

memo



To: John Karlovcec/Rob Kroeker

Date: January 11, 2018

From: Bal Bamra

Subject: MSB Due Diligence

Please find attached the BCLC decision document outlining the due diligence conducted by the AML Unit to determine benefits/risk from an AML perspective for BCLC and its Service Providers associated to accepting cash from patrons who have received their funds from a Money Services Business (MSB).



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Decision Document

Subject:	Cash accepted from a Money Services Business (MSB)
Issue Lead:	Manager AML Intelligence
Submitted to:	Director AML & Investigations
Date:	January 11, 2018

Decision Required

The purpose of this document is to determine if there is an AML/perceptual risk associated to accepting cash from patrons who have received their funds from a Money Services Business (MSB). Based on new information, BCLC has reason to review the risk profile presented by funds coming from MSBs. There is concern that cash issued from some MSBs may come from illegitimate sources, therefore it may be in the best interest of BCLC to no longer accept cash issued from these locations.

Current Status

An MSB is defined as an individual or an entity that is engaged in the business of any of the following activities:

- Foreign exchange dealing;
- Remitting or transmitting funds by any means or through any individual, entity or electronic funds transfer network;
- Issuing or redeeming money orders, traveler's cheques or other similar negotiable instruments.

FINTRAC describes MSB's as generally higher risk customers from a money laundering and/or terrorist financing perspective as criminal elements seek to exploit MSB businesses to transfer and launder funds. While every MSB in Canada must be registered with FINTRAC, there are a number of MSBs operating outside of the FINTRAC framework. The number and relative size of MSBs make it challenging for regulatory authorities to monitor them effectively. Some major banks have typically refused to provide banking services for MSBs owing to the money-laundering and terrorist financing risks associated with providing them services.

BCLC has implemented a program called "sourced cash conditions" that places certain conditions or requirements on patrons who attend the gaming facilities. How this program works is when BCLC receives credible information regarding a patron or a particular source of funds that we deem to be of high risk, BCLC immediately acts on that information and places these players on conditions. This program allows decisions to be evidence based and consistent with BCLC's AML risk based approach. These actions may be related to a unique event, or as a result of monitoring business relationships, and are consistent with "Know Your Customer" and "Customer Due Diligence" expectations as per the FINTRAC guidelines and the Process of Crime Money Laundering and Terrorist Financing Act.

Patrons on cash conditions must produce a receipt to accompany any cash they bring to the facility to gamble with. The receipts may come from a bank, global cash, an MSB or other

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financial institution. The reason why this program is in place is to reduce the risk of illegitimate funds being used at the gaming facilities, therefore reducing the overall AML risk.

Review Conducted

Each time a patron who is under the sourced cash condition program attends a gaming facility, an iTrak incident file is created and the details of the transaction are recorded. A review was completed of all incident files from January 1, 2016 to November 22, 2017 to determine how many of these recorded transactions were determined to have cash accepted that originated from an MSB. A total of 826 files were reviewed, of which 7 files referenced the use of cash received from an MSB.

- 3 transactions came from an MSB called Suhida Money Exchange (No. 3 Road, Richmond, BC)
- 2 transactions came from an MSB called Kinbok Enterprises Inc. (Unit 110 – 8091, Westminster Highway, Richmond, BC)
- 2 transactions came from an MSB called Kingmark Canada Currency Exchange (1025-3700 No. 3 Road, Richmond, BC)

In addition to the iTrak incident files reviewed, 108 interview records were also reviewed to determine if an MSB was used to obtain cash. The BCLC investigators at times are required to interview certain patrons to provide more details and information that would point to their source of wealth and the origin of their funds. Since 2015, 108 interviews have been conducted. Of these interview records reviewed, 20 were found to have a reference to the use of an MSB.

- 1 reference to Western Union (location not identified)
- 1 reference to Vanage (location not identified)
- 4 references to Suhida (6220 No. 3 Road, Richmond, BC)
- 3 references to Kinbok Enterprises Ltd. (Unit 110 – 8091, Westminster Highway, Richmond, BC)
- 3 references to the Crystal Mall in Burnaby (Crystal Mall, 1607-4500 Kingsway, Burnaby, BC). This mall has the following financial services companies, it is unknown which exact MSB was used:
 - C&C Money Transfer Corp
 - Can-China Financial Services Ltd
 - Canada Money TT Ltd
 - Crystal Currency Exchange
 - Kingmark Canada Currency Exchange

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- 1 reference to Yaohan Mall (3700 No. 3 Road, Richmond, BC) in Richmond, this mall has the following financial services companies, it is unknown which exact MSB was used:
 - Kingmark Canada Currency Exchange
 - Jiu Xin Financial Ltd
- 1 reference to Parker Place Mall (4380 No. 3 Road, Richmond, BC) in Richmond, this mall has one MSB – HKTK Express Exchange
- 6 references to MSB usage however no specific company mentioned.

All of the MSB companies listed above are registered on the Fintrac website, aside from one company – HTK Express Exchange.

Options

Option 1

Disallow the acceptance of cash that originated from an MSB. Remove MSBs from the list of acceptable financial institutions as per BCLC policies and procedures.

Benefits:

- The reputational impacts for both BCLC and the Service Providers may increase due to the heightened concern of risk stemming from police investigations and subsequent charges surrounding the case of Silver International regarding the use of MSBs to facilitate money laundering. If cash from MSBs were no longer accepted, this risk would be eliminated.
- Since the number of patrons who seem to be using an MSB as their source of cash is low, the impact to overall customer service would be minimal.

Risks:

- By eliminating one of the acceptable sourced cash options, it may affect revenue slightly. Patrons may discontinue or reduce their visits to site if it becomes more difficult to only gamble with sourced cash from an acceptable financial institution. MSBs are open longer hours and on weekends when most banks are closed.
- The level of customer service offered to patrons would decline slightly as patrons would only be able to bring cash from an accepted financial institution as per BCLC policies and procedures.

Option 2

Place a monetary limit on the amount of cash that will be accepted from an MSB, for example \$10,000. By reducing the amount of cash that originated from an MSB, it will reduce the risks associated with accepting those funds. Patrons who wish to gamble in amounts larger than \$10,000 will then need to obtain those funds from other more closely regulated financial institutions.

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Benefits:

- The reputational impacts for both BCLC and the Service Providers may increase due to the heightened concern of risk stemming from police investigations and subsequent charges surrounding the case of Silver International regarding the use of MSBs to facilitate money laundering. If cash from MSBs were restricted to an amount of \$10,000, this risk would be reduced.

Risks:

- This may not adequately address the threat of money laundering and terrorist financing posed to BCLC by MSBs.
- As MSBs offer services to patrons outside of banking hours, it will make it more challenging for patrons to acquire their gambling funds strictly from their financial institutions. Those patrons who wish to gamble in amounts above the \$10,000 MSB restriction will be inconvenienced. Revenue and patronage may show a slight decline.

Option 3

Make no changes and allow all cash originating from an MSB to be accepted as long as there is an accompanying receipt.

Benefits:

- Provide a high level of customer service for patrons who wish to gamble with cash and are unable to access funds after hours from their local banks. MSBs offer longer hours of operation and more accessibility to patrons.
- MSB money transfers are cost effective; many MSBs do not charge a transfer fee to the patron.

Risks:

- This may not adequately address the threat of money laundering and terrorist financing posed to BCLC by MSBs.
- Reputational risk for BCLC may occur if media stories continue to make associations of cash distributed from an MSB as directly related to illegitimate/criminal sources.

Option 4

Only accept funds from a reputable franchises.

Benefits:

- Reputable franchises committed to ethical governance and a culture of compliance.
- Have Anti-Money Laundering Programs designed to identify and assess the AML risks that are inherent in MSBs and have strategies and controls to mitigate these risks

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including system controls, patron interviews, transactions that are screened against sanction lists and work with law enforcement to block individuals suspected of illegal activity.

Risks:

- Deal and trade in more than 120 currencies which creates more opportunity for money transfers.
- Patrons may want to deal with other MSBs and will find other ways to get cash into casinos.
- Patrons may take their entertainment dollars elsewhere.
- Notable franchises such as Western Union and Money Mart are still risky: Western Union admitted to criminal violations last year and was fined \$586 million dollars and Money Mart uses Western Union to conduct international transfers
[\(https://www.forbes.com/sites/laurengensler/2017/01/19/western-union-anti-money-laundering-consumer-fraud-violations/#77bf0b427238\)](https://www.forbes.com/sites/laurengensler/2017/01/19/western-union-anti-money-laundering-consumer-fraud-violations/#77bf0b427238)
[\(https://www.moneymart.ca/more-products/western-union\)](https://www.moneymart.ca/more-products/western-union)

Recommendations

There are many benefits and risks tied to each scenario stated above that would warrant discussion and agreement with various stakeholders on which option or a combination of options would be beneficial to implement.

Our recommendation is option 1 to disallow the acceptance of cash that originated from an MSB. Remove MSBs from the list of acceptable financial institutions as per BCLC policies and procedures.

Next Steps

Policy amendments required to reflect the changes associated with not accepting money from MSBs. Policy changes to be implemented for the March 2018 NTI.

Engage Service Provider Compliance Officers prior to implementing the changes with respect to MSBs.

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