



# VANCOUVER POLICE DEPARTMENT

## REPORT TO THE VANCOUVER POLICE BOARD

REPORT DATE: February 7, 2019  
BOARD MEETING DATE: February 21, 2019  
BOARD REPORT # 1902P03  
*Regular*

TO: Vancouver Police Board  
FROM: Drazen Manojlovic, Director, Planning, Research and Audit Section  
SUBJECT: Proposed Resolutions for the Canadian Association of Police Governance

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### RECOMMENDATION:

**That the Vancouver Police Board approve the proposed resolutions and submits it to the Canadian Association of Police Governance.**

### SUMMARY:

The Vancouver Police Board (VPB) requested that the Vancouver Police Department (VPD) propose a draft resolution(s) that the VPB, if approved, could submit to Canadian Association of Police Governance (CAPG).

### DISCUSSION:

The VPD recommends the following proposed resolutions to the CAPG (supporting material for each resolution is provided beginning on the next page):

- 1) That the Government of Canada enact Bill C-71; and
- 2) That the Government of Canada implement provisions within Bill C-31 to limit criminal aspects associated with cryptocurrency.

### CONCLUSION:

The VPD recommends that the VPB approve both resolutions and submit them to the CAPG for its consideration.

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Submitting Executive Member:

Supt. Michelle Davey Date: February 11, 2019

## Resolution

Submitted by the Vancouver Police Department to the Vancouver Police Board for their consideration as a proposed resolution to the Canadian Association of Police Governance

### THAT THE GOVERNMENT OF CANADA ENACT BILL C-71 AS IT INCLUDES NEW RECORD-KEEPING REQUIREMENTS FOR NON-RESTRICTED FIREARMS RETAILERS.

- WHEREAS** Gun violence is a threat to public safety in Canada.
- WHEREAS** Since 2013, gun violence is increasing in many Canadian communities.
- WHEREAS** The Vancouver Police Department's experience is that a significant portion of non-restricted firearms used in gun violence are domestically sourced, often as a result of a break and enter.
- WHEREAS** There is no current process to track non-restricted firearms purchases in communities across Canada, with a contributing factor being the fact that non-restricted firearms retailers are not required to keep any records of the purchasers.
- WHEREAS** Upon police seizure of a non-restricted firearm(s), significant investigative hurdles arise due to the inability to track the path of previous ownership.
- WHEREAS** Bill C-71 includes record-keeping requirements to non-restricted firearms retailers.
- THEREFORE, BE IT RESOLVED:** that the Canadian Association of Police Governance recommends that the Government of Canada enact Bill C-71.

### Supplementary Information

Gun violence is a threat to public safety in Canada and, unfortunately, it is increasing in many Canadian communities. According to Statistics Canada<sup>1</sup>, between 2013 and 2017, 16 of Canada's census metropolitan areas (CMA) experienced increases in their rate of firearms-related violent crime, including seven of the ten largest CMAs.

There are three classes of firearms - non-restricted, restricted, and prohibited:

- 1) Non-restricted firearms are ordinary rifles and shotguns, other than those referred to below.
- 2) Restricted firearms include:
  - handguns that are not prohibited;
  - semi-automatic, centre-fire rifles and shotguns with a barrel shorter than 470 mm;

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<sup>1</sup> <https://www150.statcan.gc.ca/n1/pub/89-28-0001/2018001/article/00004-eng.htm>

- rifles and shotguns that can be fired when their overall length has been reduced by folding, telescoping or other means to less than 660 mm; and
  - firearms restricted by *Criminal Code Regulations*.
- 3) Prohibited firearms include:
- handguns with a barrel length of 105 mm or less and handguns that discharge .25 or .32 calibre ammunition, except for a few specific ones used in International Shooting Union competitions;
  - rifles and shotguns that have been altered by sawing or other means so that their barrel length is less than 457 mm or their overall length is less than 660 mm;
  - full automatics; and
  - converted automatics, namely full automatics that have been altered so that they fire only one projectile when the trigger is squeezed.

Currently, non-restricted firearms retailers are not required to maintain any records of the identity of purchasers; therefore, when the police recover/seize firearms during the course of an investigation, there is no method to establish previous purchasers. It is the VPD's experience that a significant portion of firearms used in gun violence are domestically sourced, non-restricted firearms, and often these firearms are obtained as a result of a break and enter.

The VPD seized 648 firearms between January 1, 2016, and September 6, 2018, and the majority of firearms seized were non-restricted rifles and shotguns, which have not been subject to a registration requirement in Canada since 2012. The general prevalence of long guns in Canada, together with their relative affordability and the inability of law enforcement to trace them to a purchaser, makes them appealing to criminals who lack the resources to obtain illegally-sourced handguns.

In keeping with previous firearms studies conducted at the federal level<sup>2</sup>, approximately half of the 648 firearms seized by the VPD are long guns that would be classified as non-restricted. The majority of these are known to bear Canadian import markings, indicating Canadian origin even in absence of registration records. Handguns, restricted long guns, and prohibited firearms accounted for a further 39% of seizures, while 9% were antiques.

The VPD has had success in disrupting gun violence by targeting violent individuals and organized crime groups. These investigations have resulted in the seizure of hundreds of firearms; however, investigators are often unable to establish the identity of the person who purchased or owned the firearm. This creates significant investigative hurdles to criminal charges being laid.

There is legislation being proposed, Bill C-71, which address these issues. Bill C-71 has passed Second Reading in the Senate and is currently with the Standing Senate Committee on National Security and Defence. In addition to a new record-keeping requirement for retailers, there will be an overhaul of the background check system and further restrictions on transporting a firearm. The VPD supports Bill C-71 and believes it will enhance efforts to prevent gun violence and improve public safety. As such, the VPD recommends that the Vancouver Police Board approve this resolution and submit it to the Canadian Association of Police Governance for their consideration as a resolution to the Government of Canada.

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<sup>2</sup> For an example, see the Canadian Firearms Program 2014 Annual Report – Western Region, or similar reports produced by FOES/NWEST.

## Resolution

Submitted by the Vancouver Police Department to the Vancouver Police Board for their consideration as a proposed resolution to the Canadian Association of Police Governance

### THAT THE GOVERNMENT OF CANADA IMPLEMENT PROVISIONS WITHIN BILL C-31 TO LIMIT CRIMINAL ASPECTS ASSOCIATED WITH CRYPTOCURRENCY.

- WHEREAS** Bill C-31 was created as a response to the proliferation of Bitcoin and other cryptocurrencies that have been adopted by society.
- WHEREAS** Cryptocurrencies centre on the principles of decentralization and anonymity.
- WHEREAS** Cryptocurrencies lack both controlling authority and regulating mechanisms.
- WHEREAS** The lack of a regulatory framework allows opportunities for criminals to exploit cryptocurrencies through ATMs, and money laundering.
- WHEREAS** Misuse of cryptocurrencies pose a threat to society with fraudsters employing scams, often preying on vulnerable victims such as the elderly.
- THEREFORE BE IT RESOLVED** that the Canadian Association of Police Governance recommends to the Government of Canada that provisions within Bill-C31 be implemented immediately to limit the criminal aspects associated with cryptocurrency.

### Supplementary Information

Topical in the news are stories of the proliferation of cryptocurrency into the Canadian financial industry. The first cryptocurrency – Bitcoin - was created in 2008 and it was highlighted as a libertarian alternative to the dominant centralised banking system. However, Bitcoin has continued to evolve and has caused disruption for governments and businesses alike.

### **Origins of Cryptocurrency**

Created as a response to the banking crisis by Satoshi Nakamoto, the fundamentals of Bitcoin centre on principles of decentralization and anonymity. Nakamoto aimed to create a system where currency is not controlled by a central authority, such as a bank or government. Instead, he developed the concept of the Blockchain, where technology guarantees that transactions can take place between two parties, without interference from a governing or regulatory system.

Nakamoto's intention, to remove power from a central authority and return it to the individual, has been realized by the way in which Bitcoin and other cryptocurrencies have been adopted by society. However, the framework of the technology has also left an avenue of exploitation for those with criminal motivations.

### **Cryptocurrency and Crime**

The tenet of anonymity with Bitcoin means that there is no easy way to trace the origin of funds or indeed where those funds are transferred to. Therefore, transactions can be, if used properly,

truly anonymous. Secondly, there is no limit as to the amount of funds that can be transferred from one party to another, enabling unlimited transfer of currency to take place in a single transaction. This is unlike conventional currency, which has limits in transfer amounts and client identification requirements.

Given the lack of a central authority, there is no controlling organization who can monitor or regulate the transfer of funds to ensure a legitimate transaction. This creates a prime opportunity for the criminal element to capitalize on remaining anonymous, as they work to defraud unsuspecting citizens, launder money, and make large-sum anonymous transactions.

## **Canadian Regulations**

In 2014, then-Canadian Finance Minister, Jim Flaherty, recognized the issues that cryptocurrency presented. A provision in Bill C-31 outlined major changes in the way in which Canadian law recognised cryptocurrency. In this Bill, cryptocurrencies were to be regulated as a digital money service business. Any companies wishing to transmit or convert cryptocurrency will then be required to register with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). The Bill was given Royal Assent in June of 2014, however it was never brought into force.

The delay in this legislation coming into effect may have been due to some trepidation on the part of the government at the time, of stifling this potentially new and innovative currency. As the Bill was progressing through Cabinet, Minister Flaherty had asked the Canadian Senate Banking Committee to study cryptocurrency to provide an informed opinion on the issue, with the hope it would guide policy making. The Committee's 2015 report warned of the possibility of regulation stifling the development of this new Blockchain technology. The Committee suggested monitoring the situation and allowing an innovative environment so that cryptocurrency could flourish. They suggest that the government should not necessarily regulate but employ regulation as necessary. To date, the cryptocurrency provision of Bill C-31 has never come into effect. This is reflected in FINTRAC's current position that those who deal in virtual currencies are not considered a money service business and are not required to register with them.

## **Implications of Non-Regulatory Framework**

While the implications of this position are not immediately apparent, it is easy to gain some perspective when we examine crime statistics, given the increase in cryptocurrency files over the past six years in the Lower Mainland:



This graph shows a consistent rising trend of cryptocurrency files<sup>3</sup> in Metro Vancouver year over year. This trend shifted dramatically in 2017, with a 350% increase in files over 2016. In 2018 there were 978 cryptocurrency files representing a further 250% increase year over year. To date in 2019, there were 70 cryptocurrency files reported to just the Vancouver Police Department. If this rate continues throughout the year, there will be an estimated 840 reports in Vancouver alone by year end. This will represent another 300% increase over 2018. This trend is alarming and should get the attention of every police leader and police board across Canada, as well as the Canadian government.

This alarming rise in cryptocurrency files is primarily due to the way Bitcoin has been adopted by fraudsters as the instrument of choice to transfer funds. While there are different scams that use Bitcoin, by far the largest is the Canada Revenue Agency (CRA) or Income tax scam, recently listed in the top 10 scams of 2017<sup>4</sup> by the Better Business Bureau.

These fraudsters are often based overseas and call prospective victims posing as CRA officers or police. They inform the victim they have an arrest warrant due to unpaid taxes and they can avoid arrest if they immediately settle their outstanding balance. They use high-pressure tactics and direct victims to withdraw large amounts of cash and deposit it in a Bitcoin ATM to a predefined Bitcoin address. Unfortunately, a high proportion of victims are from the most vulnerable sectors of society including recent immigrants and the elderly. Fraudsters will then target the same person repeatedly, who often transfer tens of thousands of dollars before they realize they are being scammed.

What is often overlooked in these scams is that despite Bitcoin being an unknown concept to many victims, fraudsters easily walk them through the deposit and transfer of the money. The lack of a required legal mechanism allows a user to enter cash directly into the ATM and purchase Bitcoin with no 'know your customer' (KYC) requirements. Adding to the victim's potential losses are unregulated fees by the ATM companies who allow an unlimited transfer of funds and charge

<sup>3</sup> Definition of cryptocurrency file: Frauds/extortions where payment is taken from the victim in cryptocurrency and other crimes where payment for criminal goods/services is made in cryptocurrency.

<sup>4</sup> Cryptocurrency scams were #5 on the BBB list and the CRA scam was #6. The 2018 list will be out in March 2019 (fraud month).

commission fees of up to 20%. Therefore, if a victim loses \$50,000 in a scam, the ATM company would charge an additional \$10,000.

While the implementation of the cryptocurrency provisions of Bill C-31 will not eliminate this type of fraud or any scam that uses Bitcoin, it will provide a significant barrier so that checks and verifications will have to be supplied before an account can be created at an ATM. This also provides regulators an opportunity to limit large Bitcoin transfers so that the amount lost can be minimised.

## **Cryptocurrency and Money Laundering**

The other issue with unregulated Bitcoin ATMs is that they are an ideal money laundering vehicle. Since there are no requirements to register any customer details, it is easy to see how cash can be transferred into Bitcoin and vice versa. A user can also launder an unlimited amount of money using smaller transactions so as not to arouse suspicion, like they would at a regular bank. This becomes even easier if a criminal group were to purchase an ATM for a few thousand dollars and put all their cash through that one ATM, laundering the money, as many times as required and either profit from or eliminate the transaction fee.

To provide perspective, according to the website, [Coinatmradar.com](http://Coinatmradar.com), there are currently 61 Bitcoin ATMs in the greater Vancouver area, many of which are small independent vendors. None are believed to be following any form of 'know your customer' regulation, however all the money made by these ATMs or channelled through these ATMs may be declared as legitimate income, by the owner of the ATM.

Given this lack of regulation, it is likely that Canadian organized criminals will use Bitcoin ATMs to launder their cash. However, we will likely also see foreign organized crime taking advantage of the lack of regulations. For example, United States companies are required to comply with KYC regulations in the US, which could force fraudsters into the Canadian market and make Canadians more at risk to victimization.

It is anticipated that the provisions in Bill C-31 will come into effect in 2020. This is just a guess however, as the provisions have been postponed several times to date.

## **Conclusion**

While regulations for cryptocurrency are stalled in Canada, we will likely continue to see an increase in its associated negative effects. Cybercrime is on the rise, with precipitous increases in all related crime categories such as fraud, money laundering and cryptocurrency ATM thefts and robberies. These crimes target the vulnerable in particular, and can result in personal financial losses in the millions. It is an avenue for organized criminals to launder large sums of money, all unregulated, and not monitored by any oversight body. While the Canadian Senate Banking Committee advised that governments should be light on regulation, they did not call for no regulation whatsoever. Implementing the cryptocurrency provisions from Bill-C31 would not eliminate these problems; however, they would restrict them at their source and severely limit their ability to flourish.

The VPD recommends that the Vancouver Police Board approve this resolution and submit it to the Canadian Association of Police Governance for their consideration to support the immediate and full enactment of the provisions of Bill C-31.