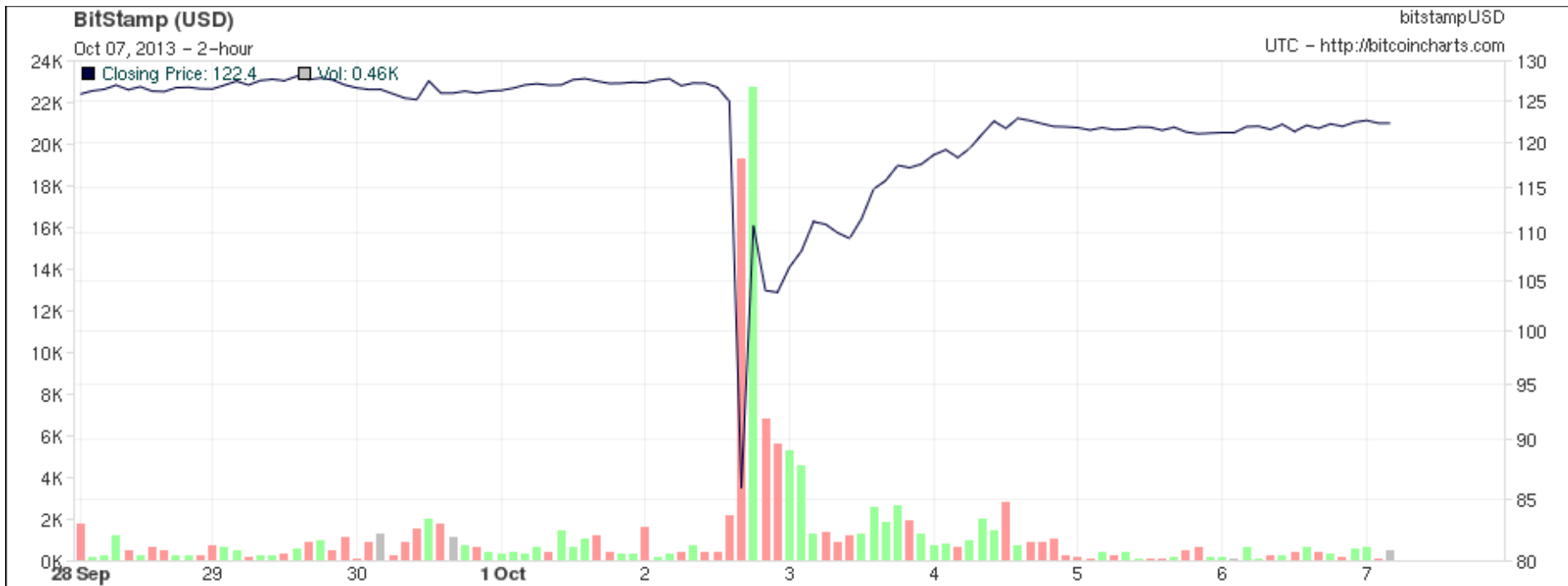
## Force

- Accepts an \$80,000 wire transfer from DPR to arrange a hot to kill C.G.
- Task force fakes C.G.s death and sends DPR “proof of death” photos.



# Law Enforcement Actions

The day the Silk Road was shut down



# Law Enforcement Actions

## The downfall

- Force became aware of an investigation against him for a unrelated forged subpoena and requested a meeting with investigators
- Bridges asked one of his analysts to run both his name and Forces to see if their was any Suspicious Activity Reports “SAR” filed
- Both were interviewed and denied any knowledge of the others activities or the theft of funds
- Government simply followed the money and tracked the funds to both of their personal accounts.
- Log files and notes kept by DPR on the server were critical in tracking the stolen funds



# Law Enforcement Actions

## The downfall

- July 1<sup>st</sup>, 2015, Force Plead Guilty under a plea agreement to extortion, wire fraud, theft of government property, money laundering, and conflict of interest and was sentenced to life in prison.
- June 18, 2015, Bridges pleads guilty to Money Laundering and Obstruction. Sentencing has not been issued.
- Ross Ulbricht (DPR) was found guilty of seven charges and was sentenced to life in prison . He is appealing his sentence





# Our AML Leadership Team

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