

**COMMISSION OF INQUIRY INTO MONEY LAUNDERING IN BRITISH COLUMBIA**

**The Honourable Mr. Austin F. Cullen, Commissioner**

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**AFFIDAVIT NO. 1 of LARRY VANDER GRAAF**

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I, Larry Vander Graaf, of Delta, British Columbia, Retired, Swear That:

1. I am a former member of the Royal Canadian Mounted Police ("**RCMP**") and the Gaming Audit and Investigation Office, and a former Executive Director of the Investigations Division of the Gaming Policy and Enforcement Branch ("**GPEB**"). As such, I have personal knowledge of the facts and matters deposed to in this affidavit, save and except where based on information and belief, and where so stated, I believe them to be true.

**Experience with RCMP**

2. I was an RCMP officer until 1998.
3. From 1987-1991, I was the undercover coordinator for British Columbia, responsible for administration of undercover operations.
4. From 1991-1998, I was in charge of the federally sponsored Anti Drug Profiteering Integrated Unit ("**ADPIU**") composed of a number of municipal officers, Canada Customs officers and RCMP officers. This unit's name was subsequently changed to the Integrated Proceeds of Crime Section ("**IPOC**").
5. The purpose of this unit was to identify, seize and pursue the forfeiture of the proceeds of crime. Other law enforcement agencies and units, both within Canada and internationally, engaged in investigating predicate offences such as drug trafficking would

advise the ADPIU/IPOC about assets identified in the course of their investigation as potentially having been criminally acquired. The ADPIU/IPOC would investigate and attempt to seize and pursue the forfeiture of these assets.

6. The ADPIU/IPOC unit received a fairly large number of referrals from the Financial Transactions and Reports Analysis Centre of Canada ("**FINTRAC**"). Proceeds of crime investigations are time and resource intensive, and during my tenure, the unit did not have the capacity to take on all of the investigations referred by FINTRAC.

### **Experience with the Gaming Audit and Investigation Office (1998 – 2002)**

7. After retiring from the RCMP in 1998, I joined the Gaming Audit and Investigation Office ("**GAIO**") as an investigator. The GAIO was an independent body with oversight of gaming in British Columbia.

8. After three years as an investigator, I was promoted to manager.

9. The GAIO's mandate was the integrity of gaming. In addition to investigations, it was also involved in applications for casino expansion and responsible for casino audits and registration.

10. I believe that the GAIO was effective because it reported directly to the Ministry of the Attorney General and was independent from all other gaming functions carried on by another Ministry.

### **Loan Sharking and Money Laundering**

11. In my role at GAIO I encountered issues that I would see again later, during my tenure at GPEB, including the presence of loan sharks in British Columbia casinos. At that time, most casino patrons were local and bet limits were smaller than would be the case in later years, during my tenure with GPEB.

12. My observation during my tenure with GAIO was that service providers were more permissive towards loan sharking at that time. The volume of cash in casinos was not high at that time.



13. The GAIO had no power to ban loan sharks from casinos. The GAIO's powers were limited to registrations, audits and investigations. Criminal offences were reported to the police and the GAIO would assist them, when appropriate, in their investigations. GAIO and police of jurisdiction conducted some investigations involving minor illegal gaming operations at this time.

14. During my tenure with the GAIO, I believed that the police were unlikely to solve the loan sharking problem because it was a minor offence with minimal penalties requiring significant investigative resources and because witnesses were typically very reluctant to cooperate in those investigations for fear of reprisals against themselves and/or their families. As the problem grew, I believed that it was necessary to restrict buy-ins in order to effectively address the problem of loan sharking and money laundering.

15. Money laundering was not an area of focus for me during my time at the GAIO. However, because of my background and expertise in money laundering, I held workshops with the GAIO staff to explain and discuss vulnerabilities to money laundering in the gaming industry, including risks associated with high volumes of \$20 bills. The Vancouver Police Department ("**VPD**") was well aware of the operation of loan sharks in the downtown area. At that time, the VPD had a small but knowledgeable 2-officer police unit that worked closely with GAIO.

### ***Experience with the Gaming Policy and Enforcement Branch (2007– 2014)***

16. In 2002, GPEB was established to regulate the gaming industry in British Columbia and, to the best of my recollection, I was appointed a director.

17. Attached to this Affidavit and marked as '**Exhibit A**' is a true copy of a memorandum dated December 16, 2002 from me to all registered gaming service providers providing instructions for reporting to GPEB pursuant to s. 86 of the *Gaming Control Act* (included in GPEB1134).

18. In 2007, I became Executive Director of the GPEB Investigation Division, reporting to the Assistant Deputy Minister and General Manager of GPEB ("**ADM/GM**").

### **Lottery Retailer Investigation**

19. In 2007, the Ontario Ombudsperson identified an issue with the theft of winning lottery tickets by retailers in that province. The BC Ombudsperson began to look at whether similar issues were present in BC. The Investigation Division of GPEB contacted the British Columbia Lottery Corporation ("**BCLC**") via email and asked if they had any issues in that regard. BCLC replied that they did not.

20. In June 2007, I received a phone call from ADM/GM Derek Sturko who directed me to go to BCLC headquarters with a production order under the *Gaming Control Act* and seize lottery retailer win-related files. I was told by Mr. Sturko that the Minister was supportive of the production order and completely behind GPEB. My investigators and I served the production order on BCLC and seized a number of files. The files were investigated by GPEB at the direction of the Independent Ombudsperson. I was confident that the issues identified in the course of that investigation were rectified. BCLC played a significant role in resolving these issues.

#### Growth of GPEB Investigations

21. Following the lottery retailer investigation, Mr. Sturko asked me what was needed to shore up GPEB's investigative capacity. Prior to this time, GPEB's investigations had been focused on casinos. GPEB had trusted BCLC's assertions that there were no real issues to be concerned about in relation to lottery retailer thefts.

22. GPEB Investigation Division was criticized by the Ombudsperson for believing BCLC without verifying its assertion that lottery retailer thefts were not a problem in BC. Derek Sturko believed there needed to be further clarity in the roles and responsibilities of BCLC corporate investigators and the GPEB Investigation Division. The roles and responsibilities between BCLC corporate Investigators and the GPEB Investigation Division needed some definition and clarification.

23. In March 2008, Mr. Sturko prepared and issued a document clarifying the role of GPEB and its responsibility for the overall integrity of gaming and horse racing in BC as well as clarifying the implications for BCLC in its responsibility for the conduct, management and operations of all provincial gaming in BC. Mr. Sturko advised that BCLC agreed to adopt the principles contained in this document. This document included a

definition of "integrity of gaming". A subsequent amendment was added in 2010 that specifically outlined how the Role and Responsibilities Document impacted BCLC.

24. Attached to this Affidavit and marked as '**Exhibit B**' is a true copy of a document dated March 25, 2008 titled "Key Regulatory Responsibilities and their Application to the British Columbia Lottery Corporation" (GPEB1550). Attached to this Affidavit and marked as '**Exhibit C**' is a true copy of a document dated February 22, 2010 titled "Roles and Responsibilities of Participants in British Columbia's Gaming Industry" (GPEB 1551).

25. I asked for ten new investigators and formed separate casino, lottery and horse racing units. I also became responsible for the regions and assigned directors to each region.

26. At this time, GPEB's Audit and Registration Divisions were separate from the Investigation Division. I believed this structure worked reasonably well until 2009. I was concerned with what I believed to be an inherent conflict in having BCLC, the crown corporation which was responsible, *inter alia*, for maximizing commercial gaming revenue for the Government and GPEB, which was responsible for regulatory oversight of commercial gaming conducted, managed and operated by BCLC, under the jurisdiction of the same Ministry and Minister. I was concerned that such conflict could influence decisions where taking measures to preserve the integrity of gaming would have an adverse effect on revenue generation. I believed that real independent oversight of the conduct and management of BCLC and the Service Provider would well serve the public. The Ombudsperson in the lottery retailer ticket theft situation clearly demonstrated that independent oversight was advantageous to protecting integrity and fostering public confidence.

### ***GPEB's Mandate to Investigate Money Laundering***

27. There was never an intention that the GPEB Investigation Division would investigate money laundering and I knew that GPEB did not have the capacity to do so. GPEB could not investigate predicate offences (i.e. drug trafficking) that often involved organized crime. Because GPEB could not investigate predicate offences, it could not prove beyond a reasonable doubt that large cash buy-ins at casinos were made using the

proceeds of crime. However, in light of the huge volume of \$20 bills entering into casinos, the Investigation Division believed that casinos were being used as vehicles for money laundering.

28. Attached to this Affidavit and marked as '**Exhibit D**' is a true copy of an email dated September 24, 2013 from former GPEB investigator Colin Burrows to me regarding GPEB's capacity to investigate money laundering (GPEB0105).

29. Attached to this Affidavit and marked as '**Exhibit E**', is a true copy of a memorandum dated November 13, 2013 from Director Casino Investigations, Derek Dickson to Senior Director Joe Schalk, titled Organized Crime Groups operating at or near LMD casinos (GPEB 0186).

30. I once suggested to the head of Police Services that GPEB be moved to the Combined Forces Special Enforcement Unit ("**CFSEU**") organized crime group and that GPEB investigators be given full status as police officers. I believed this would provide the necessary independence of a policing unit with clear independent investigative oversight. GPEB was never moved to the CFSEU organized crime unit.

### ***Loan Sharking***

31. In 2007, one of the primary issues of concern to the GPEB Investigation Division with respect to casinos was loan sharking. Loan sharks were individuals who would lend money to casino patrons for the purpose of gambling.

32. In 2007, around the time of an increase in betting limits, GPEB began to notice an increase in loan sharking. BCLC began barring loan sharks from casinos. At this time, BCLC had the legal authority to bar people from casinos. GPEB did not have this authority. Once BCLC barred loan sharks from casinos, it was believed that the loan sharks continued to lend money to patrons, but did so from outside of the casinos.

33. Loan sharks were primarily a BCLC responsibility. I asked for authority to ban patrons, but that did not get any support. It appeared to me that neither BCLC nor the ADM/GM wanted GPEB investigators to have that authority. I understood that obtaining such authority would require a change to the *Gaming Control Act*. GPEB's role remained

bringing suspected loan sharks to the attention of BCLC who, in turn, would ban them from casinos.

34. I understood from reports of my investigators, video surveillance and news articles that loan sharks were providing huge amounts of cash, primarily \$20 bills, to casino patrons with which to buy-in at British Columbia casinos. I believed that this money was probably proceeds of crime and was of the view that BCLC and the service provider should not permit these buy-ins. My views were expressed in Reports of Findings, emails, Branch management meetings, discussions with BCLC representatives, etc .

***Growth in Large and Suspicious Cash Transactions and Recognition of Money Laundering Problem***

35. In 2007 and 2008, GPEB Investigations identified an increase in large cash transactions in British Columbia casinos.

36. I believe that the increased betting limits at casinos increased organized crime's interest in using casinos for money laundering purposes.

37. In 2008, investigator Ed Rampone became concerned that there was a money laundering problem after seeing a \$200,000 buy-in with cash that smelled like marijuana. At a GPEB Branch meeting in Victoria that year, Mr. Rampone stood up and said "ladies and gentlemen, we now have a money laundering problem in BC casinos." Deputy Minister Corinne McDonald and Mr. Sturko were present at that meeting.

38. By 2009, large and suspicious currency transactions had accelerated, and I believed there was a significant problem. I strongly expressed my concern at branch management meetings to Mr. Sturko.

39. I had maintained my lecture material from my time with the RCMP and gave money laundering presentations to all GPEB staff stressing the importance in the drug trade of converting huge amounts of \$20 bills (the typical currency in the drug trade) into a more manageable product.

40. Attached to this Affidavit and marked as '**Exhibit F**' is a true copy of a PowerPoint presentation that I used in trainings of GPEB staff (GPEB0320).

41. By 2010, GPEB 'Reports of Findings' were being produced at an increasing rate. These reports were prepared by GPEB investigators, the Director of Casinos and/or the Senior Director of Investigations and forwarded to me for my review and comments and then, and in turn, forwarded to the General Manager and/or others. These Reports of Findings included extensive information on the money laundering problem complete with specific reference to the high volume of \$20 bills.

42. Attached to this Affidavit and marked as '**Exhibit G**' is a true copy of a Report of Findings dated November 19, 2012, titled "Money laundering BC Casinos 2007 to Present" authored by Derek Dickson and including comments by Joe Schalk and me (GPEB 00179).

43. Attached to this Affidavit and marked as '**Exhibit H**' is a true copy of a Report of Findings dated March 15, 2010 titled "Review of Chip Passing/Suspicious Cash Transactions and Loan Sharking in Lower Mainland Casinos" authored by GPEB Director of Casino Investigations, Derek Dickson, and including comments authored by me (GPEB0165).

44. Attached to this Affidavit and marked as '**Exhibit I**' is a true copy of a series of emails dated November 13 – December 4, 2013 and a draft version of a Report of Findings containing comments on the Report authored by Joe Schalk, John Mazure and Bill McRea and responsive comments by myself (GPEB4001).

45. Attached to this Affidavit and marked as '**Exhibit J**' is a true copy of a Report of Findings dated May 7, 2010 titled "Breach of the Integrity of Gaming" authored by GPEB Director of Casino Investigations, Derek Dickson, and including comments authored by GPEB Senior Director, Investigations Joe Schalk and me (GPEB0573).

46. Attached to this Affidavit and marked as '**Exhibit K**' is a true copy of a Report of Findings dated January 10, 2011 titled "Complaint: Suspected Money Laundering"

authored by GPEB Director, Forensic Investigations, J.A. Giesbrecht and forwarded to me (GPEB0586).

47. Attached to this Affidavit and marked as '**Exhibit L**' is a true copy of an email from me to Douglas Scott dated November 16, 2011 together with attached Report of Findings dated November 14, 2011 titled "Money Laundering River Rock Casino" authored by GPEB Director of Casino Investigations, Derek Dickson, and including comments authored by Joe Schalk and me (GPEB0612).

48. Attached to this Affidavit and marked as '**Exhibit M**' is a true copy of a Report of Findings dated February 22, 2012 titled "Suspicious Cash Transactions/Money Laundering" authored by GPEB Senior Director, Investigations Joe Schalk and forwarded to me (GPEB0177).

49. Attached to this Affidavit and marked as '**Exhibit N**' is a true copy of a Report of Findings dated February 27, 2012 titled "Complaint of Suspicious Cash Transaction" authored by GPEB Investigator Don Kirkland (GPEB0627).

50. Attached to this Affidavit and marked as '**Exhibit O**' is a true copy of a Report of Findings dated October 25, 2013 titled "Suspicious Cash Transactions/Money Laundering in British Columbia Casinos" authored by GPEB Senior Director, Investigations Joe Schalk and including comments authored by me (GPEB0184).

51. Attached to this Affidavit and marked as '**Exhibit P**' is a true copy of a Report of Findings bearing a date of August 20, 2014, but with the date crossed out, titled "Complaint of Suspicious Cash Transaction." This report was authored by GPEB Investigator Rob Barber. I believe the date of August 20, 2014 is incorrect as the report describes events that took place in September 2014 (GPEB0705).

52. Attached to this Affidavit and marked as '**Exhibit Q**' is a true copy of a Report of Findings dated October 27, 2014 titled "Suspicious Currency Transactions/Suspected Money Laundering in British Columbia Casinos Update of Status – October, 2014" authored by GPEB Senior Director, Investigations Joe Schalk and including comments authored by me (GPEB0719).

### ***Identification of Suspicious Cash***

53. GPEB could not prove that the cash entering casinos was the proceeds of crime. To do that, it would have been necessary to investigate and identify the predicate offences. However, I repeatedly expressed my belief that the large volume of \$20 bills entering the casinos impacted the integrity of gaming.

54. Based on my past experience, I held the strong belief that the bags containing large volumes of cash being brought into casinos by persons dealing with loan sharks/organized crime and consisting of \$20 bills wrapped in elastic bands in \$10,000 bundles (known as "bricks" in the drug trade) were proceeds of crime. I am confident that this belief was shared by all of the GPEB Investigation Division's staff. I was advised by Derek Dickson and Joe Schalk that at their meetings with IPOC (RCMP), the police advised them that they also believed that the large buy-ins at casinos consisting of \$20 bills was "dirty money. Insp Baxter, RCMP IPOC also said it to me and said it in a news article as well which is referred to in paragraph 123 herein and attached hereto as Exhibit 'MM'. (GPEB 0078).

55. While GPEB could not prove beyond a reasonable doubt that such funds were proceeds of crime, the GPEB Investigation Division, including myself, believed that, at the very least, such circumstances should arouse suspicion to the point where enquiry of the source of funds at the cash cage was warranted.

### ***Move to Solicitor General's Office***

56. In 2009, GPEB was in the Ministry of Housing and Social Development, under Minister Rich Coleman.

57. At a BC Association of Chiefs of Police meeting, I believe I told Kevin Begg, then Assistant Deputy Minister of Police Services who was in the Ministry of the Solicitor General, that I thought that GPEB would be better suited under the authority of the Solicitor General, Suzanne Anton.

58. Shortly thereafter, the GPEB Investigation Division did move to the Ministry of the Solicitor General and I reported directly to Deputy Minister Wes Schoemaker. I



immediately briefed Mr. Schoemaker about my concerns about money laundering. That move lasted for six weeks, after which the Investigation Division was moved back to the Ministry of Housing and Social Development, under Minister Rich Coleman.

59. I was told by Derek Sturko that the move back to the Ministry of Housing and Social Development was for budgetary reasons. He also said GPEB and the Investigative Division were bound together under the provisions of the *Gaming Control Act*.

### ***AML Strategy and Cash Alternatives***

#### **Terms and Conditions of Registration and Source of Funds Declarations**

60. One of the recommendations that I made to deter money laundering in casinos was to address the problem through the terms and conditions of registration by including a requirement that the Service Provider obtain a defined source of funds declaration on suspicious currency at point of entry.

61. Making these requirements a term and condition of registration would allow GPEB to enforce them. BCLC would then be required to put these requirements in its Standard Operating Procedures.

62. In March 2009, Mr. Sturko asked the Investigation, Audit and Registration Divisions to review and make recommendations for the requirements, enforcement instruments and methods in relation to the potential risk of money laundering in commercial gaming facilities. The Divisions prepared a memorandum for Mr. Sturko which defined suspicious activities relevant to that time period (2008/09) and the three Divisions proposed that once a Service Provider identified a transaction as suspicious, as defined by GPEB, the transaction must be refused by the Service Provider and immediately reported to GPEB's Investigation Division via a Section 86 Report (the "Divisions' Memorandum"). The Divisions' Memorandum was submitted to Mr. Sturko but I never received a response. (GPEB 0163)

63. Attached to this Affidavit and marked as '**Exhibit R**' is a true copy of an email dated March 16, 2009 from Terri Van Sleuwen to Bill McCrea and Derek Sturko, copying me, with the Divisions' Memorandum attached thereto (GPEB3685).

64. Attached to this Affidavit and marked as '**Exhibit S**' is a true copy of an email dated February 6, 2013 from me to Bill McCrea regarding the March 16, 2009 Divisions' Memorandum which attached to this email (GPEB0098).

#### Patron Gaming Funds

65. In 2010, Patron Gaming Fund ("**PGF**") accounts were introduced in British Columbia casinos. The creation of these accounts was motivated by the belief that developing cash alternatives would allow casino patrons to transfer funds from financial institutions to casino accounts, thereby negating the need for cash and allowing casinos to rely on the financial institution's responsibilities for vetting large cash deposits. The PGF accounts were also intended to enhance the safety of players who were required to carry cash in and out of casinos. There had been incidents where patrons were robbed after leaving the casino.

66. I understood that the intention behind PGF accounts when introduced in 2009 was to reduce the amount of cash in casinos and have the banks do the due diligence for casinos.

67. I had no problem with PGF accounts as long as players were not allowed to deposit large amounts of \$20 bills into the accounts. However, in my opinion, this strategy would not deter money laundering as those generating cash by illegal means were not in need of cash alternatives. It was my opinion that organized crime would not risk depositing suspicious sums of cash at legitimate financial institutions which were subject to origin of the cash enquiries, identification of the customers, record keeping and reporting to FINTRAC, when such cash could easily be laundered directly at casinos without any such risk.

68. Once PGF accounts were approved, the role of the investigative unit was to provide intelligence. GPEB Executive Director, Quality Assurance and Risk, Bill McCrea was responsible for the Anti-Money Laundering ("AML") program on the GPEB side and Investigation\ Division reported intelligence to him on this issue.

69. Attached to this Affidavit and marked as '**Exhibit T**' is a true copy of a letter dated February 16, 2009 from Doug Morrison to Derek Sturko, on which I was copied, bearing the subject "Draft Casino Standards, Policies and Procedures – Patron Gaming Fund Accounts" (GPEB0546).

70. Attached to this Affidavit and marked as '**Exhibit U**' is a true copy of an email dated February 25, 2011 from me to Bill McCrea and others with the subject line "RE: Patron Gaming Fund Accounts Pilot – BCLC Report" (GPEB0082).

2011 Summary Review: Anti-Money Laundering Measures at BC Gaming Facilities

71. Following a January 2011 news report of large bundles of cash being brought into casinos, Minister Coleman announced that he would consult with the gaming industry regarding the detection and reporting of possible illegal activities. As a result, Robert Kroeker was asked to conduct a review.

72. In August 2011, the Solicitor General issued a report entitled "Summary Review – Anti-Money Laundering Measures at BC Gaming Facilities" authored by Mr. Kroeker (the "**Summary Review**").

73. The Summary Review made recommendations designed to curb money laundering in BC casinos. The principal recommendation was the development and implementation of alternatives to cash in casinos.

74. I believed that criminals were bringing huge amounts cash (\$20 bills) into the casinos because the banks would not take it. I expressed concerns about cash in casinos to Mr. Kroeker in 2011. I had some discussions with Mr. Kroeker about PGF accounts and I made recommendations for deterring money laundering in casinos. I advised him that allowing BCLC and the Service Providers the latitude to be just curious about cash transactions and only have an obligation to report, I found surprising. I did not believe that would be acceptable to public perception. I advised him that I believed that a Crown Corporation should be held to a higher standard. A Crown Corporation should at least have the same obligation and corporate high road as Banks. I was referring to source of funds enquiries as required by banks on suspicious currency transactions. I also advised

Mr. Kroeker that there should be a limit on the amount of \$20 bills buy in a 24-hour period. I did agree with some of Mr. Kroeker's observations. I believed that Mr. Kroeker was speaking with Mr. Towns at the time of writing the report and he sided with Mr. Towns interpretation of BCLC's limited role in dealing with the money laundering rather than my interpretation.

75. Mr. Kroeker did not make a recommendation to restrict the \$20 bills for a 24-hour period and/or to make source of funds enquiries at point of entry into the casino on suspicious transactions.

76. Attached to this Affidavit and marked as '**Exhibit V**' is a true copy of an email dated March 2, 2011 from me to Robert Kroeker with the subject line "RE: Draft Review" attaching a draft of his 2011 report to which I had added comments (GPEB0083).

#### Cross-Divisional Working Group

77. In 2011, ADM/GM Doug Scott created a group within GPEB to address money laundering as recommended in the Summary Review (the "**AML Group**").

78. Mr. McCrea was responsible for the AML Group.

79. Mr. Dickson, Mr. Schalk and I were active members of the AML Group and provided intelligence to Mr. McCrea on this issue.

80. I cannot recall the Investigation Division being invited to interagency AML meetings with BCLC, GPEB and Service Providers.

81. Attached to this Affidavit and marked as '**Exhibit W**' is a true copy of an email dated September 8, 2011 from me to members of the GPEB Investigations Division with the subject line "FW: AML Input – Methods to Reduce Reliance on Cash" as well as the attachment to that email which is a document titled "Methods to Reduce Reliance on Cash in BC Casinos" to which I have applied comments (GPEB3960).

### BCLC Cash Alternative Proposals

82. On or about September 19, 2011, each division within GPEB was asked by acting GPEB General Manager Sue Birge to provide her with feedback on every cash alternative proposal received from BCLC. On the feedback documents provided to Ms. Birge, I added my comments that it was necessary to restrict the number of \$20s at the casino point of entry or the AML strategy was doomed to failure. My comments were never included on the written feedback returned by Ms. Birge to BCLC. Attached to this Affidavit and marked as '**Exhibit X**' is a true copy of draft document dated September 19, 2011 titled GPEB Response to BCLC input: Methods to Reduce Reliance on Cash in BC Casinos (GPEB2532).

83. Attached to this Affidavit and marked as '**Exhibit Y**' is a true copy of an email dated April 8, 2011 from me to Eugene Johnson with the subject line "RE: Q&A – anti-money laundering" (GPEB0087).

84. At the request of Eugene Johnson, Manager of GPEB's Strategic Initiatives, Mr. Schalk, Mr. Dickson and I forwarded via email a lengthy note on talking points related to money laundering to Mr. Johnson for the information of the Deputy Minister and Minister. Attached to this Affidavit and marked as '**Exhibit Z**' is a true copy of my email to Eugene Johnson dated April 12, 2011 with attachment titled "Q & A on Anti Money Laundering Measures – Talking Points"(GPEB 89).

85. On April 12, 2011, Ms. Birge called me and told me to delete the emails that I had sent to Mr. Johnson.

86. On April 12, 2011, I deleted the e-mails from my computer but kept a hard copy on file.

### 2015 Report by Malysh Associates Consulting

87. In 2013, as part of the AML Strategy, GPEB hired Jerome Malysh to survey due diligence practices in banks and other financial venues with respect to large cash transactions.

88. Mr. Malysh's report, released in September 2014, concluded that the implementation of a source of funds declaration respecting large cash buy-ins upon entry into casinos would be helpful.

89. I believed the source of funds declaration should be mandatory on suspicious circumstances as the suspected money laundering at this time was extreme and was severely impacting the integrity of gaming. I encouraged Mr. Mazure to include that recommendation in note to the Minister in relation to the upcoming FINTRAC Audit of BCLC in September, 2014.

90. Attached to this Affidavit and marked as '**Exhibit AA**' are true copies of emails dated September 8 and 9, 2014 involving Jerome Malysh, Bill McCrea, myself and others with the subject line "Revision to Sec 7.1" (GPEB0135).

91. Attached to this Affidavit and marked as '**Exhibit BB**' are true copies of emails dated September 11, 2014 involving Jerome Malysh, Bill McCrea, myself and others with the subject line "AML CDD Research Report Sep 2014" (GPEB0136).

92. Attached to this Affidavit and marked as '**Exhibit CC**' is a true copy of a report dated September 15, 2014 titled "GPEB – AML Working Group Client Due Diligence in BC Casinos prepared by Malysh Associates Consulting Inc." (BCLC000022).

93. Attached to this Affidavit and marked as '**Exhibit DD**' is a true copy of a series of emails dated September 15 and 16, 2014 between me and Bill McCrea with the subject line "RE: CDD Final Report" (GPEB0141).

### ***Engagement with Law Enforcement & FINTRAC***

#### **IIGET**

94. The Integrated Illegal Gaming Enforcement Team ("**IIGET**") operated from 2003 to 2009.

95. At the time IIGET was established, the intention was that GPEB would work in partnership with IIGET. This ultimately proved unworkable because GPEB Investigation

Division could not perform mobile surveillance, wiretap, undercover, manage and protect informants and agents or carry guns. GPEB Investigators used their own private vehicles.

96. I believe that there was an issue of policing independence with IIGET. Representatives of BCLC would attend IIGET consultative board meetings and ask what they were getting for the million dollars they were contributing annually to IIGET. Other issues surfaced that were concerning to both parties including independence, statistics, Freedom of Information requests and file responsibility.

97. Attached to this Affidavit and marked as **'Exhibit EE'** are true copies of emails dated January 28, 2004 and March 8, 2004 written by me with the subject line "MOU Illegal Integrated Gaming Enforcement Team" (GPEB0505).

98. Attached to this Affidavit and marked as **'Exhibit FF'** are true copies of emails dated March 21, 2005 – March 23, 2005 between me and Derek Sturko with the subject line "Draft to McKechnie" together with attached letter to Ms. Deborah McKechnie dated April 11, 2005 and attached letter from Ms. Deborah McKechnie dated March 1, 2005 (GPEB0518).

99. I recall a discussion about GPEB paying for a prosecutor to be assigned to IIGET, but that never happened.

100. I recall that when IIGET was shut down, the sense was that local police of jurisdiction would be able to handle illegal gaming. I do not believe that this has shown to be true.

#### IPOC Investigation

101. In 2010, GPEB was in contact with the Integrated Proceeds of Crime ("IPOC") to try to generate interest in what was taking place in casinos.

102. Mr. Schalk and Mr. Dickson met regularly with the Officer in Charge of IPOC (Insp. Baxter or Insp. Arnold). On occasions I joined these meetings and Mr. Schalk and Mr. Dickson always briefed me if I missed a meeting.

103. In 2010-11, IPOC began to do active surveillance on loan sharks in Richmond.

104. In 2010-2012, the RCMP was in transition and gradually the IPOC units were disbanded.

Interaction with FINTRAC and Concerns about Reporting

105. I had a conversation with FINTRAC who expressed concerns about BCLC's reporting of large cash transactions or suspicious transactions. I did not know the exact nature of FINTRAC'S concerns.

106. Attached to this Affidavit and marked as '**Exhibit GG**' is a true copy of a letter dated April 10, 2008 from Derek Sturko to Michael Graydon on which I was copied (GPEB3674).

107. In 2009-2010, FINTRAC conducted an analysis of Large Cash Transactions reports (LCT) and Suspicious Transactions reports (STR) filed by BC and Ontario regulators and I received a copy of that analysis.

108. Attached to this Affidavit and marked as '**Exhibit HH**' is a true copy of an undated document titled "FINTRAC Reporting BC-Ont Casino Activity Sector" (GPEB0161).

109. I learned of an upcoming audit of BCLC by FINTRAC in September 2014. FINTRAC indicated they would be speaking with GPEB. I was also aware that BCLC were challenging in court an Administrative Monetary Penalty of \$650,000 that had been levied by FINTRAC against it for reporting deficiencies.

110. I recall that Mr. Dickson and Mr. Schalk had ongoing concerns about BCLC's reporting. They advised me that BCLC seemed to file large cash transaction reports rather than suspicious transaction reports. They further advised that if BCLC knew a customer well, it would report a transaction as a large cash transaction, rather than a suspicious transaction.



## ***Engagement with BCLC***

### **BCLC Response to Suspicious Cash**

In my communications with BCLC representatives respecting money laundering in casinos, BCLC always took the position that it could not be proven that large cash transactions were the proceeds of crime.

111. BCLC maintained that it was the reporting entity and that it did not investigate money laundering because that was the job of the regulator and, mainly, the police.

112. GPEB Investigation Division was accustomed to dealing with BCLC Corporate Security via memo. GPEB Investigation Division stopped communicating with BCLC in this way for a period of time during the cash alternative approach initiative.

113. In December 2012, Mr. Schalk sent a memorandum to BCLC Corporate Security. Attached to this Affidavit and marked as '**Exhibit II**' is a true copy of the memorandum dated December 27, 2012 sent by Mr. Schalk to Bryon Hodgkin (GPEB0181).

114. I understand that in response to Exhibit II, Michael Graydon, President of BCLC, contacted ADM/GM Scott about this memo and Mr. Scott advised me that all written communications with BCLC by the Investigation Division had to be forwarded through him.

115. Attached to this Affidavit and marked as '**Exhibit JJ**' is a true copy of an exchange of emails dated January 16 and 17, 2013 between me and Doug Scott with the subject line "Investigations Letter to BCLC Dec 27th" (GPEB0095).

116. I met with Mr. Scott and BCLC executives including Mr. Graydon and Mr. Jim Lightbody, the Vice-President of Casinos. At this meeting, Mr. Scott raised GPEB's concerns about large buy-ins consisting of \$20 bills. I asked the question, "why aren't we asking the origin of the funds"? Mr. Lightbody responded, "because it is a privacy issue". I immediately replied that it was not a privacy issue if we suspect it is the proceeds of crime.

117. I arranged a meeting with BCLC Vice-President, Corporate Security and Compliance, Brad Desmarais at a Burnaby restaurant in the fall of 2013. I recall Mr. Desmarais suggesting that the large exodus of capital from the People's Republic of China (PRC) could account for some of the suspicious cash coming into BC casinos. I said that I believed the \$20 bills were drug money. I did not find Mr. Desmarais' suggestion plausible however I did discuss it with Mr Dickson and Mr. Schalk.

118. I communicated with the Canadian Border Service Agency ("**CBSA**") on two occasions and I do not recall receiving any communications from CBSA indicating large-scale importation/seizure of \$20 bills.

119. Attached to this Affidavit and marked as '**Exhibit KK**' is a true copy of my email dated October 21, 2013 to Natalie Malatestinic of the CBSA with the subject line "FW: Currency Import Question" which also included an earlier email from Liz Bodegom of the CBSA dated April 9, 2013 (GPEB4509).

120. I also remember receiving notification from either Mr. McRea or Mr. Mazure in relation to fiscal year 2012/2013 about cash coming to Canada from Asia however the denominations of the cash were not known.

121. In March 2013, Mr. McCrea asked the Investigation Division's opinion in relation to newspaper articles on the exodus of capital from Asia. I responded to Mr. Scott and Mr. McCrea via email that the Investigation Division said anything is possible in money laundering but the Division did not believe those news articles were referring to the \$20 bills entering casinos and it had reasonable grounds for believing this was not the case.

122. Attached to this Affidavit and marked as '**Exhibit LL**' is a true copy of an exchange of emails dated March 6, 2013 between me and Bill McCrea and Doug Scott with the subject line "Money Trails" (GPEB0099).

2010-2011 Li Lin Sha Correspondence with BCLC and Police Assertions that Money Laundering was occurring in Casinos

123. Attached to this Affidavit and marked as '**Exhibit MM**' is CBC News article dated January 4, 2011 titled 'Dirty money suspected in B.C. casino deals' (GPEB0078).

124. I believe Minister Rich Coleman later publicly stated that he had spoken with his own sources and they disagreed with Insp. Baxter.

125. I am not aware of any police communications to BCLC asserting that buy-ins were proceeds of crime or money laundering. However, Mr. Schalk did advise me that, at a meeting with a number of BCLC investigators and managers in an open forum Insp. Baxter clearly stated that the \$20s flowing through casinos were the proceeds of crime.

### ***Service Provider Response to Suspicious Cash***

126. I believed that the Service Providers were in a difficult position and that they would generally do what they were told by GPEB and BCLC. If GPEB gave directions related to registration or s. 86 reporting, the Service Providers would comply.

127. The Service Providers could have voluntarily chosen to stop accepting suspicious cash transactions but I believe that they were content to take the cash as long as neither BCLC nor GPEB took any action to prevent them from taking it.

128. I recall that initially, large cash transactions were occurring at several casinos, including those operated by Gateway and Great Canadian Gaming Corporation, but at some point, they became very concentrated at the River Rock. I do not recall when that took place and I do not know why.

129. I believe that BCLC, as Crown Corporation responsible for conduct and management of BC casinos, should be held to the highest standard and have taken measures to deter large amounts of what was believed to be proceeds of crime from entering BC casinos

### ***Communications with Government***

#### **2010 Videoconference with Derek Sturko and Kevin Begg**

130. In the fall of 2010, I was called into a videoconference with Mr. Sturko and Mr. Begg who told me that they were putting forward a note to the Ministry related to legal and illegal gaming enforcement (the "**Decision Note**").

131. Attached to this Affidavit and marked as '**Exhibit NN**' is a true copy of the draft Decision Note dated November 22, 2010 prepared for Derek Sturko (GPEB0579). I do not know who prepared this memorandum or know what was done with it.

December 2010 Meeting with Rich Coleman

132. In December 2010, I met with Minister Rich Coleman and Deputy Minister Laurie Wanamaker,

133. Upon entering my office, Minister Coleman immediately asked, "what about this money laundering?" I answered, "they are bringing it into casinos in bundles of \$10k dollars". Minister Coleman responded, "I have lots of friends that carry \$10,000 in their pocket". I replied, "if it is in \$20 bills wrapped with elastics bands around both ends you better check out your friends."

134. I advised Minister. Coleman that money laundering was a \$6-7 billion business in Canada. I told him that \$20 bills are a problem for organized crime because of their weight and volume and that there were horrendous amounts of \$20 bills coming into casinos, which brought the integrity of gaming into question. I explained that we could not prove it was proceeds of crime, but believed it was drug money. I said that the Government should restrict the number of \$20 bills coming into casinos in a 24-hour period. I told him that the press were all over this and it was not going away.

135. During this meeting, Ms. Wanamaker said to Minister Coleman "Rich, we need to do something about this". Minister Coleman and Ms. Wanamaker then spoke about another issue surrounding Superbowl lotteries at pubs in the Lower Mainland and then they left.

### Requests for Ministerial Directives

136. The GPEB investigations unit, including myself, consistently believed that the immediate solution to the problem was to limit \$20 bills and/or to require source of fund declarations on suspicious currency including \$20 bills. I believed it was important there be due diligence on origin of the cash itself, not just the players.

137. I believed that BCLC could have imposed these requirements immediately through Standard Operating Procedures. The General Manager of GPEB could have imposed such requirements on BCLC, but on a matter of this impact, only with the permission of the Minister.

138. I requested a ministerial directive to this effect many times.

### Briefing Document to John Mazure

139. Mr. Schalk and I continued to identify what we saw as severe problems that included a recent contract killing where the victim was the subject of GPEB suspicious currency reports involving \$660,000 all in \$20 bills. Attached to this Affidavit and marked as 'Exhibit OO' is a true copy of an email from me to Mr. Mazure dated September 24, 2014 with Briefing Note attached (GPEB 0711). There was another incident where an individual who was believed to be an associate of Paul Jin made a buy-in of approximately \$1 million in \$20 bills at the River Rock Casino. Attached to this Affidavit and marked as 'Exhibit PP' is a true copy of my Briefing Document on the incident to Mr. Mazure dated October 8, 2014 (GPEB 0714).

### ***Termination***

140. In a September 2014 report, GPEB was advised that FINTRAC was going to do an audit of BCLC in the fall and GPEB staff and management would be interviewed.

141. In an October 27, 2014 Report of Findings submitted by Mr. Schalk and I (previously referred to in paragraph 52 and attached hereto as Exhibit "Q"), we stated, *inter alia*, that "the Division based on certain criteria and circumstances, believes/suspects that the large amounts of suspicious currency are proceeds of crime

and must be curtailed to ensure the integrity of gaming. The industry cannot afford to even leave the perception that it is in any way wilfully blind in that regard. Due diligence on the "origin of funds" at the service provider entry point is appropriate and necessary."

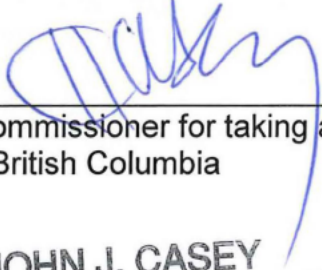
141. Deputy Minister of Finance, Cheryl Wenezenki-Yolland, had begun an organizational review of GPEB in April 2014 (the "Review") and the results were to be released in December 2014.

142. On one occasion Ms. Wenezenki-Yolland came to the GPEB office and met with Mr. Schalk and GPEB Investigator Rob Barber and me. Mr. Barber explained to Ms. Wenezenki-Yolland about the large cash transactions he was seeing as an investigator at the River Rock Casino.

143. In December 4, 2014, I was advised that my position had become redundant, that employment with GPEB was being terminated without just cause and immediately escorted from the building. Mr. Schalk's employment was also terminated and three other GPEB executives on the AML team were transferred. Attached to this Affidavit and marked as 'Exhibit QQ' is a true copy of a letter dated December 2, 2014 to me from Ms. Wenezenki-Yolland.

144. I believe that I was terminated because the Government knew I would continue to speak openly about the money laundering problem which could result in the implementation of measures that would reduce gaming revenue to Government.

SWORN BEFORE ME at  
Coquitlam, British Columbia, this 8th  
day of November, 2020

  
A commissioner for taking affidavits  
for British Columbia

**JOHN J. CASEY**  
Barrister and Solicitor  
203-1024 Ridgeway Avenue  
Coquitlam, B.C. V3J 1S5

  
Larry Vander Graaf

This is Exhibit "A" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



---

A Commissioner for taking Affidavits within British Columbia

Dec-16-02 12:30 From-GAIO

+2508525225 T-133 P.004/008 F-713

**Gaming Policy and  
Enforcement Branch****Investigation Division**

December 16, 2002

TO: ALL REGISTERED GAMING SERVICE PROVIDERS

RE: GUIDELINES FOR REPORTING –  
SECTION 86 GAMING CONTROL ACTWhat Must Be Reported:

-Any suspected or real conduct, activity or incident that affects the integrity of gaming and horse racing, including (but not limited to) the following *Criminal Code* and *Gaming Control Act* offenses occurring within legal gaming venues:

- Cheating at play
- Thefts affecting the integrity of the game (e.g. thefts from the house or by a gaming worker)
- Fraud
- Money laundering
- Persons suspected of passing counterfeit currency
- Loan Sharking
- Robbery
- Assault
- Threats against, or intimidation of, gaming employees
- Unauthorized lottery schemes
- Persons prohibited for known or suspected criminal activity
- Unregistered gaming workers; and
- Unregistered gaming service providers

Offenses occurring outside a legal gaming venue must be reported if it involves a registered gaming service provider or registered gaming worker

.../2



Dec-16-02 12:30 From-GAIO +2509525225 T-133 P.005/008 F-713

- 2 -

When to Report

- Must be reported without delay.

Where to Report

- Regional Manager, GPEB Investigation Division, as outlined in Appendix "A" - (Gaming Facilities By Region).

How to Report

- Reporting must be in hard copy form
- By facsimile to Regional Manager, GPEB Investigations Division as outlined in Appendix "B" - (Section 86 GC Act Report).
- In emergency or urgent situations, GPEB Investigative Division "On Call" Investigator in your region can be contacted by pager as outlined in Appendix "C".

ANY CLARIFICATION ON REPORTING GUIDELINES SHOULD BE REFERRED TO THE REGIONAL MANAGER, INVESTIGATION DIVISION IN YOUR AREA.

Your cooperation in matters of mutual interest is appreciated.

Larry Vander Graaf  
Director, Investigation Division  
Gaming Policy & Enforcement Branch

Attachments

pc: Doug Penrose, Vice President, BC Lottery Corporation  
Terry Towns, Director, Corporate Security, BC Lottery Corporation  
Rick Saville, Director Registration, GPEB  
Joe Schalk, Regional Manager, GPEB, Lower Mainland Regional Office  
Al Glesbrecht, Regional Manager, GPEB, Vancouver Island Regional Office  
Barry Halpenny, Regional Manager, GPEB, Interior Regional Office  
Bob Chamberlain, Regional Manager, GPEB, Northern Regional Office

Ministry of Public  
Safety and Solicitor  
General

Gaming Policy and  
Enforcement Branch

Suite #408  
4603 Kingsway Avenue  
Burnaby, B.C. V5H 4M4

Telephone (604) 660-0245  
Facsimile (604) 660-2030

**Kipping, Bernadette MEM:EX**

---

**From:** Chamberlain, Robert D MEM:EX  
**Sent:** Tuesday, July 31, 2012 2:08 PM  
**To:** Henetiuk, Barry MEM:EX; Kipping, Bernadette MEM:EX  
**Subject:** Fw: Gaming Service Providers Letter re: Terms and Conditions  
**Attachments:** Gaming Service Provider Terms and Conditions July 26, 2012 with Appendixes.pdf

---

**From:** Rozen, David L MEM:EX  
**Sent:** Tuesday, July 31, 2012 02:07 PM  
**To:** Burrows, Colin MEM:EX; Chamberlain, Robert D MEM:EX; Dickson, Derek MEM:EX; Giesbrecht, Al MEM:EX; Halpenny, Barry MEM:EX; Mulcahy, William MEM:EX; Schalk, Joe MEM:EX; Vander Graaf, Larry P MEM:EX; Werner, Peter H MEM:EX  
**Subject:** Gaming Service Providers Letter re: Terms and Conditions

Good afternoon, Investigations Directors:

You will find attached a PDF file that contains six separate items that were electronically sent in an e-mail this afternoon to 24 Service Provider Groups as well as Michael Graydon, Terry Towns and our GPEB EDs. The letter went out under Douglas Scott's e-mail account but was signed by A/ADM Terri Van Sleuwen. Susan Fair has provided me with the actual list of Service Providers/Registrants that received the e-mail. It is anticipated that the contents of this communication from GPEB will filter down in due course via the protocols within each gaming group.

If you require any of the six PDFs as stand-alone files just let me know.

**Dave Rozen**

Office Manager, Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch  
#408 - 4603 Kingsway Avenue  
Burnaby, BC V5H 4M4

Phone: (604) 660-4962  
FAX: (604) 660-2030

*This message is confidential and is intended only for the individual named. It may contain privileged information. If you are not the named addressee you should not disseminate, distribute or copy this e-mail. Any unauthorized disclosure is strictly prohibited. If you receive this e-mail in error, please notify the sender immediately and delete this e-mail from your system.*

<b>Reporting Procedures for Registered Gaming Service Providers to the Gaming Policy and Enforcement Branch</b>
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**APPENDIX A****SECTION 1****1.0 Overview**

The Gaming Policy and Enforcement Branch (GPEB) regulates the gaming industry in British Columbia. Its mandate is to ensure that gaming in the province is conducted and managed with integrity, and that the interests of the public are protected.

**1.1 Purpose**

The purpose of this document is to provide registered gaming service providers guidance on the form of reporting to the GPEB of any real or suspected conduct, activity, or incident that affects the integrity of gaming or horse racing that involves a registered gaming service provider or registered gaming worker.

**SECTION 2****2.0 Legislative Authority**

- Section 86(2) of the *Gaming Control Act* requires a registrant to notify the GPEB, without delay, about any conduct, activity or incident occurring in connection with a lottery scheme or horse racing that may be considered contrary to the *Criminal Code* of Canada, or British Columbia's *Gaming Control Act*, or *Gaming Control Regulation*.
- Section 34(1)(t) of the *Gaming Control Regulation* requires a service provider to immediately report to the GPEB any conduct or activity at or near a gaming facility that is or may be contrary to the *Criminal Code*, the *Gaming Control Act*, or the *Gaming Control Regulation*.

**SECTION 3****3.0 Reporting Procedures for Registered Gaming Service Providers****3.1 Registered Gaming Service Providers**

- Registered gaming service providers must advise immediately, in writing, of any real or suspected conduct, activity or incident that has, or may affect the integrity of gaming or horse racing, direct to the respective Regional office of GPEB Investigations and Regional Operations.

<b>Reporting Procedures for Registered Gaming Service Providers to the Gaming Policy and Enforcement Branch</b>
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**3.2 Reporting Format**

- Gaming service providers are required to complete the respective GPEB Regional Office form found in Appendix B. This form should be completed in full and submitted by email according to the following regional office designations.

Lower Mainland Regional Office  
408 – 4603 Kingsway Ave  
Burnaby BC V5H 4M4  
Email: [SGGPEB86ReportingLMD@gov.bc.ca](mailto:SGGPEB86ReportingLMD@gov.bc.ca)

Prince George Regional Office  
211 – 1577 7<sup>th</sup> Ave  
Prince George BC V2L 3P5  
Email: [SGGPEB86ReportingNorthern@gov.bc.ca](mailto:SGGPEB86ReportingNorthern@gov.bc.ca)

Kelowna Regional Office  
200 – 1517 Water St  
Kelowna BC V1Y 1J8  
Email: [SGGPEB86ReportingInterior@gov.bc.ca](mailto:SGGPEB86ReportingInterior@gov.bc.ca)

Vancouver Island Regional Office  
3<sup>rd</sup> Floor, 910 Government St  
Victoria BC V8W 1X3  
Email: [SGGPEB86ReportingVanIsland@gov.bc.ca](mailto:SGGPEB86ReportingVanIsland@gov.bc.ca)



*Know your limit, play within it.*

July 26, 2012

Log # 482987

To: All Registered Gaming and eGaming Service Providers

Re: Terms and Conditions of Registration:  
Reporting by Service Providers – Section 86(2) Gaming Control Act *and*  
Section 34(1)(t) Gaming Control Regulation

This Memorandum consolidates and replaces the Memoranda from the General Manager/Assistant Deputy Minister, Gaming Policy and Enforcement Branch (GPEB) dated December 16, 2002 and December 3, 2010 in relation to the legal reporting requirements for Service Providers.

GPEB is responsible for the overall integrity of gaming and horse racing in British Columbia, as outlined in Section 23 of the *Gaming Control Act*.

Section 86(2) of the *Gaming Control Act* requires a registrant to notify the General Manager, GPEB, immediately, about any conduct, activity or incident occurring in connection with a lottery scheme or horse racing that may be considered contrary to the *Criminal Code* of Canada, or British Columbia's *Gaming Control Act*, or *Gaming Control Regulation*.

Section 34(1)(t) of the *Gaming Control Regulation* requires a service provider to immediately report to the General Manager, (GPEB) any conduct or activity at or near a gaming facility that is or may be contrary to the *Criminal Code*, the *Gaming Control Act*, or any *Regulation* under the *Act*.

1. To provide guidance for the reporting/notification requirement, all registered gaming service providers must advise the General Manager, GPEB, immediately, of conduct, activity or incident at or near a gaming facility that may be contrary to the *Criminal Code*, the *Gaming Control Act* or a *Regulation* under the *Act*. This includes but is not limited to:
  - a) Cheating at play (includes collusion between players or individuals);
  - b) Thefts (includes theft affecting the integrity of the game, thefts from the house, or by a gaming worker);
  - c) Fraud (includes using or attempting to use stolen or forged credit cards, bank cards, or electronic payment);
  - d) Money laundering (including suspicious currency transactions or suspicious electronic fund transfers);

.../2

Ministry of  
Energy and Mines

Gaming Policy and  
Enforcement Branch  
Assistant Deputy Minister's  
Office

Mailing Address:  
PO BOX 9311 STN PROV GOVT  
VICTORIA BC V8W 9N1  
Telephone: (250) 387-1301  
Facsimile: (250) 387-1818

Location:  
Third Floor, 910 Government Street  
Victoria, BC  
Web: [www.pssp.gov.bc.ca/gaming](http://www.pssp.gov.bc.ca/gaming)

- e) Suspected passing of counterfeit currency where the identity of passer is known;
  - f) Loan sharking;
  - g) Robbery;
  - h) Assault;
  - i) Threats against, or intimidation of, players or registrants;
  - j) Unauthorized lottery schemes;
  - k) Persons legally prohibited;
  - l) Unregistered gaming service providers;
  - m) Minors found in or participating in gaming in a gaming facility; and
  - n) Minors playing or attempting to play eGaming.
2. Registered gaming service providers must advise GPEB, without delay, of any real or suspected conduct, activity, or incident that affects the integrity of gaming or horse racing that involves a registered gaming service provider or registered gaming worker. Gaming service providers should follow the reporting procedures found in Appendix A.

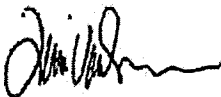
The Investigations and Regional Operations Division, GPEB will continue to provide guidelines and procedures for reporting integrity issues.


Under Section 79 of the *Gaming Control Act* GPEB investigators and inspectors have full access to gaming facilities and premises, including but not limited to records, data and gaming supplies used in the delivery of eGaming. This access is for the purpose of conducting investigations, inspections, audits and for monitoring compliance with the *Act*.

Your obligation to report integrity issues to GPEB does not alleviate you of any contractual requirements to report to the BC Lottery Corporation.

Your understanding and cooperation is appreciated.

Sincerely,



 Douglas S. Scott  
General Manager and Assistant Deputy Minister

pc: Michael Graydon, President and CEO, BCLC  
Terry Towns, Vice-President, Corporate Security and Compliance, BCLC  
Larry Vander Graaf, Executive Director, Investigations and Regional Operations, GPEB  
Terri Van Sleuwen, Executive Director, Audit and Compliance, GPEB  
Len Meilleur, Executive Director, Registration and Certification, GPEB



*Know your limit, play within it.*

July 17, 2015

Log: 344686

To: British Columbia Lottery Corporation  
All Registered Gaming and eGaming Service Providers

Re: Reporting to GPEB by Gaming Service Providers-Section 86(2) *Gaming Control Act*, and  
Section 34(1) (t) *Gaming Control Regulation*

This Memorandum consolidates and replaces the Memorandum for the General Manager-Assistant Deputy Minister, Gaming Policy and Enforcement Branch (GPEB) dated July 26, 2012 in relation to legal reporting requirement for Gaming Service Providers.

GPEB is responsible for the overall integrity of gaming and horse racing in British Columbia, as outlined in Section 23 of the *Gaming Control Act* (GCA).

Section 86(2) of the GCA requires a registrant to notify the General Manager GPEB immediately, about any conduct, activity or incident occurring in connection with a lottery scheme or horse racing, if the conduct, activity or incident occurring in connection with a lottery scheme or horse racing involves or involved the commission of the offence under the *Criminal Code* that is relevant to a lottery scheme or horse racing or the commission of an offence under British Columbia's *Gaming Control Act*.

Section 34(1)(t) of the *Gaming Control Act Regulation* requires a services provider, unless they are a lottery retailer, to immediately report to the General Manager, GPEB any conduct or activity at or near a gaming facility that is or may be contrary to the *Criminal Code* of Canada, or British Columbia's *Gaming Control Act*, or *Gaming Control Regulation*.

It is imperative that Gaming Services Providers report such conduct and activities to the General Manager GPEB without delay. GPEB will immediately assess and determine if the reported matter requires regulator intervention. Gaming Services Providers will not internally share or distribute the reported matter without the approval of GPEB.

The reporting/notification requirements under Section 86(2) and 34(t) includes but is not limited to, the following conduct, activities or incidents:

- a) Cheating at Play which includes collusion between players, or dealers;
- b) Thefts, meaning included theft affecting the integrity of the game; thefts from the house or a lottery retailer site; thefts by a registered gaming worker; thefts of IVS tickets; and thefts committed against charitable gaming;
- c) Money Laundering including Suspicious Currency transaction or suspicious Electronic fund transfers;

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**Ministry of Finance**

Gaming Policy and  
Enforcement Branch  
Assistant Deputy Minister's  
Office

Mailing Address:  
PO BOX 9311 STN PROV GOVT  
VICTORIA BC V8W 9N1  
Telephone: (250) 387-1301  
Facsimile: (250) 387-1818

Location:  
Third Floor, 910 Government Street  
Victoria, BC  
Web: [www.gaming.gov.bc.ca](http://www.gaming.gov.bc.ca)

- d) Loan Sharking;
- e) Robbery which involves a gaming facility or a patron leaving the gaming facility;
- f) Threats by or against a Registered Gaming Worker;
- g) Assault by or of a Registered Gaming Worker;
- h) Conducting unauthorized lottery schemes;
- i) Counterfeit Gaming Chips;
- j) Minors found in or participating in gaming activities in a gaming facility;
- k) Minors playing Play Now;
- l) Persons legally prohibited from gaming facilities;
- m) Unregistered gaming service providers;
- n) Fraud including passing counterfeit lotto tickets, casino chips or involving a lottery scheme; and
- o) Personation or False Identification incidents which include attempts to claim prizes or payouts.

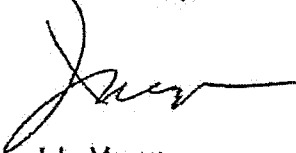
Gaming Services Providers will follow the reporting procedures found in attached Appendix "A" with respect to reporting matters under Section 86(2) of the *Gaming Control Act* and Section 34(1) (t) of the *Gaming Control Regulation*. Reported matters under Section 34(1) (t) of the *Gaming Control Regulation* will be forwarded to the Executive Director of Licensing, Registration and Certification Division, GPEB.

The Compliance Division, GPEB will continue to provide guidelines and procedures for the reporting of integrity issues as outlined in Appendix "A".

Your obligation to report integrity issues to GPEB does not relieve you of any contractual requirements to report matters to the BC Lottery Corporation.

I would appreciate you ensuring that this updated document is distributed to your compliance or governance staff. Your cooperation is appreciated.

Yours sincerely,



John Mazure  
Assistant Deputy Minister

c.c. Len Meilleur, Executive Director Compliance Division  
Angela Swan, Executive Director Licensing, Registration, and Certification Division  
Brad Desmarais – VP Corporate Security and Compliance BCLC



**Kipping, Bernadette GPEB:EX**

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**From:** Knight, Chris W GPEB:EX  
**Sent:** Tuesday, June 12, 2018 3:21 PM  
**To:** Kipping, Bernadette GPEB:EX  
**Subject:** and another

2016/2017

**FOR IMMEDIATE ATTENTION OF ALL GAMING SERVICES PROVIDERS**

Please find attached a copy of ADM John Mazure's signed letter respecting reporting as per Section 86 *Gaming Control Act* and Section 34(1)(t) *Gaming Control Regulation*. Also included are the new templates. Gaming Services Providers are not required to report on matters that are not listed in the letter, such as assaults, unattended children in vehicles, vandalism, thefts unrelated to a lottery scheme, drug transactions, and impaired driving. As my staff is in constant contact with your front-line employees they will answer any questions and provide direction as required to help facilitate these changes.

There are a few points within the letter that I wish to provide clarification:

- gaming services providers will not internally share or distribute the reported matter without GPEB's approval. This does not include compliance units, corporate security units, within your organization where they need to share the information in order to inform their superiors and/or take corrective action;
- persons legally prohibited from gaming facilities does not include (Voluntary Self-Exclusions) VSE's; and
- gaming services providers will continue to enter suspicious currency transactions into I-Trak and BCLC will forward those reports to GPEB;

I appreciate your cooperation in transitioning to this updated set of criteria for reporting as I believe it will be more efficient for all. GPEB will also examine the adaption of the attached form to include drop-down selection of the categories (as suggested). GPEB will also continue to work with BCLC to move this reporting to I-Trak if all security and access concerns can be addressed.

Regards,

Len

J.E.L. (Len) Meilleur  
Executive Director  
Compliance Division  
Gaming Policy Enforcement Branch  
Ministry of Finance  
Location: 3rd Floor, 910 Government Street, Victoria BC V8W 1X3  
Mailing Address: P.O. Box 9309 Stn Prov Govt, Victoria BC V8W 9N1  
Tel: 250-356-6320 Fax: 250-356-0782  
E-mail: [len.meilleur@gov.bc.ca](mailto:len.meilleur@gov.bc.ca)  
Website: [www.gaming.gov.bc.ca](http://www.gaming.gov.bc.ca)

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This is Exhibit "B" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia



## **Key Regulatory Responsibilities of the Gaming Policy and Enforcement Branch and their Application to the British Columbia Lottery Corporation**

### **Introduction**

The Gaming Policy and Enforcement Branch is responsible for the overall integrity and regulation of gaming and horse racing in British Columbia. This includes all provincial gaming conducted, managed and/or operated by the British Columbia Lottery Corporation.

As an agent of the Crown, the Corporation conducts, manages and operates all provincial gaming in the province, including commercial casinos, bingo halls, community gaming centres and lotteries.

### **Purpose of Document**

The purpose of this document is to clarify, for each of four primary areas of the Branch's responsibilities:

- The responsibilities of the Branch with respect to provincial gaming;
- The authority under which the Branch carries out its responsibilities with respect to provincial gaming (including broad authorities under the Gaming Control Act and specific direction from the Solicitor General in response to the recent reviews conducted by the British Columbia Ombudsman and Deloitte & Touche); and
- The implications for, and what the Branch needs from, the Corporation in order for the Branch to fulfill its responsibilities with respect to provincial gaming.

The four areas of Branch responsibility which are addressed include:

1. Registering companies and people;
2. Certifying lottery schemes and gaming supplies;
3. Auditing for compliance with provincial requirements; and
4. Investigating allegations of wrongdoing.

Roles, responsibilities and obligations reflected in this document will be updated if and as necessary.

Under the Gaming Control Act, the Branch is responsible for the overall integrity of gaming and horse racing, a term not defined in the Act. The Branch defines impacts on the integrity of gaming to include all actions, incidents or things which could or may (either actually or by way of perception) corrupt the gaming and/or horse racing industries, or any portions of them, or bring the reputation of, or public confidence in, those industries into disrepute.

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### **1. Registering Companies and People**

The Branch ensures the integrity of companies and people involved in B.C.'s gaming industry by registering gaming services providers and gaming workers. This includes:

- Registering all gaming services providers and gaming workers to ensure their integrity in advance of becoming involved in provincial gaming;
- Registering all appointees and employees of the Corporation as gaming workers to ensure their suitability in advance of their appointment or employment;
- As part of the approval process, reviewing ownership, lease agreements, sources of proposed financing involving new locations and relocations of gaming venues;
- Reviewing proposed changes in directors, officers, partners or associates, or the intended acquisition or disposition of shares or securities, or proposed changes in ownership or financing; and approve or deny the intended changes before the proposed changes are finalized;
- Ensuring ongoing suitability of registrants by conducting further background investigations or inquiries;
- Monitoring compliance with conditions of registration, including organizational and financial reporting obligations under Part 8 of the Act; and
- Maintaining a registry of gaming services providers and gaming workers.

#### ***Authority***

- The General Manager has delegated responsibility for the registration of gaming services providers and gaming personnel to the Executive Director of Registration and Certification pursuant to section 24(3) of the Act. The Executive Director also fulfills the role of Registrar and certifies evidence as required under section 103(2)(a) of the Act.
- As delegated by the General Manager, the Registration and Certification Division has sole authority for conducting background investigations of registrants and applicants for registration pursuant to section 80(1) of the Act.
- Under section 81 of the Act, the General Manager may designate any Branch employee as an Investigator for the purposes of Part 9 of the Act.
- Under section 80(2) of the Act, an Investigator has all the powers and duties that an Inspector has under section 79 of the Act.
- All Registration and Certification Division Investigators are authorized to conduct background investigations pursuant to section 80(1) of the Act.
- The Minister has appointed all Investigators of the Registration and Certification Division, including the Executive Director, as Special Provincial Constables under section 9 of the Police Act.
- Under section 55, it is a condition precedent to the appointment or employment that the prospective appointee or employee must undergo a background investigation to ascertain the suitability of the person for appointment or employment by the Corporation. The registration of all Corporation appointees and employees must be renewed every 5 years.

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- Under section 56(1) of the Act, the Branch must maintain a registry of all registered gaming services providers and gaming workers.
- Under section 56(3) of the Act, the Branch may attach conditions to registrations.
- Under section 86(1), the Corporation must provide Registration and Certification Division Inspectors or Investigators with any information, records or things requested by the Inspector or Investigator.
- Under section 87 of the Act, the Corporation and its officers and employees:
  - Must submit to an investigation or inspection conducted by the Registration and Certification Division;
  - Must not obstruct or interfere with an investigation or inspection conducted by the Registration and Certification Division; and
  - Must not withhold or refuse to produce any information, record or thing that is requested by an Investigator or Inspector.
- Under section 96 of the Act, the Corporation can not employ or engage a person unless they are appropriately registered with the Branch.
- Under section 35 of the Gaming Control Regulation, it is a condition of registration that all Corporation officials and employees must, depending on their duties, wear, display or produce for inspection, their official gaming worker registration card.

#### ***Implications for the British Columbia Lottery Corporation***

1. For the purposes of conducting, managing and/or operating provincial gaming, the Corporation may only enter into agreements with registered gaming services providers for gaming services defined under section 1 of the Act and section 3 of the Regulation.
2. Prior to completion of any agreement for the provision of gaming services with respect to the Corporation's conduct, management and/or operation of provincial gaming, the Corporation must ensure that all gaming services providers and lottery retailers have been appropriately registered with the Branch.
3. The Corporation must ensure that all officials and employees that are appointed or employed by the Corporation are appropriately registered by the Branch.
4. All Corporation employees must immediately report to the Registration and Certification Division any conflicts of interest or potential conflicts of interest that could possibly impact their roles and responsibilities as Corporation employees in accordance with the General Manager's directive of April 16, 2007.
5. In general, the Corporation must ensure that all Corporation employees wear or display a GPEB approved BCLC identification card at all times in a manner clearly visible to the public. This card must display the GPEB registration number and date of expiry as provided in the Certificate of Registration. An employee's card must be replaced every time that employee renews their registration. A card must not be issued to any person who does not hold a valid GPEB registration.

Despite the above, Corporation employees whose duties pertain to security or surveillance at gaming facilities are exempted from wearing an identification card while they are working in a gaming facility. However, such employees must produce their identification card for

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inspection at the request of a Branch Inspector or Investigator and wear their card at other material times.

6. The Corporation must submit to the Branch, within 30 days after the expiry of a month in which one or more officials or employees cease employment or appointment with the Corporation:
  - a) A list of those former officials and employees for that month, and
  - b) The official gaming worker identification cards of those former officials and employees.
7. The Corporation must maintain an up-to-date listing of all Lottery Operations Agreement holders and advise the Registration and Certification Division, on a weekly basis, of any cancellations, additions, or modifications to the agreements.
8. The Corporation must maintain an up-to-date listing of all Casino, Bingo or Community Gaming Centre Operational Services Agreements and advise the Registration and Certification Division, within two (2) business days, of signing a final version of any cancellations, additions, or modifications to the agreements.

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### **2. Certifying Lottery Schemes and Gaming Supplies**

The Minister of Public Safety and Solicitor General has sole authority for approving new lottery schemes in B.C. and the Branch supports the Minister in this activity. The Branch certifies, and ensures the technical integrity of, lottery schemes, gaming equipment and gaming supplies in B.C.'s gaming industry. This includes:

- Establishing Technical Gaming Standards applicable to electronic gaming equipment and non-electronic gaming supplies approved for use in B.C..
- Certifying and approving the integrity of all lottery schemes before they can be used in provincial gaming, including Internet gaming;
- Certifying and approving all electronic and non-electronic gaming equipment before it can be used in provincial gaming, including Internet gaming; and
- Certifying and approving all electronic and non-electronic gaming supplies before they can be used in provincial gaming, including gaming conducted over the Internet.

#### ***Authority***

- The General Manager has delegated responsibility for certification and compliance respecting the technical integrity of gaming equipment, gaming supplies and lottery schemes used in provincial gaming to the Executive Director of Registration and Certification pursuant to section 24(3) of the Act.
- Under section 81 of the Act, the General Manager may designate any Branch employee as an Investigator for the purposes of Part 9 of the Act.
- The Minister has appointed all Investigators of the Registration and Certification Division, including the Executive Director, as Special Provincial Constables under section 9 of the Police Act.
- Under section 75(1) of the Act, the Corporation can not use, or permit the use of, gaming equipment in connection with a lottery scheme unless the Branch has issued a certificate of technical integrity.
- Under section 75(2) of the Act, the Corporation must advise the Branch if any gaming equipment has been repaired, altered or upgraded or has malfunctioned, and the Corporation must not use the gaming equipment until the use has been approved in writing.
- As per the General Manager's Directive dated March 14, 2007, the Corporation must ensure all gaming supplies used in conjunction with a lottery scheme have been approved in writing by the Branch, and advise the Branch if any such supplies have been found to be defective. Gaming supplies that have been repaired or altered must be further approved in writing by the Branch.
- Gaming equipment is defined under section 74 of the Act.
- Gaming supplies are defined in section 1(1) of the Act, and sections 6 and 7 of the Regulation.
- Under section 86(1), the Corporation must provide Registration and Certification Division Inspectors or Investigators with any information, records or things requested by the Inspector or Investigator.

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- Under section 87 of the Act, the Corporation and its officers and employees:
  - Must submit to an investigation or inspection conducted by the Registration and Certification Division;
  - Must not obstruct or interfere with an investigation or inspection conducted by the Registration and Certification Division; and
  - Must not withhold or refuse to produce any information, record or thing that is requested by an Investigator or Inspector.

#### ***Implications for the British Columbia Lottery Corporation***

1. Prior to conducting and managing any new or modified lottery scheme, the Corporation must ensure that the technical integrity of the new or modified lottery scheme has been approved in writing by the Executive Director of Registration and Certification.

If supported by the Corporation, a company wanting to provide gaming equipment or gaming supplies to BCLC may request a limited approval for testing by BCLC under a GPEB limited review application process. Details of the conditions and limitations of the limited review application are outlined in see Appendix A.

2. Prior to using gaming supplies in the conduct and management of a lottery scheme, the Corporation must ensure that the technical integrity of the gaming supplies has been approved, either individually or according to the type of gaming supply, in writing by the Executive Director of Registration and Certification.
3. The Corporation must immediately advise the Executive Director of Registration and Certification in writing if any gaming supplies used in lottery schemes have been altered, upgraded or repaired, or have been found defective in manufacture or design, and the Corporation must not use such gaming supplies after any alteration, upgrade or repair, until the further use has been approved in writing by the Executive Director of Registration and Certification. For clarity, specific conditions for reporting are articulated in the technical standards outlined for each machine. Generally, the Branch must be notified when a significant alteration, upgrade, or repair occurs, or when a significant defect is found in the manufacture or design of a lottery scheme.
4. The Corporation must permit Branch Inspectors, Investigators, and registered technical personnel contracted by the Branch, to enter and inspect any area of the business premises of the Corporation where:
  - a) Provincial gaming is conducted, managed and/or operated by the Corporation; and
  - b) Gaming equipment and/or gaming supplies used in the conduct, management, operation or presentation of gaming are operated, conducted, stored or tested.
5. The Corporation must permit Branch Inspectors, Investigators, and registered technical personnel contracted by the Branch, to access and inspect, audit and examine any written, electronic or computerized information, documents, records or things in possession of the Corporation which the Inspectors or Investigators determine are necessary to carry out their responsibilities.



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6. The Corporation must permit Branch Inspectors and Investigators to immediately remove or copy any information, documents, records or things from the Corporation for technical integrity purposes.

The Branch will provide the Corporation with a receipt for any records or things removed. In principle, the Branch will ensure that the Corporation retains copies or originals of any materials which the Branch removes. However, if the volume of material is so large that such an effort is unreasonable, the Branch will ensure the Corporation receives copies as soon as practicable.

7. Upon written or verbal request, the Corporation must immediately, or as soon as available, provide any information, documents, records or things an Inspector or Investigator deems necessary to ensure the technical integrity of gaming equipment. The Corporation may request a time extension in extenuating circumstances.

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### **3. Auditing for Compliance with Provincial requirements**

The Branch conducts regular and periodic inspections, audits or investigative audits (generally referred to as audits) of all provincial gaming to ensure compliance with all applicable legislation, regulation, public interest standards and directives. These audits are developed in the context of a risk management framework and acceptable risk tolerances for both the Branch and the industry. This work includes:

- Establishing and maintaining an audit framework, audit and inspection standards, and policies and procedures for all gaming operations and the use of provincial gaming revenues;
- Verifying all provincial gaming is conducted in compliance with gaming legislation, directives, public interest standards, policies and procedures;
- Verifying service providers and the Corporation comply with all audit and compliance requirements;
- Subjecting all commercial gaming sites to routine audits and, as necessary, random and/or occasional audits;
- Subjecting the Corporation to routine audits and, as necessary, random and/or occasional audits concerning its conduct, management and operation of all forms of provincial gaming and its management of provincial gaming revenues as they impact Branch responsibilities;
- Reviewing and monitoring the Corporation's compliance regime. This includes, but is not limited to the Corporation's:
  - Internal audit programs;
  - Operational gaming audit programs; and
  - Quality assurance programs.
- Responding to complaints from:
  - The public, regarding activities that may compromise the integrity of gaming; and
  - The Corporation, pertaining to non-compliance by a service provider.

#### **Authority**

- The General Manager has delegated responsibility for conducting audits of provincial gaming, including provincial gaming conducted, managed and operated by the Corporation, to the Executive Director of Audit and Compliance pursuant to section 24(3) of the Act.
- Section 27(3)(c) of the Act authorizes the Branch to make inquiries into any matter that effects or could reasonably effect the integrity of gaming.
- Under section 78(1) of the Act, Audit and Compliance Division Auditors are designated as Inspectors for the purposes of Part 9.
- The powers and duties of an Inspector are set out under section 79(1) of the Act.
- Under section 86(1), the Corporation must provide Auditors or Inspectors with any information, records or things requested by the auditor.

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- Under section 87 of the Act, the Corporation and its officers and employees:
  - Must submit to an audit or inspection conducted by the Audit and Compliance Division;
  - Must not obstruct or interfere with an audit or inspection conducted by the Audit and Compliance Division; and
  - Must not withhold or refuse to produce any information, record, or thing that is requested by an auditor or Inspector.

***Implications for the British Columbia Lottery Corporation***

1. The Corporation must permit Branch Auditors or Inspectors to enter and inspect any area of the business premises of the Corporation where:
  - a) Provincial gaming is conducted, managed and/or operated by the Corporation; and,
  - b) Gaming equipment and/or gaming supplies used in the conduct, management, operation or presentation of gaming are operated, conducted, stored or tested.
2. The Corporation must permit Branch Auditors or Inspectors to access and inspect, audit and examine any written, electronic or computerized information, documents, records or things in possession of the Corporation which the Auditors or Inspectors determine are necessary to carry out their responsibilities.
3. The Corporation must permit Branch Auditors or Inspectors to immediately remove or copy any information, documents, records or things from the Corporation for audit/inspection purposes.
4. The Branch will provide the Corporation with a receipt for any records or things removed. In principle, the Branch will ensure that the Corporation retains copies or originals of any materials which the Branch removes. However, if the volume of material is so large that such an effort is unreasonable, the Branch will ensure the Corporation receives copies as soon as practicable.
5. Upon written or verbal request, the Corporation must immediately, or as soon as available, provide any information, documents, records or things an Auditor or Inspector deems necessary for the purposes of an audit or inspection. The Corporation may request a time extension in extenuating circumstances.

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### **4. Investigating Allegations of Wrongdoing**

The Branch ensures the integrity of gaming by investigating, or assisting law enforcement agencies in the investigation of, complaints or allegations of criminal or regulatory wrongdoing in provincial gaming in the province. This includes:

- Investigating complaints and allegations of wrongdoing in provincial gaming in the province for the purpose of prosecution and/or administrative hearings;
- Conducting investigations in relation to allegations of wrongdoing internal to the Corporation;
- Conducting all investigations in relation to allegations of wrongdoing, including investigations involving licensees and registrants.
- Investigating and/or assisting law enforcement agencies in investigating illegal gambling activity;
- Ensuring all complainants are advised of the outcome of complaints in a timely manner to enhance public confidence in the integrity of gaming;
- Gathering and maintaining intelligence concerning the extent, type, and nature of unlawful activity in gaming and horse racing; and
- Identifying trends in unlawful gaming activity by tracking complaints and allegations.

#### **Authority**

- Pursuant to section 24(3) of the Act, the General Manager has delegated sole authority to the Executive Director, Investigations and Regional Operations Division (Investigations Division), to:
  - Independently direct confidential investigations in relation to Criminal Code and Act offences including any other matter that may affect the integrity of gaming;
  - Exercise the discretion, under section 85 of the Act, to place a gaming site under video surveillance as part of an investigation under section 81(2); and
  - Certify evidence as required under section 103(2)(a) of the Act.
- As delegated by the General Manager, the Investigations Division is solely responsible for all investigations conducted under section 81 of the Act.
- Section 27(3)(a) of the Act authorizes the Branch to conduct investigations respecting the integrity of all gaming, including provincial gaming.
- Under section 81 of the Act, the General Manager may designate any Branch employee as an Investigator for the purposes of Part 9 of the Act.
- Under section 80(2) of the Act, an Investigator has all the powers and duties that an Inspector has under section 79 of the Act.
- All Investigations Division Investigators appointed under section 81 of the Act are:
  - Authorized to conduct investigations for the administration and enforcement of the Act and have all the powers and duties that an Inspector has under section 79; and

### **Key Regulatory Responsibilities of the Gaming Policy and Enforcement Branch and their Application to the British Columbia Lottery Corporation**

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- Delegated the authority to request, under section 86(1) of the Act, information, records, or things from the Corporation that are deemed to be relevant to an investigation.
- The Minister has appointed all Investigators of the Investigations Division, including the Executive Director, as Special Provincial Constables under section 9 of the Police Act. For this purpose, Investigators are empowered to enforce the Criminal Code and all Provincial Statutes of B.C. to the extent necessary.
- Under section 81(4) of the Act, the Branch must report to the Corporation the results of investigations, if the investigation is undertaken at the request of the Corporation, or if the General Manager deems it appropriate.
- Under section 86(1) of the Act, the Corporation must provide to the Investigations Division any information, records or things requested by the Investigators that are relevant to an investigation.
- Under section 86(2) of the Act, the Corporation must notify the Investigations Division immediately about any conduct, activity or incident which potentially involves or involved:
  - The commission of an offence under a provision of the Criminal Code that is relevant to gaming; or
  - The commission of an offence under the Act or the regulations.
- Under section 87, the Corporation and its officers and employees:
  - Must submit to an investigation conducted by the Investigations Division;
  - Must not obstruct or interfere with an investigation conducted by the Investigations Division; and
  - Must not withhold or refuse to produce any information, record or thing that is requested by an Investigator or Inspector.

#### ***Implications for the British Columbia Lottery Corporation***

1. The Corporation must permit Investigations Division Investigators to enter and inspect any area of the business premises of the Corporation where:
  - a) Provincial gaming is conducted, managed and or operated by the Corporation; and
  - b) Gaming equipment and/or gaming supplies used in the conduct, management, operation, or presentation of gaming are operated, conducted stored or tested.
2. The Corporation must permit Investigations Division Investigators to access and inspect and examine any written, electronic, or computerized information, documents, records or things in possession of the Corporation which the Investigators determine are necessary to carry out their responsibilities.
3. Upon written or verbal request, the Corporation must immediately, or within two (2) business days, provide any information, documents, records or things an Investigations Division Investigator deems necessary for the purposes of an inspection or investigation. The Corporation may request a time extension in extenuating circumstances and the Branch will consider operational issues and respond to such requests on a case by case basis.

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4. The Corporation must permit Investigations Division Investigators to immediately remove or copy any information, documents, records or things from the Corporation for investigation purposes.
5. The Investigations Division Investigators will provide the Corporation with a receipt for any records or things removed. In principle, the Branch will ensure that the Corporation retains copies or originals of any materials which the Branch removes. However, if the volume of material is so large that such an effort is unreasonable, the Branch will ensure the Corporation receives copies as soon as practicable.
6. The Corporation must immediately notify the Investigations Division of any suspicious conduct, activity or incident that occurs in relation to provincial gaming that may involve:
  - a) The commission of an offence under the provisions of the Criminal Code that is relevant to, or may impact the integrity of, gaming;
  - b) A contravention to the Gaming Control Act or related regulations that is relevant to, or may impact the integrity of, gaming; or
  - c) Any other matter that is relevant to, or may impact the integrity of, gaming.For further clarification, see Appendix B attached.
7. The Corporation must immediately notify the Investigations Division of all known wins or multiple wins by retailers (including retail managers and employees), regardless of size or situation, as soon as the Corporation is aware of such an instance occurring. The Corporation must report all such known wins or multiple wins in a way that is consistent with, and preferably using, section 86 reports.
8. The Branch will review each file concerning a win or multiple win by a retailer/retailer employee received from the Corporation and will, where appropriate and/or necessary, conduct an independent investigation.
9. The Corporation is not required to hold in abeyance any prize payouts of retailer or retailer employee wins reported to the Investigations Division unless otherwise notified by the Division.
10. Upon notification by the Investigations Division, the Corporation must hold in abeyance any compliance reviews<sup>1</sup> (including all wins by retailer managers and employees) on any matter under review or investigation by the Investigations Division until notified by the Investigations Division that its review or investigation has been completed.
11. The Investigations Division will notify the Corporation when the review or investigation is concluded and of its findings.
12. All lottery retailers are legally obligated to report any suspicious conduct, activity or incident that occurs in relation to provincial gaming directly to the Investigations Division through the applicable section 86 reporting process outlined by the Investigations Division.
13. The Corporation must ensure all BCLC Hot Line customer service staff members direct any calls they receive from retailers or retail employees that pertain to suspicious conduct, activities or incidents to the Investigations Division (including through GPEB's toll-free number, available for retailers to report suspicious conduct, activity or incidents).

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<sup>1</sup> For the purposes of this document, any review or investigation undertaken by the Corporation's Security Department is referred to as "compliance reviews."

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14. The Corporation has committed to work with the Branch to develop a coordinated approach to enhance lottery retailer compliance with reporting requirements. This approach will include, but is not limited to, contributing to the development of communication plans, disseminating information related to GPEB and relevant GPEB programs through its sales network, and participating in periodic evaluations of retailer compliance and retailer knowledge of their roles and responsibilities.
15. The Investigations Division will develop processes for receiving reports of suspicious conduct, activities or incidents from retailer including a toll-free number, email and Internet reporting functions.
16. The Corporation must provide monthly written reports to the Investigations Division which itemizes all reports submitted by the Corporation to the Investigations Division under section 86 of the Act.
17. The Investigations Division will reconcile the monthly report to ensure completeness and accuracy of the receipt and contents of the reports from the Corporation, and will notify the Corporation of any discrepancies.
18. The Investigations Division will provide periodic feedback to the Corporation, in relation to any deficiencies noted with respect to the section 86 reports and related information, records, or things provided by the Corporation under section 86(1) of the Act.

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**Appendix A – Limited review application process**

***Limited Review Application Process for Companies Seeking to Contract with the British Columbia Lottery Corporation***

If supported by the Corporation, a company wanting to provide gaming equipment or gaming supplies to BCLC may request a limited approval for testing by BCLC under a GPEB limited review application process.

This process will not replace GPEB's current due diligence requirement consisting of a full and thorough background investigation of all applicants for registration.

Under this process:

- Applicants submitting an Initial Review Application(s) will authorize GPEB to conduct criminal record, financial and related jurisdictional checks to assess suitability for Limited Approval to supply gaming products for testing purposes. There will be no charge for this application;
- The gaming equipment or supply under consideration must be independently tested and issued a Certificate of Technical Integrity by GPEB prior to operating in a live environment;
- The testing period under this process would be limited to 90 days. However, the Corporation may request to have this testing period extended and consideration for such requests will be addressed on a case-by-case basis;
- The applicant company is not permitted to sell, lease, licence or otherwise distribute their products in British Columbia under this form of approval;
- All normal operating controls, policies and procedures for gaming equipment must be in place (as if the equipment were being used under regular circumstances); and
- GPEB would audit the operation of the equipment (as if the equipment were being used under regular circumstances).



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**Appendix B – Section 86 reporting by BCLC**

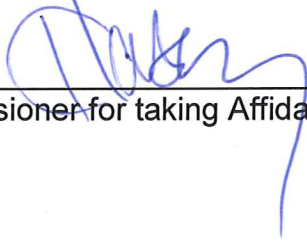
***British Columbia Lottery Corporation Section 86 Reporting Requirements***

Section 86(2) of the Gaming Control Act requires the British Columbia Lottery Corporation to notify the Gaming Policy and Enforcement Branch Investigations and Regional Operations Division without delay, about any conduct, activity or incident occurring in connection with a lottery scheme or horse racing, (including incidents at a gaming facility or in relation to any of the Corporation's lottery products) that may be considered contrary to the Criminal Code of Canada, the Act or Gaming Control Regulations, or that may affect the integrity of gaming or horse racing. This includes, but is not limited to:

- a. Cheating at play;
- b. Theft affecting the integrity of the game (e.g.. thefts from the house or by a gaming worker);
- c. Theft of lottery products from a lottery retailer;
- d. Any theft or wrongdoing in relation to lottery products, gaming equipment or gaming supplies from the Corporation; inventory before the lottery product is distributed to lottery retailers;
- e. Prize claims by an individual with an alleged stolen lottery ticket;
- f. Fraud;
- g. Any suspicious or alleged fraud or theft by a lottery retailer/retail employee;
- h. Any forgery of any lottery tickets;
- i. Money laundering;
- j. Persons suspected of passing counterfeit currency;
- k. Loan sharking;
- l. Robbery;
- m. Assault;
- n. Threats against, or intimidation of gaming employees;
- o. All lottery retailer lottery wins or lottery retailer employee lottery wins;
- p. All suspensions, revocations, or cancellations of Lottery Operator Agreements with lottery retailers;
- q. Unauthorized lottery schemes;
- r. Unauthorized gaming by minors;
- s. Unregistered gaming workers; and
- t. Unregistered service providers.

The Corporation need not report incidents already reflected in section 86 reports forwarded to the Investigations and Regional Operations Division by service providers and lottery retailers (and copied to the Corporation).

This is Exhibit "C" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.

A handwritten signature in blue ink, appearing to be 'D. J. [unclear]', written over a horizontal line.

A Commissioner for taking Affidavits within British Columbia



## **Roles and Responsibilities of Participants in British Columbia's Gaming Industry**

The purpose of this document is to outline the roles and responsibilities of all participants in British Columbia's gaming industry. The list of roles and responsibilities is not intended to be, and should not be construed as, exhaustive but is intended to provide a general understanding based on the enabling legislation the Gaming Control Act (the Act) and its Regulations.

### **1. Role of Government**

Government, through the Minister responsible, provides broad policy direction to ensure British Columbia's social and economic priorities for gaming are achieved. Government is not involved in decisions respecting individuals or specific companies or organizations, or in the day-to-day management of gaming except where approval for such decisions is required under the Act.

## **2. Regulating the British Columbia Gaming Industry**

### **2.1 Gaming Policy and Enforcement Branch**

The Gaming Policy and Enforcement Branch (GPEB) has regulatory oversight over all gaming in the province. This includes ensuring the integrity of gaming, gaming industry companies, people and equipment. GPEB has several responsibilities; these include but are not limited to:

- Developing and maintaining the policy and regulatory framework for gaming and horse racing;
- Establishing industry-wide public interest standards;
- Managing the distribution of gaming proceeds to communities and community organizations, including payments to local governments and the horse racing industry and the Province's Community Gaming Grant program;
- Issuing gaming event licences to eligible charitable organizations;
- Licensing, regulating and managing the conduct of horse racing in British Columbia including the overseeing of horse racing events, determining the outcome of each race and adjudicating any related matters;
- Registering all gaming services providers, gaming workers, and lottery retail managers;
- Approving and certifying, in advance of implementation, the technical integrity of all gaming equipment and lottery schemes operating in the province;
- Managing an audit plan for the gaming industry which includes auditing BCLC, commercial gaming facilities, horse racing facilities, lottery retailers, licensed gaming events and community organizations' use of gaming proceeds;

## **Roles and Responsibilities of Participants in British Columbia's Gaming Industry**

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- Managing a rigorous investigation program which includes investigating all complaints and allegations of wrongdoing related to gaming and assisting law enforcement agencies in all criminal investigations in or near gaming and horse racing facilities;
- Managing the GPEB's risk management strategy for the gaming industry as a whole; and
- Managing the Province's Responsible Gambling Strategy, including the Problem Gambling Program, in order to minimize harm and promote responsible gambling practices.

### **3. Conduct and Management of Gaming in British Columbia**

#### **3.1 British Columbia Lottery Corporation**

BCLC is a commercial Crown corporation and agent of the Crown which is responsible for conducting and managing all commercial gaming in the province, with the exception of horse racing. In general, BCLC is a gaming entertainment company that manages all contracts and formal relationships with gaming facility service providers, lottery retailers as well as all gaming agreements with other provinces and the federal government.

BCLC is responsible for enhancing the financial performance, integrity, efficiency, and sustainability of the gaming industry in the province within the policy framework established by the Province of British Columbia. BCLC is also responsible for complying with operating and reporting requirements set out by its Board of Governors, government and any applicable laws and regulations.

#### **3.2 Horse Racing Service Providers**

Horse racing service providers are companies that conduct and operate horse race events. These service providers are licensed by GPEB and are responsible for conducting horse racing in accordance with rules and regulations as set by the Province in the Gaming Control Act and the Rules of Thoroughbred and Standardbred Horse Racing in B.C. Wagering on horse races is regulated by the federal government through the Canadian Pari-Mutuel Agency.

#### **3.3 Community Organizations Running Charitable Gaming Events**

Not for profit community organizations are eligible to conduct charitable gaming events. These organizations must obtain an appropriate licence from GPEB to conduct gaming events. Types of gaming events that can be conducted by community organizations include ticket raffles, independent bingos, wheels of fortune and social occasion casinos.

Organizations that host licensed charitable gaming events are responsible for complying with the rules and regulations outlined by the Province as well as any applicable standards (i.e.: Advertising and Marketing Standards).

Individuals who run large scale charitable gaming events are considered gaming workers and as such they must be registered by GPEB (see below).

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## **Roles and Responsibilities of Participants in British Columbia's Gaming Industry**

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### **3.4 Charitable Gaming Event Operators**

Like regular gaming workers, individuals who conduct and manage large charitable gaming events must be registered by GPEB. Charitable Gaming Event Operators are responsible for ensuring that the games they are running comply with all applicable standards and regulations including ensuring appropriate operational, financial and reporting processes are in place.

## **4. Supporting the Delivery of Gaming in British Columbia**

### **4.1 Gaming Service Providers**

BCLC contracts with the private sector to provide day to day operational services at its gaming facilities; to sell lottery products; and, to provide gaming equipment and supplies. Gaming facility service providers include casino, bingo and community gaming centre operators. Gaming services providers are registered by GPEB and are responsible for complying with all applicable rules and regulations as well as complying with the terms and conditions of contract with BCLC.

### **4.2 Gaming Equipment Suppliers**

BCLC contracts with private sector companies to provide materials and equipment for gaming. Gaming equipment suppliers produce a wide variety of items such as slot machines, bingo paper, poker chips and tickets for scratch and win or pull tab games. Gaming equipment suppliers are registered by GPEB and are responsible for complying with all applicable rules and regulations as well as complying with the terms and conditions of contract with BCLC. In addition, gaming equipment suppliers are responsible for ensuring their products comply with all of the Province's Technical Gaming Standards.

### **4.3 Key Persons**

Key persons are individuals who hold critical security, operational or financial responsibilities in the gaming and horse racing industries. This includes directors, officers and senior employees of any business that is involved with gaming operations in the province. Key persons have several responsibilities which include but are not limited to ensuring that they obey the standard operating procedures and rules of play established by GPEB and BCLC and ensuring that they, and the gaming companies in B.C. they are affiliated with, comply with the Province's Advertising and Marketing, Responsible Gambling, and Security and Surveillance Standards.

### **4.4 Ancillary and Other Service Providers**

Ancillary and other service providers include companies that provide services to gaming operators that are not directly related to the delivery of gaming. These include janitorial services and concessionaires. These service providers are responsible for ensuring all employees who work in gaming venues are registered by GPEB and that they comply with all applicable rules and regulations.

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## **Roles and Responsibilities of Participants in British Columbia's Gaming Industry**

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### **4.5 Gaming and Horse Racing Workers**

Gaming workers are individuals who work with large-scale licensed raffles, casino games, commercial bingos or teletheatres. Horse race workers are individuals who work for, or conduct business with, race tracks. These include jockeys, grooms, trainers, race horse owners and racing officials. They also include anyone that is connected in any capacity to the industry.

Gaming and horse racing workers are registered by GPEB to ensure the integrity, honesty and financial responsibility of gaming and horse racing operations. Gaming workers and horse race workers have certain responsibilities which include complying with the standards, policies, operating procedures and rules established by GPEB and BCLC.

### **4.6 Horse Racing Teletheatre Operators**

Teletheatres present simulcast satellite broadcasts of horse races run at local, national and international tracks. Teletheatres are licensed by GPEB and are responsible for complying with the Province's Advertising and Marketing, Responsible Gambling, and Security and Surveillance Standards.

The operators of teletheatres are considered gaming services providers and are required to be registered by GPEB.

### **4.7 Lottery Retail Contract Manager**

Lottery Retail Contract Managers are individuals who have "managerial responsibility" for a Lottery Operations Agreement contract with BCLC to sell lottery tickets or provide other types of provincial gaming. GPEB registers all individuals who have either on-site managerial responsibility or managerial responsibility for a contract with BCLC which authorizes the sale of lottery products. Lottery Retail Contract Managers are responsible for complying with the terms conditions the Lottery Operations Agreement as well as all the conditions of registration established by the Province. These individuals are also responsible for supervising Lottery Retail On-Site Managers (see below).

### **4.8 Lottery Retail On-Site Manager**

Lottery Retail On-Site Managers are individuals with on-site managerial responsibility at any facility where lottery tickets are sold. The On-Site Manager is a person who acts on behalf of the Lottery Retail Contract Manager by: overseeing or coordinating lottery product sales; managing compliance issues with respect to the sale of lottery products; and exercising significant decision making authority with respect to the sale of lottery products by the lottery ticket retailer. On-Site Managers are registered by GPEB and are responsible for complying with the condition of registration and the Lottery Operations Agreement and for complying with conditions of registration established by the Province.

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## Roles and Responsibilities of Participants in British Columbia's Gaming Industry

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### 5. Lottery Players and Gaming Patrons

#### 5.1 Lottery players

Government cannot mandate lottery player behaviour such that people are required to protect themselves. Lottery players are consumers and as in any retail environment, they have a responsibility to act prudently including utilizing any of the safeguards made available to them.

Such measures include:

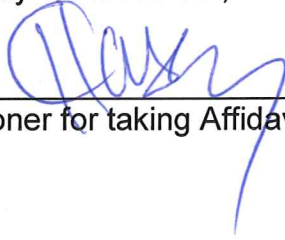
- Signing the back of the ticket at time of purchase;
- Using self-serve Check-A-Ticket terminals to determine if their ticket has won a prize;
- Ensuring that lottery retailers return the ticket and provide a validation slip when they have validated a ticket;
- Setting spending limits;
- If registered with PlayNow, access the voluntarily self-exclusion option if they have concerns about their gambling choices;
- If a player believes they have witnessed an incident of wrongdoing (i.e. a retailer has not properly followed validation procedures or has not paid the correct prize), they can contact GPEB's Investigation Division through its toll-free number, 1-877-660-8850 or through GPEB's website at: <https://eservice.pssg.gov.bc.ca/gaming/inv/Complaint>; and
- Contacting BCLC's Player Feedback Centre at 1-866-815-0222 if a player has any customer service questions or concerns.

#### 5.2 Gaming Patrons (casinos, race tracks, commercial bingo halls, licensed gaming events, community gaming centres, etc.)

Similar to lottery players, Government cannot mandate gaming patron behaviour such that people are required to protect themselves. Gaming patrons have a responsibility to utilize the variety of safeguards at their disposal to ensure they are protected. These safeguards include:

- Knowing how games operate and what the odds of winning are;
- Being aware of your surroundings and taking proper precautions with gaming chips, bingo cards, cash, etc.;
- Playing with a friend and setting time and spending limits;
- Signing up to be voluntarily self-excluded from casinos, commercial bingo halls or community gaming centres if gambling is a problem for them;
- If a patron believes they have witnessed an incident of wrongdoing they can contact GPEB's Investigation Division through its toll-free number, 1-877-660-8850 or through GPEB's website at: <https://eservice.pssg.gov.bc.ca/gaming/inv/Complaint>; and
- Contacting BCLC's Player Complaint Centre at 1-866-601-1818 if a patron has any customer service issues or complaints.

This is Exhibit "D" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.

A handwritten signature in blue ink, appearing to be "D. Gray", is written over a horizontal line.

A Commissioner for taking Affidavits within British Columbia



**Vander Graaf, Larry P EMNG:EX**

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**From:** Burrows, Colin EMNG:EX  
**Sent:** Tuesday, September 24, 2013 12:43 PM  
**To:** Vander Graaf, Larry P EMNG:EX  
**Cc:** Schalk, Joe EMNG:EX; Dickson, Derek EMNG:EX  
**Subject:** RE: ML in BC Casinos

Larry:

I have two appointments set for tomorrow so I will not unfortunately be at your meeting.

I do have some comments and concerns.

- 1) We are not as previously discussed set up for, nor are we capable of investigating such cases.
- 2) Police of jurisdiction are the agency/authority that should be investigating such cases of loan sharking/money laundering.
- 3) I have knowledge of individuals frequenting the different venues but more specifically at the River Rock Casino that have strong ties and associations with organized crime.
- 4) I have been informed and believe these individuals are known to be violent, carry weapons and have in the past accessed certain data bases in order to obtain information about individuals such as police officers, other enforcement officers and or GPEB Investigators.
- 5) I feel these cases should be investigated by the police of jurisdiction and if possible we assist in any way they need.
- 6) Any attempts to investigate these allegations would put our investigators at risk and my opinion is that to do so would be a serious safety hazard.

Colin Burrows.

-----Original Message-----

**From:** Vander Graaf, Larry P EMNG:EX  
**Sent:** Tuesday, September 24, 2013 10:43 AM  
**To:** Barber, Rob EMNG:EX; Willis, Dave EMNG:EX; Philip, Albert J EMNG:EX; Forshaw, Mark EMNG:EX; Ackles, Ken EMNG:EX; Blommaert, Dennis EMNG:EX; Burrows, Colin EMNG:EX; Meyer, Paul EMNG:EX  
**Cc:** Schalk, Joe EMNG:EX; Dickson, Derek EMNG:EX  
**Subject:** ML in BC Casinos

Confidential

Casino Unit LMD (very brief background)

In the past number of months (or years depending how you look at it) this Division has collected data, prepared Reports of Findings and given observations to the Branch and others on suspected money laundering in Casinos in BC. It should be noted that the "Money Laundering Alarm" was sounded many years earlier by this Division (written solutions were outlined in 2008) but were not addressed. As a result of the "Kroeker Report" (2011) and Press coverage on the money Laundering issue the Branch decided to form the AML group to address the horrendous influx of unexplained cash into the Casinos in BC. As you are aware this cash was being brought into and continues to be brought into the Casinos by gamblers in volumes such as, \$200,000 in \$20 dollar bills. It has been written and reported on by this Division on many occasions that the origins of the majority of this cash is from loan sharks. It has also been reported on that the loan sharks receive the cash from various Organized Crime Groups.

The Branch implemented the AML Strategy in 2011 and the objective was, "The Gaming industry will prevent money laundering in gaming by moving from a cash based industry as quickly as possible and scrutinizing the remaining cash for appropriate action. This shift will respect or enhance our responsible gambling practices and the health of the industry."

The Investigation Division management were open advisors to the AML Group and provided strong written recommendations (not always accepted). We also continued to provide cash volume statistics and analytical data that we prepared from the Section 86 Reports on Suspicious Currency Transactions submitted by Service Providers. A multitude of enhancements have been provided by Branch Policy to attempt to move from a cash based industry, however it is our opinion those initiatives have not reduced the volume of suspicious cash nor the number of Suspicious Currency Transactions. In fact they are increasing.

You are on the ground on this matter and as the Branch enters into the final phase of the AML strategy I would like your input and suggestions, if any, on this issue. I feel this is an important juncture in AML and I am hoping that with even this short notice you can all attend. I will be forwarding a meeting attendance request.

Joe and Derek will provide input to the group at the meeting to ensure that we are all up-to-date on what information this Division possesses on the matter.

I look forward to your open and frank discussion.

Thanks

Larry

Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

This message is confidential and is intended only for the individual named. It may contain privileged information. If you are not the named addressee you should not disseminate, distribute or copy this e-mail. Any unauthorized disclosure is strictly prohibited. If you receive this e-mail in error, please notify the sender immediately and delete this e-mail from your system.

This message is confidential and is intended only for the individual named. It may contain privileged information. If you are not the named addressee you should not disseminate, distribute or copy this e-mail. Any unauthorized disclosure is strictly prohibited. If you receive this e-mail in error, please notify the sender immediately and delete this e-mail from your system.

This is Exhibit "E" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.

  
\_\_\_\_\_  
A Commissioner for taking Affidavits within British Columbia

**MEMORANDUM****CONFIDENTIAL**

This Memo is confidential and is intended only for the individual named. It may contain privileged information. You should not disseminate, distribute or copy this Memo. Any unauthorized disclosure is strictly prohibited.

**2013 November 20**

**TO: Joe Schalk, Senior Director**  
**Investigations and Regional Director, LMD**  
**Gaming Policy and Enforcement Branch, Investigations and Regional Operations Division**

**FROM: Derek Dickson**  
**Director of Casino Investigations, LMD**

**SUBJECT: Organized Crime Groups operating at or near LMD casinos.**

As a result of ongoing and now further recent intelligence received from different police agencies, it is confirmed that the influence and existence of several Organized Crime (OC) groups in Lower Mainland (LMD) casinos is expanding. All casinos in the LMD have had known associates of OC groups within their venues, however the situation has become an increasing and even more significant issue at the River Rock Casino in Richmond.

GPEB Investigators have identified a number of loan sharks and associates of loan sharks that have been confirmed as affiliated to different OC groups, who are primarily supplying large sums of cash to a significant number of predominantly Asian patrons. These OC associates have criminal backgrounds that include:

- Kidnapping
- Forcible Confinement
- Possession of Restricted Firearms
- Human Trafficking
- Prostitution/Bawdy House
- Drug Trafficking
- Marijuana Grows
- Fraud
- Sexual Assault
- Illegal Gaming House
- Illegal Cigarettes, Counterfeit Merchandise
- Home Invasion

Ministry of  
Finance

Gaming Policy and  
Enforcement Branch  
Investigations and Regional  
Operations Division

Address:  
Lower Mainland Regional Office  
408 - 4603 Kingsway Avenue  
Burnaby BC V5H 4M4

Telephone: (604) 660-0245  
Facsimile: (604) 660-2030  
Web: [www.gaming.gov.bc.ca](http://www.gaming.gov.bc.ca)

These individuals and other unidentified associates operate in the area of a casino and are also known to utilize local businesses as meeting points where large sums of money are exchanged with the Asian patrons. It is also common for some patrons to remove one or more bags of money from a vehicle at or near a gaming venue and then enter the venue to gamble. On other occasions patrons can be seen entering a vehicle as it drives up to, or is already parked in front of, a venue and then drive away. Within a few minutes the same vehicle returns and the same patron who previously got into the vehicle now exits and enters the venue carrying a large sum of money contained in a bag.

Recent troubling information was received regarding two known patrons. One was identified as an international drug trafficker who is known to carry a firearm. The second is a known member of an OC group and has frequented numerous casinos in the LMD during the past few months.

### Public Interest Immunity

Public Interest Immunity

Police of jurisdiction confirmed that they were aware that this type of activity was occurring in and around the venue and that members of Organized Crime groups are involved.

### Conclusions

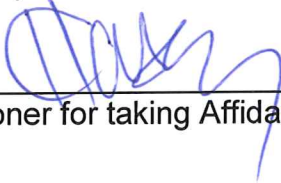
1. It is believed that the presence of Organized Crime groups in and around LMD casinos and intervention by our GPEB Investigators involved in investigations related to these types of people could present a safety hazard to them and others. As an organization, GPEB Investigations is not equipped to investigate or interact with known members and associates of OC groups. The criminal backgrounds and levels of violence employed by these individuals, in my opinion, completely rules out any interdiction strategies directed at curtailing the flow of suspicious currency/loan sharking/money laundering activities in LMD casinos.
2. The amount of suspicious cash being brought into the LMD casinos continues to increase. In conjunction with this, the increasing presence of OC groups in and around the venues also continues to increase the risk posed to the overall integrity of gaming in the Province.

This information is being provided for consideration in our ongoing processes in relation to Money Laundering issues associated with gaming in British Columbia.

*Derek Dickson*  
Derek Dickson, Director, Casino Investigations  
Investigations and Regional Operations Division  
Gaming Policy and Enforcement Branch

*Joe*  
*forwarding to me*  
*minutes*  
*Thanks*  
*Just comment in*  
*conclusion #1*  
*Shuebs*

This is Exhibit "F" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.

A handwritten signature in blue ink, appearing to be "D. J. [unclear]", written over a horizontal line.

A Commissioner for taking Affidavits within British Columbia

# MONEY LAUNDERING

by

**LARRY VANDER GRAAF**  
**Vancouver, British Columbia**  
**Canada**



# What is Money Laundering?

## Part XII.2 Criminal Code of Canada

### Definitions: Section 462.3

#### **“Designated Offence” means**

- a) any offence that may be prosecuted as an indictable offence under this or any Act of Parliament, other than an indictable offence prescribed by regulation or
- b) a conspiracy or an attempt to commit, being an accessory after the fact in relation to, or any counselling in relation to, an offence referred to in paragraph a):

## Definitions continued

### **"Proceeds of Crime" means**

Any property, benefit or advantage, within or outside Canada, obtained or derived directly or indirectly as a result of

- a) the commission in Canada of a designated offence, or
- b) the act or omission anywhere that, if it had occurred in Canada, would have constituted a designated offence.

# Money Laundering Offence

## Offence, Section 462.31 (1)

### **“Laundering Proceeds of Crime”**

Every one commits an offence who uses, transfers the possession of, sends or delivers to any person or place, transports, transmits, alters, disposes of or otherwise deals with, in any manner and by any means, any property or proceeds of any property with intent to conceal or convert that property or convert that property or those proceeds, knowing or believing that all or a part of that property or those proceeds was obtained or derived directly or indirectly as a result of

## **Money Laundering Offence continued**

- a) the commission in Canada or a designated offence; or
- b) an act or omission anywhere that, if it had occur in Canada, would have constituted a designated offence.

**2) Every one who commits an offence under subsection (1)**

a) is guilty of an indictable offence and is liable to imprisonment for a term not exceeding ten years;

b) is guilty of an offence punishable on summary conviction.

Peace Officers are exempt for purpose of investigations or in execution of duty

# MONEY LAUNDERING STAGES

**Placement**

*Co-Mingling*

*Refining*

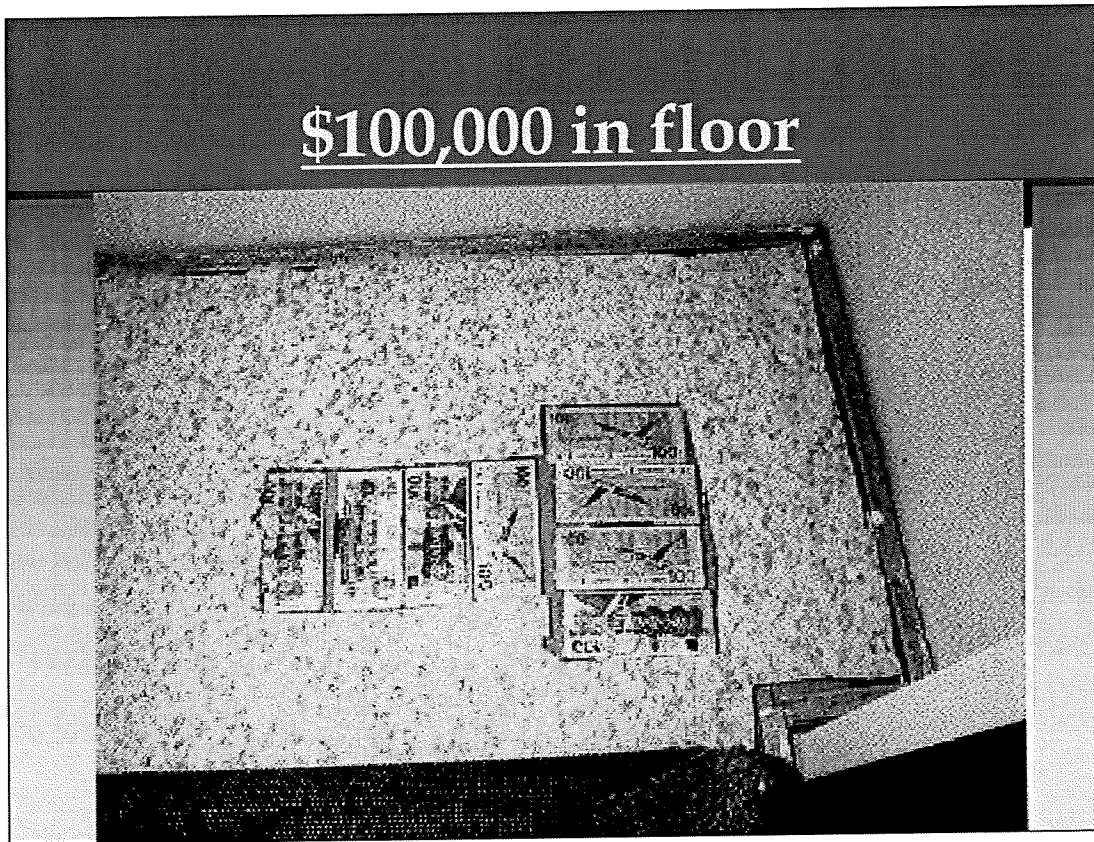
*Structuring*

**Layering**

**Integration**







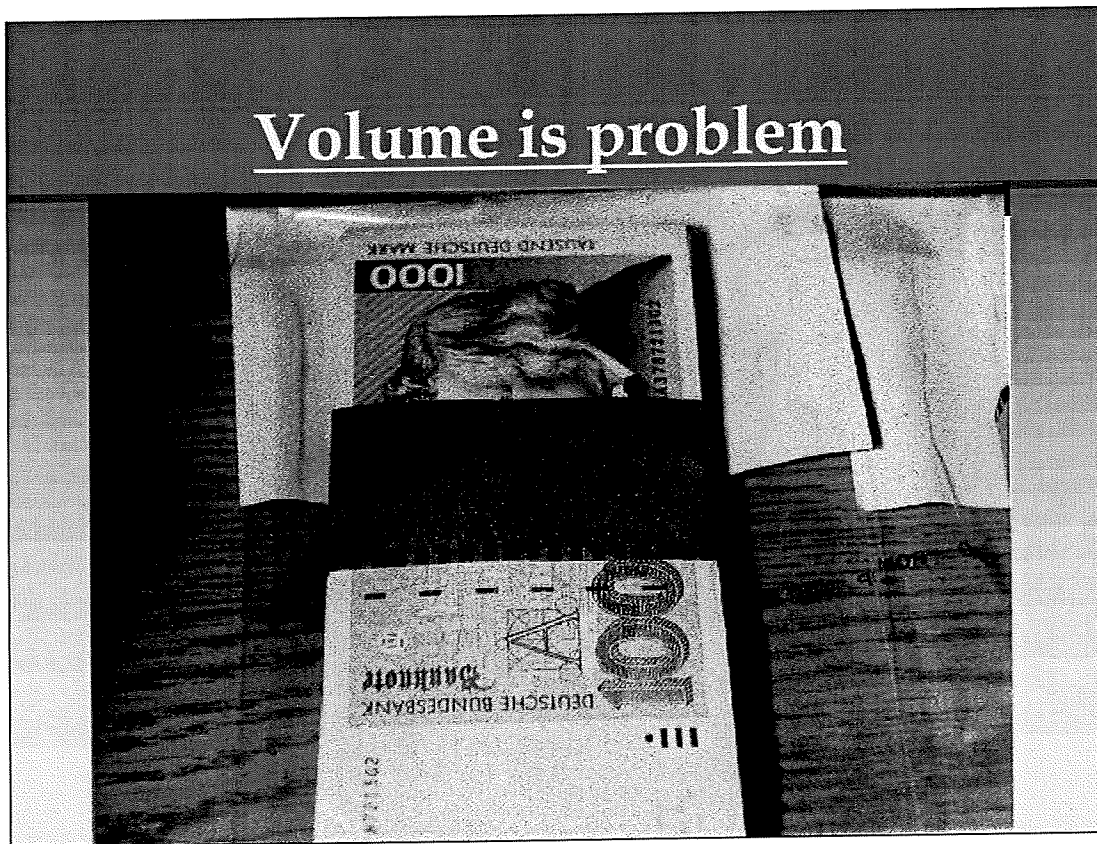
## Money can grow in the Ground

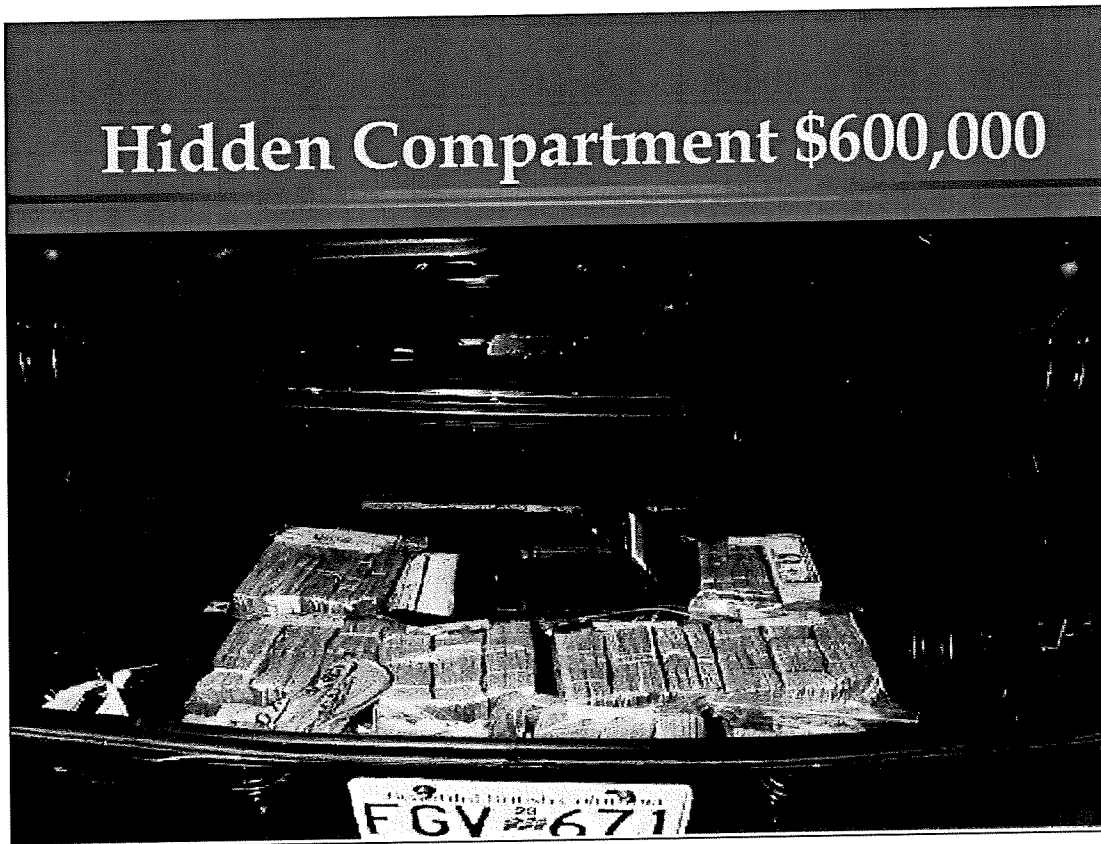




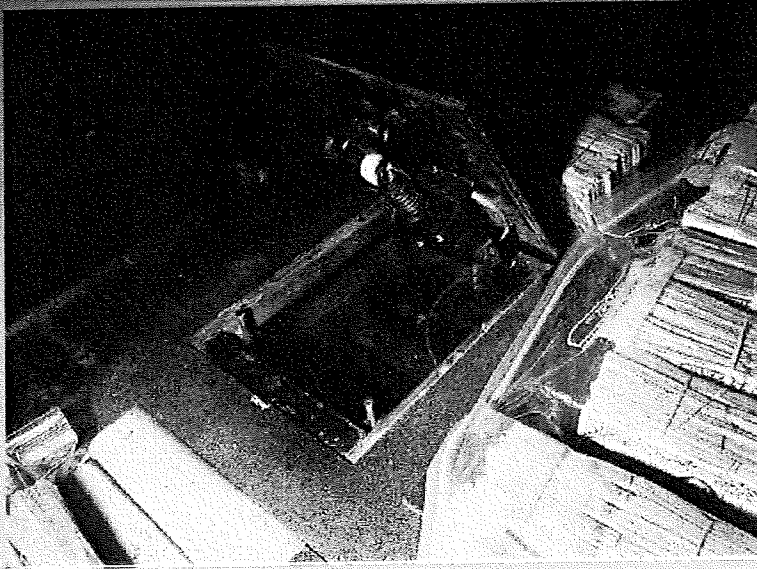
## \$475,000 buried in yard







## Hidden Compartment



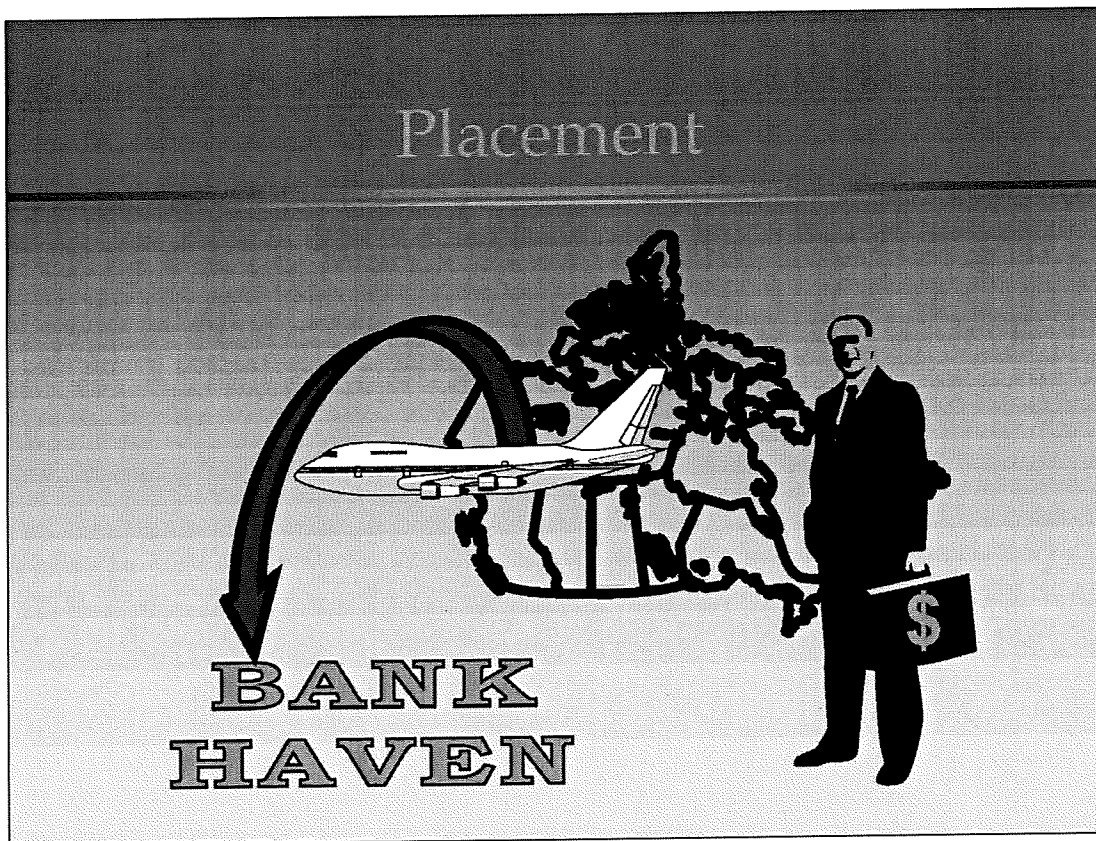
## Seized as Proceeds of Crime



## Volume and Weight

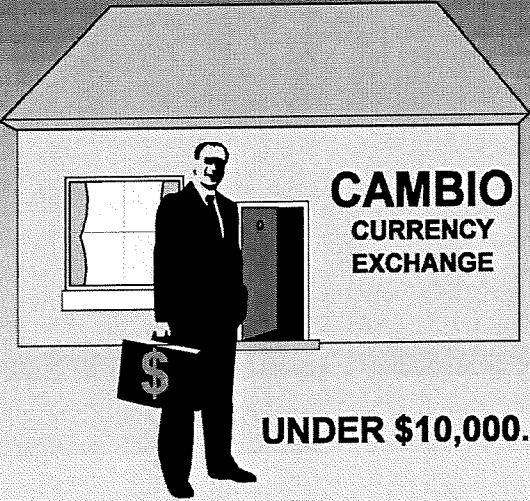
- 1 Canadian or US dollar bill = 1 gram
- 1 million dollars in \$20 dollar bills =  
50000 grams or 50 kilograms or 110 lbs
- 1 million dollars in \$100 dollar bills =  
10000 grams or 10 kilogram or 22 lbs
- 1 million dollars in \$1000 dollar bills =





Placement

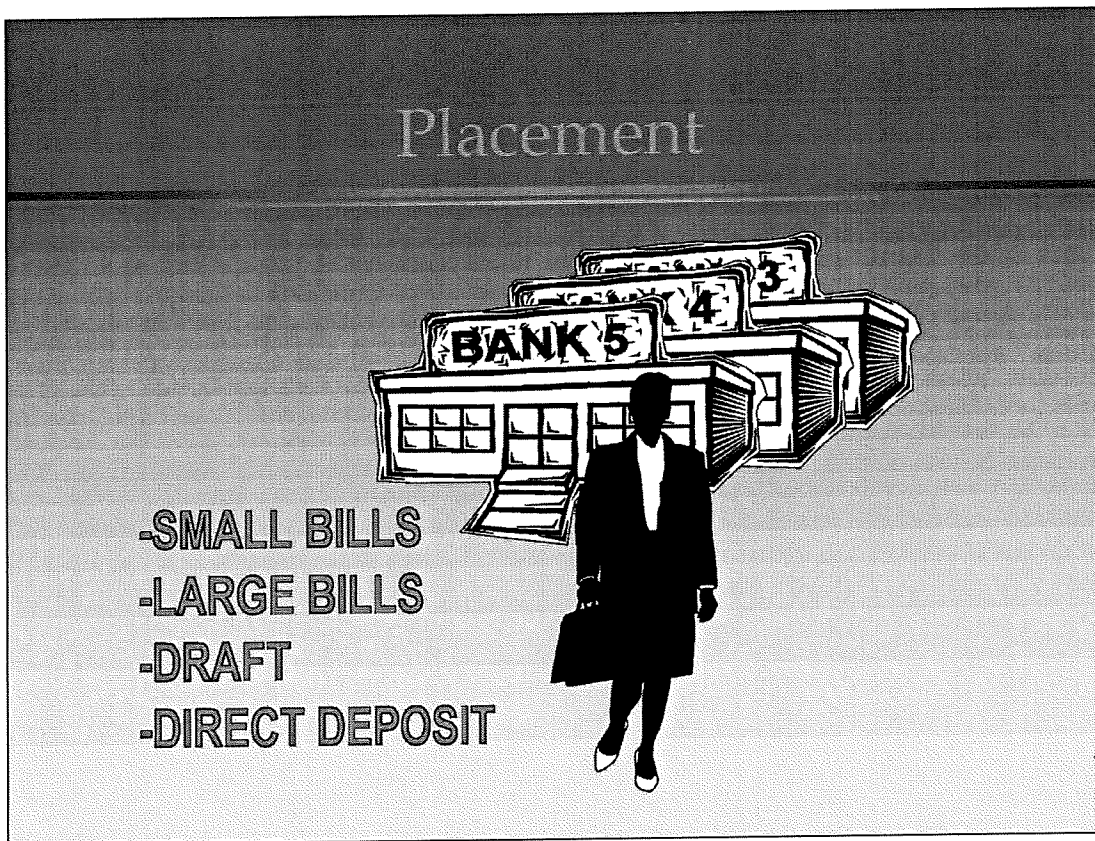
SERVICES  
CAD ↔ US\$  
C / C  
M / O  
W T

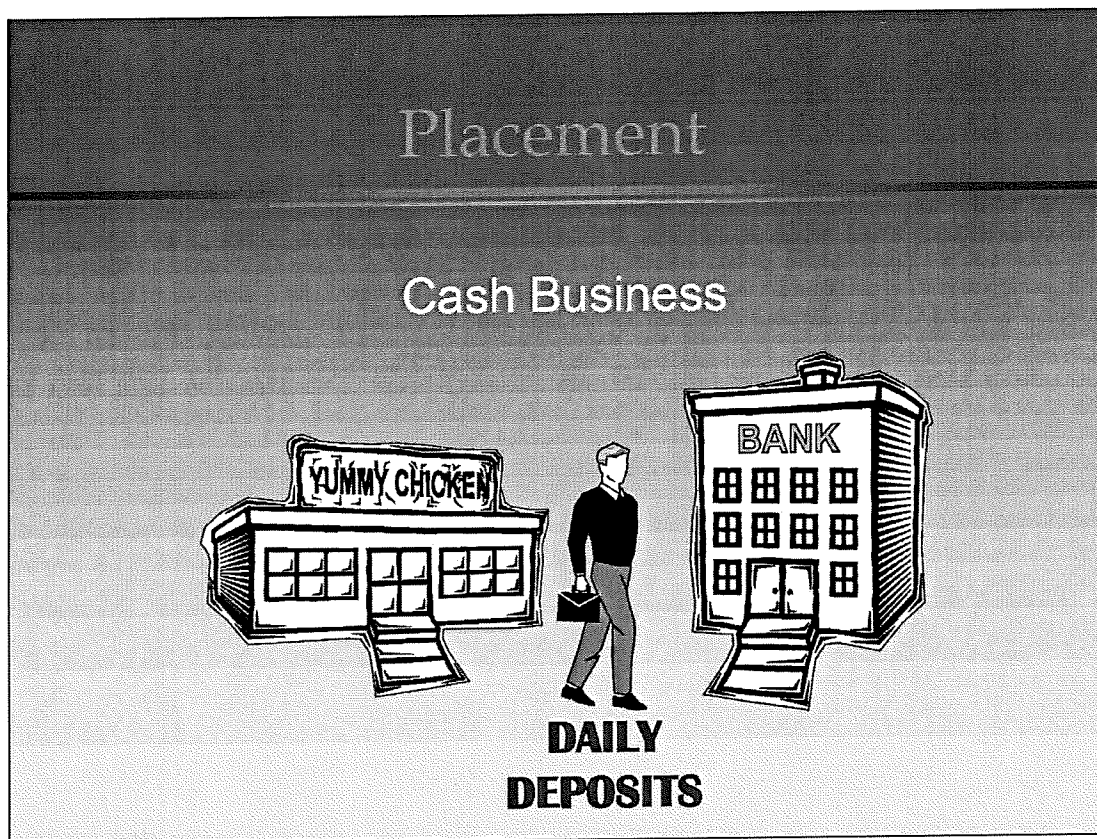


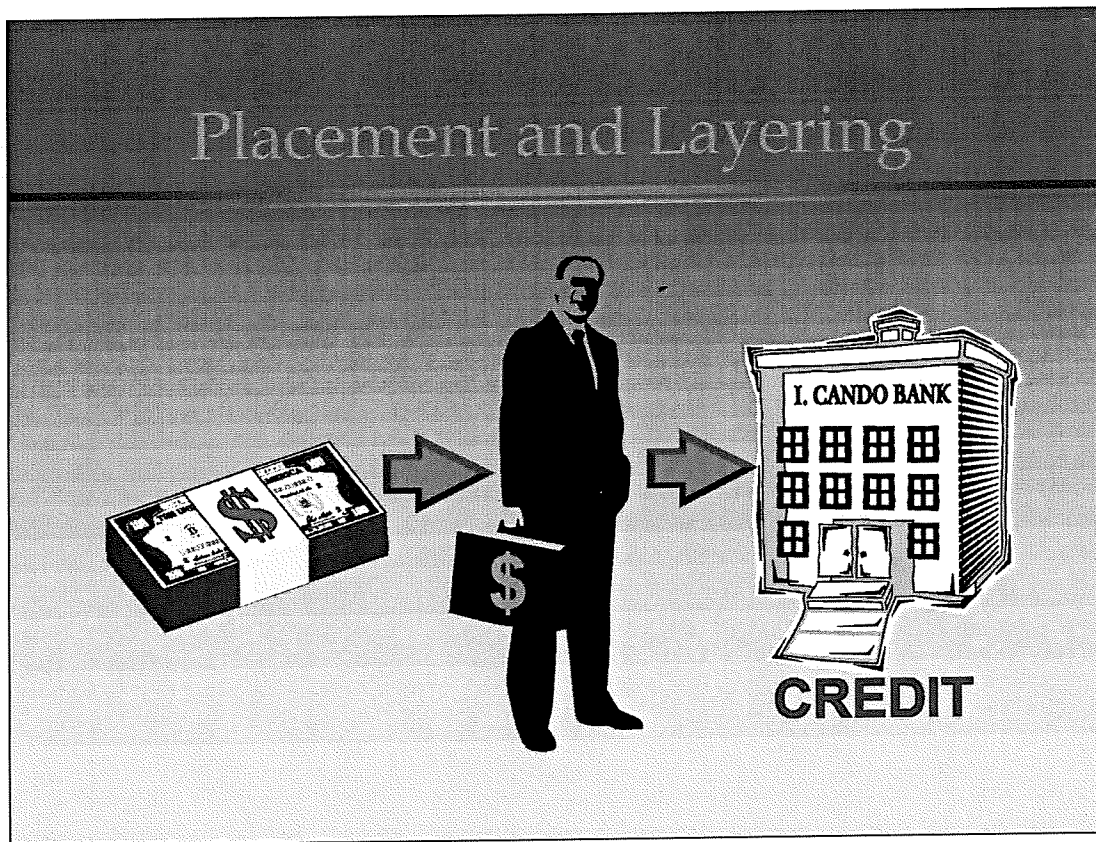
CAMBIO  
CURRENCY  
EXCHANGE

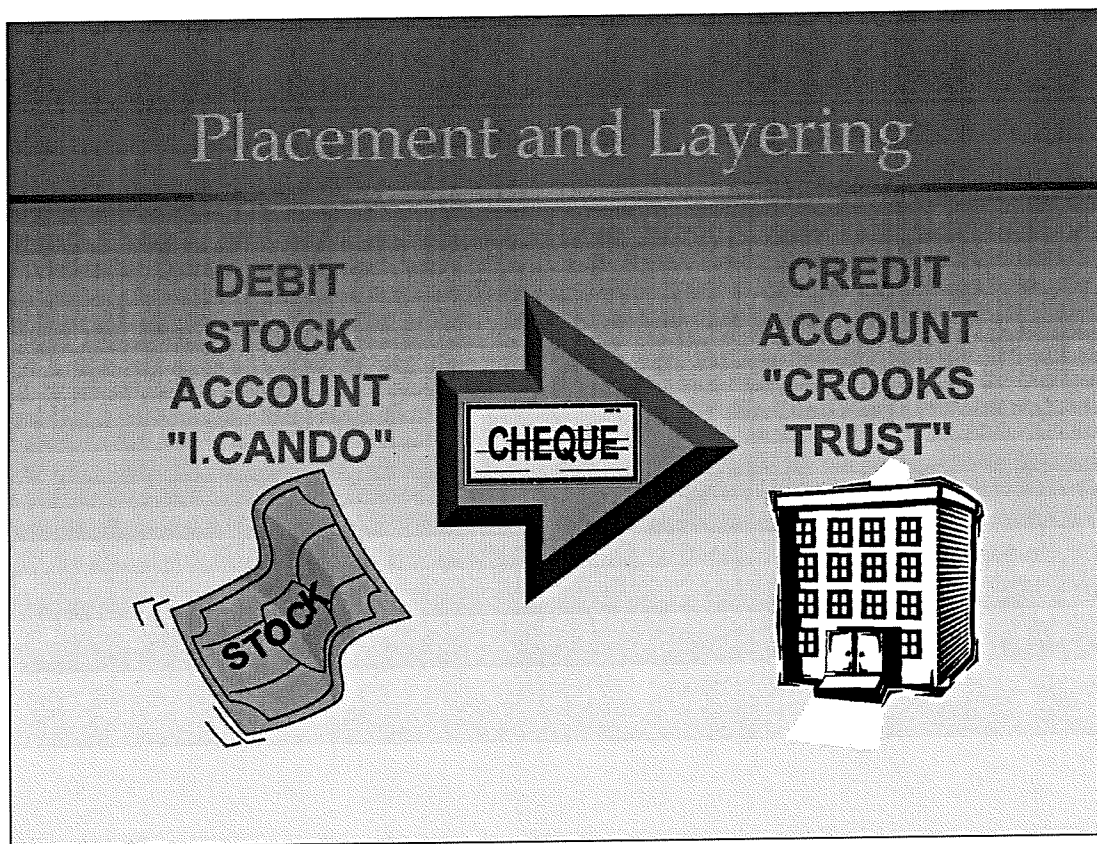
UNDER \$10,000.

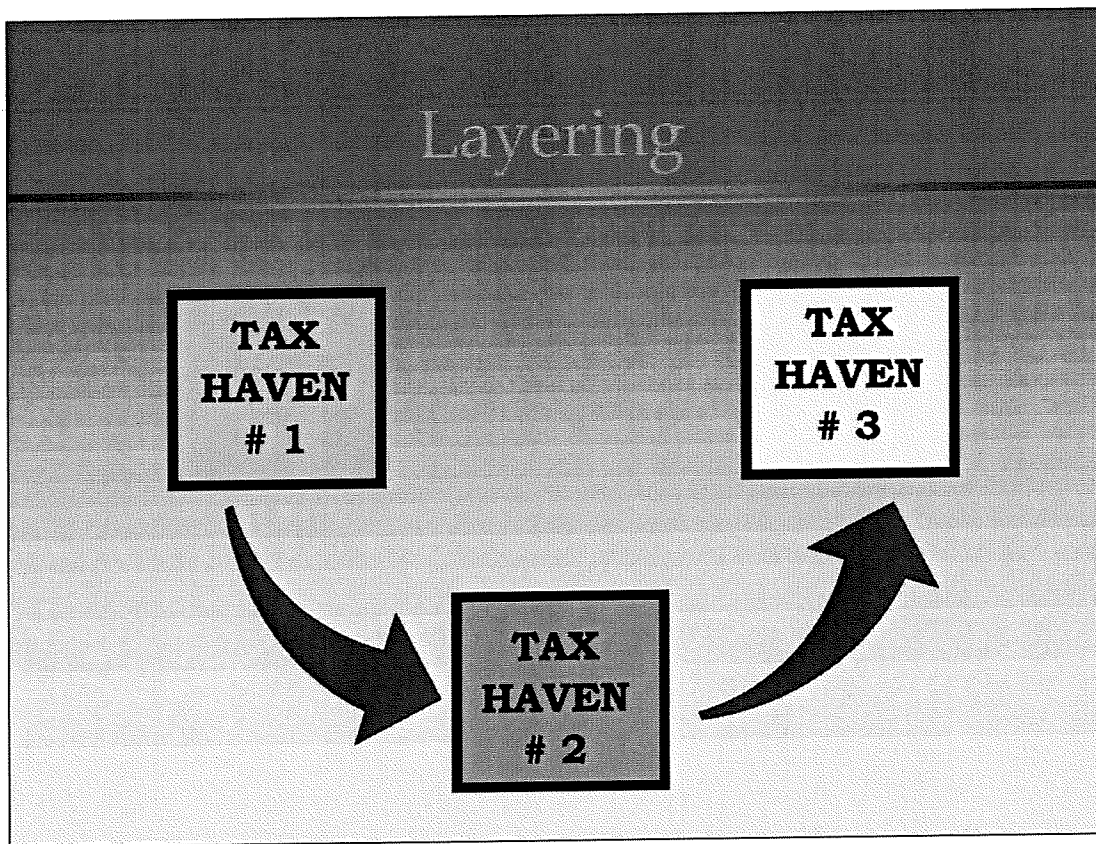




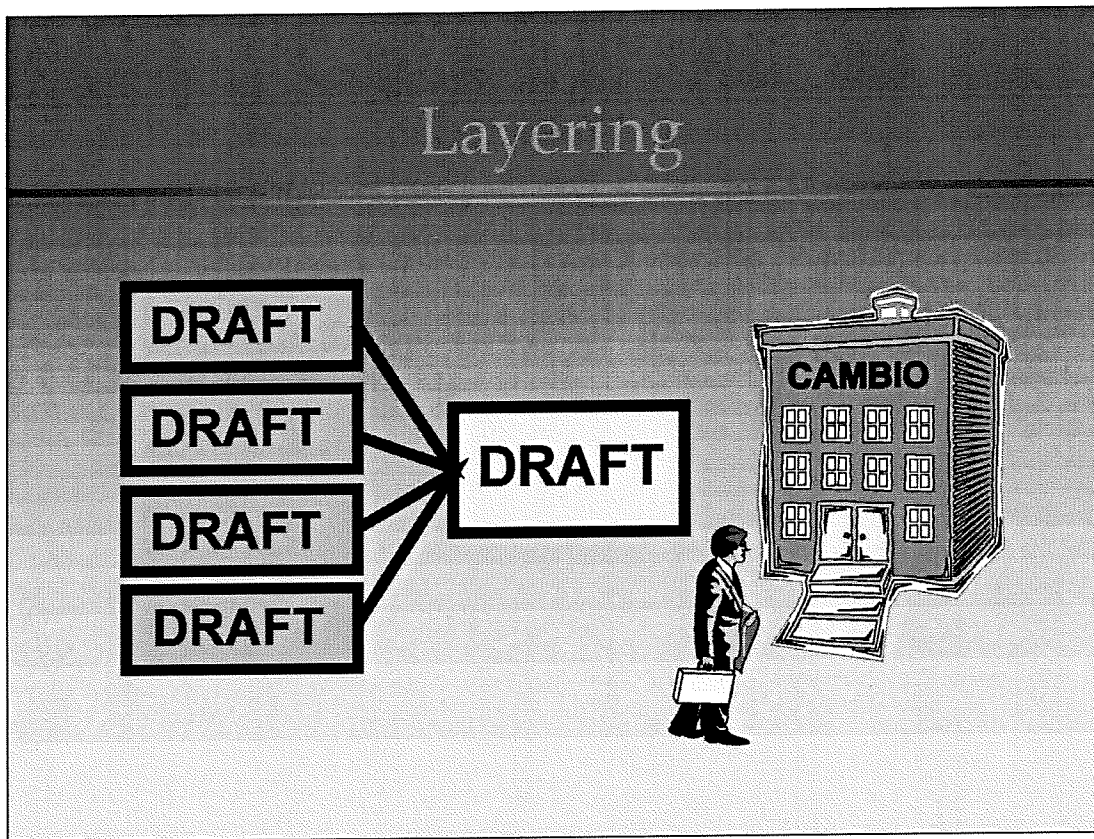


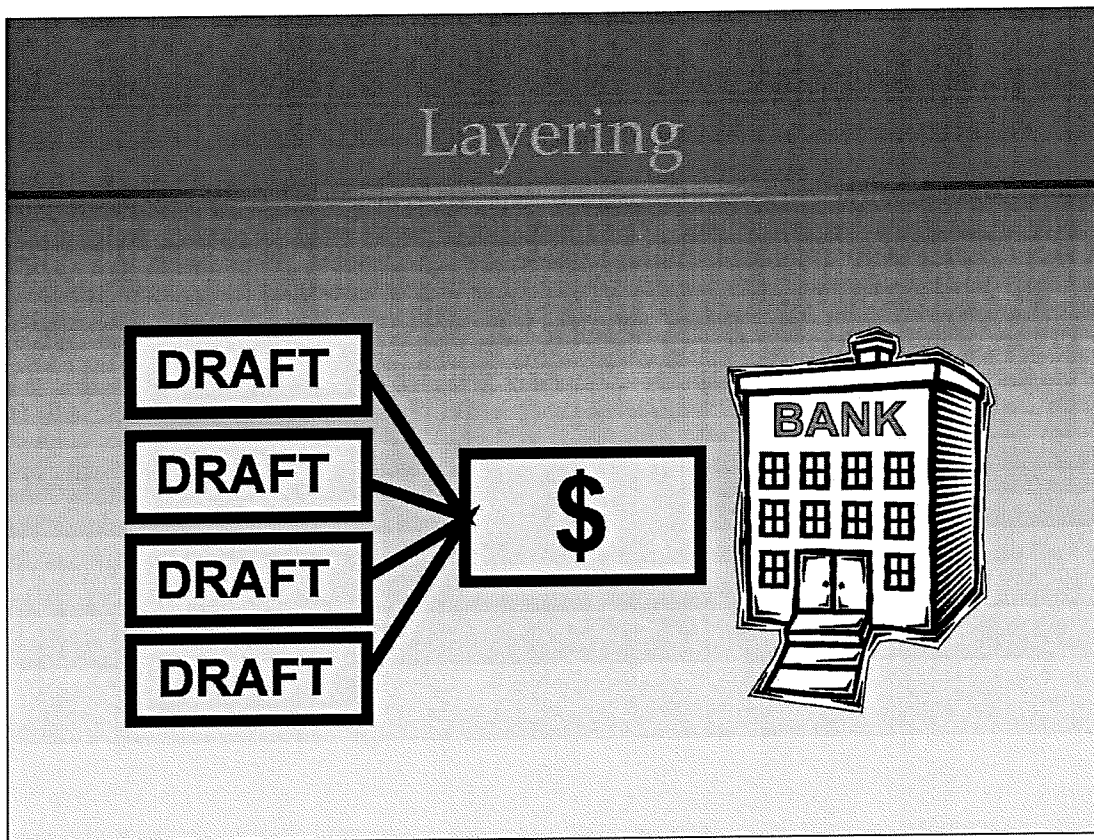


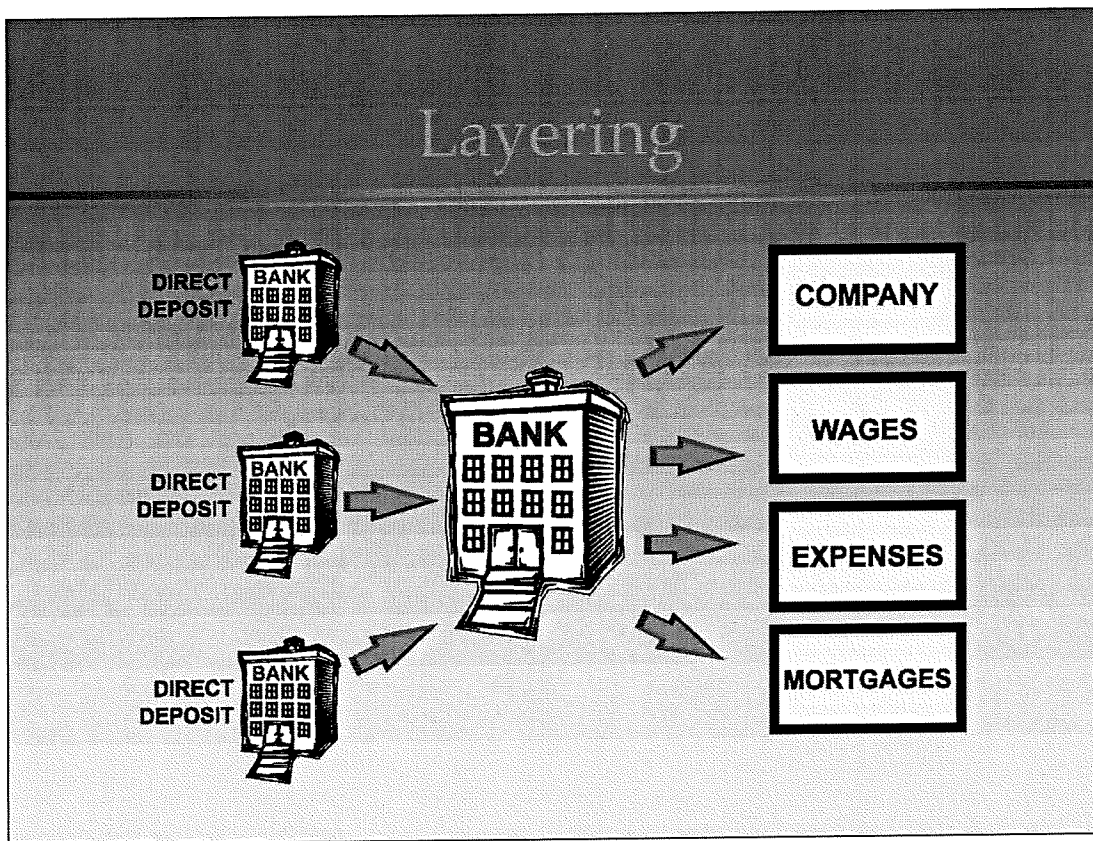




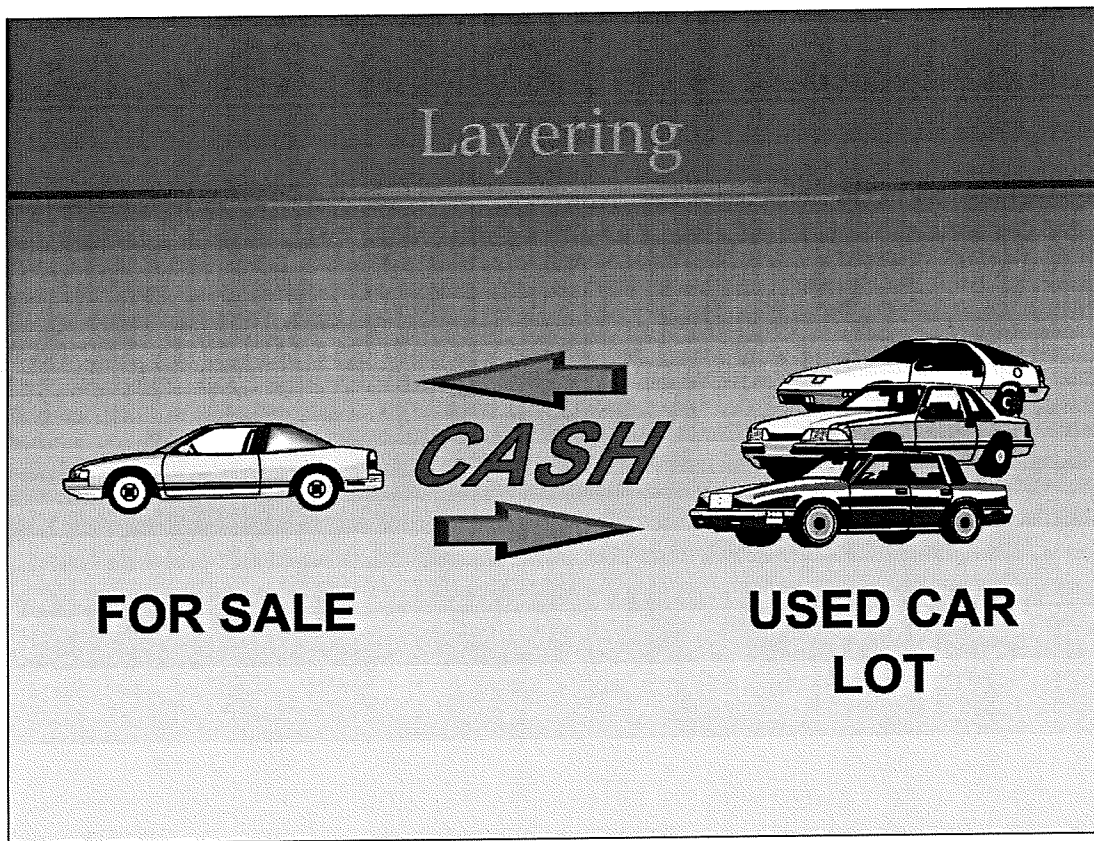


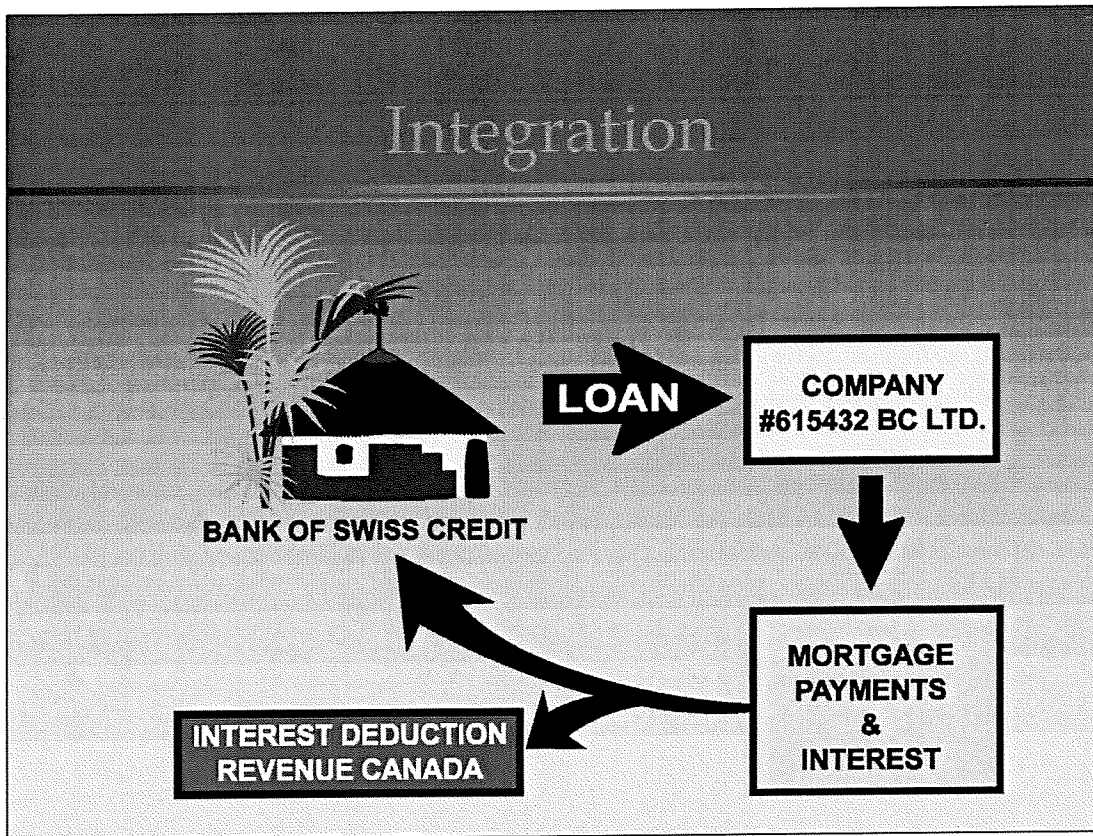


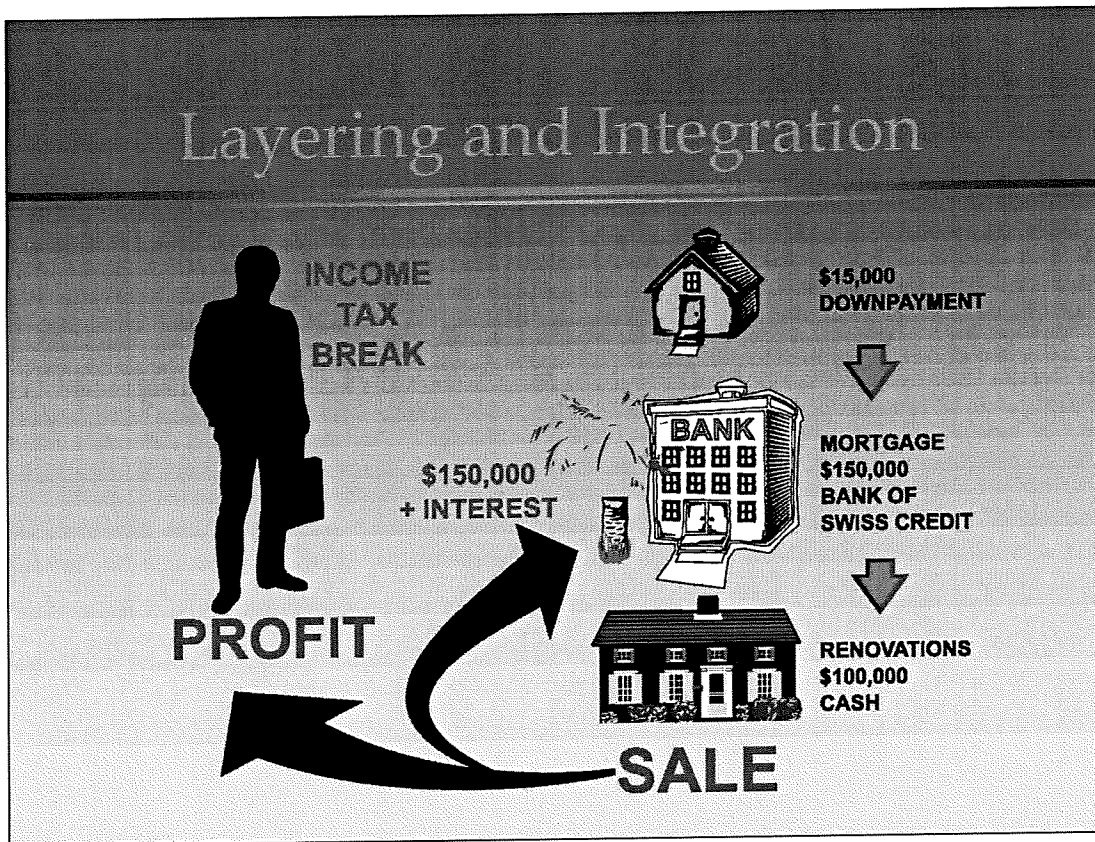














## What is the objective of the Money Launder in Casinos

**Criminal Activity (Drug Trafficking) is a cash business at the street level.**

**Large amounts of Cash are bulky and in volume can be heavy.**

**Criminals often want to validate “**

**“unexplained income” (justify net worth)**

**Integrate into a bona fide Bank to move or purchase articles of worth.**

# Money Laundering in Casinos - methods

## Slot Machines

**Pay out on Slot Machines approx. 92%**

**Play 10K in Slot Machine in small bills (\$5, \$10, \$20)**

**Could receive \$9,200 in return with minimal play**

**Payout in larger bills (\$50, \$100) known as “coloring up”  
or “refining”**

**Ideal to receive a cheque or perfect “verified win  
cheque”**





**continued.....**

**Purchase and Redemption of Chips**

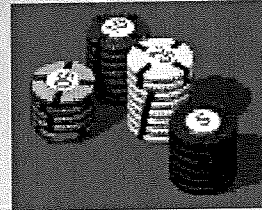
**Smurfing” Criminal or associates purchase chips  
with small denominations**

**Under 10K to avoid FINTRAC reporting**

**One individual gathers chips to confuse origin**

**Cheque or “verified win cheque” ideal**

**Minimum “coloring up” or “refining”**



**continued.....**

**High value chips are purchased with small denomination bills**

**High value chips are easily transported, carried, and concealed easier than large amounts of cash**

**High value chips are easily and not prohibited from being removed from Casinos**

**Loaned to high level players**



**continued.....**

**Collusion with associates**

**One person appears to be loosing**

**Another associate appears to be winning at other  
persons expense**

**Baccarat tables most likely gaming event**

**Objective cheque or "verified win cheque"**

**Explain "unexplained income"**

## **Criminal Interest Rate**

### **Section 347 (1) Criminal Code (Loan Sharking)**

**Despite any other Act of Parliament, every one who Enters into an agreement or arrangement to receive interest at a criminal rate, or receives a payment or partial payment of interest at a criminal rate, is**

- a) guilty of an indictable offence (imprisonment not more than 5 years**
- b) guilty of offence summary conviction fine not more than 25k**

**continued.....**

**“Criminal Rate” means  
an effective annual rate of interest  
calculated in accordance with  
generally accepted actuarial  
practices and principles that exceed  
sixty per cent of the credit advanced  
under an agreement or arrangement;**

## **continued.....**

**Criminal Organizations often “loan “ gamblers small denominations bills (\$20) that a Proceeds of Crime. interest rates are flexible**

**Loan Sharks associated with Organized Crime will “lend” high level players large sums of money primarily \$20 bills.**

**On occasions up to 1M over number of days money wrapped in 10k “bricks” wrapped in elastic bands  
Delivered carried in plastic and paper bags, gym bags**

## **continued**

**Repayment can come in any form,  
cheques, money orders, "verified win"  
line of credit cheque, vehicles, houses,  
jewelry, stocks, businesses, large  
denomination bills, high value chips,  
prostitution NON PAYMENT.....**





## **Related Considerations**

**Section 86 reporting.....**

**“Verified Wins” .....**

**“Player Gaming Fund” account.....**

**Police of Jurisdiction.....**

This is Exhibit "G" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



---

A Commissioner for taking Affidavits within British Columbia



**Vander Graaf, Larry P MEM:EX**

---

**From:** Vander Graaf, Larry P MEM:EX  
**Sent:** Monday, November 19, 2012 3:04 PM  
**To:** Scott, Douglas S MEM:EX; McCrea, Bill J MEM:EX  
**Subject:** Suspicious Currency Transactions - Money Laundering in BC Casinos.  
**Attachments:** Suspicious Currency Reporting In BC Casinos - 2007-2012.doc

Doug and Bill,

Please find the attached Report of Findings that is self explanatory. Please remember that this report and the comments in the report are not only based on the empirical data but are as a result of the review of a number of videos associated to the movement of large amounts of cash into the casinos.

Larry,

Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

This message is confidential and is intended only for the individual named. It may contain privileged information. If you are not the named addressee you should not disseminate, distribute or copy this e-mail. Any unauthorized disclosure is strictly prohibited. If you receive this e-mail in error, please notify the sender immediately and delete this e-mail from your system.

**GAMING POLICY  
AND ENFORCEMENT BRANCH  
INVESTIGATION DIVISION  
FINDINGS:**

**REPORT OF  
November 19<sup>th</sup>, 2012**

**CONFIDENTIAL**

This document is the property of the Investigation Division, Gaming Policy and Enforcement Branch, is confidential and shall not be disclosed or divulged, in whole or in part without prior consent of the writer.

**Money Laundering in BC casinos  
2007-Present**

**Introduction**

Since 2007 GPEB Investigations has notice a marked increase in the number of Section 86, Gaming Control Act (S.86) reports being received from the service providers regarding suspicious cash being brought into the Lower Mainland casinos. As the reports have increased the dollar amount of the suspicious cash entering casinos has increased incrementally as well. It is projected that the number of suspicious cash transaction (SCT) reports received in 2012 will be 1060. The dollar amount of the suspicious cash is estimated to be 85 million dollars. This report will review the statistical data from 2007-2012 and conduct a brief historical overview of suspicious cash transactions during that period, as well as analyzing the current statistics to determine precisely the present state of the suspicious cash transactions/ money laundering problem in British Columbia casinos.

**Historical Overview**

In 2007 GPEB Investigations adjusted their reporting / scoring to reflect more clearly what was occurring in the area of SCT's. Prior to 2007 money laundering and loan sharking were grouped together for scoring purposes, with a majority of these reports relating to loan sharking, which was seen as a significant threat at that time, with good reason. Chip and cash passing

were openly conducted on the floor of the casinos which created an environment in which the loan sharks could operate freely. BCLC made a concerted effort to eliminate loan sharks from the casinos and began to provincially prohibit any individual observed to be engaging in loan shark activities from all casinos in BC for a determined period of time. This had the desired effect of removing loan sharks from BC casinos, however it did little to eliminate the problem.

Loan sharks began using associates known as "runners" to transport and disseminate cash within the casinos. If they were observed by BCLC the runner would be prohibited, only to have another runner take his position almost immediately. This then evolved to where the loan sharks would meet the patrons in the parking lot of the casinos and exchange cash, or would drive off site to make the exchange. As these incidents were occurring off the casino properties there was no requirement to report. This is common practice today, and as a result reported incidents of loan sharking has dropped dramatically, and a clearer picture of what is occurring with SCT's emerged.

The following is a calendar year by year comparison of the S. 86 SCT files received;

2007-59

2008-213

2009-211

2010-295

2011-676

2012 (year to date)-794

It was evident that the number of SCT reports was increasing at an alarming rate, however it was not until 2010 when the first 12 month file review was conducted did the amounts of actual suspicious cash being brought into the casinos come to light. The following is the results of that file review conducted between August 31st, 2010-September 1st, 2011;

Total files: **543**

Total dollar amount: **\$39,572,313.74**

#### Top Three Venues

River Rock Casino: 213 files

Total dollar amount: \$21,703,215.00

Starlight Casino: 140 files

Total dollar amount: \$13,540,757.00

Grand Villa Casino: 103 files

Total dollar amount: \$2,815,470.00

80 different patrons bought in for over \$100,000 on at least one occasion.

The top 5 patrons had suspicious cash buy-ins combined totaling: \$10,408,210.00

The top individual patron had suspicious buy-ins totaling: \$5,855,760.00

The vast majority of all the suspicious cash buy-ins was in \$20 dollar denominations.

There also emerged a profile of the patron that was bringing the large amounts of suspicious cash into the casinos. Almost all were Asian males that played baccarat in the high limit rooms. While some/most of these patrons may not themselves be laundering money they were being used by loan sharks and organized crime to facilitate the laundering of the proceeds of crime.

In October 2010, the GPEB Investigator at the Starlight Casino compiled a report detailing the amount of suspicious cash being brought into the Starlight Casino during the month of September 2010 by the patron who had been identified in the above noted file review as the top individual with SCT buy-ins. This patron had bought in with a total of; \$3,111,040.00, with \$2,657,940.00 in \$20 dollar denominations. The cash presented was always bundled in bricks of \$10,000, wrapped with an elastic band at either end

and carried in inexpensive plastic bags. The bills were always used, older currency. On several occasions this patron lost his bankroll and left the casino to emerge only a few minutes later with another bag of suspicious cash. He was also observed associating with individuals who had previous histories of engaging in loan sharking activities.

A letter was drafted and forwarded to BCLC Manager of Security, Gordon Friesen, on November 24<sup>th</sup>, 2010, advising him of this situation and the obvious concerns GPEB had with this being allowed to continue. A written reply was received from Assistant Manager of Security, John Karlovcec, on December 24<sup>th</sup>, 2010, advising that after reviewing this matter BCLC have concluded that this patrons buy-in patterns, "do not meet the criteria that would indicate he is actively laundering money in British Columbia casinos." A second letter was sent to BCLC on February 28<sup>th</sup>, 2011, advising GPEB's concern with this conclusion. No reply was received. This was a position BCLC took with most suspicious cash transactions, **Public Interest Immunity**

### **Public Interest Immunity**

It was also during this time that GPEB began sharing SCT information with the RCMP, Integrated Proceeds of Crime Unit (IPOC). It was their professional opinion that this was money laundering and that the patrons bringing in this suspicious cash were repaying the loan in a number of different ways. They were also of the opinion that organized crime was involved in supplying the money, and that its likely source was from drug sales. IPOC investigators eventually interviewed this patron and he would confirm the money he uses in the casinos is received from loan sharks. In 2011, the Minister responsible for gaming commissioned Robert Kroeker to author a review on anti-money laundering measures in BC gaming facilities. Kroeker's report made several recommendations regarding suspicious cash transactions in casinos, including that BCLC accept law enforcements professional opinion that this activity is money laundering. They adopted this recommendation, and constructed an anti-money laundering strategy that was solely based around reporting, not reduction or elimination.

Asian patrons bringing in large sums of suspicious cash over a short period of time continued to occur, and in one instance a group of males bought in with \$1.4 million dollars in small denominations over a one week period at the River Rock Casino in 2010. As well, a single male bought in with \$1,

819,880.00 in a ten day period in 2011, again at the River Rock Casino. In both of these occasions the patrons were visiting businessmen from China.

## **2012**

A SCT review was conducted covering the period January 1<sup>st</sup>, 2012-September 30<sup>th</sup>, 2012. The following is the results;

Total Money Laundering/SCT files: **794**

Total dollar amount: **\$63,971,727.00**

Total dollar amount in \$20 dollar denominations: **\$44,168,660.00**

This represents 70% of all suspicious cash entering casinos.

79 patrons had SCT buy-ins at least once with \$100,000

17 patrons had total SCT buy-ins over \$1,000,000

The top 22 patrons had SCT buy-ins totalling: \$45, 12,130.00.

This represents 71% of the total dollar amount of all Suspicious Cash Transactions.

The top ten patrons SCT buy-ins generated 285 separate S.86 reports from the service providers and BCLC.

The top five patrons SCT buy-ins generated 172 separate S.86 reports from the service providers and BCLC.

By comparison; the top 22 patrons who generated 285 SCT reports between them, in a nine month period in 2012, is more that the total number of SCT reports generated in 2007, 2008 and 2009, and is only ten less than 2010.

Using the figures from the first nine months of 2012, it is estimated that the yearly totals will be;

Total Money Laundering /SCT files: **1060**

Total dollar amount: **\$85,295,636.00**

Total dollar amounts in \$20 denominations: **\$58,891,546.00**

It has become routine for patrons to buy-in with suspicious cash totalling \$200,000, \$300,000, \$400,000, and on two occasions where \$500,000 and \$580,000 respectively, were presented at the cash cage of a casino.

During recent discussions with IPOC they advised that they are unable at present to initiate any large scale investigations into money laundering within BC casinos. The current mandate of the RCMP is to prioritize resource allocation towards citizen safety, investigations of gangster activity, and removing guns from the streets. At this time money laundering in BC casinos does not fall within this priority. Representatives of IPOC have also shared this information with BCLC and the service providers. At present GPEB Investigations continues to supply IPOC and CISBC with all SCT investigation reports for intelligence purposes.

## Conclusions

- The number of 5. 86 reports received from the service providers and BCLC have almost doubled every year since 2010.
- The total dollar amounts of suspicious cash entering BC casinos continues to rise exponentially, year over year.
- The \$20 dollar bill is currently used in 70% of all suspicious cash transactions.
- All large SCT buy-ins are in Canadian currency.
- Wealthy Asia males are responsible for a large majority of all SCT reports generated within Lower Mainland casinos. They refuse to use the Player Gaming Fund Account electronically transfer funds into the casinos legitimately.
- Organized crime has identified a weakness within Lower Mainland casinos and is exploiting this weakness to expand the laundering of large amounts of money obtained from the proceeds of crime.

- The police are not currently in a position to initiate investigations into money laundering within Lower Mainland casinos.
- BCLC initiated several enhancements to the Player Gaming Fund Account in April, 2012, to lessen amounts of cash entering casinos however, the results of this review indicate that it has not slowed the flow of suspicious cash into the Lower Mainland casinos.

Prepared by:	Approved by:
Derek Dickson	
<i>Original Signed</i>	

**FORWARDED:** 2012-11-19 – Executive Director Investigations and Regional Operations

I believe the contents of this report speak for itself and clearly outline how suspicious currency coming into casinos in BC continues to increase at a dramatic rate. There is also absolutely no question that all or at least most of the reported suspicious currency taken into these casinos at least for the most part is the Proceeds of Crime. That is underlined by the RCMP IPOC Section who receives all of the information from GPEB Investigations regarding suspicious currency. Not only are the numbers of reports increasing dramatically but the volume of cash is rising exponentially at a significant rate. It also appears that the clientele bringing in this money, changes and varies with the amount of time and number of times in the year that some of the persons are



visiting or working in Canada vs their regular home locations in Asia.

A final comment is that the reporting of and investigation into the numbers of files now being reported, both from the service provider, BCLC and from GPEB and the regulatory/enforcement standpoint takes a significant amount of time commitment by all stakeholder personnel involved.

I believe all of the conclusions presented within the body of the report are valid and there are serious concerns that must be addressed. The integrity of gaming continues to be brought into question.

Joe Schalk, Sr. Director

**Forwarded: 19 November, 2012**

I have read this Report of Findings submitted by the Director, Casino Investigations and footnoted by the Senior Director Investigations and Regional Director, LMD and agree that it is self-explanatory.

The Suspicious Currency Transaction (SCT), Section 86 GCA reports continue to rise as does the amount of suspicious cash. Large amounts of cash in any denominations is of concern but the \$44,000,000.00 (SCT) in \$20 dollar bills being reported in a nine (9) month period is of great concern. It is obviously clear to me that the majority of this cash is provided to gamblers through loan sharks whom have likely links to organized crime. It is therefore a simple leap to have reasonable grounds to believe that those funds are the proceeds of crime. That is why the suspicious currency transactions are being diligently reported. I again ask the question and give the answer "who has \$200,000.00 in \$20 dollar bills wrapped in elastic bands in \$10,000.00 bundles"?

Larry Vander Graaf, Executive Director

This is Exhibit "H" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia



**GAMING POLICY  
AND ENFORCEMENT BRANCH  
INVESTIGATION DIVISION**

**REPORT OF  
FINDINGS: Review of Chip Passing/ Suspicious Cash Transactions and  
Loan Sharking in Lower Mainland Casinos.**

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**BACKGROUND:**

10-03-15

Dealing with loan sharking and money laundering issues are two of the main priorities of the Investigations Division. Over the past several months I have observed a number of incidents involving Large Cash Transaction (LCT) patrons at Lower Mainland casinos and their continued involvement in chip passing, money exchanging and loan sharking activities. There are many individuals with these types of histories, however, I have conducted a review of four specific LCT patrons that are chronic violators to determine if there is an on-going problem that needs to be addressed and what strategies, if any, need to be considered to ensure the integrity of gaming is being protected.

**INVESTIGATION:**

I reviewed the files of 4 LCT patrons that have extensive histories of suspicious activities within Lower Mainland casinos. The following is a detailed breakdown of their documented suspicious activities;

**Yu Xiang ZHANG**

06-10-16. RRCR- Receiving chips from a loan shark. GPEB 11021

06-10-18. BLVD- Receiving chips from a loan shark-warned by the service provider. GPEB 11045

06-10-25. RRCR- Chip passing-warned by the service provider. GPEB 11160

06-11-09. BCLC – Prohibited for 1 year for transferring value chips to another casino patron by BCLC.

08-01-07. RRCR- Suspicious Financial Transaction. Bought in for \$200,000 and immediately left with the chips. GPEB 1702

08-03-09. STAR- Chip passing-left before being warned. GPEB 17792

08-03-09. STAR- Chip passing-left before being warned. GPEB 17792 ( one S.86 report for both incidents)

08-06-21. STAR- Chip passing-warned by the service provider. GPEB 19499

08-09-11. STAR- Suspicious Circumstances. Bought in with \$300,000 in cash where 47 of the bills were burned at the edges. GPEB 20750

08-09-12. STAR- Suspicious Circumstances. A male presented a cheque for \$200,000 in ZHANG's name. ZHANG was brought from the VIP Room to cash the cheque in person. Placed in the watch category by BCLC. GPEB 20779

08-11-26. Barred for 14 days by BCLC for chip passing.

08-11-27. Barring rescinded by BCLC.

09-12-04. STAR- Loan Sharking Activity- ZHANG lost \$300,000 at a baccarat table. He walked outside the casino and made a phone call. A short time later a young Asian male drove up and removed two plastic bags from the trunk of the vehicle. ZHANG and the male walked into Schongs Restaurant, a few doors down from the casino. Surveillance cameras observed the male to hand the two plastic bags to ZHANG in a covert manner. ZHANG immediately exited the restaurant and re-entered the casino. He presented the two plastic bags at the cash cage that contained \$299,670 in cash. The vehicle being driven by the Asian male has been previously associated to other loan sharking instances at Lower Mainland Casinos. GPEB 28487

### **Huanying XIAN**

08-03-08. STAR. Chip passing-warned by the service provider. GPEB 18331

08-04-09. STAR. Chip passing-warned by the service provider. Placed in the watch category by BCLC. GPEB 18397

08-09-06. STAR. Chip passing-warned by the service provider. GPEB 20648

09-02-22. STAR. Chip passing. XIAN is observed to get into a vehicle in front of the casino. The vehicle drives off, but returns moments later. XIAN exits the vehicle and returns to the casino. She sits next to Guo Ping ZHU at a baccarat table and is observed to conduct a hand to hand exchange beneath the table with ZHU, who then brings her hand up containing \$30,000 in chips. Approximately 90 minutes later ZHU is observed to pass a quantity of chips to XIAN, who puts them in her purse. The registered owner of the vehicle involved, Di JIAN, is a known loan shark that at the time of this incident, was BCLC barred for inappropriate transfer of chips.

## Public Interest Immunity

XIAN was site barred for 14 days. No BCLC barring was sought. GPEB 23617

09-04-03. RRCR. Suspicious Circumstances. XIAN was observed speaking with known loan shark, Pui Lan NG, in the casino. XIAN enters the ladies washroom behind NG. XIAN exits the washroom and buys in \$10,000 in cash. The original information from this was an anonymous complainant who reported to BCLC that they had observed the transaction in the washroom. No action was taken by BCLC or the service provider. GPEB 24323

09-07-23. VILLA. Chip passing-warned by the service provider. GPEB 26269

### **Chun Yan CHEN**

08-04-08. STAR. Chip passing-warned by the service provider. GPEB 18423

08-06-24. STAR. Chip passing-warned by the service provider. GPEB 19529

08-06-26. STAR. Chip passing-warned by the service provider. GPEB 19610

08-07-10. STAR. Chip passing-warned by the service provider. GPEB 19799

08-10-09. RRCR. Suspicious Financial Transaction. Cashed in \$100,000 in cash for chips and left without playing. GPEB 21283

08-11-29. RRCR. Suspicious Transaction. CHEN buys in for \$50,000 and walks out of the casino where she is observed to meet Jie Qing [REDACTED]. They appear to deliberately stand behind a pillar, out of surveillance camera view. They both returned to the casino and CHEN did not bring the chips back to the baccarat table. [REDACTED] did not play, but moved continually from table to table in the VIP Room. [REDACTED] placed in watch category by BCLC. GPEB 22061

**Note** [REDACTED] was prohibited by BCLC on June 3<sup>rd</sup>, 2009 for two years for activity consistent with loan sharking.

09-02-15. STAR. Chip passing-warned by the service provider. Final warning by BCLC. GPEB 23482

09-02-26. RRCR. Suspicious Financial Transaction. CHEN bought in for \$120,000, but left in the company of a male without playing. GPEB 23694

09-08-28. VILLA. Chip passing. GPEB 26806

09-08-30. VILLA. Chip passing-warned by the service provider. Two week site barring. GPEB 28610

10-01-10. RRCR. Suspicious Transactions. Nai Yah [REDACTED] was observed to make three cash buy-ins totaling \$10,000 without playing. [REDACTED] was observed to leave the casino area and proceed to the hotel. A short while later she returned to the casino and was stopped by security. She made a phone call and CHEN appeared from the hotel advising she was buying in for her. GPEB 29040

10-01-13. RRCR. Chip passing. CHEN is observed to receive \$50,000 in chips from Jack QIN. CHEN then passed the chips to Xue Shi WANG. In a

## Public Interest Immunity

Chen was placed in the watch category by BCLC, with no other sanctions sought. GPEB 29143

### Jack QIN

09-12-06. STAR. Suspicious Cash Transaction. QIN passes \$10,000 in chips to [REDACTED] at a baccarat table. [REDACTED] losses these chips and he and QIN walk out to the smoking area. They return to the table and [REDACTED] produces \$10,000 in cash to buy in-warned by the service provider. GPEB 28486

09-12-14. RRCR. Chip passing-warned by the service provider. GPEB 28612

09-12-20. RRCR. Chip passing-warned by the service provider. GPEB 28689

10-01-03. RRCR. Chip passing-warned by the service provider. GPEB 28901

10-01-13. RRCR. Chip passing. Qin bought in for \$50,000 at a baccarat table, then walked over to [REDACTED] CHEN and passed the \$50,000 in chips to her. CHEN then passed the chips to LCT patron [REDACTED]

## Public Interest Immunity

QIN was placed in the "watch" category by BCLC. GPEB 29143

10-02-13. RRCR. Chip passing-warned by the service provider. GPEB 29806

### FINDINGS: SUSPICIOUS CASH TRANSACTIONS/LOAN SHARKING ACTIVITY

ZHANG, XIAN, CHEN and QIN all have significant buy-ins, with ZHANG generally being considered the biggest player in the province, in terms of how much he has bought in for. It is evident that the service providers consider them important customers and are willing to accept the on-going issues with chip passing, inappropriate cash transactions and interacting with known loan sharks. However, what is troubling is BCLC's acceptance of these blatant violations of their own policies and the open use of loan sharks by these LCT patrons. In some instances these patrons are suspected of actually engaging in loan sharking activity, with no meaningful attempts by BCLC to sanction these individuals.

ZHANG first came to the attention of BCLC in 2005 where he had on at least two occasions been observed exchanging chips with known loan sharks. As a result, he received a Provincial barring, commencing 2006-11-09. Since that time he has had at least ten documented reportable activities, including, chip passing, suspicious financial transactions and involvement with suspected loan sharks. On two occasions ZHANG was barred for two weeks by BCLC pending further investigation. On both occasions the barring was rescinded a few days later with no further sanctions.

CHEN has 12 documented incidents that were deemed reportable by the service providers since 2008. Most of these incidents involve chip passing, associating with known loan sharks and engaging in activities that are consistent with loan sharking. She has never been sanctioned by BCLC, despite the fact that a BCLC investigator wrote that it was his opinion that CHEN was involved in loan shark activity.

**Public Interest Immunity**

**Public Interest Immunity**

Again, most of these incidents involve chip passing, associating with known loan sharks and engaging in activities consistent with loan sharking activities. She has never been sanctioned by BCLC, despite the fact one of their investigators wrote that it was his opinion that XIAN was involved in loan shark activity.

QIN has been involved in 6 documented incidents that in the past 4 months were deemed reportable by the service providers. All of these incidents involved chip passing or loan sharking activities. Again, a BCLC investigator wrote that he was of the opinion that QIN was engaging in loan sharking activities. To date, QIN has received no sanctions, and recently was approved for a Player Gaming Fund Account (PGFA).

### **FINDINGS: PLAYER GAMING FUND ACCOUNT**

Another issue that also needs to be addressed is who is eligible to open a PGFA. [REDACTED] was Provincially barred for one year, commencing February 4<sup>th</sup>, 2010, and also had her PGFA terminated for engaging in loan shark activities. [REDACTED] was involved in 3 chip passing incidents, two of which BCLC investigators were of the opinion that were

**Public Interest Immunity**

prior to the loan sharking incident for which she was Provincially barred and had her PGFA terminated. These three suspicious incidents occurred prior to the PGFA pilot implementation in December 2009.

As noted above, QIN has numerous documented incidents of suspicious activity, including a BCLC investigator documenting that he was of the



opinion that QIN was involved in loan sharking activities, yet, **he was granted permission, and still has, a PGFA.**

At present there is no requirement for BCLC to conduct any background checks on PGFA applicants. It is left to the service provider, but only to conduct inquiries to ensure the applicant is not prohibited or self-excluded. The onus for a thorough background check should not/cannot be downloaded onto the service providers as they have Itrak **access to only their properties** (Gateway- Villa, Starlight and Cascades. GCC-River Rock, and Boulevard. Paragon-Edgewater). BCLC has access to **all Itrak entries** at all venues.

Section 92 of the Gaming Control Act ( GCA) states;

**If the lottery corporation or a person acting on its behalf has reason to believe that the presence of a person on the premises of a gaming facility is undesirable, the lottery corporation or person acting on its behalf may**

- (a) request the person to leave the premises of the gaming facility immediately, or**
- (b) by written notice delivered to the person, forbid him or her to enter the premises of the gaming facility at any time during a period specified in the notice**

This section of the GCA gives BCLC the authority to remove "undesirables" from gaming facilities. However, the definition of undesirable is subjective. Experience has shown that BCLC has a very high tolerance with LCT patrons that engage in continual chip passing and suspicious cash transactions relative to gaming facilities, and does not see this as undesirable behavior. This is understandable given the revenue that these individuals generate for the gaming venues, however, not where it impacts upon the integrity of gaming. What is not understandable is why patrons, such as those listed in this report, can continually pass chips **and/or** associate with or use the services of a known loan shark **and/or**, engage in activities consistent with loan sharking, without sanctions being imposed by BCLC. By any measure these behaviors must qualify these individuals as

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undesirable. BCLC investigators' written comments reflect and make reference to the serious "undesirable behavior issues".

### **CONCLUSIONS:**

In the past the service providers and BCLC have been somewhat more vigilant in dealing with loan sharks operating within the casinos. They have, for the most part, been moved off the gaming floors and out of the venues. But there still are numerous documented instances where loan sharks have adapted their tactics and are still very active within the casinos. We believe the time has come to adopt new tactics in the fight to eliminate loan sharking. One of these tactics should be to adopt an aggressive approach with all patrons that have any dealings with known loan sharks. A zero tolerance attitude needs to be implemented with **all** patrons that deal with known loan sharks, and Provincial barrings being imposed as a sanction.

The theory behind this tactic is that the patrons will understand that if they are subject to a Provincial barring for engaging in this type of activity they will be reticent towards dealing with loan sharks and will use legal methods to obtain large sums of money to begin, or continue, to play at a venue. The PGFA was created to help deal with the issue of large sums of money being readily available to LCT patrons, therefore, eliminating the need to use the services of loan sharks. As of this time, the pilot project for the PGFA has not been heavily utilized by LCT patrons. Perhaps the deterrence of dealing with loan sharks will steer more LCT patrons towards the PGFA.

We believe BCLC must also review how they are currently dealing with chip passing and suspicious cash transactions within the venues. These are violations of BCLC policy that must also be reported to GPEB by the service providers. Many of the LCT patrons that violate these policies are chronic offenders. Most of these violations are determined not to be suspicious by BCLC, however, must still be reported to GPEB under Section 86 GCA. There are numerous LCT patrons that have a complete disregard of these policies and openly commit these violations in plain view within the venues. BCLC chooses to give warnings, final warnings and

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placing violators in the watch category as a means of correcting these behaviors. Despite these measures, these LCT patrons continue to violate these policies. As well, some of these flagrant violators were given granted access to the PGFA, which, in our view, is unacceptable.

### **Recommendations**

1. Any patron observed to engage in any activities consistent with loan sharking activities should be immediately removed from the venue and be subject to a Provincial barring by BCLC.
2. Any patron observed associating with a known loan shark or using the services of a known loan shark is to be immediately removed from the venue and be subject to a Provincial barring by BCLC.
3. BCLC should be required to conduct a thorough background check on all PGFA applicants, and have final approval of all applicants.
4. Any applicant for a PGFA that has a history of chip passing, suspicious cash transactions or loan sharking activities should be denied by BCLC.
5. BCLC needs to establish a determined number of warnings for patrons engaging in chip passing and cash transactions that BCLC determine not to be suspicious. When a patron exceeds this number, meaningful sanctions should be considered.

The foregoing information is provided for the consideration of the Executive Director, Investigation Division.

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No procedural concerns were identified through this investigation.

Derek Dickson Director, Casino Investigations LMD Investigation Division	

**Forwarded to the General Manager 12 April, 2010**

The above Report of Findings was forwarded to me, the Executive Director, Investigations and Regional Operations by Derek Dickson, the Director, Casino Investigations LMD. This Report of Findings outlines a number of issues in relation to four Large Cash Transaction (LCT) players that have received number warnings and on occasion small prohibitions for chip passing, associating with, using of or in fact being involved in loan sharking activities. Yu Xiang ZHANG, Huanying XIAN, CheunYan CHEN, and Jack QIN are all considered large cash players by all Service Providers and the British Columbia Lottery Corporation, (BCLC) Corporate Security. All four of these individuals have lengthy track records of numerous violations of chip passing as well as other suspicious currency transaction activities that contravene of the Casino Standard Operating Procedures authorized by BCLC. The Report of Finding reveals that it is believed that these high level players are being given extreme latitude in violating these procedures due to the fact that they are extremely high volume players. It is my opinion that the track record of these four players and the apparent lack of compliance could/does/will bring the integrity of gaming into question. I am asking the Director, Casino Investigations or the Senior Director, Investigations LMD to draft and forward a letter to BCLC to advise them of our significant concerns in relation to the integrity of gaming. In that letter I am requesting that any suggested recommendations be highlighted. As you are aware loan sharking and money laundering is two of the greatest risks to the integrity of gaming. BCLC should consider stricter prohibitions regardless of the player. It should also be noted that these four persons have also been identified to the Police of Jurisdiction but due to the lack of concrete criminal evidence it is unlikely that this will result in any significant investigative action at this time.

The Director, Casino Investigations has also surfaced a significant concern and risk in relation to the screening or due diligence of individuals that are allowed access to use the Player Gaming Fund Account (PGFA). It causes this Division great concern when the Service Provider is mainly responsible for due diligence of persons applying for PGFA. This is surely a conduct and manage issue thus a BCLC responsibility. I am requesting that the Director, Casino Investigations advise the Executive Director, Compliance and

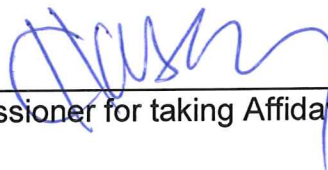
11

Risk Management of this situation. Hopefully he can rectify this situation with BCLC before the "pilot" expires. You will be copied on all correspondence in this regard.

Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Enforcement.

Copies to: Joe Schalk, Senior Director  
Derek Dickson, Director, Casino Inv.

This is Exhibit "I" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.

A handwritten signature in blue ink, appearing to be "Husby", written over a horizontal line.

A Commissioner for taking Affidavits within British Columbia

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**From:** Vander Graaf, Larry P EMNG:EX  
**Sent:** Wednesday, December 4, 2013 3:04 PM  
**To:** Mazure, John C EMNG:EX  
**Subject:** RE: Comments to GPEB Investigations Report on Money Laundering in BC Casinos  
**Attachments:** SCTMoney Laundering in BC Casinos - October 2013 - with Replies to Comments\_Final.doc

**Importance:** High

John,  
Quick turnaround,  
I am forwarding this to you as the other document was forwarded by you to me only. Joe Schalk (JS) clarified his comments on the first portion of the document.  
Please find attached a separate document that I hope provides some clarity to our report. Please feel to share this document with whomever you think. We are not adverse to forwarding our comments to the entire AML group. We do not have anything to hide and we encourage questions tomorrow at our presentation however I leave tht to your discretion. We will talk on the content of our report briefly tomorrow afternoon.  
Larry

*Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch*

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**From:** Mazure, John C EMNG:EX  
**Sent:** Monday, December 2, 2013 4:58 PM  
**To:** Vander Graaf, Larry P EMNG:EX  
**Subject:** FW: Comments to GPEB Investigations Report on Money Laundering in BC Casinos

Larry, i've added my comments to those provided by Bill, many of which i echo, in the attached document. The context of my comments is to ensure that all findings or conclusions are supported by evidence in the report. As such I have taken a "devil's advocate" approach to the report which results in some pointed questions and concerns raised where I think there are gaps. Have a read and then I would be pleased to discuss.

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**From:** McCrea, Bill J EMNG:EX  
**Sent:** Wednesday, November 13, 2013 2:53 PM  
**To:** Mazure, John C EMNG:EX  
**Cc:** Fair, Susan P EMNG:EX  
**Subject:** Comments to GPEB Investigations Report on Money Laundering in BC Casinos

Hi John,

Here are my comments to the recent report from Investigations. Now it's your turn to review and add your own thoughts. Please let me know when you are ready for us to take this to the next step. Also, we can discuss your questions from the two previous reports. Thanks.

*Bill*

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**GAMING POLICY AND ENFORCEMENT BRANCH  
INVESTIGATIONS AND REGIONAL OPERATIONS DIVISION  
REPORT OF FINDINGS<sup>[jm1]</sup>**

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This is the format for reporting that has been used since our inception in 2001 and includes providing recommendations and conclusions. JS and LVG

dramatic and ongoing increase in suspicious cash coming into predominantly Lower Mainland casinos<sup>[jm2]</sup>.

No comment. JS

<sup>[jm3]</sup> the Action Plan to Review Money Laundering Measures at BC Gaming Facilities of August 22, 2011 authored by Robert Kroeker, under Recommendation #2 it was noted that *"BCLC should enhance training and corporate policy to help ensure gaming staff do not draw conclusions about the ultimate origin of funds based solely on the identification of a patron and his or her pattern of play. Training and business practices should result in gaming staff having a clear understanding that the duty to diligently scrutinize all buy-ins for suspicious transactions applies, whether or not a patron is considered to be known to BCLC or the facility operator."*

In future we can change the format if needed. JS

To date, neither BCLC nor the service providers have taken any steps<sup>[WJM4]</sup> to **"diligently scrutinize all buy-ins for suspicious transactions"**.

To provide clarity, please refer to Page 6, last paragraph. "The "Know your Client" requirement of the Service Provider at the present time is not sufficient and does not include the critical component of knowing and carrying out appropriate and extensive "Due Diligence" on the origin of the source of the large amounts of suspicious cash funds" coming into gaming facilities. JS

**Statistical Overview:**

To review and address important concerns and statistics the AML X-DWG continues to look at:

- 1) The number of Sec. 86 Reports on SCT's for the noted years were:
  - 2008/09 – 103
  - 2009/10 – 117
  - 2010/11 – 459
  - 2011/12 – 861
  - 2012/13 - 1,062<sup>[WJM5]</sup>

The above are fiscal year stats. We have not referred to calendar year stats. We also believe CSPs are not now reporting everything and we believe a future audit report will indicate that service providers are not reporting all SCTs (especially under \$50,000). JS

2013 (first 9 months) – 840 Projected for full year - 1,120[WJM6]

We agree slightly less but all of our comparisons in this report are fiscal year stats. Either way, the volume of SCT cash continues to escalate. JS

- 2) Initiatives and strategies implemented to help reduce the amount of suspicious currency coming into casinos in BC and developing alternatives for bringing cash into these casinos:

Player Gaming Fund Account – 2009  
Hold Cheque Policy – April, 2012  
Convenience Cheque Policy – April, 2012  
Debit allowed – May, 2012[WJM7]

[jm8]

For WJM7: This was not intended to be an exhaustive list of alternatives. Please refer to Page 5 and 6 “In concert with the AML strategy the Branch allowed a number of enhancements that allowed gamblers easier access to legitimate cash (cash machines) on the casino floor. The Policy also included easier access to funds by allowing the gambler the ability to electronically transfer funds from existing bank accounts into their casino PGF account. However, those initiatives along with other initiatives have not reduced the volume of suspicious cash nor the number of Suspicious Currency Transactions in BC Casinos.”

For JM8: This is simply the way this report was structured. JS

- 3) Tracking of suspicious currency statistics and denominations of bills started in 2010 and provide the following statistical information:  
July 01, 2010/June 30, 2011 (1 year period) - \$39, 572,313 with 75% being in \$20.00 bill denomination  
  
January 01, 2012 to December 31, 2012 (1 year period) - \$87,435,297 with 68% being in \$20.00 bills
- 4) For the present year (statistics from January 01, 2013 to September 30, 2013 (9 month period), the following SCT data has been reported:  
\$71,196,398 with 67% or \$47,989,675 in \$20.00 denomination

Projecting forward to a full calendar year will equate to the following estimates for the year 2013:  
\$94,928,530 with approx. 67% in \$20.00 denomination[WJM9]

[jm10]

For WJM9: We agree. JS

For JM10: This report was not intended to be an in-depth analysis, it was for information purposes to place this issue in context. JS

- 5) That projected total would again show an approximate 8% overall increase from 2012 and the total amount of SCT's is coming very close to 100 million dollars per year.[jm11]

The significance is that almost \$100 Million as SCT's have been reported to the regulator. JS

Approximately 75% of that total currency is being accepted predominantly at one venue, the River Rock Casino and the majority of that suspicious currency is being brought in by some 35-40 patrons.

Refer to comments in JM10 "this report was not intended to be an in-depth analysis, it was for information purposes to place this issue in context." JS

There is no question that most of the large sums of cash currency coming into casinos, and especially the small denomination cash currency (\$20.00 bills), is being brought in by patrons who utilize loan sharks to obtain their currency.[WJM12]

GPEB Investigations have been supplied with this information. Law Enforcement have this information and intelligence which they have provided to GPEB Investigations who have SPC status. The origin of the information stays with the police and we are bound by police confidentiality. The police will not provide written police intelligence outside the law enforcement universe. JS

Over the past several years the service providers and BCLC have been vigilant in dealing with loan sharks who were operating within the casinos and who have, for the most part, been removed from the gaming floor and out of the venues. However, loan sharks are increasingly operating out of locations nearby the casinos. They continue to have associates operating as "runners" or "eyes and ears" inside the casinos, ready to contact or alert their loan shark bosses of "patron customers" who will need more money to continue play. What is now often observed is when a patron is out of money he/she

and or the associate make a phone call to a loan shark. The patron leaves the facility, often driven by the associate and/or picked up by the loan shark or his associate, and then departs the facility property. The patron returns within several minutes with a new supply of suspicious currency which is brought into and accepted at the casino. This is continually repeated over and over again at the main casinos in the LMD where high stakes baccarat games are the predominant, if not main game of choice for these patrons. [jm13]

For JM14 & JM15

GPEB Investigations have been supplied with this information. Law Enforcement have this information and intelligence that they have provided to GPEB Investigations as SPC's. The origin of the information stays with the police and we are bound by police confidentiality. The police will not provide written police intelligence outside the law enforcement universe. The evidence of patrons coming and going from gaming facilities with loan shark associates, making phone calls and observed coming into or returning to facilities with bags of currency is captured on facility video and is observed by casino surveillance staff and reviewed and observed by BCLC Security and GPEB investigators on an ongoing basis. JS

Checking of ID and confirming existing information on file on the subject is not regularly done.[jm14]

Once the patron is known at the facility there is no regular confirmation of file information. These very large SCTs (\$100,000, \$200,000 or bigger) occur a number of times a week and service providers and BCLC security investigators confirm patrons are not asked about the origin of the currency. JS

Service providers simply follow the BCLC guidelines of "know your customer". The service provider however never asks about or questions the origin of the money that is being brought into the casino.[jm15]

See JM16 above. JS

Even though patrons will bring in \$100, 000, \$200,000 and sometimes up to \$500,000 in cash, many times most of it being in smaller denominations or combinations of \$20.00 bills and larger bills, the origin of the money is not questioned.

We agree. Refer to Page 6: "The 'Know your Client' requirement of the Service Provider at the present time is not sufficient and does not include the critical component of knowing and carrying out appropriate extensive "Due Diligence" on the origin of the source of the large amounts of suspicious cash funds. The Branch does not yet have a defined Regulation and/or Term and Condition of Registration, specific to Anti-Money

Laundering which outlines appropriate regulatory "Due Diligence" and I am of the opinion to meet our overall objective of preserving the integrity and the perception of integrity of gaming that is critical." JS

Regular and ongoing intelligence information from police sources have confirmed that loan sharks are obtaining suspicious currency from Organized Crime (OC) groups who are laundering their proceeds of crime through the use of loan sharks.[WJM16]

Police are responsible for how and when they conduct criminal investigations. We are not privy to when and how those investigations are conducted. At present, we believe that this type of enforcement does not hit the radar of the police due to other more pressing needs and duties in an environment of shortage of finances and of qualified investigative staff. We are meeting with police regularly on criminal intelligence. Investigative procedures by the police and criminal intelligence will not/cannot be shared with service providers and BCLC. Therefore, we (GPEB – Service Provider – BCLC) will always all be operating on different knowledge levels. JS

Intelligence information and sources to police have indicated that these OC groups often discount the small denomination currency given to loan sharks, who in turn can also discount suspicious small denomination currency that they provide to patrons using same in casinos. Over the past year or more the proliferation of loan sharks and/or "runners" has become more apparent and disconcerting. This is especially the case at or near various LMD casinos and the business/restaurants/meeting spots in the near vicinity of these casinos.

Information and intelligence has always indicated that loan sharks and their associates are or may themselves be part of other criminal elements and groups. Over the past several months further information and intelligence gathered from various police agencies has confirmed that a number of known loan sharks and "runners" are affiliated to different OC groups. Some of these associates to OC groups have significant and serious criminal backgrounds and associations, including firearms possession.[WJM17]

See WJM 19. Also, service providers are continuously providing BCLC with information that allows BCLC to prohibit undesirable patrons suspected of loan sharking, cash and/or chip passing and other "undesirable" activities. Even though BCLC prohibits patrons, this has no impact on the loan sharking or other related criminal activities, most of which are now occurring outside the gaming facility. JS

The presence of these types of individuals could present a potential safety hazard to anyone who personally interacts with them.

See JM15:

"GPEB Investigations have been supplied with this information. Law Enforcement have this information and intelligence which they have provided to GPEB Investigations who have SPC status. The origin of the information stays with the police and we are bound by police confidentiality. The police will not provide written police intelligence outside the law enforcement universe." JS

**Conclusions:**[WJM18]

All of the information provided simply reaffirms that an overwhelming amount of suspicious currency, most being in small denominations, continues to flood into casinos in British Columbia, especially in the LMD. As evidenced in the ongoing receipt of large numbers of Section 86 SCT reports, the amount of suspicious currency continues to rise significantly. None of the measures introduced by BCLC, the service provider, the AML X-DWG or a combination of those entities over the past 3 years have stopped or slowed that increase. There continue to be serious concerns about this suspicious currency and how the influx of that currency into our casinos adversely reflects in a significant way on the overall

The statistics on face value indicate that the flow of suspicious currency into casinos has not stopped or slowed and the volume of suspicious currency coming into gaming facilities continues to increase. JS

integrity[WJM19] of gaming in British Columbia.

Agreed and "the perception of the overall integrity of gaming needs to be maintained as well.

See Page 6: "The Branch does not yet have a defined Regulation and/or Term and Condition of Registration, specific to Anti-Money Laundering which outlines appropriate regulatory "Due Diligence" and I am of the opinion to meet our overall objective of preserving the integrity and the perception of integrity of gaming that is critical." JS

**Joe Schalk, Sr. Director  
Investigations and Regional Operations  
Gaming Policy and Enforcement Branch.**

In the past number of years this Division has collected data, prepared Reports of Findings and has given observations to the Branch and others on suspected money laundering in Casinos in BC. I am not intending to reiterate all the contents of the previous Reports of Findings[jm20]

The previous Reports of Findings, memoranda and discussions have been forwarded to the ADMs and Bill McCrea. We have also given presentations on ML and proceeds of crime to AML X-DWG and the Branch. This includes video clips of SCT activity at gaming venues. I now believe that we need to make another presentation to the AML group on proceeds of crime and the status of SCT in the Casinos in BC. LVG

"once a transaction or attempted transaction had been deemed "suspicious" and prior to it being complete, the transaction must be refused by the service provider[WJM21] at a commercial gaming facility and immediately reported to GPEB in accordance with Section 86 of the GCA".

The above quote has to be examined in context and was in the 2009 recommendations to address SCT. A Service Provider could refuse as a good corporate citizen, based on the suspicion level of a reasonable person. The Service Provider is not compelled to take suspicious currency. PCMLTF has no bearing on refusal to take or not take suspicious funds. It is simply reporting legislation gathering intelligence for police. I do not agree that it is difficult to turn away suspicious currency, however regulatory change would only force due diligence on the person and the source of the funds. That is what we are saying should be in a Regulation. Refusing funds would be the purview of the Service Provider, but it would be based on the result of due diligence on the funds. I would suggest that the service provider would have to be reasonably satisfied through legislated due diligence that the funds are reasonably not the proceeds of crime. LVG

Training and business practices should result in gaming staff having a clear understanding that the duty to diligently scrutinize all buy-ins for suspicious transactions applies, whether or not a patron is considered to be known to BCLC or the facility operator.[WJM22]

Agreed, and the origin of the cash. A regulation or standard operating procedure would ensure compliance with due diligence. LVG

This recommendation clearly reiterates "Know your Client" which I believe must include knowing the source of your clients suspicious funds (Cash). It is clear that the intent of this recommendation was to scrutinize the source of the funds under the "Know your Client" umbrella.[WJM23] It is not sufficient protection to the integrity of gaming to know your client without specifically

The Police of Jurisdiction are responsible for gathering evidence to prove criminal charges on matters such as money laundering and proceeds of crime. It is not a police function to do due diligence in relation to the legitimacy or origin of cash. We believe the due diligence including the origin of the cash rests with the service provider. LVG

Recent conversations with corporate security in the banking community re-enforces that even a greater "Due Diligence" is warranted in the present world

climate and is being stringently exercised by front line staff in Financial Institutions in relation to attempted large deposits of Cash.[WJM24]

I have previously met over the years with BCLC, service providers and the Head of Civil Forfeiture in this regard. Agreed, there are differences of opinion for a variety of reasons. However, the bottom line is, "Is the service provider prepared to do due diligence on the large amounts of SCTs that enter the gaming venues?" I refer to Page 6: "The 'Know your Client' requirement of the Service Provider at the present time is not sufficient and does not include the critical component of knowing and carrying out appropriate extensive 'Due Diligence' on the origin of the source of the large amounts of suspicious cash. The Branch does not yet have a defined Regulation and/or Term and Condition of Registration, specific to Anti-Money Laundering which outlines appropriate regulatory 'Due Diligence' and I am of the opinion to meet our overall objective of preserving the integrity and the perception of integrity of gaming that is critical." I believe that due diligence on the suspicious currency has to be the cornerstone of regulatory oversight. LVG

However, those initiatives along with other initiatives have not reduced the volume of suspicious cash nor the number of Suspicious Currency Transactions in BC Casinos.[WJM25]

Same answer as WJM22: The statistics on face value generally indicate that the flow of suspicious currency into casinos has not stopped or slowed significantly. LVG

They were requesting that casino cheques be issued to patrons that had entered with large amounts of currency, put their money at risk and then left the casino.[WJM26]

This Division has previously disagreed with that policy change for a number of reasons on numerous occasions due to the huge risk of completing the money laundering circle. Any large cheque issuance should only be considered when it is from a completely documented "verified win" or a very minor amount for a specific reason. LVG

ADM Doug Scott has previously addressed that request [jm27]but I am of the opinion it will surface again.

ADM Doug Scott previously addressed this with a letter to BCLC explaining his rationale and the significant risk this change would bring. We agree with this rationale and can discuss this with you. LVG

In closing, I am of the opinion that the influx of large amounts of cash into BC Casinos has not been reduced. That "Loan Sharks" or runners are providing horrendous[WJM28]



I consider \$250,000 in small bills (\$20) being carried into a casino in a hockey duffle bag or equivalent sports bag, wrapped in \$10,000 bundles as a horrendous amount of cash being provided to a gambler, especially when the service provider does not ask the origin of the cash.

Any police of jurisdiction that have been shown various videos of this type of activity at or near a gaming facility have asked, "How can the casino take that money?" That question is very difficult if not impossible to answer, because the service provider is not mandated by the regulator to ask the origin of the suspicious currency (due diligence). You must also keep in mind that the service provider reports this to GPEB as a SCT.  
LVG

It is critical that we meet our overall objective of preserving the integrity and the perception of integrity of gaming. LVG

Larry Vander Graaf, Executive Director  
Investigations and Regional Operations

This Division has reviewed the comments and has tried to provide some clarity to the comments. The first portion of the report comments were responded to by Senior Director Joe Schalk, as he was the author of that portion of the report. I authored the second portion of the document.

We are continuously being asked "prove that the money is the proceeds of crime." I would like to comment further on the "proof" aspect that reverberates through the comments. To prove that the funds in question are the proceeds of crime would require a judicial decision after weighing a flotilla of evidence. From a purely legal perspective to say that the funds in question are positively the "proceeds of crime" requires evidence that meets the "beyond a reasonable doubt" test. If that test could be met, someone would be arrested and hopefully be going to jail by now. That is a test that would have to be achieved by the police and that test is out of reach by all at this time. As previously stated this is not on the police radar at this time for a number of reasons.

Generally, to seize the funds for civil forfeiture the proof level would have to be "on the balance of probability". The seizure of these funds would not be entertained by the civil forfeiture office for a number of reasons. The police would have to do the legwork and as previously stated that is not on their radar.

GPEB does not have the resources or the ability to investigate major, potentially dangerous criminal activity. Therefore, neither proof levels of "beyond a reasonable doubt" nor "balance of probabilities" are likely to be achieved at this time.

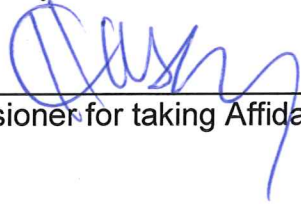
That said, GPEB as the regulator is responsible for the integrity of gaming and the oversight of gaming and I believe that GPEB has an immediate role in this situation. I suggest that role is to ensure the overall integrity of gaming and/or the perception of the integrity of gaming. That is in the AML strategy document.

What I am saying is that the burden of proof to prove that money is in legal fact the proceeds of crime is very high. However based on certain criteria it can be said that the cash funds can be reasonably believed to be the proceeds of crime. Illicit Drug activity in BC is a 6-7 billion dollar per year industry. It is commonly known that drug trafficking is normally conducted in cash and smaller bills (\$20 bills) are generally the bill of choice at street level. Volumes of cash and weight of cash are a major problem for drug traffickers. I am of the opinion that it is reasonable to believe that the reported SCT cash funds coming into the casinos probably originates from drug proceeds. I cannot prove that beyond a reasonable doubt nor on the balance of probabilities at this time and may never be able to reach that level of proof. However, I believe that to ensure integrity of gaming due diligence on the origin of funds at the entry point is appropriate and necessary.

"I am of the opinion that the influx of large amounts of suspicious cash into BC Casinos has not been reduced. That "Loan Sharks" or runners are providing large amounts of unexplained cash to gamblers. I believe that most of the "Loan Sharks" and runners have extensive criminal records and are associated to other criminal groups or organizations. The business of supplying suspicious currency that enters BC Casinos in huge amounts is provided by these loan sharks through other criminal associates. The service providers are appropriately complying with the legal requirement of reporting Suspicious Currency Transactions to this Division. The "Know your Client" requirement of the Service Provider at the present time is not sufficient and does not include the critical component of knowing and carrying out appropriate extensive "Due Diligence" on the origin of the source of the large amounts of suspicious cash funds. The Branch does not yet have a defined Regulation and/or Term and Condition of Registration, specific to Anti-Money Laundering which outlines appropriate regulatory "Due Diligence" and I am of the opinion to meet our overall objective of preserving the integrity and the perception of integrity of gaming that is critical. The question I continue to ask and numerous others ask, "why would we not ask the patron the origin of suspicious cash and conduct further due diligence to ensure the integrity or the perception of integrity in gaming". To answer that it is OK to take these large amounts of suspicious cash without asking the origin of the cash leaves the gaming industry open to severe criticism and negative public scrutiny. It also leaves an open invitation to organized crime at all levels from any location to further infiltrate the casino environment with large amounts of suspicious cash. Would we openly accept the huge amounts of currency generated by Mexican Cartels? I know I can't legally prove that money would be the proceeds of crime.

My opinion...

This is Exhibit "J" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.

A handwritten signature in blue ink, appearing to be "Daisy", written over a horizontal line.

A Commissioner for taking Affidavits within British Columbia

**GAMING POLICY  
AND ENFORCEMENT BRANCH  
INVESTIGATION DIVISION** **REPORT OF**  
**FINDINGS: Breach of the Integrity of Gaming**

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**CONFIDENTIAL**

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**Name: Gateway Casinos and Entertainment Inc.**

**Address: 300-4621 Canada Way, Burnaby, BC**

**Reported: 2010-05-07**

**GPEB File # 31723**

**BACKGROUND:**

On May 4<sup>th</sup>, 2010, Yu Xiang ZHANG, a regular high limit patron, redeemed 1.2 million dollars in Starlight Casino value chips into cash. On this occasion ZHANG requested that Starlight management supply him with a letter that advised he had cashed in value chips in the amount of 1.2 million dollars. Despite the obvious dangers of supplying such a letter, several members of the Senior Management Team from Gateway Head Office reviewed this request and approved a letter be supplied to ZHANG.

**INVESTIGATION:**

Yu Xiang ZHANG has been a regular high limit player at the Starlight Casino for several years. He is considered one of the "biggest" players with buy-ins in the millions of dollars every year. Between April 21, 2010 and May 4, 2010, he visited the Starlight Casino high limit room on 23 occasions. During this time he had won approximately 1.1 million dollars.

He would take the value chips with him when he was finished playing, which is somewhat customary for him.

On May 4, 2010, he returned to the Starlight Casino and presented 1.2 million dollars in Starlight Casino value chips for redemption into Canadian currency. The Starlight Casino did not have enough currency on hand and had to have a quantity of currency transferred from the Grand Villa Casino to complete the transaction with ZHANG.

During this time ZHANG made a request to Cathy SHEN, Senior VIP Room Manager, that the Starlight Casino supply him with a letter advising he had just redeemed 1.2 million dollars in value chips into Canadian currency. SHEN then contacted Meiling HARDING, Director VIP Services and Business Development. HARDING met with ZHANG who advised he was planning to travel to a casino in Montreal and was concerned with the potential issue with airport security regarding a large sum of currency in his luggage. Also, ZHANG does not speak English and would have difficulty explaining where the currency came from.

HARDING contacted Raymond MacNEIL, Cage Manager, and directed him to speak with Starlight Casino General manager Tim BARNETT and advise him of this request.

HARDING then contacted Matt BALLESTY, Senior VP of VIP Operations, and explained the circumstances of the request made by ZHANG. BALLESTY stated he did not foresee any issues with supplying this letter to ZHANG, as long as it was clear that the cash was not from a verified win.

MacNEILL contacted Glenn ATCHISON, Manager of Compliance, at Gateway Head Office. ATCHISON advised against issuing this letter.

MacNEILL then met with BARNETT and informed him of the request made by ZHANG and that ATCHISON had advised against supplying a letter to ZHANG.

BARNETT then called BALLESTY and they both agreed that they could not supply a letter confirming that the cash related to a win, however, it would be reasonable to offer assistance to a customer who may experience

problems transporting the cash by air. It was agreed that they would supply ZHANG with the letter he requested.

BARNETT drafted up the letter, on Starlight Casino letterhead, for HARDINGS signature. It is as follows;

**4 May, 2010**

**"To whom it may concern,**

**This letter is to confirm that Mr Zhang Yu Xiang cashed out \$1.2m in Starlight gaming chips on Tuesday 4 May 2010.**

**For further information please contact Meiling Harding, Director VIP Services and Business development 778-991-7448"**

**Kind Regards,**

**Meiling Harding**

HARDING retrieved the letter from BARNETT, signed it, and took it to the VIP Room and gave it to SHEN to give to ZHANG. As this process had taken some time, ZHANG had left the casino and instructed that the letter be given to his associate, Tsui Hua LO. SHEN handed the letter to LO.

The following day Steve BEEKSMA, BCLC investigator assigned to the Starlight Casino, became aware that this letter had been supplied to ZHANG. He met with BARNETT and advised him that anyone that was involved in this incident must submit an itrak supplemental report.

On May 7<sup>th</sup>, BEEKSMA submitted a Section 86 Gaming Control Act Report to GPEB investigations.

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**FINDINGS GENERAL:**

GPEB Investigations immediately had grave concerns over the issuance of this letter after being notified via Section 86 report from BCLC. We recognized a significant "integrity of gaming" issue, and an immediate concern that the issuance of this letter could be used for illegal means. Inspector Mike Arnold, Operations Officer, "E" Division Integrated Proceeds of Crime Section, RCMP, was contacted and supplied with the circumstances of ZHANG receiving this letter and asked to comment on how the criminal element could use this. He stated;

"We have reviewed the letter and several concerns have been identified. The letter gives the impression the money was "won" legitimately....even though the letter only states that the person "cashed out" a denomination of chips. It does not identify how much was used to cash in, or if chips were gathered by one individual. It only makes one reference that the money was cashed out, but leaves the impression the money was "won".

Letters like this can be used by the individual for many illegitimate purposes:

1. This could be used to facilitate a fraudulent mortgage or credit line.
2. It can be used to evade taxes, in that, shown to Canada Revenue Agency (CRA), it can be used to say that 1.2 million was won and is tax free...note that there is no end date for this use.
3. If this individual is ever investigated for money laundering (ML) or proceeds of crime (POC), they essentially have a "get out of jail card free"...in that, law enforcement relies on an increase in wealth with no legitimate means of support, as evidence to further a ML or POC investigation. With a letter like this, 1.2 million has be(been?) "cleaned" as it appears as a legitimate transaction and is now problematic for any further law enforcement investigation."

ZHANG is well known within the gaming industry for more than just the large amounts of cash he brings into the venues. Here is a synopsis of some of the concerning behaviors he has been involved in;

- 06-10-16. RRCR- Receiving chips from a loan shark. GPEB INV 11021
  - 06-10-18. BLVD- Receiving chips from a loan shark-warned by the service provider. GPEB INV 11045
  - 06-10-25. RRCR- Chip passing-warned by the service provider. GPEB INV 11160
-

06-11-09. BCLC – Prohibited for 1 year for transferring value chips to another casino patron by BCLC.

08-01-07. RRCR- **PII FINTRAC** Bought in for \$200,000 and immediately left with the chips. GPEB INV 1702

08-03-09. STAR-Chip passing-left before being warned. GPEB INV 17792

08-03-09. STAR-Chip passing-left before being warned. GPEB INV 17792  
( one S.86 report for both incidents)

08-06-21. STAR- Chip passing-warned by the service provider. GPEB INV 19499

08-09-11. STAR- Suspicious Circumstances. Bought in with \$300,000 in cash where 47 of the bills were burned at the edges. GPEB INV 20750

08-09-12. STAR- Suspicious Circumstances. A male presented a cheque for \$200,000 in ZHANG's name. ZHANG was brought from the VIP Room to cash the cheque in person. Placed in the watch category by BCLC. GPEB INV 20779

08-11-26. Barred for 14 days by BCLC for chip passing.

08-11-27. Barring rescinded by BCLC.

09-12-04. STAR- Loan Sharking Activity- ZHANG lost \$300,000 at a baccarat table. He walked outside the casino and made a phone call. A short time later a young Asian male drove up and removed two plastic bags from the trunk of the vehicle. ZHANG and the male walked into Schongs Restaurant, a few doors down from the casino. Surveillance cameras observed the male to hand the two plastic bags to ZHANG in a covert manner. ZHANG immediately exited the restaurant and re-entered the casino. He presented the two plastic bags at the cash cage that contained \$299,670 in denominations of \$20, \$50, and \$100. The vehicle being driven by the Asian male has been previously associated to other loan sharking instances at Lower Mainland Casinos. GPEB INV 28487

ZHANG'S associate Tsui Hua LO, who received the letter from SHEN, also has a history of engaging in loan sharking activity, and was Provincially Prohibited by BCLC in 2007 for the inappropriate transfer of value chips and money. LO is no longer prohibited at this time.

10-05-13

BCLC investigators John KARLOVCEC, Don MERKEL and Steve BEEKSMA met with BALLESTY, BARNETT and Starlight Casino Executive General Manager of Table Games, Sam OAN. The Gateway



personnel admitted that in the past VIP staff have shown a tendency to lean too much to the customer service side of the fence for fear of offending the VIP patrons. They advised they were taking steps to ensure this would not happen again. They also advised that they have been negligent in not keeping Gateway's Director of Security and Surveillance, Stan WAGER informed of incidents/situations that clearly fall within his job description. (copy of this info received via email from KARLOVCEC attached )

WAGER is a retired Vancouver Police officer with a wealth of knowledge in the area of money laundering and proceeds of crime issues. I have since spoken with WAGER who was adamant that he would have vigorously advised against writing this letter, under any circumstances, had been told or had determined that this letter was being drafted.

10-05-17

Darryl SCHIEWE, VP Corporate security and Community Gaming BCLC, Terry TOWNS, VP Corporate Security BCLC, Rod BAILEY, Director of Operations BCLC, and Doug MORRISON, Manager, Casino Security and Surveillance BCLC, met with BALLASTY and acting Gateway CEO Darren HARDING.( husband of Mailing HARDING). The meeting was called to discuss the concerns BCLC had with the letter issued to ZHANG. The following is a synopsis of the meeting taken from an itrak supplemental report from MORRISON.

- 1) Senior Management of Gateway has met with Starlight management and VIP staff to discuss this incident and how displeased Gateway Casinos are with this decision to release a letter!
  - 2) Senior Management has(is?) having additional 'new' policy put into place ASAP about incidents involving VIP patrons and FinTrac and this will make the decision making not rest with site personnel.
  - 3) Stan Wager is to become more involved in this process and is to be contacted for input and direction.
  - 4) VIP staff and management are to contact and obtain opinions and direction from BCLC casino investigators regarding VIP patrons and issues surrounding patrons.
  - 5) Enhanced reporting and correct reporting will be stressed with a further follow-up meeting with Starlight management and VIP staff.
- Senior Management from Gateway will continue to monitor this situation and I would suggest a FinTrac training course for both Management and VIP hosts and hostesses and management be undertaken sooner than later.

During follow up conversations with MORRISON it was also determined that at the meeting it was made very clear by BCLC that that any further incidents such as this will result in the dollar limit (currently \$5,000 per hand) will be lowered in the VIP room at the Starlight Casino. BALLESTY

and Darren HARDING acknowledged that an error had been made and they would ensure this does not happen again.

### **CONCLUSIONS:**

As previously noted, Yu ZHANG is a regular patron at the Starlight Casino and is generally considered the largest cash player in terms of buy-ins. Every year his buy-ins total in the several million dollar range. On occasion he wins significant sums of money, however he has also lost large amounts in a short period of time, included one session where he lost more than a million dollars in one 18 hour time period.

ZHANG also has an extensive record of suspicious activity within local casinos. He was Provincially Prohibited by BCLC in 2006 for one year from all gaming facilities for inappropriate transfer of value chips. He also has been observed meeting and associating with known loan sharks. Although it should be pointed out that ZHANG has never been suspected of engaging in loan sharking activities, he does regularly use the services of loan sharks. Also, on many of these occasions the money used by ZHANG to buy-in was identified as suspicious currency/proceeds of crime because of the small denominations of the bills presented. On another occasion he bought in with a large quantity of currency, which 47 of the bills had noticeable burned edges.

The female that ZHANG sent to the Starlight Casino to get the letter, Tsui Hua LO also has a history of suspicious activity within local casinos. As noted previously, she was Provincially Prohibited in 2007 for one year from entering all gaming facilities for engaging in loan sharking activities.

Management at the Starlight Casino are aware of ZHANG'S dubious background and his association with loan sharks. The chronological history of suspicious incidents listed above is readily available and easily retrievable via the itrak reporting database. LO'S previous history can also be searched via the itrak system however, there is no indication this was

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ever done. Yet, despite the concerning associations of these two individuals they chose to issue the 1.2 million dollar letter.

A review of the wording of the letter forwarded to ZHANG is also troubling. It appears to be intentionally vague and although it does not state the value chips were from a verified win, it gives the impression that the 1.2 million dollars in value chips was a result of a large win. Even though ZHANG did win a substantial amount over a 14 day period it cannot be confirmed that these value chips are winnings, as ZHANG always took the value chips with him when he finished playing, and when he returned to play bought in with value chips. If a player leaves the casino during a session of play the verified win process does not carry over, as being permitted to introduce value chips and have them counted towards the amount of a verified win is one of the most serious money laundering threats within the casinos.

On June 11<sup>th</sup>, 2010, I met with Inspector Mike Arnold, Inspector Barry Baxter and Inspector Eric Hall of the RCMP, Integrated Proceeds of Crime Unit (IPOC). They were appalled that the casino would supply anyone with a letter like this. As noted in ARNOLD'S examples listed previously, there are numerous ways to facilitate criminal activity, including income tax evasion and large scale frauds. As he called it, "a get out of jail card free"

As a result of this letter ARNOLD advises that his office will be looking seriously at closer monitoring and possible targeting of casinos for future investigations.

One of the troubling aspects of this entire matter is the fact that it was not a poor decision made by an individual. It was a management decision made by senior members of Gateway Casinos and Entertainment Inc. To reiterate, the following Gateway management personnel were involved from the outset;

Cathy SHEN, VIP Room Manager, Starlight Casino.

Meiling HARDING, Director VIP Services and Business Development, Gateway Head Office.

Tim BARNETT, Executive General Manager, Starlight Casino.

Matt BALLESTY, Senior VP of Operations, Gateway Head Office.

Glenn ATCHISON, Manager of Compliance, Gateway Head Office.

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Despite advice from their own manager of compliance, they decided to acquiesce to ZHANG'S request and issued him the letter. One glaring emission from Gateway personnel consulted was Director of Security and Surveillance, Stan WAGER. During follow up inquiries by BCLC it was agreed to by Gateway personnel that they should have sought WAGER'S opinion on this matter, and will be more diligent in the future in this regard.

As noted previously, I have spoken to WAGER since this incident and he is adamant that he would have never agreed to supply this letter, as he was aware of the potential threats it posed and how the criminal element could exploit it.

During a meeting with BCLC, BALLESTY, BARNETT and OAN agreed that in the past they have leaned too much towards the customer service side of things for fear of offending VIP patrons and that their vision had been somewhat clouded. This is a very simplistic explanation that is grossly understated. There have been numerous concerns in the past involving Starlight Casino's propensity to look the other way in some of the problems within the VIP Room. Recently, Sam OAN was sanctioned by Registrations and Certifications Division as a result of attempting to cover up and conceal from BCLC/GPEB an incident of cheating at play by a VIP Room patron that would have resulted in a Provincial Prohibition. GPB INV 27763 refers.

By issuing this letter to ZHANG the Gateway personnel involved have most certainly breached the integrity of gaming, however, perhaps as concerning, they have brought gaming into disrepute in the eyes of law enforcement, and in the eyes of the public.

#### ATTACHMENTS

Itrak report # 10-17708

<b>PII - FINTRAC</b>
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Letter From HARDING to ZHANG

Email from John KARLOVCEC

Email from Mike ARNOLD

The foregoing information is provided for the consideration of Registration Division. This file is concluded herewith.

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Numerous procedural concerns were identified, and articulated in the body of the narrative report, through this investigation.

Prepared by:	Approved by:
<i>Original Signed</i>	
Derek Dickson Director, Casino Investigations, LMD Investigations Division	

**Forward: 10-06-24**

This report submitted by Director of Casino Investigations, Derek Dickson completely lays out all of the circumstances surrounding this matter. I don't believe, however, that it can be overemphasized how significant a breach has been committed here.

It is especially important to remember that the subject ZHANG who was given the letter, was extremely well known and had been for a long period of time. His notable lengthy and questionable "currency transaction" past history was well known and documented by this service provider. This, coupled with the fact that the letter was actually given to a 3rd party LO, with an equally questionable past history, adds to the gravity of this breach. All of that however has to also be seen in light of the fact that several upper management service provider personnel were instrumental in discussing this and then making the conscious and deliberate decision to proceed with issuance of the letter. They even excluded going to their own Director of Security and Surveillance who they knew had direct experience and knowledge of these types of issues.

I believe the circumstances as provided in this case outline a serious "integrity of gaming" concern relative to this service provider and, if not addressed, could have far reaching ramifications elsewhere in the gaming industry within British Columbia.

Joe Schalk, Senior Director Investigations  
Gaming Policy and Enforcement, Investigations Division

**Forwarded 24 June, 2010**

I have reviewed this Report of Findings and will express some significant observations and major concerns in relation to the redemption of 1.2 million in value chips into cash by Mr. Zhang. On the 4<sup>th</sup> May, 2010 Mr. Zhang attended the Starlight Casino (Gateway Casino) and produced 1.2 million in value chips and requested cash. Mr. Zhang also requested that the Casino provide him with a letter outlining that he, in fact, had received the 1.2 million in cash from the Casino. It was obvious from the outset from both Mr. Zhang and the Casino staff at the highest levels that this letter could not include that these value chips or the cash received was, in fact, from a "Verified Win". As I have previously stated on numerous occasions, the Investigations and Regional Operations Division does not have faith in adherence to the "Verified Win" guidelines by the Service Provider when it relates to high level/volume players. The potential revenue overrides the risk. I do not believe that this situation is in isolation. The Casino, with the knowledge and concurrence at the highest levels, not only failed to report this transaction to the GPEB Investigations and Regional Operations Division via Section 86 Report as a Suspicious Currency Transaction and/or real or suspected violation of the Criminal Code, but failed to report the transaction to BCLC.

**PII - FINTRAC****PII - FINTRAC**

This was a

calculated decision on 5 May, 2010 and only the initiative of the BCLC investigator identified this transaction.

On 7 May, 2010 BCLC filed a Section 86 Report to this office.

On 12 May, 2010 FINTRAC was advised of the Suspicious Currency Transaction by BCLC.

I am not going to again outline the extreme risk that the letter poses to the potential for money laundering, tax evasion, and a potential for a defense in a Proceeds of Crime investigation. It should also be noted that this letter is timeless. The Director, Casino Investigations LMD has enclosed the opinion of the Operations Officer of the RCMP Integrated Proceeds of Crime Section in the LMD. It is self-explanatory.

In conclusion, I find this situation of non reporting of this type of integrity of gaming matter as significant. I am requesting action by Registration. I am also of the opinion that adding regulatory penalties for non compliance under Section 86 of the GCA would be appropriate and necessary.

Larry Vander Graaf, Executive Director  
Investigation and Regional Operations.

This is Exhibit "K" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia

Ministry of Public Safety and Solicitor General  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement

**REPORT OF FINDINGS**

Date: January 10, 2011

**CONFIDENTIAL**

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**Complaint: Suspected Money Laundering**  
**2010-12-21**  
**GPEB File # INV 36100**

**BACKGROUND:**

**Subject:** [REDACTED]

The subject is associated to [REDACTED]. He has an extensive criminal record and is currently before the courts on three serious drug related matters. He is also awaiting sentencing on four counts of assault.

During the months of November, December and January the subject attended the Great Canadian Casino Nanaimo site, (GCC Nanaimo) on seven occasions and engaged in large cash buy-ins of value chips. The buy-ins were done with small denomination Canadian currency. During the time period the subject bought-in for a total of \$39,410. The subject engaged in limited gaming activity and then cashed out his value chips receiving high denomination Canadian currency. The cash out total for the period was \$23,025. The difference between the buy-in and cash-out is made up of gaming losses and value chips which the subject retained in his possession. The ratio of losses vs chips retained by the subject is u/k at this time. It is evident that the subject was laundering funds in the Casino and he succeeded in buying-in with \$10, \$20, \$50 and a limited numbers of \$100 dollar denomination bills and cashed out, receiving mostly \$100 dollar denomination bills. This activity is inconsistent with the subjects claim to be a construction contractor.

**FINTRAC**

**FINTRAC**

**SCOPE OF INVESTIGATION:**

- Discussions, Sgt. D. Lewis, RCMP Island Drug Enforcement;
- Review GCC Nanaimo I -Track Reports;  
46343,46778,47804,48423,49837,50578,456; and
- Discussions with BCLC Corporate Security.



Ministry of Public Safety and Solicitor General  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement  
**REPORT OF FINDINGS, Continued**

**FINDINGS IN GENERAL:**

As noted, the subject had attended GCC Nanaimo on six occasions in November and December 2010. On each occasion he was involved in a suspicious cash transaction (SCT). Each incident was the subject of a separate BCLC I-Track report and each incident was examined individually.

November 14, 2010

At approximately 1435 hrs the subject [REDACTED] was observed in GCC Nanaimo. He was observed making two buying-ins for \$1,280 (128\*\$10). He participated in gaming activity until approximately 1534 hrs he coloured up his value chips to \$4,000, (8\*\$500 chips). His gaming activities were not monitored and his win/loss was undetermined. [REDACTED] left the table area and was observed handing a quantity of chips to an associate, identified as [REDACTED]. [REDACTED] attended the cash cage and cashed out the value chips receiving \$4,000. It is believed that the cash-out was made up of \$100 bills (40\*\$100) however, this cannot be confirmed. Both subjects then departed the Casino. The subjects had been in the Casino for approximately one hour. Conrad had participated in limited gaming activity and [REDACTED] had not participated in any gaming activity. It would seem that the purpose of attending the Casino was to exchange \$10 for \$100. The source of the excess value chips above the buy-in is u/k. Conrad's gaming win/loss was unreported.

The subject [REDACTED] is associated to FPS 504431E with an extensive criminal record. He is an associate of [REDACTED].

November 17, 2010

At approximately 1450 hrs the subject entered the Casino site. He remained in the Casino for approximately 1 hour departing at 1550 hrs. During this period of time, [REDACTED] bought in for \$3,600 in value chips (165\*\$20, 6\*\$50). He did participate in limited gaming activity and appeared to lose the majority of his value chips.

At approximately 1750 the subject returned to the Casino. At this time he made a further buy-in for \$3,800 (20 \* \$100 and 36 \* \$50). The subject participated in limited gaming activity until 1810 hrs at which time he left the Casino. The subject did not attempt to cash-out his value chips. His gaming activities were not monitored and his win/loss was undetermined. It was noted that he was in possession of a number of \$500 value chips when he departed.

During the approximately two hours that the subject was in the Casino on this date he made buy-ins for \$7,100 in value chips using mainly small denomination bills.

Ministry of Public Safety and Solicitor General  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement  
**REPORT OF FINDINGS**, *Continued*

November 23, 2010

At approximately 1900 hrs the subject [REDACTED] was observed in GCC Nanaimo. While in the Casino he made multiple value chip buy-ins. The total buy-in was \$10,160 (12\*\$10, 367\*\$20, 28\*\$50, 13\*\$100). He did participate in gaming activity and departed the casino at approximately 2210 hrs. He did not cash-out any value chips prior to his departure. His gaming activity were not monitored and his win/loss was u/k. It is undetermined if the subject left the Casino site with any value chips. As the subjects buy-ins exceeded the \$10,000 reporting threshold this incident was reported to FIN-Trac.

November 27, 2010

At approximately 2208 hrs the subject [REDACTED] was observed in GCC Nanaimo. He was observed making multiple value chip buy-ins. The total of the buy-in was \$2,000 (100\*\$20). The subject did participate in limited gaming activity however, his win/loss was undetermined. He departed the Casino at approximately 2308 hrs without cashing-out. On this occasion the subject was in the Casino for approximately one hour and it is u/k if he retained any value chips upon his departure.

December 7, 2010

At approximately 1405 hrs the subject [REDACTED] was observed in GCC Nanaimo and made multiple buy-ins for \$700 (25\*\$20, 10\*\$20). After limited gaming play he cashed-out \$2,025 (4\*\$500 and 1\*\$25). He received his funds in large denominate Canadian bills (\$100, \$50, 1\*\$20, 1\*\$5). The subject departed the casino site at approximately 1420 hrs. As noted the subject was on site for approximately 15 minutes and his purpose appeared to be to conduct financial transactions rather than gaming. Due to the value of the cash-out it is evident that he was in possession of value chips prior to this dates buy-in.

**FINTRAC**

**FINTRAC**

December 13, 2010

At approximately 2115 hrs the subject [REDACTED] was observed entering GCC Nanaimo. He was monitored buying-in for \$1000 (50\*\$20). He participated in limited gaming activity and at approximately 2140 hrs he left the table, proceeded to the cash cage and cashed-out for \$2,000 (20\*\$100). The subject was on site for approximately 40 minutes, the amount of his win/loss was unreported. It is u/k if the value chips cashed-out were the result of gaming wins or if the subject had the value chips in his possession prior to his buy-in. As on previous occasions it appears that the subject's attendance was to conduct financial transactions rather than to participate in any gaming activities.

Ministry of Public Safety and Solicitor General  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement  
**REPORT OF FINDINGS**, *Continued*

January 2, 2011

At approximately 1751 hrs the subject [REDACTED] was observed entering GCC Nanaimo. He was monitored making multiple buy-ins totalling \$16,870 (44\*\$5, 18\*\$10, 586\*\$20, 65\*\$50, 15\*\$100). The subject participated in gaming activity until approximately 2147 hrs when he cashed-out his value chips. He cashed-out for \$15,000 (50\*\$100, 500\*\$20). After cashing-out the subject left the Casino site. On this occasion the subject had been in the Casino for approximately four hours.

**DISCUSSION:**

It would appear that the subject has been engaged in Suspicious Currency Transactions (SCT). He has succeeded in converting a large number of small denomination bills into large denomination bills. It is significant that the subject spends very limited time in the Casino and engages in limited gaming activity. This activity would support the assumption that he is engaging in financial transactions rather than participating in significant gaming activities.

[REDACTED] has succeeded in buying-in for \$39,410 in small denomination bills and cashing-out for \$23,025 in large denomination bills. It has not been determined if the subject has retained a large quantity of value chips which are to be converted to cash at a later time or he has lost the funds while participating in limited gaming activity.

**FINTRAC**

[REDACTED] the suspected criminal activity has not stopped. With the success in funds conversions there is no reason to believe that Conrad will cease his suspect activities. With [REDACTED]'s reported criminal activity he will no doubt confine converting his funds from illegal sources to laundered funds via the casino exchange. If his funds were from a legitimate source and not criminal activity it could be suspected that he would utilize a player gaming account, to date he has not obtained such an account.

Ministry of Public Safety and Solicitor General  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement  
**REPORT OF FINDINGS**, *Continued*


**CONCLUSIONS:**

It is accepted that the reported incidents involve a relatively small amount of money in the global provincial context. However, if this laundering activity is successful, even on this scale, it can be expected that other individuals will start to use the same methods.

While the letter of the law has been adhered to FINTRAC the suspected criminal activity continues to occur and may in fact become more prevalent.

The content of this report has been disclosed to the police as criminal intelligence.

**Prepared by:**

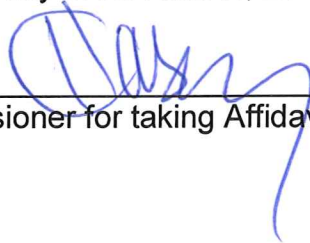


J. A. (Al) Giesbrecht CGA  
Special Provincial Constable  
Director, Forensic Investigations  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

**Copy:**

Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

This is Exhibit "L" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.

A handwritten signature in blue ink, appearing to be "Larry", is written over a horizontal line.

A Commissioner for taking Affidavits within British Columbia

**Vander Graaf, Larry P SG:EX**

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**From:** Vander Graaf, Larry P SG:EX  
**Sent:** Wednesday, November 16, 2011 10:58 AM  
**To:** Scott, Douglas S SG:EX  
**Subject:** FW: Re: Yu ZHAO - SCT - Report of Findings

Report of Finding for your information only.....

*Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch  
Ministry of Public Safety and Solicitor General*

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**From:** Schalk, Joe SG:EX  
**Sent:** Monday, November 14, 2011 2:33 PM  
**To:** Vander Graaf, Larry P SG:EX  
**Cc:** Dickson, Derek SG:EX  
**Subject:** Re: Yu ZHAO - SCT - Report of Findings



Yu Zhao - Report  
of Findings.d...

Larry:

Attached is self explanatory Report of Findings from Derek Dickson reference c/n subject. I have footnoted the report as noted. For your information and whatever dissemination you may deem necessary.

Joe Schalk, Sr. Director,  
Investigations and Regional Operations LMD  
Gaming Enforcement  
Gaming Policy and Enforcement Branch  
Ministry of Public Safety and Solicitor General  
ph: (off) 604-660-0271  
(cel) 604-833-3691  
Fax: 604-660-2030

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**GAMING POLICY  
AND ENFORCEMENT BRANCH  
INVESTIGATION DIVISION  
FINDINGS:**

**REPORT OF**

**CONFIDENTIAL**

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**Money Laundering  
River Rock Casino**

**Date of Report: November 14<sup>th</sup>, 2011**

**BACKGROUND:**

Between October 17<sup>th</sup> and October 26<sup>th</sup>, 2011 a male, Yu Zhao, bought in on 13 occasions at the River Rock Casino for a total of \$1,819,880, of which \$1,378,500 was in 20 dollar denominations. The money was transported in a variety of bags and was all packaged in \$10,000 bricks wrapped in two elastic bands.

**INVESTIGATION:**

Yu Zhao is a 26 year old male resident of the Peoples Republic of China. He arrived at the River Rock Casino commencing on October 17<sup>th</sup>, 2011, and over the next 10 days made numerous large cash buy-ins with small denominations.

The following is a detailed review of Zhao's suspicious buy-ins:

**Narrative of Events:****October 17, 2011**

- 15:27 – A white BMW M3 arrived at the RRCR. ZHAO was the passenger in the vehicle and was observed carrying a bag. The unidentified Asian male was the driver of the vehicle.
- 15:29 – Both subjects enter the VIP Room together. ZHAO enters the private cash cage.
- 15:31 – ZHAO emptied the contents of the bag onto the counter. His buy-in was for \$199,980.00, consisting entirely of \$20.00 bills. {9999 x \$20.00}.
- 15:57 – ZHAO received his value chips at MDB 17. {\$5,000 x 5, \$1,000 x 9, \$25 x 3, and \$5 x 1}. He played Baccarat at a level consistent with his buy-in.

**October 18, 2011**

- 10:52 – A dark colored vehicle arrived at the RRCR. No further details of the vehicle could be determined. Yu ZHAO was in the front passenger seat. Two other Asian males were also in the vehicle. Yu ZHAO exited the vehicle carrying a red bag, and could be seen speaking on his phone before entering the VIP Room. All three went together to the VIP Room.
- 10:55 – Yu ZHAO entered the private cash cage alone. He emptied the contents of the bag onto the counter. His buy-in was for \$100,000.00. It consisted entirely of bundles of \$20.00 bills {5,000 x \$20}.
- 11:14 – Yu ZHAO received his value chips at MDB 17. {20 x \$5,000}. The two Asian males were at the table with him and shortly thereafter, they were joined by another Asian male. They all watched as Yu ZHAO played high stakes Baccarat consistent with his buy-in.
- Surveillance did not capture ZHAO's departure from the RRCR.

**October 18, 2011**

- 13:06 – Yu ZHAO arrived as the passenger in silver Acura being driven by an Asian male. Both subjects went to the VIP Room; Yu ZHAO was carrying a black bag.
- 13:09 – Both ZHAO and the male entered the private cash cage. ZHAO emptied the contents of the bag onto the counter. His buy-in was for \$100,000.00 and consisted entirely of \$20.00 bills {5,000 x \$20}.
- 13:25 – Yu ZHAO received his value chips at MDB 17 and played high stakes Baccarat consistent with his buy-in. His play was watched by two other Asian males.
- Surveillance did not capture ZHAO's departure from the RRCR.



**October 18, 2011**

- 14:27 - Yu ZHAO arrived as the passenger in a silver Acura that was being driven by an Asian male. Both subjects went to the VIP Room, Yu ZHAO was carrying a red bag and the male carried two black bags.
- 14:29 - Both subjects entered the private cash cage. ZHAO emptied the contents of his bag onto the cash counter. His buy-in was for a further \$100,000.00. The denominations of the bills were as follows: {2975 x \$20, 84 x \$50, 363 x \$100}
- ZHAO went to MDB while his most recent buy-in was being counted. Two Asian males were at the table watching as Yu ZHAO produced some chips and resumed gaming.
- 14:46 - Yu ZHAO received his value chips at the table. {20 x \$5,000} and continued to play high stakes Baccarat.

**October 20, 2011**

- 15:29 - ZHAO arrived as the passenger in a silver Acura TL being driven by an Asian male. The male removed two black bags and one gray shopping bag from the vehicle. He passed the gray bag to ZHOU. They proceeded to the VIP Room together.
- 15:32 - They both entered the private cash cage and ZHAO emptied the contents of the bag onto the counter. His buy-in was for \$100,000. The denominations of the bills were as follows: {2500 x \$20, 42 X \$50, and 479 x \$100}. They both then went to MDB 17. Yu ZHAO produced a stack of \$5,000 chips and began to play while two Asian males watched.
- 15:46 - Yu ZHAO received his value chips {20 x \$5,000} and continued play.
- They subsequently left the casino in a group in a silver late model Dodge Caravan. At conclusion of play Yu ZHAO was in possession of about \$450,000.00 in value chips and about \$9,000.00 in cash.

**October 21, 2011**

- 21:06 - ZHAO emerged from the West tower elevator carrying a white plastic bag and with a black bag over his shoulder. He was accompanied by three Asian males.
- 21:07 - ZHAO and his entourage arrived at the VIP Room together. ZHAO then entered the private cash cage alone.

- 21:08 – ZHAO removed cash from the white plastic bag onto the counter. A few moments later one of the males entered the room and passed an unknown object to ZHAO, then left the room. ZHAO then removed more cash from the black shoulder bag. His buy-in was for a total of \$69,960.00. {3453 x \$20, 4 x \$50, and 7 x \$100 bills}.
- 21:22 – ZHAO received his value chips at MDB 17 as follows: {13 x \$5,000, 4 x \$1,000, 1 x \$500, 4 x \$100, 2 x \$25, and 2 x \$5}. ZHAO played at a level consistent with his buy-in while the three males watched.

#### October 22, 2011

- 09:32 – ZHAO and an Asian male emerged from the elevators from the West lobby hotel rooms. ZHAO was carrying a large brown shopping bag. Both went to the VIP Room.
- 09:35 – ZHAO went into the private cash cage alone. He emptied the contents of the bag onto the counter. The buy-in was for \$100,000.00 and consisted entirely of bundles of \$20.00 bills.
- ZHAO went with the male to MDB 27 and while his buy-in was being counted he produced a further \$5,000.00 which again, consisted entirely \$20.00 bills and began to play without waiting for his \$100,000.00 buy-in while the male watched without playing.
- 10:10 – ZHAO had lost all of his chips. Accompanied by the male they both went to the buffet in the VIP Room while another Asian male returned to the West hotel tower.
- 10:15 – The male returned from the hotel and passed what appeared to be \$100,000.00 in value chips to ZHAO.

#### October 25, 2011

- 13:34 – ZHAO arrived in the South lot as the passenger in a silver Acura driven by an Asian. The particulars of the vehicle could not be determined. ZHAO emerged from the vehicle carrying a black plastic bag.
- 13:37 – Both subjects went directly to the VIP Room. ZHAO alone went into the private cash cage and emptied the contents of the bag onto the counter. His buy-in was for \$200,000.00. The bills consisted primarily but not entirely of \$20.00 bills. The denominations were as follows: {1,000 x \$100 and 5,000 x \$20}. There was a split delivery of value chips and two delivery slips created for this transaction.
- 13:52 – ZHAO received \$100,000.00 in value chips at MDB 17. {20 x \$5,000}
- 14:01 – ZHAO received a second delivery of \$100,000.00. {20 x \$5,000}. ZHAO proceeded to play Baccarat at a high stakes level.

**October 25, 2011**

- 19:01 – ZHAO and an Asian male arrived at the valet parking area. ZHAO was driving.
- 19:02 – Both subjects exited the vehicle. ZHAO was carrying a plastic bag. Both Zhao and the male went directly to the VIP Room.
- 19:04 – ZHAO went into the private cash cage and emptied the contents of the bag onto the counter. The buy-in was for \$99,980.00 and consisted entirely of \$20.00 bills. {4999 x \$20}.
- 19:24 – ZHAO received his value chips at MDB 17 and resumed playing at a high stakes level.

**October 26, 2011**

- 02:14 – ZHAO and an Asian male are observed returning to the RRCR in a white Jeep. Both subjects exit the vehicle. The male has a black bag which he passed to ZHAO. ZHAO subsequently passed the carry bag back to the male.
- 02:16 – Both subjects went directly to the VIP Room.
- 02:17 – ZHAO and the male enter the private cash cage. ZHAO emptied the contents of the bag onto the counter. The buy-in was for \$149,980.00 and consisted entirely of bundles of \$20.00 bills. {7499 x \$20.00}.
- ZHAO received his value chips at MDB 17. {29 x \$5,000, 4 x \$1,000, 1 x \$500, 4 x \$100, and 1 x \$5}. He resumed playing at a high stakes level.

**October 26, 2011**

- 04:05 – ZHAO left the casino with an Asian male in a white Jeep.
- 04:17 – ZHAO return to the casino. ZHAO exits the vehicle with a blue plastic bag while the male parked the Jeep near the main hotel entrance.
- 04:20 – Both subjects went directly to the VIP Room.
- 04:23 – ZHAO entered the private cash cage and partially emptied the bag. His buy-in was for \$99,980.00. {60 x \$50.00 and 968 x \$100.00}
- 04:34 – ZHAO received his value chips at MDB 17. {19 x \$5,000, 4 x \$1,000, 1 x \$500, and 3 x \$100} and resumed playing at a high stakes level.
- 05:07 – ZHAO returned to the private cash cage and emptied the bag of the remainder of the contents. This buy-in was for \$100,000.00. The denominations of the bills were as follows: {2500 x \$20.00 and 500 x \$100.00}.
- 05:20 – ZHAO received his value chips at MDB 17 and continued playing high stakes Baccarat.

**October 26, 2011**

- 15:28 – Yu ZHAO and two Asian males were observed returning to the casino in a white Jeep. ZHAO exits the vehicle carrying a bag.
- 15:32 – All subjects went directly to the VIP Room.
- 15:33 – ZHAO went into the private cash cage and emptied the contents onto the cash counter. The buy-in was for \$200,000.00 and consisted entirely of \$20.00 bills. {10,000 x \$20.00}
- 15:39 – ZHAO resumed playing at a high stakes level.

**October 26, 2011**

- 19:17 – ZHAO and an Asian male emerged from the elevator bank that services the West hotel tower.
- 19:20 – ZHAO entered the private cash cage and emptied the contents of the bag onto the counter. This buy-in was for \$200,000.00 and consisted entirely of \$20.00 bills {10,000 x \$20.00}
- ZHAO received his value chips at MDB 17. {40 x \$5,000} and resumed playing high stakes Baccarat.

ZHAO first came to the attention of the Investigations Division on November 7<sup>th</sup>, 2010, when he bought in at the River Rock Casino for \$199,910 primarily in 20 dollar denominations. (GPEB 35947) On that same date ZHAO opened a Players Gaming Fund Account (PGF) with a \$300,000 verified win cheque from the River Rock Casino. Over the next two days ZHAO depleted the PGF of all funds, however the PGF remained open. When ZHAO arrived at the River Rock Casino on October 17<sup>th</sup>, 2011, and bought in with the first of the \$1,819,880 in small denominations, he still had an active and available PGF for him to wire transfer money from a Canadian bank. This option was not chosen by Zhao.

Internet inquiries indicate that ZHAO is the Executive Chairman of the Board and Chief Executive Officer of Daqing Dairy Holdings Ltd. This company is traded on the Hong Kong Stock Exchange.

**CONCLUSIONS:**

Yu ZHAO is a 26 year old male who reportedly is the Chairman of the Board and CEO of a publicly traded company on the Hong Kong Stock Exchange. Limited background checks fail to identify ZHAO as having a criminal background. He however is knowingly using loan sharks and is being used by loan sharks and organized crime to at very least, facilitate the laundering of large amounts of small denomination cash through his play at

a Lower Mainland casino. The access to the large quantities of cash involved, in small denominations, how the cash is packaged and delivered to the casino are all indicative of the laundering of the proceeds of crime on a very large scale.

This is yet another example of criminals utilizing casinos in British Columbia to launder significant sums of money, utilizing wealthy Asian businessmen. This concern has been raised on numerous occasions in the past by the Investigations Division. To date, any anti-money laundering strategies deployed by BCLC or the service providers have had little or no impact on the number of reported suspicious cash transactions (SCT's). As a matter of fact, the numbers of SCT's reported to GPEB and the amounts of suspicious small denomination cash, particularly 20 dollar bills, entering BC casinos continues to increase.

No procedural concerns were identified through this investigation.

Prepared by:	Approved by:
Derek Dickson, Director Casino Investigations	
<i>Original Signed</i>	

**FORWARD: 14 November, 2011**

**To: Executive Director, Investigations and Regional Operations, GPEB**

The noted Report of Findings is self explanatory. Our concerns are again clearly identified. The report outlines another example of one individual's cash buy-ins at a local casino over the course of 10 days and 13 separate buy-ins. Again the predominant currency denomination is \$20.00 bills, almost 1.4 million dollars of a total of just over 1.8 million dollars in buy-ins.

In this report, it is also noted that in 2010, this subject DID AVAIL himself of and use the Player Gaming Fund Account (PGFA) so he certainly is aware of it and how it could be used. On these occasions he did not avail himself of the PGFA.

These ongoing reported SCT notifications by way of the required Sec. 86 reports from service providers continue to increase in number and in the first 7 months of this fiscal year, we have accumulated almost as many reports as were received for the entire fiscal year 2010/2011. There is no question that the total amount of SCT monies is increasing on an equivalent level.

A copy of this report is being provided for your information and possible dissemination as you see fit. The RCMP IPOC Section has been provided a copy of this report as part of our ongoing reporting of SCT activity responsibility.

J. Schalk, Sr. Director  
Investigations and Regional Operations  
Gaming Enforcement

**Forwarded to General Manager 16 November, 2011**

**This Report of Findings is self explanatory and indicates the continuation and increase of what is believed to be Proceeds of Crime being facilitated through the Casinos in the Province. This report should be read in conjunction with other previous reports in this regard.**

**Larry P. Vander Graaf, Executive Director**

This is Exhibit "M" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.

A handwritten signature in blue ink, appearing to be "D. J. [unclear]", written over a horizontal line.

A Commissioner for taking Affidavits within British Columbia

**GAMING POLICY  
AND ENFORCEMENT BRANCH  
INVESTIGATION DIVISION  
FINDINGS:**

**REPORT OF**

**CONFIDENTIAL**

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**Suspicious Cash Transactions/ Money Laundering**

File Review

River Rock Casino

Date of Report: February 22<sup>nd</sup>, 2012

**BACKGROUND:**

This report is being provided further to previous reports submitted regarding issues involving the extent and quantity of Suspicious Currency Transactions in Lower Mainland gaming facilities. Those previous reports have dealt with specific individuals and general trends as they were reported to and investigated by the Casino Unit of the Investigation and Regional Operations Division of GPEB.

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

A file review was recently completed of all Suspicious Currency Transaction (SCT) reports received from the River Rock Casino by way of Section 86 reports. A 36 day period (5 weeks) between January 13<sup>th</sup>, 2012 and February 17<sup>th</sup> was selected. This time frame captured the period before,



during and after Chinese New Year that began on January 23<sup>rd</sup>, 2012. The following information is the result of the review:

Number of Section 86 SCT reports received: **85**

Dollar value of the suspicious \$20 denomination buy-ins: **\$6,677,620**

Dollar value of the suspicious \$50 denomination buy-ins: **\$251,200**

Dollar value of the suspicious \$100 denomination buy-ins: **\$948,400**

Total dollar value of all suspicious denomination buy-ins: **\$8,504,060**

Number of patrons involved in multiple suspicious cash buy-ins: **14**

Total number of suspicious cash transactions reports generated by the patrons with multiple suspicious buy-ins: **74**

Patron with the highest multiple suspicious buy-ins reported: **19**

The total dollar value of the patron with the highest number of suspicious buy-ins: **\$1,435,480**

### **CONCLUSION:**

The patrons involved in bringing these large amounts of suspicious cash into Casinos in British Columbia continues to be almost exclusively male persons of Asian descent. The game of choice continues to be baccarat. There are also several documented incidents where these patrons lose their bankroll and leave the casino, only to return a short while later (sometime within minutes) with another bag of cash, primarily in \$20 denominations and bundled in \$10,000 bricks held together by two elastic bands. As previously reported on and certainly the shared opinions of Police personnel involved in Proceeds of Crime investigations, these activities are highly indicative of involvement with loan sharks.

It is believed that Casino Service Providers including the River Rock Casino are in fact being diligent and forthright in expediently reporting

Suspicious Currency Transactions and other matters of wrongdoing via Section 86 reports.

There also appears to be an increase in the number of \$50 and \$100 denomination bills being presented during these Suspicious Currency Transactions. \$100 dollar denominations in particular are becoming more common as evidenced by the almost one million dollars reported as SCT during this review.

The one patron involved in the 19 SCT by himself, [REDACTED], and several other patrons involved in the suspicious currency buy-ins, have active Player Gaming Fund Accounts that were either emptied and not replenished, or not used at all. All of them have had no difficulties acquiring large sums of cash used as buy-ins. One patron that was conspicuous by his absence during the course of this review was one Li Lin SHA, previously reported on and a person who is generally believed to be the patron who brings the largest amount of cash into Lower Mainland Casinos annually. Almost all of the transactions SHA is involved in are reported as a SCT. SHA did not attend the River Rock Casino at all during the review period.

As noted, this review **only** involved the River Rock Casino in Richmond, B.C. and covered off **only a five (5) week period**. This venue is the largest and most active in terms of generating Section 86 reports in general, but also specifically generates the most Section 86 reports regarding SCT.

It was also determined that some of the patrons associated with the total of 85 SCT reports received during the review period, also did attend other Lower Mainland Casinos. In turn, they also generated other Section 86 SCT reports involving substantial quantities of suspicious cash. These additional Section 86 reports were not included in this review.

No procedural concerns were identified through this investigation.

Prepared by:	Approved by:
<i>Original Signed</i>	

**FORWARD: 22 February, 2012**

**To: Executive Director, Investigations and Regional Operations, GPEB**

As with previous reports, this report is again self explanatory. This report deals with a review of **ONLY ONE VENUE** undertaken over a **FIVE WEEK PERIOD** with some 85 Suspicious Currency Transactions involving more than 8.5 million dollars of suspicious currency more than 6.5 million of that currency being of the \$20 denomination variety. There is simply no question that a significant number of patrons are involved in, at very least, facilitating the laundering of suspicious currency. The \$20 bill continues to be the very predominant cash currency of choice in these transactions.

The River Rock Casino, although the most prominent of 5 major LMD casinos that have by far the most of Suspicious Currency Transactions occurring, would still only account for approximately 40% of all SCT reports and approximately 50% of all SCT monies reported.

As has been previously reported, again we have several of these patrons who do have Patron Gaming Fund accounts but choose not to use them. I do agree with Director Derek Dickson that the venues are duly reporting, as required, these Suspicious Currency Transactions via Section 86 reporting. I also believe, however, that these Service Providers have a much greater responsibility of due diligence and corporate citizenship and to the law and order of this Province and this country, of not taking or allowing this suspicious currency into their venues. Corporate banking institutions will not and do not take suspicious currency and we do not believe gaming venues should be any different.

It should also be noted that the incidents of Suspicious Currency Transactions reported by gaming venues continues to rise dramatically from year to year. In the fiscal year **2009/2010, 117 incidents** of Suspicious Currency Transactions were reported (non-reporting by Service Providers was certainly more of an issue then – our scrutiny on non-reporting issues has tightened up reporting considerably). In the fiscal year **2010/2011, 459**

reports were received. For the fiscal year **2011/2012** up to 15 Feb (**10 ½ months**) **653 reports** of Suspicious Currency Transactions have been reported (projected to be at least 750 incidents for the full year). As noted, the RCMP IPOC Section has been fully apprised of our ongoing involvement in Suspicious Currency/Money Laundering issues within Gaming Facilities in British Columbia.

J. Schalk, Sr. Director  
Investigations and Regional Operations  
Gaming Enforcement

This is Exhibit "N" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia

Ministry of Public Safety and Solicitor General  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

REPORT OF FINDINGS

DATED: 2012-2-27

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Complaint (of) Suspicious Cash Transaction

LCT

**PII - FINTRAC**

X ref

GPEB# 53247 Itrak#12-9226 PII - FINTRAC  
\$100,000.00 cash (5000 x \$20.00 bills)

GPEB# 53150 Itrak#12-8930 PII - FINTRAC  
\$100,000.00 cash (5000 x \$20.00 bills)

**PII - FINTRAC**

Ministry of Public Safety and Solicitor General  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

REPORT OF FINDINGS

**PII - FINTRAC**

**PII - FINTRAC**

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**Participants**

#1

█ (m)

Dob- █

BC DL █

█

█

█

Veh. Driven █

█

[REDACTED]  
[REDACTED] gional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

REPORT OF FINDINGS

#2

DOB [REDACTED]

CDN PR card [REDACTED]

BCLC ID [REDACTED]

Add. [REDACTED]

Last known vehicle:  
[REDACTED]

Narrative of Events, 2012-02-23 and 2012-02-24

**PII - FINTRAC**



**Ministry of Public Safety and Solicitor General  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch**

**REPORT OF FINDINGS**

**Background**

Between [REDACTED] and [REDACTED] they produced \$500K in cash to gamble in an 8 hour time frame and all 3 instances occurred after regular business hours.

[REDACTED] has an extensive history of large cash buy-in with small bills and is an associate of [REDACTED]

[REDACTED] does hold a Player Gaming Fund account and has used it on only a handful of occasions opting in most cases to deal in bags of cash. This date WANG cashed out for \$30K at approx 0720hrs (24th). It looks like he may have lost but he may have retained some chips if he plans to return and gamble.

[REDACTED] cashed out for \$25K at approx 0415hrs (24th). It appears he did gamble this date but it is not possible to determine what happened to the \$200K in chips he put in his pocket the previous evening. He did gamble significant amounts but cannot determine if he needed the \$200K (once he puts the chips into his pocket and leaves the site they cannot be tracked). It is clear that [REDACTED] has a source that is available all hours of the day to provide him and other players with large amounts of cash to gamble with. The source of this money is not determined.

**PII - FINTRAC**

FU does NOT have a Player gaming account at River Rock.

[REDACTED] has been the topic of multiple SFT reports in the past couple months due to his tendency to bring in significant amounts of cash of unknown origin to gamble with.

On 2012-JAN-23 [REDACTED] opened a Player Gaming Fund account at River Rock (account#140) however he hasn't used it since 2012-FEB-03

**PII - FINTRAC**

**PII - FINTRAC**

*Don Kirkland*  
**Original Signed**

*Derek Dickson*

*Name of Investigator*  
Investigator, Casino or Lotteries Unit  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

*Name of Director*  
Director, Casino or Lottery  
Investigations  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

**Ministry of Public Safety and Solicitor General  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch**

**REPORT OF FINDINGS**

**Approved  
by:**

This is Exhibit "O" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia

**CONFIDENTIAL****GAMING POLICY  
AND ENFORCEMENT BRANCH  
INVESTIGATION DIVISION****REPORT OF FINDINGS****CONFIDENTIAL**

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**SUSPICIOUS CURRENCY TRANSACTIONS/MONEY LAUNDERING IN  
BRITISH COLUMBIA CASINOS  
Current Status – October, 2013**

The following update and information is being provided further to previous quarterly reports and ongoing updating of suspicious currency trends and statistics, relative to the flow of suspicious cash into casinos in British Columbia. The information contained in this report will again indicate that all Anti-Money Laundering measures that have been attempted or implemented since 2011 by BCLC and or the service providers have not slowed the dramatic and ongoing increase in suspicious cash coming into predominantly Lower Mainland casinos.

In the Action Plan to Review Money Laundering Measures at BC Gaming Facilities of August 22, 2011 authored by Robert Kroeker, under Recommendation #2 it was noted that *"BCLC should enhance training and corporate policy to help ensure gaming staff do not draw conclusions about the ultimate origin of funds based solely on the identification of a patron and his or her pattern of play. Training and business practices should result in gaming staff having a clear understanding that the duty to diligently scrutinize all buy-ins for suspicious transactions applies, whether or not a patron is considered to be known to BCLC or the facility operator."* To date, neither BCLC nor the service providers have taken any steps to "diligently scrutinize all buy-ins for suspicious transactions".

In mid-2011 a GPEB Anti-Money Laundering Cross Divisional Working Group (AML X-DWG) was formed. Its strategic statement and focus was: *"The gaming industry will prevent money laundering in gaming by moving from a cash based industry as quickly as possible and scrutinizing the remaining cash for appropriate action. This shift will respect or enhance our responsible gambling practices and the health of the industry."*

A March, 2013 GPEB Anti-Money Laundering in BC Gaming - Measuring Performance progress report went on to state the strategy objective was to *"prevent money laundering, and the perception of money laundering."*

**Statistical Overview:**

To review and address important concerns and statistics the AML X-DWG continues to look at:

- 1) The number of Sec. 86 Reports on SCT's for the noted years were:
  - 2008/09 – 103
  - 2009/10 – 117
  - 2010/11 – 459
  - 2011/12 – 861
  - 2012/13 – 1,062
  - 2013 (first 9 months) – 840    Projected for full year - 1120
- 2) Initiatives and strategies implemented to help reduce the amount of suspicious currency coming into casinos in BC and developing alternatives for bringing cash into these casinos:
  - Player Gaming Fund Account – 2009
  - Hold Cheque Policy – April, 2012
  - Convenience Cheque Policy – April, 2012
  - Debit allowed – May, 2012
- 3) Tracking of suspicious currency statistics and denominations of bills started in 2010 and provide the following statistical information:
  - July 01, 2010/June 30, 2011 (1 year period) - \$39,572,313 with 75% being in \$20.00 bill denomination
  - January 01, 2012 to December 31, 2012 (1 year period) - \$87,435,297 with 68% being in \$20.00 bills
- 4) For the present year (statistics from January 01, 2013 to September 30, 2013 (9 month period), the following SCT data has been reported:
  - \$71,196,398 with 67% or \$47,989,675 in \$20.00 denomination
  - Projecting forward to a full calendar year will equate to the following estimates for the year 2013:
    - \$94,928,530 with approx. 67% in \$20.00 denomination
- 5) That projected total would again show an approximate 8% overall increase from 2012 and the total amount of SCT's is coming very close to 100 million dollars per year.
  - Approximately 75% of that total currency is being accepted predominantly at one venue, the River Rock Casino and the majority of that suspicious currency is being brought in by some 35-40 patrons.

- 6) Generally, it is some 20-25 different patrons that are the subjects of 25% to 35% of all SCT Sec. 86 reports submitted by the service providers to GPEB, depending on the particular period of review. This same group of patrons is responsible for bringing in 60-70 % of all suspicious currency being brought into casinos in the LMD.

There is no question that most of the large sums of cash currency coming into casinos, and especially the small denomination cash currency (\$20.00 bills), is being brought in by patrons who utilize loan sharks to obtain their currency. Over the past several years the service providers and BCLC have been vigilant in dealing with loan sharks who were operating within the casinos and who have, for the most part, been removed from the gaming floor and out of the venues. However, loan sharks are increasingly operating out of locations nearby the casinos. They continue to have associates operating as "runners" or "eyes and ears" inside the casinos, ready to contact or alert their loan shark bosses of "patron customers" who will need more money to continue play. What is now often observed is when a patron is out of money he/she and or the associate make a phone call to a loan shark. The patron leaves the facility, often driven by the associate and/or picked up by the loan shark or his associate, and then departs the facility property. The patron returns within several minutes with a new supply of suspicious currency which is brought into and accepted at the casino. This is continually repeated over and over again at the main casinos in the LMD where high stakes baccarat games are the predominant, if not main game of choice for these patrons.

In accepting currency of \$10,000 or more into the casino, service provider personnel do complete and submit through BCLC the required Large Cash Transaction (LCT) or Suspicious Transaction Reports (STR's) as required by FINTRAC. Sec. 86 Reports on SCTs are also reported as required to GPEB Investigation Division. Many of the patrons bringing in the large sums of cash are, for the most part, known to the service providers. Checking of ID and confirming existing information on file on the subject is not regularly done. Service providers simply follow the BCLC guidelines of "know your customer". The service provider however never asks about or questions the origin of the money that is being brought into the casino. Even though patrons will bring in \$100,000, \$200,000 and sometimes up to \$500,000 in cash, many times most of it being in smaller denominations or combinations of \$20.00 bills and larger bills, the origin of the money is not questioned.

Regular and ongoing intelligence information from police sources have confirmed that loan sharks are obtaining suspicious currency from Organized Crime (OC) groups who are laundering their proceeds of crime through the use of loan sharks. Intelligence information and sources to police have indicated that these OC groups often discount the small denomination currency given to loan sharks, who in turn can also discount suspicious small denomination currency that they provide to patrons using same in casinos. Over the past year or more the proliferation of loan sharks and/or "runners" has become more apparent and disconcerting. This is especially the case at or near various

LMD casinos and the business/restaurants/meeting spots in the near vicinity of these casinos.

Information and intelligence has always indicated that loan sharks and their associates are or may themselves be part of other criminal elements and groups. Over the past several months further information and intelligence gathered from various police agencies has confirmed that a number of known loan sharks and "runners" are affiliated to different OC groups. Some of these associates to OC groups have significant and serious criminal backgrounds and associations, including firearms possession. The presence of these types of individuals could present a potential safety hazard to anyone who personally interacts with them.

**Conclusions:**

All of the information provided simply reaffirms that an overwhelming amount of suspicious currency, most being in small denominations, continues to flood into casinos in British Columbia, especially in the LMD. As evidenced in the ongoing receipt of large numbers of Section 86 SCT reports, the amount of suspicious currency continues to rise significantly. None of the measures introduced by BCLC, the service provider, the AML X-DWG or a combination of those entities over the past 3 years have stopped or slowed that increase. There continue to be serious concerns about this suspicious currency and how the influx of that currency into our casinos adversely reflects in a significant way on the overall integrity of gaming in British Columbia.

Joe Schalk, Sr. Director  
Investigations and Regional Operations  
Gaming Policy and Enforcement Branch.

Forwarded: 25 October, 2013

In the past number of years this Division has collected data, prepared Reports of Findings and has given observations to the Branch and others on suspected money laundering in Casinos in BC. I am not intending to reiterate all the contents of the previous Reports of Findings but I think to look at this report in context it is fair and important to say that the "Money Laundering Alarm" was sounded a number years earlier (2008/09) by this Division. The recommendations by this Division in concert with other GPEB Divisions prior to even considering the BCLC request for PGF accounts included, but was not limited to, "the Branch to define in regulation/or a term and condition of registration specific anti-money laundering requirements" The recommendations also included what should be deemed "suspicious" and went as far as to suggest "once a transaction or attempted transaction had been deemed "suspicious" and prior to it being complete,

the transaction must be refused by the service provider at a commercial gaming facility and immediately reported to GPEB in accordance with Section 86 of the GCA". It was also reiterated that the guiding principle "Know your Client" risk management approach must be used by gaming service providers in order to exercise appropriate "diligence" to ensure they understand the background of the account holders (PGF) and the source of funds.

As previously outlined in this Report of Findings, the "Money Laundering Measures at BC Gaming Facilities" authored in 2011 (commonly known as the Kroeker report) made a number of observations and specific recommendations. The previously quoted recommendation that BCLC should enhance training and corporate policy to help ensure gaming staff do not draw conclusions about the ultimate origin of funds based solely on the identification of a patron and his or her pattern of play. Training and business practices should result in gaming staff having a clear understanding that the duty to diligently scrutinize all buy-ins for suspicious transactions applies, whether or not a patron is considered to be known to BCLC or the facility operator. This recommendation clearly reiterates "Know your Client" which I believe must include knowing the source of your clients suspicious funds (Cash). It is clear that the intent of this recommendation was to scrutinize the source of the funds under the "Know your Client" umbrella. It is not sufficient protection to the integrity of gaming to know your client without specifically knowing the source of the suspicious funds (Cash) presented by the client especially when the funds are huge (50K, 100K to 500K) and the majority of the currency is \$20 dollar bills in plastic bags and/or duffle bags. This is not a new concept as it is and has been common practice in all bone fide financial institutions for many years. Recent conversations with corporate security in the banking community re-enforces that even a greater "Due Diligence" is warranted in the present world climate and is being stringently exercised by front line staff in Financial Institutions in relation to attempted large deposits of Cash. The "Due Diligence" relief to protect integrity by reasonably knowing the origin of the cash is obvious.

The Branch AML Strategy implemented in 2011 has the objective of persuading/forcing the Gaming industry to prevent money laundering in gaming by moving from a cash based industry as quickly as possible and scrutinizing the remaining cash for appropriate action. It was also the intent of this "removing the cash strategy" to respect or enhance our responsible gambling practices as well as maintain the health of the industry. The Investigation Division management continued to be open advisors to the AML Group and provided statistics as well as strong written recommendations while continuing to "Sound the Alarm" on the situation respecting huge cash amounts entering BC Casinos. We also continued to correlate cash volume statistics that are prepared from the Section 86 Reports on Suspicious Currency Transactions submitted by Service Providers. In concert with the AML strategy the Branch allowed a number of enhancements that allowed gamblers easier access to legitimate cash (cash machines) on the casino floor. The Policy also included easier access to funds by allowing the gambler the ability to electronically transfer funds from existing bank accounts into their casino PGF account. However, those



initiatives along with other initiatives have not reduced the volume of suspicious cash nor the number of Suspicious Currency Transactions in BC Casinos. The alarm continues to ring, even louder. It should also be noted on 16 September, 2013, that BCLC requested a "Policy Change Regarding Casino Cheque Issuance". They were requesting that casino cheques be issued to patrons that had entered with large amounts of currency, put their money at risk and then left the casino. This Division has previously disagreed with that policy change for a number of reasons on numerous occasions due to the huge risk of completing the money laundering circle. Any large cheque issuance should be only considered when it is from a completely documented "verified win" or a very minor amount for a specific reason. ADM Doug Scott has previously addressed that request but I am of the opinion it will surface again.

I feel the Branch is at an important juncture in the AML strategy with the task of ultimately assessing the strategic objective of preventing money laundering and the perception of money laundering. This Division felt it was necessary to outline the progression of this situation at this time to allow the AML working group to be as informed as much as possible on the historic and present situation.

In closing, I am of the opinion that the influx of large amounts of cash into BC Casinos has not been reduced. That "Loan Sharks" or runners are providing horrendous amounts of unexplained cash to gamblers. I believe that most of the "Loan Sharks" and runners have extensive criminal records and are associated to other criminal groups or organizations. The business of supplying suspicious currency that enters BC Casinos in huge amounts is provided by these loan sharks through other criminal associates. The service providers are appropriately complying with the legal requirement of reporting Suspicious Currency Transactions to this Division. The "Know your Client" requirement of the Service Provider at the present time is not sufficient and does not include the critical component of knowing and carrying out appropriate extensive "Due Diligence" on the origin of the source of the large amounts of suspicious cash funds. The Branch does not yet have a defined Regulation and/or Term and Condition of Registration, specific to Anti-Money Laundering which outlines appropriate regulatory "Due Diligence" and I am of the opinion to meet our overall objective of preserving the integrity and the perception of integrity of gaming that is critical.

Larry Vander Graaf, Executive Director  
Investigations and Regional Operations

*This document is the property of the Investigation and Regional Operations Division, Gaming Policy and Enforcement Branch, is confidential and shall not be disclosed or divulged, in whole or in part without prior consent of the writer.*

This is Exhibit "P" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia

Ministry of Public Safety and Solicitor General  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

**REPORT OF FINDINGS**

DATED: ~~2014 August 20~~

**CONFIDENTIAL**

This document is the property of the Investigations and Regional Operations Division, Gaming Enforcement. It is confidential and shall not be disclosed or divulged, in whole or in part, without prior consent of the writer.

Complaint of Suspicious Cash Transaction  
GPEB FILE 83689, 83692, 83695

**PII FINTRAC**

**Summary:**

During gaming on September 24 & 25, 2014, Kesi WEI bought-in at the VIP Room of the RRCR for a total of \$1,000,070.00 during two separate cash transactions.

The cash used in the first buy-in consisted entirely of \$20.00 bills and amounted to \$500,040.00.

The cash used in the second transaction consisted almost entirely of \$20.00 bills. The denominations were as follows: (24,992 x \$20.00 and 19 x \$10.00). There were also 4 x \$20.00 US included in this buy-in which amounted to \$500,030.00.

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WEI was also the recipient of two chips passes during this gaming event.

The first chip pass was \$7,000.00 passed to him by Bo BAO.

The second chip pass was \$55,000.00 passed to him by ■■■

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Ministry of Public Safety and Solicitor General  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

**REPORT OF FINDINGS**

**Participants:**

**WEI**, Kesi {m}  
DOB: April 13, 1969  
3407 Derbyshire Ave.  
Coquitlam, BC  
V3E 0G3  
778 387-8555  
Occupation Stated: Real Estate Investor

**RONG**, Jian Qiu {f}  
DOB: May 19, 1968  
BCDL 7377652  
4391 Coventry Dr.  
Richmond, BC  
V7C 4R7  
Occupation Stated: Housewife

**TAM**, Kwok Chung {m}  
DOB: February 25, 1958  
1802-7080 St. Albans Rd.  
Richmond, BC  
V6V 4E6  
Occupation Stated: -Nil-

**BAO**, Bo {m}  
DOB: May 13, 1962  
BCDL 6977238  
408-9288 Odlin Rd.  
Richmond, BC  
V6X 0C3  
Occupation Stated: Real Estate Agent

**Ministry of Public Safety and Solicitor General  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch**

**REPORT OF FINDINGS**

**Narrative of Events, September 24 & 25, 2014**

- 1) ITRAK incident 14-48431, 14-48453, 14-48458 GPEB File Number 83689, 83692, 83695
  - 22:52 – WEI was in the VIP Room of the RRCR and had exhausted his chips at MDB 29 from a previous \$50,000.00 buy-in in which \$100.00 bills were used. He began to use his phone.
  - 23:10 – WEI left the casino and got into a black Mercedes SUV {833 NER} which was waiting in the East lot. The vehicle then moved a short distance and stopped on River Road.
  - 23:11 – RONG exited the casino and started toward the East lot. The vehicle pulled forward and she got into the rear seat.
  - 23:12 – The vehicle moved again and stopped at the main entrance to the RRCR. WEI exited the vehicle with a black suitcase and a brown bag. RONG also exited the vehicle and followed WEI in to the casino.
  - 23:15 – WEI entered the private cash cage with the suitcase and the bag. WEI emptied the contents {cash} of the two bags for a total buy-in of \$500,040.00. The cash consisted entirely of \$20.00 bills. It was bundled and secured with elastic bands inside silver plastic bags.
  - 23:36 – WEI began to receive his chips at MDB 29. He then commenced play at a high stakes level. RONG remained with WEI watching his play.
  - 00:58 – LI passed \$55,000.00 in chips to WEI at MDB 53.
  - 01:01 – WEI lost all or almost all of his chips and again began to use his phone.
  - 01:02 – BAO passed \$7,000.00 in chips to WEI at MDB 53. He played them immediately and lost them as well.
  - 
  - 01:04 – WEI left the Phoenix Room and spoke briefly with RONG. He then left the casino while using his phone.
  - 01:07 WEI met with two Asian males who were the occupants of a Light coloured Range Rover {718 TTR}. One of the subjects appeared to be prohibited subject TAM. All subjects got into the vehicle which then pulled in at the front entrance to the RRCR.
  - 01:08 – The unidentified subject exited the vehicle as did WEI. WEI removed another suitcase from the rear of the vehicle and he returned to the VIP Room.
  - 01:10 – WEI entered the cash cage with the suitcase and then female subject GUO joined him in the room. WEI emptied the suitcase for a further buy-in of \$500,030.00. This cash was also bundled and secured

Ministry of Public Safety and Solicitor General  
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Gaming Enforcement  
Gaming Policy and Enforcement Branch

**REPORT OF FINDINGS**

with elastic bands which were in silver plastic bags. The cash consisted almost entirely of \$20.00 bills: {24,992 x \$20.00 and 19 x \$10.00}.

- 01:24 WEI began to receive the chips for his second buy-in at MDB29. He resumed play at a high stakes level.

**Background:**

**WEI** is a recent arrival from China, but is now providing a local address. In the last few months he has been involved in numerous suspicious cash transactions. He also has a history of chip/cash passing activities.

██████ has only recently appeared at the RRCR. His relationship with WEI is unknown.

**TAM** is currently prohibited from BC casino as a result of suspected loan sharking activities. He is an associate of Paul King JIN.

██████ is also currently prohibited from BC casino as a result of suspected loan sharking activities. He is also an associate of Paul King JIN.

*Paul King JIN - known loan shark associated Chinese  
Organized Crime activities*

Ministry of Public Safety and Solicitor General  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

**REPORT OF FINDINGS**

**Prepared by:**

*Rob Barber*

***Original Signed***

**Approved by:**

*Derek Dickson*

*Name of Investigator*

Investigator, Casino or Lotteries Unit  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

*Name of Director*

Director, Casino or Lottery Investigations  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

This is Exhibit "Q" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia



**GAMING POLICY  
AND ENFORCEMENT BRANCH  
INVESTIGATION DIVISION**

**REPORT OF FINDINGS**

**27 October, 2014**

**CONFIDENTIAL**

This document is the property of the Investigation Division, Gaming Policy and Enforcement Branch, is confidential and shall not be disclosed or divulged, in whole or in part without prior consent of the writer.

**SUSPICIOUS CURRENCY TRANSACTIONS/SUSPECTED MONEY  
LAUNDERING IN BRITISH COLUMBIA CASINOS**  
**Update of Status – October, 2014**

This report is prepared and disseminated as a status update on the present state of suspicious currency/suspected money laundering information, trends and statistics as it applies to gaming in casinos in British Columbia as of October, 2014. This report will provide information which clearly indicates a significant and continuing rapid acceleration of suspicious cash coming into predominantly Lower Mainland casinos. It will also again indicate that all Anti-Money Laundering measures that have been put into place since 2008 have not slowed or decreased the flow of suspicious currency coming into our casinos.

This report will simply provide a "status update" further to an extensive report submitted in November 2013 and could be read as a continuation of that report.

**Statistical Overview:**

The following statistical information is provided to communicate ongoing reviews and concerns for the AML X-DWG:

- 1) The number of Sec. 86 Notification reports on Suspicious Currency Transactions (SCT's) reported for the noted years were:

<u>Year</u>	<u># of Reports</u>	<u>Total \$ Value</u>
2012/2013	1,059	\$ 82,369,077
2013/2014	1,382	\$118,693,215
2014/2015 (6 months)	876	\$ 92,891,065 (actual)
Full year	1,750	\$185 Million + (projected)

(Full statistics sheet attached)

Previous reports have provided SCT reporting statistics since 2008/09. It is important to point out that the total number of SCT reports for the full year of 2010 is approximately the number of reports we are now receiving for a three month period and the total dollar amount of suspicious currency reported in BC casinos in the past three (3) months far exceeds the total amount of suspicious currency reported for the full year in 2010. Suspicious cash continues to come into BC Casinos at an alarming rate and continues to increase exponentially in numbers of occurrences and certainly significantly in dollar amounts of suspicious currency.

## Public Interest Immunity

The percentage of \$20 bill composition of reported suspicious currency transactions continues to remain very high and is certainly a significantly higher percentage than it was several years ago. In 2012/2013, the yearly average was at 64% of suspicious currency reported was in the \$20 denomination. In 2013/2014 it rose dramatically to 76%. That appears to be the norm at present time as well. These numbers also correspond with the findings of GPEB's Audit and Compliance Division as reported in their "2013/14 AML Recap" report of 16 June 2014. Some of their findings specifically referred to in their findings at the River Rock Casino, the major Lower Mainland Casino, reports approximately 75% of all suspicious currency transactions, include:

- *"High limit Patrons are buying in with bundles of \$20's not \$100's. Regular patrons are the ones bringing in the majority of \$100's."*
- *"Coloring up appears to be an ongoing activity within casinos, i.e. patrons buying in with \$20's and being paid out with \$100's."*
- *"73% of all cash received through buy-ins at high limit cage were in 20's. This compares with only 44% of buy-ins for the casino as a whole (all tables) being done in \$20's."*
- *"High-roller" patrons utilizing high limit cage tend to buy-in with smaller denominations whereas the average bettor at regular tables tends to use the larger denominations."*

Again, it is important to note that generally speaking, banking institutions would not take these large sums of small denomination bills unless the patron had a proven source for those type of funds (i.e.: large super markets, large retail stores doing significant cash business) and a verified record of a regular and similar pattern of small denomination currency deposits. The banks regularly and continually seek "source of funds" information and if not satisfied with verifiable information, banks will not take small currency deposits in large amounts.

Also of interest is the fact that there appears to be a rise in the amount of large denomination casino playing chips leaving the casinos. GPEB's intelligence and investigations indicate that the use of playing chips to repay loan sharks is on the increase and in turn the loan shark is able to loan out chips, not just cash money. Many of those transactions are infrequently noted at a cash cage and therefore no reports are ever made of "suspicious transactions". This commonly occurs and almost exclusively with "high limit" baccarat players. Historically, the River Rock was known to have some \$2.5 - \$3.5 million out of casino playing chip circulation. Recent enquiries in this regard indicate that has now increased to somewhere in the \$9 million range of outstanding chips amongst the patrons outside of the casino on any given day. This concern centers almost exclusively around the largest playing chip value, the \$5,000 chip. Regularly, the use of these chips is also a common occurrence when patrons "color up" their money, buying in with \$20's and receiving large denomination chips to play and/or remove these chips from the casino. We must not mistake the fact that the use of casino playing chips are as concerning as cash and equally as useful as instruments used in overall money laundering schemes.

#### Incidents of Note

Within the past 6 weeks, two other significant/interesting incidents of note have added to the concern of suspicious cash being brought into BC Casinos.

## **Public Interest Immunity**

# Public Interest Immunity

As a matter of interest and context \$1 million in \$20 bills weighs approximately 110 pounds.

## Conclusion

All of the information provided reaffirms that there continues to be an overwhelming amount of suspicious currency activity in Lower Mainland casinos. The numbers of SCT reports; the total value of suspicious currency transacted; the very high percentage volume of \$20 bills making up the suspicious currency; the number of patrons regularly bringing in this suspicious currency; and the now newest one million dollars in suspicious currency brought in by a single patron on a given evening all give rise to an ongoing significant concern about how the integrity of gaming is being impacted in British Columbia.

Joe Schalk, Sr. Director  
Investigations and Regional Operations  
Gaming Policy and Enforcement Branch

## Forwarded 27 October, 2014

The Investigation and Regional Operations Division has continuously reported out and sounded the alarm to the Branch on the volume of suspicious currency that is entering into the BC Casinos unchallenged (origin of currency) by the Service Providers. In 2010, Suspicious Currency Transactions in the amount of **\$39,572,000.00** were reported to the Branch in compliance with Section 86 of the Gaming Control Act. In 2014/2015 the projected Suspicious Currency Transaction reports are estimated to be an amount exceeding **\$185,000,000.00**. This Division, on a number of occasions, has commented that the initiative of "removing the cash from casinos by providing a multitude of other noncash options" has not achieved the desired objectives of deterring or eliminating suspected money laundering in casinos and in fact the numbers clearly show a massive escalation/increase of suspicious currency entering casinos. It is my and others unchallenged opinion that all businesses including casinos have an obligation to deter money laundering and not facilitate or be wilfully blind. Regulatory bodies have a legal and moral obligation to openly and publicly demonstrate commitment to deter/eliminate money laundering in any business or industry, including casinos.

Illicit Drug activity in British Columbia is a 6-7 billion dollar per year industry. It is commonly known that drug trafficking is normally conducted in cash and smaller bills (\$20 bills) are generally the bill of choice at street level. Volumes of cash and weight of

cash are a major problem for high level drug traffickers. This Division and the police (as far as we know) cannot prove that beyond a reasonable doubt nor on the balance of probabilities that Suspicious Currency Transactions in Casinos are proceeds of crime and may never be able to reach that high level of legal proof. However, this Division based on certain criteria and circumstances, believes/suspects that the large amounts of suspicious currency are proceeds of crime and must be curtailed to ensure the integrity of gaming. The industry cannot afford to even leave the perception that it is in any way wilfully blind in that regard. Due diligence on the "origin of funds" at the service provider entry point is appropriate and necessary. It is common knowledge that "loan sharks" and/or their "runners" are providing large amounts of unexplained suspicious cash to gamblers in British Columbia Casinos. The Investigation Division believes that most of the "loan sharks" and runners have extensive criminal backgrounds and are associated to other criminal groups or organizations. BCLC continues to legally prohibit these people from gaming facilities however this has not deterred the activity. The business of supplying suspicious currency that enters BC Casinos in huge amounts continues to be provided by these loan sharks through other criminal associates (runners). Investigation intelligence reveals that gamblers have paid the loan sharks/organized crime groups back lost gaming funds, in value chips, merchandise, and with funds located in other areas of the world including, southeast Asia. The scenario of, organized crime (with street trafficking funds in \$20 dollar bills) providing large amounts of street cash to gamblers (nominees) through loan sharks (facilitators), who gamble and pay back the funds in another country with limited regulations, provides the organized groups with a "best practice" money laundering circle. With no link between the cash funds utilized to gamble and the funds reimbursed in a form other than cash in another country, it leaves authorities with an extremely difficult if not impossible task to identify location of funds and to investigate. The "laundered" (converted and concealed) funds can now be utilized for what is "visibly presumed" as purchases with legitimate funds?

The "know your client" requirement of the service provider at the present time is not sufficient and does not include the critical component of knowing and carrying out appropriate extensive due diligence at the entry point on the "origin of funds" of the large amounts of suspicious cash entering British Columbia casinos. Taking these large amounts of suspicious cash without asking the origin of the cash leaves the gaming industry open to severe criticism and negative public scrutiny. The public and the Branch have seen this over the last 5 years. It also leaves an open invitation to organized crime at all levels from any location to further infiltrate the casino environment with more and larger amounts of suspicious cash. As previously stated, it is imperative that the Branch have a defined enforceable regulation and/or term and condition of registration on the service provider, specific to Anti-Money Laundering. It must be enforceable and have noncompliant consequences to have any effect or impact on the huge amounts of unchallenged suspected proceeds of crime entering casinos. We are of the opinion to meet our overall objective of preserving the integrity and the perception of integrity of gaming that is critical.

Larry Vander Graaf, Executive Director



This is Exhibit "R" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia

**Van Sleuwen, Terri HSD:EX**

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**From:** Van Sleuwen, Terri HSD:EX  
**Sent:** March 16, 2009 2:16 PM  
**To:** Sturko, Derek HSD:EX; McCrea, Bill J HSD:EX  
**Cc:** Vander Graaf, Larry P HSD:EX; Saville, Rick HSD:EX  
**Subject:** Internal Memo-Anti-Money Laundering Requirements

**Importance:** High  
**Sensitivity:** Confidential

**Attachments:** Internal Memo to GM-Anti-Money Laundering Requirements March 16 2009.doc

Attached are the requirements we have determined based on input from the Audit, Investigations and Registration divisions. As well, Bill McCrea participated in our discussions providing insight from a risk management perspective.



Internal Memo to  
GM-Anti-Money...

All three Executive Directors have confirmed their agreement with the requirements put forward in this document for your decision.

Please let us know if you want to discuss this in greater detail.

Thanks,  
*Terri Van Sleuwen, CGA*  
Executive Director, Audit and Compliance  
Gaming Policy and Enforcement  
Ministry of Housing and Social Development  
604-660-0274  
*Know your limit, play within it.*





## INTERNAL DOCUMENT

**To:** Derek Sturko, Assistant Deputy Minister  
Bill McCrea, Executive Director, Internal Compliance and Risk Management

**Date:** March 16, 2009

**SUBJECT:** Anti-Money Laundering Requirements

The Audit, Registration and Investigations Divisions have been requested to review and make recommendations for requirements, enforcement instruments and enforcement methods in relation to the potential risk of money laundering in commercial gaming facilities. This has been done in conjunction with a review of the request by the British Columbia Lottery Corporation (BCLC) to allow Patron Gaming Fund (PGF) accounts in commercial gaming facilities.

In order to mitigate and/or substantially reduce the potential risk in relation to this area, it is our recommendation and position that prior to even considering authorizing PGF accounts it is absolutely necessary for the Branch to define in a regulation and/or a term and condition of registration specific anti-money laundering requirements. These regulations would then become a legal requirement thus allowing regulatory enforcement, if necessary. Without these enforceable legal requirements, it is our position that the present risk in the British Columbia gaming environment is extremely high.

### Requirements

1. A definition for 'suspicious activity' in relation to the handling of cash in gaming facilities must be determined.
  - The definition of suspicious includes, but is not limited to, the following types of transactions, attempted transactions and/or situations where cash is involved within a commercial gaming facility:
    - Cash transaction greater than \$3,000 which comprises only twenty dollar denominational notes; (includes multiple transactions that in total exceed \$3,000 in a 24 hour period);
    - Cash transaction where the bills smell of illegal or suspicious substances;
    - Cash transaction where the bills have suffered unusual damage (e.g. being singed)
    - Patron requesting a trade up of small bills for larger bills (e.g. \$20 bills to \$100 bills);
    - Patron will not provide identification, source of funds or occupation and/or provides unacceptable information;
    - Patron's amount of wagering is disproportionate to the amount of chips purchased;
    - Patron conducts a financial transaction for a third party;

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3/16/2009

- Any casino transaction when a patron requests payment in casino cheques made out to third parties or without a specified payee;
- Patrons are wagering off-setting bets in a particular table game (single or multiple players);
- Patron attempts to avoid the filing of a large cash transaction report by breaking up the transaction either personally or through nominees;
- Patron requests a cheque that is not for gaming winnings;
- Patron enquires about opening an account with the casino and the ability to transfer funds to other locations when the patron is not a regular, frequent or large volume player;
- Patron tenders quantity of US dollars for chips, engages in limited play and then attempts to redeem chips for Canadian dollars;
- Patron is known to use identification under different names;
- Any financial activity that is contrary to the normal course of business.

Once a transaction or attempted transaction has been deemed to be suspicious, and prior to it being completed, **the transaction must be refused** by the service provider at a commercial gaming facility and immediately reported to GPEB, Investigations Division via a Section 86 Report.

2. A definition for '**verified win**' must be determined for both table game and slot machine activity.
  - **Table game 'verified win'** = net amount of chips held by a player once gaming activity is concluded (net amount = win less wagering amount); and
  - **Slot machine 'verified win'** = jackpot.
  - '**Verified win**' and issuance of cheque policies and procedures must be improved.
    - Improvements include, but are not limited to, the following:
      - Cheques **must not** be issued for table game wins unless there is a complete documented tracking of a verified win;
      - This could include the introduction of a '**verified win**' receipt that is given to the patron when they leave a table. All '**verified win**' receipts could then be presented to the cashier when a cheque is requested by the patron.
      - CMS Cheque and Cash Redemption slips **must** be attached to Player Cheque Request paperwork to improve audit trail;
      - Surveillance review of player activity **must** form part of '**verified win**' documentation.
3. Proposed Patron Gaming Fund (PGF) account policies and procedures must include all requirements detailed in this document. As well the guiding principle, 'Know your Client' risk management approach must be used by gaming service providers in order to exercise appropriate diligence to ensure they understand the background of account holders and the source of funds.
  - Improvements include, but are not limited to, the following:
    - Only chips from a '**verified win**' and Electronic Fund Transfers (EFT) from a Canadian Savings Institution (as defined by FICOM which includes banks, credit unions and trust companies) can be deposited into the account;
    - Cash **must never** be deposited into a PGF;
    - Chips purchased with cash by a PGF account holder **must not** be placed into the PGF account. This includes any chips that are '**verified wins**' from cash purchased chips;

- PGF account holders must not co-mingle any other chips with chips obtained from the PGF, other than chips obtained from 'verified wins';
- Any transfer of chips to or from a PGA must be accompanied by a PGF-authorized "PGF transfer slip"; and
- A PGF will immediately be terminated for any violation of the foregoing requirements.

**Enforcement Instruments (in no particular order)**

- Regulation;
- Directives;
- Enhance *Security and Surveillance Standards for the BC Gambling Industry* public interest standard;
- Term and condition of registration – registrant;
- Requirements must be included in *BCLC Casino Standards, Policies and Procedures*; and/or
- Investigations Division must have legal authority to "prohibit individuals from a Gaming Facility to preserve the integrity of gaming".

**Enforcement Methods (in no particular order)**

- Section 86 Reports required for all transactions or attempted transactions that have been deemed to be suspicious.
- Administrative sanctions for violation of terms and conditions of registration include verbal and written warnings and fines on registrants.
- BCLC become a Service Provider for the purpose of registration under the GC Act, thus giving GPEB Inspectors the legal authority to conduct inspections of BCLC facilities in accordance with Sections 78 and 79 of the GC Act.
- Audits of BCLC and service provider compliance with enforcement instruments and/or BCLC policies and procedures.

This is Exhibit "S" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.

  
\_\_\_\_\_  
A Commissioner for taking Affidavits within British Columbia

**Vander Graaf, Larry P MEM:EX**

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**From:** Vander Graaf, Larry P MEM:EX  
**Sent:** Wednesday, February 6, 2013 10:58 AM  
**To:** McCrea, Bill J MEM:EX  
**Subject:** Anti-Money laundering Rerquirements in Memo Dated 16 March, 2009  
**Attachments:** Sturko ML Doc Mar 16 2009.pdf

Bill,

I was having a conversation with my Directors and this memorandum was surfaced. I recall this memorandum and it originated as a result of a conversation that Ed Rampone initiated at our Business Process Meeting that year. Investigation, Audit, and Registration Divisions were requested by the ADM to prepare this memo and the Executive Director of Audit then forwarded it on the 16 March, 2009. The enforcement recommendations today are basically the same as was recommended in the memo in 2009.

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

We can talk about that if you wish. Please give me a call.

Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

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## INTERNAL DOCUMENT

**To:** Derek Sturko, Assistant Deputy Minister  
Bill McCrea, Executive Director, Internal Compliance and Risk Management

**Date:** March 16, 2009

**SUBJECT:** Anti-Money Laundering Requirements

The Audit, Registration and Investigations Divisions have been requested to review and make recommendations for requirements, enforcement instruments and enforcement methods in relation to the potential risk of money laundering in commercial gaming facilities. This has been done in conjunction with a review of the request by the British Columbia Lottery Corporation (BCLC) to allow Patron Gaming Fund (PGF) accounts in commercial gaming facilities.

In order to mitigate and/or substantially reduce the potential risk in relation to this area, it is our recommendation and position that prior to even considering authorizing PGF accounts it is absolutely necessary for the Branch to define in a regulation and/or a term and condition of registration specific anti-money laundering requirements. These regulations would then become a legal requirement thus allowing regulatory enforcement, if necessary. Without these enforceable legal requirements, it is our position that the present risk in the British Columbia gaming environment is high.

### Requirements

1. A definition for 'suspicious activity' in relation to the handling of cash in gaming facilities must be determined.
  - The definition of suspicious includes, but is not limited to, the following types of transactions, attempted transactions and/or situations where cash is involved within a commercial gaming facility:
    - Cash transaction greater than \$3,000 which comprises only twenty dollar denominational notes; (includes multiple transactions that in total exceed \$3,000 in a 24 hour period);
    - Cash transaction where the bills smell of illegal or suspicious substances;
    - Cash transaction where the bills have suffered unusual damage (e.g. being singed)
    - Patron requesting a trade up of small bills for larger bills (e.g. \$20 bills to \$100 bills);
    - Patron will not provide identification, source of funds or occupation and/or provides unacceptable information;
    - Patron's amount of wagering is disproportionate to the amount of chips purchased;
    - Patron conducts a financial transaction for a third party;

3/16/2009

- Any casino transaction when a patron requests payment in casino cheques made out to third parties or without a specified payee;
- Patrons are wagering off-setting bets in a particular table game (single or multiple players);
- Patron attempts to avoid the filing of a large cash transaction report by breaking up the transaction either personally or through nominees;
- Patron requests a cheque that is not for gaming winnings;
- Patron enquires about opening an account with the casino and the ability to transfer funds to other locations when the patron is not a regular, frequent or large volume player;
- Patron tenders quantity of US dollars for chips, engages in limited play and then attempts to redeem chips for Canadian dollars;
- Patron is known to use identification under different names;
- Any financial activity that is contrary to the normal course of business.

Once a transaction or attempted transaction has been deemed to be suspicious, and prior to it being completed, the transaction must be refused by the service provider at a commercial gaming facility and immediately reported to GPEB, Investigations Division via a Section 86 Report.

2. A definition for 'verified win' must be determined for both table games and slot machine activity.
  - Table game 'verified win' = net amount of chips held by a player once gaming activity is concluded (net amount = win less wagering amount); and
  - Slot machine 'verified win' = jackpot
  - 'Verified win' and issuance of cheque policies and procedures must be improved.
    - Improvements include, but are not limited to, the following:
      - Cheques must not be issued for table game wins unless there is a complete documented tracking of a verified win;
      - This could include the introduction of a 'verified win' receipt that is given to the patron when they leave a table. All 'verified win' receipts could then be presented to the cashier when a cheque is requested by the patron.
      - CMS Cheque and Cash Redemption slips must be attached to Player Cheque Request paperwork to improve audit trail;
      - Surveillance review of player activity must form part of 'verified win' documentation.
3. Proposed Patron Gaming Fund (PGF) account policies and procedures must include all requirements detailed in this document. As well the guiding principle, 'Know your Client' risk management approach must be used by gaming service providers in order to exercise appropriate diligence to ensure they understand the background of account holders and the source of funds.
  - Improvements include, but are not limited to, the following:
    - Only chips from a 'verified win' and Electronic Fund Transfers (EFT) from a Canadian Savings Institution (as defined by FICOM which includes banks, credit unions and trust companies) can be deposited into the account;
    - Cash must never be deposited into a PGF;
    - Chips purchased with cash by a PGF account holder must not be placed into the PGF account. This includes any chips that are 'verified wins' from cash purchased chips;

3/16/2009

- PGF account holders must not co-mingle any other chips with chips obtained from the PGF, other than chips obtained from 'verified wins';
- Any transfer of chips to or from a PGA must be accompanied by a PGA-authorized "PGA transfer slip"; and
- A PGA will immediately be terminated for any violation of the foregoing requirements.

#### **Enforcement Instruments (in no particular order)**

- Regulation;
- Directives;
- Enhance *Security and Surveillance Standards for the BC Gambling Industry* public interest standard;
- Term and condition of registration – registrant;
- Requirements must be included in *BCLC Casino Standards, Policies and Procedures*; and/or
- Investigations Division must have legal authority to "prohibit individuals from a Gaming Facility to preserve the integrity of gaming".

#### **Enforcement Methods (in no particular order)**

- Section 86 Reports required for all transactions or attempted transactions that have been deemed to be suspicious.
- Administrative sanctions for violation of terms and conditions of registration include verbal and written warnings and fines on registrants.
- BCLC become a Service Provider for the purpose of registration under the GC Act, thus giving GPEB Inspectors the legal authority to conduct inspections of BCLC facilities in accordance with Sections 78 and 79 of the GC Act.
- Audits of BCLC and service provider compliance with enforcement instruments and/or BCLC policies and procedures.
- The use of caution based on accepted risk management techniques for the gaming industry.



This is Exhibit "T" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



---

A Commissioner for taking Affidavits within British Columbia

TERRI

Gaming Policy and Enforcement Branch  
Audit and Compliance Division  
Burnaby

FEB 25 2009

RECEIVED

February 16, 2009

Mr. Derek Sturko  
Assistant Deputy Minister and General Manager  
Gaming Policy Enforcement  
PO Box 9311 Stn Prov Govt  
Victoria, BC  
V8W 9N1

**bclc**  
playing it right

Dear Derek:

Re: **Draft Casino Standards, Policies and Procedures – Patron  
Gaming Fund Accounts**

Further to your correspondence dated January 23, 2009, BCLC has reviewed your comments, concerns and policy changes, and amendments have been drafted to reflect your suggestions.

In an attempt to simplify these issues, it may be useful to go over your points to illustrate the changes made:

1. Q Will BCLC's Service Providers be acting in the role of a "deposit taking institution"?

A No, BCLC and Services Providers (SP) will not be acting in the role of a deposit taking institution. **Solicitor Client Privilege**

**Solicitor Client Privilege**

2. Q Should be a requirement for a patron to "declare a source of funds"?

A BCLC agrees with your comment and has added a requirement for a statement of source funds both on the opening of an account or for further contributions to the account by the patron. If chips are used, the CSP will confirm the chips have been accumulated from play in the Casino or from a sister Casino – i.e. Boulevard gaming chips to RRRC.

3. Q GPE has significant concerns regarding the potential of money laundering by patrons.

A The return of a player's deposit will be clearly differentiated from that of a "verified win" by the player. The bank will also be able to differentiate these amounts.

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Richmond, BC V6X 3H1

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www.bclc.com



- 2 -

3. A Should, for example, a patron be subject to criminal investigation for money laundering, the banks and police would have a solid audit trail and they would be able to differentiate on how the monies were received. The player gaming fund account process has more strength around it than the player simply depositing cash from a casino in a bank. The player gaming fund account allows the bank to tell what has been "won" at the casino versus what was deposited by the player to the account.

BCLC believes the process of identifying which funds are a "win" and which funds are a return of a player's funds, significantly enhances the ability to prevent money laundering. This is the reason BCLC will not allow the transfer out of these funds from the casino by Electronic Funds Transfer. Casinos in Quebec along with Ontario casinos, such as Rama, Fallsview and Windsor, that have player funded accounts, do not take this additional step to provide an audit trail and differentiation of the account funds.

4. Q We (GPE) feel there are too many risks of inappropriate funds entering sanctioned patron gaming fund accounts.

- A BCLC Investigators will review player accounts to undertake risk assessments of all funds coming into these accounts. Coupled with this, the patron will be required to file a 'Source of Funds Declaration' each and every time that a deposit is placed on the account. Part of this declaration is that the patron must identify where the funds originate from and that they are not from any criminal, money laundering or illegal activity. This same declaration is used by Canadian Financial Institutions (CFI) for funds entering the monetary system. While granted it is not fool proof, it does place an additional onus on the patron to declare source of funds. As you are aware, electronic funds transfers will originate only from bona fide Canadian Financial Institutions and as such there will already have been 'due diligence' undertaken on these funds previously by the CFI.

Gaming chips will be verified by ensuring that the patron has played and put at risk these gaming chips and that his/her play equals the number and value of chips being produced. Should chips appear from a sister casino, casino cage staff will make the appropriate inquiry to ensure that the patron was playing and his chips count was equivalent to his/her level of play.

In addition, these same investigators oversee all submissions of Large Cash Transaction Reports (LCTR) and together with our recently developed Risk Management Matrix – individuals involved with any suspicious financial transactions will be monitored and reported accordingly. As you are no doubt aware, BCLC had undertaken to report four enhanced areas of incidents under a) loan sharking activities, 2) Suspicious Financial Transactions, 3) Money/Chip passing activities, and 4) Money laundering activities.

... 3

- 3 -

5. Q Verification of wins prior to placing these funds into the player holding account.
- A Currently, BCLC and the SP track both buy ins and cash outs at all of our gaming facilities in the province. Monies and/or chips that are placed at 'risk' (risk of loss) can be tracked and are tracked by gaming personnel. Once these funds are tracked – SP gaming staff are able to determine what is a verified win. With this type of verification, a determination can be provided to the cash cage of what the player won. While there is always risk of human error, all casino operations are consistent in the verification method. The same type of verification can be undertaken for slot winnings. Slot attendants and supervisor have the training needed to undertake history reviews to determine whether the slot win was from a jackpot or simply from the patron loading the machine. Even if the latter is true, each slot machine has a certain load limit which basically restricts the patron from refining any substantial amounts of funds.
- Finally, while no system is perfect, I believe that the SP, in conjunction with BCLC, does have more than adequate means in place to determine funds that are verified winnings.
6. Q Reference to subsequent information gathering and reporting conditions.
- A BCLC has instituted policy whereby the patron wishing to open a Player Holding Account must satisfy a number of reporting and information gathering documents, along with providing and satisfying all conditions of FINTRAC. Each individual's identification (valid government) will be photocopied and will be maintained on file along with signature cards and a surveillance photograph. Each time funds are placed into this account a 'Source of Funds Declaration' will be filed by the patron – thus declaring the source of these funds. This declaration will be held on file with other documents supplied by the patron upon opening their account.
- Generally, neither BCLC nor the SP report patron funds to the Canada Revenue Agency (CRA). BCLC has, upon request provided LCTR data to CRA, but only on an individual basis. BCLC is in agreement with your suggestion of utilizing player tracking cards and this will continue within all casino operations.
7. Q GPE is concerned that BCLC draft policy is incomplete:
- A The funds deposited by the patron into their player holding account will be separate from general casino cash flow. The SP is required to develop a separate accounting system for these player funds. Funds either entering the player account or leaving the player account will be audited both by the BCLC operational gaming auditors and separately by an independent auditing firm of the SP choice. The SP will have to keep these funds separate and will have to provide daily holding totals for all accounts and record this amount in CMS.

... 4

- 4 -

7. A The SP will not be allowed to hold these funds in an interest bearing account but simply have these funds available for the patron's utilization.

## Solicitor Client Privilege

Should the patron not be located after one complete calendar year, BCLC has drafted policy that will allow the SP to move those funds from the player's holding account to a head office company account. This account will be an interest bearing account which will facilitate the SP generating additional funds to assist in any further search inquires to locate the patron of the player fund account. It is felt by BCLC that these additional funds will offset cost of trying to locate the patron. These funds will remain on this account and remain the liability of the SP. It is proposed that after seven (7) years, if the patron still has not been located that these funds be turned over to a BC charity – similar to funds that are turned over to charity that surface as found money from the casino gaming floor.

BCLC further suggests that amounts (under \$100.00) left dormant in a player's holding account, after one year, would be treated as found money in the casino, as per existing policy. These types of accounts would be closed and the money given to charity.

If the patron voluntarily self-excludes (VSE) after opening his/her account, the account balance would be determined and the SP would provide a cheque in that amount which would either be mailed to the patron or provided to him/her after the VSE documents are completed. Similar to the current method developed for patrons with BC Gold Cards.

BCLC staff and investigators will have access to all player accounts being held by the SP. Should a patron become provincially barred or enter the VSE program – BCLC staff will be able to make that determination and close the accounts in a method noted above.

These accounts will be reviewed quarterly by staff of the BCLC operational gaming auditors group along with an annual audit being undertaken by the SP with an independent auditor of the SP's choice.

... 5

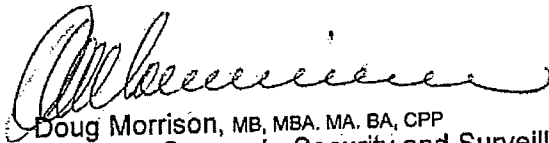
- 5 -

7. A Along with these two measures, BCLC Casino Security Investigators will on a monthly basis review all player holding accounts to ensure that any suspicious financial activities are reviewed and reported. Depending on the nature of the suspicion, a report will be generated and forwarded electronically to both FINTRAC and the RCMP Proceeds of Crime Unit. GPE will be notified via standard reporting Form 86. Once BCLC Casino Security Investigators determine an account to be suspicious, the account will be closed.

Patron Gaming Fund Accounts have been operated successfully in both Quebec and Ontario for the past several years. BCLC believes the policies we have put forward are both more comprehensive and stringent to prevent money laundering.

BCLC would be more than willing to discuss additional areas of concern that may arise. We would be more than happy to convene a meeting at a mutually agreeable location and date.

Sincerely,



Doug Morrison, MB, MBA, MA, BA, CPP  
Manager, Corporate Security and Surveillance

Enclosure(s)

cc: Michael Graydon, President and CEO (BCLC)  
Terry Towns, VP Corporate Security and Compliance (BCLC)  
Darryl Schiewe, VP Casino and Community Gaming (BCLC)  
Marsha Walden, VP Customer Strategy & Corporate Marketing (BCLC)  
Rod Bailey, Director Casino and Community Gaming (BCLC)  
Terri Van Sleuwen, Executive Director, GPE Audits  
Larry Vander Graaf, Executive Director, GPE Investigations  
Rick Saville, Executive Director, GPE Registration

This is Exhibit "U" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia

**Vander Graaf, Larry P HSD:EX**

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**From:** Vander Graaf, Larry P HSD:EX  
**Sent:** Friday, February 25, 2011 12:31 PM  
**To:** McCrea, Bill J HSD:EX; Van Sleuwen, Terri HSD:EX; Birge, Sue HSD:EX; Saville, Rick HSD:EX  
**Cc:** Schalk, Joe HSD:EX  
**Subject:** RE: Patron Gaming Fund Accounts Pilot - BCLC Report

I have reviewed the entire BCLC document and will offer some comments in general and make one recommendation,

It is being insinuated that the PGF Accounts are cumbersome and are not readily accepted by most patrons, especially high limit Asian gamblers. I disagree that the process is cumbersome but do agree that high level players do not like to use the PGF Account due to a number of reasons. These reasons include cultural acceptance, (they like cash), the fact that PGF Accounts are reconcilable and traceable, and they cannot place large amounts of cash (\$20.00 bills) into a Canadian Financial Institute to ultimately EFT to PGF Account with the Service Provider. You have to ask yourself, "why wouldn't a legitimate millionaire type high level gambler not want to use a PGF Account"? It provides security to the player and funds, it eliminates (if PGF Account has proper controls) money laundering, and clearly reduces or eliminates loan sharking. With the recent publicity and high level scrutiny in the media on money laundering and loan sharking, which will continue, coupled with the fact that BCLC and the Service Provider as "good corporate citizens" want to provide a secure, safe, gaming environment that has integrity and the perception of integrity in the eyes of the public, you then must ask yourself, "why wouldn't BCLC and the Service Provider strongly encourage and in some instances demand the player use the PGF Account"?

I am not going into the details of the entire BCLC Report but I will make some comments on the Conclusions. BCLC states, "Although the idea of PGF accounts is technically a good one, it is clear that without modification to the current processes the account use will not become successful or become widely accepted and used by high limit patrons as was its intended purpose."

I must first state that the Branch has generally maintained and has not diluted the controls to facilitate the pilot being categorized, by whomever as "successful", so far. The statistics reflect that there are only 8 active accounts. Agreed the PGF Account is not being used extensively but that can mean that the controls are appropriate to discourage the wrongful use of this dangerous and risky mechanism. We as the regulator must ensure that process is beyond approach by unscrupulous persons. Can it be used to prevent wrongdoing? That is how I measure success.

BCLC is recommending the following changes to current policy and extending the trial a further six months from implementation of the proposed changes.

1. Allowing patrons to use personal cheques and debit cards. This provides an avenue to move away from the issue of patrons carrying large sums of cash into the casino to game with. In regards to the use of personal cheques, the service providers would have to establish their own cheque-clearing waiting periods as any financial institution does.  
**Response: Only in PGF Account, Personal Cheque written to oneself on Bone fide Canadian Financial Institute. Debit Card only into PGF Account of Debit Card Holder only.**
2. No signature required on CMS slip.
3. ID being shown only once in a gaming day.



4. Allowing international funds transfer from a major Canadian chartered bank with an international office (e.g. RBC Shanghai). Funds would be transferred to Service Provider, head office PGF accounts. Remove the restriction that the EFT must come from a Canadian bank.

**Response: Absolutely No, this is too dangerous. EFT outside Canada directly into the PGF Account? Dangerous. The controls (due diligence) of cash in some foreign jurisdictions is not even close to that of Canada. If this is problem BCLC customer service should help player open an account in Canadian Bank. EFT from the foreign bank to Canadian Bank to PGF Account is not difficult.**

5. Allow patrons to EFT funds from their PGF account back to their own bank account at a different financial institution. This could be an account at a different financial institution, other than the one in which the EFT was originally received. For example, the patron EFTs funds from their Scotia bank account into their PGF account and later EFTs the funds from their PGF account to an account they have with the Bank of Montreal. As long as the patron is identified as the owner of both bank accounts, this should not be an issue.

**Response: No, this is too dangerous and quite frankly, why? Keep it simple and easy to audit and monitor.**

Recommendations 4 and 5 have full audit trails and do not differ in nature to the current large cash transaction (LCT) procedures which require full patron identification and recording of relevant transactions separately.

6. Accept EFTs from other Canadian financial Institutions besides Canadian banks (such as Credit Unions).
7. Triplicate forms are no longer necessary if the CMS slip is available for each transaction.
8. Patron profile card is required upon opening of account only. May be updated with patron gaming information (such as types of games played) however does not need to be updated on a daily use basis.

#### **RECOMMENDATION:**

The PGF Account is intended to provide security for the patron and funds as well as deter money laundering and loan sharking.

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

The patron can then use the PGF Account process to access those funds. BCLC and Service Provider customer service could assist these patrons to use the PGF Account and may even give an incentive.

My Initial thoughts.

*Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Enforcement*

This is Exhibit "V" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia

**Vander Graaf, Larry P HSD:EX**

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**From:** Vander Graaf, Larry P HSD:EX  
**Sent:** Wednesday, March 2, 2011 3:33 PM  
**To:** Kroeker, Robert G SG:EX  
**Subject:** RE: Draft Review  
**Attachments:** Gaming Review LVDG Summary\_Draft\_v4\_25 Feb 2011 (2).docx

Rob,

I have tried to get back to you but I have been extremely busy. Are you saying that this has already gone forward to the Deputy and possibly the Minister, if so I am not sure whether you want my opinion or not. However, I have made some notes "for Discussion Only" on the document from my perspective. Should you see a value, we can discuss.

**Confidential No copies elsewhere**

Larry

*Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch  
Ministry of Public Safety and Solicitor General*

This message is confidential and is intended only for the individual named. It may contain privileged information. If you are not the named addressee you should not disseminate, distribute or copy this e-mail. Any unauthorized disclosure is strictly prohibited. If you receive this e-mail in error, please notify the sender immediately and delete this e-mail from your system.

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**From:** Kroeker, Robert G SG:EX  
**Sent:** Tuesday, March 1, 2011 7:48 AM  
**To:** Birge, Sue HSD:EX  
**Cc:** Vander Graaf, Larry P HSD:EX; Van Sleuwen, Terri HSD:EX  
**Subject:** Draft Review

Good morning Sue

Please find attached a copy of the draft review that has gone forward to the Deputy and Minister. It remains embargoed at this point. While the report is still in draft form, it is possible the Minister may speak from it.

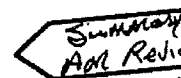
If you, Larry or Terri would like to discuss any aspects of the review please don't hesitate to get in contact.

I appreciate the assistance all of you extended to me in the completion of this task.

Regards,

Rob

PROVINCE OF BRITISH COLUMBIA

Summary  
Anti Review

# Summary Review

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Anti-Money Laundering Measures at BC  
Gaming Facilities

February 2011

## EXECUTIVE SUMMARY

In early January 2011, a series of news reports ran on cash transactions occurring at gaming facilities in British Columbia. The media stories focused on a number of large cash transactions involving small denomination Canadian currency, typically \$20.00 bills, which occurred over the summer of 2010. In the course of these reports the media raised questions about how well gaming in the province was protected from money laundering.

Gaming in British Columbia is operated and managed by the British Columbia Lottery Corporation. BCLC is a Crown Corporation. It is responsible for implementing and managing anti-money laundering measures at gaming facilities throughout the province. Gaming is regulated by the Gaming Policy and Enforcement Branch. The mandate of the Branch includes oversight of BCLC's activities including its anti-money laundering regime.

In January of 2011, the Minister of Public Safety and Solicitor General ordered a review of anti-money laundering strategies employed at BC's gaming facilities. The review was conducted at a high level and was intended to determine what anti-money laundering policies, practices, and strategies were in place. Additionally, the review was to identify any opportunities to strengthen the existing anti-money laundering regime.

The review found that BCLC and its operators, with oversight and guidance from the Gaming Policy and Enforcement Branch, employ standard and appropriate anti-money laundering strategies. Notwithstanding the presence of these measures, opportunities to further strengthen anti-money laundering efforts were identified.

The review found that there were four specific steps BCLC could take to improve its anti-money laundering regime.

3 | Page

1. BCLC, in consultation with GPEB, should revise its buy-in/cash-out policy to allow for cash-outs to be paid by cheque, where cash-out cheques clearly and unequivocally indicate that the funds are not from gaming winnings. This change will create an audit trail available to enforcement where one presently does not exist, and will have the added benefit of enhancing patron safety.  
I cannot agree with this recommendation if it means that a person can come into the gaming facility with 100K in \$20 dollar bills or even \$100 dollar bills gamble and loose \$1K and get a cheque for 99K and leave the casino. These cheques stamped as "No Win" can still be placed into any financial institute or account anywhere in the world. Agree there is an audit trail to minimize criminals from saying the funds are gambling winnings. It could also assist investigators in identifying "Unexplained Income" but the Casinos would be greatly assisting money launders by converting cash to a convenient transferrable negotiable instrument. I realize some foreign jurisdictions do give cheques at anytime but usually have immediate regulatory scrutiny on site yet other jurisdictions give cheques and do not have concerns about money laundering at all. However, this a Policy decision not an enforcement decision.
2. BCLC should adopt training and corporate policy that ensures gaming staff do not draw conclusions about the ultimate origin of funds based solely on the identification of a patron and his or her pattern of play. Training and business practices should result in gaming staff having a clear understanding that the duty to diligently scrutinize all buy-ins for suspicious transactions applies whether or not a patron is considered to be known to BCLC or the facility operator.  
Agree.....
3. BCLC holds the view that gaming losses on the part of a patron provide evidence that the patron is not involved in money laundering or other related criminal activity. This interpretation of money laundering is not consistent with that of

law enforcement or regulatory authorities. BCLC should align its corporate view and staff training on what constitutes money laundering with that of enforcement agencies and the provisions of the relevant statutes.

Agree.....

4. Gaming is almost entirely a cash business in BC. This presents opportunities for organized crime and creates significant safety risks for patrons. Transition from cash transactions to electronic funds transfer would strengthen the anti-money laundering regime and patron safety. BCLC, in consultation with GPEB, should take the steps necessary to develop electronic funds transfer systems that maximize service delivery, create marketing opportunities, and are compliant with anti-money laundering requirements.

Agree Player Gaming Fund Account is in place. Players should be directed/encouraged to use the PGF Account on suspicious currency transactions over \$20k. (especially \$20 bills) Give incentives. Encourage the player (LGT Player) to use the Bank and then transfer the funds to the PGF Account.

This also eliminates player safety issues in carrying large amounts of cash, provides an audit trail and is an AML mechanism

The review identified opportunities available to the Gaming Policy and Enforcement Branch to strengthen its oversight role. The following actions would move the Branch further into the realm of oversight best practices.

1. Adopting the perspective that licensing, audit and enforcement/investigations lie on a compliance continuum and making sure the Branch structure, including reporting relationships, supports this approach.
2. Developing an annual unified licensing, audit and investigations plan which sets out and coordinates compliance objectives and priorities for each year.

3. Formally involving the police agencies of jurisdiction, including those with specific anti-money laundering and organized crime mandates, in annual enforcement objective and priority setting planning.
4. Establishing more formal contacts and relationships with governance and enforcement agencies and associations in jurisdictions with large, long standing, gaming industries.

The review was conducted at a high level. More detailed information on the effectiveness of the anti-money laundering regime in place would be useful in terms of improving gaming integrity going forward. To more fully and accurately judge the on-going and future potential risk of money laundering and associated criminal activities to gaming, the province should consider the following three initiatives.

1. Establishing a standing Senior Officials Committee on Gaming Integrity chaired by GPEB with participation at the head executive level from BCLC and key justice organizations. The mandate of the committee would be to ensure appropriate measures were in place to protect gaming from serious criminal offences.

During the 5 year Integrated Illegal Gaming

Enforcement Team (IIGET) the issue of BCLC CEO being on the oversight Board surfaced a number of times as a potential conflict of interest. It might be prudent to eliminate this perception of Conflict of Interest by not having the CEO BCLC on the Senior Officials Committee. The ADM GPEB, being the regulatory oversight of BCLC could advise the BCLC CEO of pertinent conduct and manage issues. It would also allow the ADM GPEB the latitude to independently request Ministerial Directives towards BCLC, if necessary. The public could then be reassured of independence, if that is appropriate. As this is generally an enforcement of criminal matters (criminal activity), I



believe/suggest that the chair would more appropriately be the ADM Police Services.

Creating a cross agency Task Force to investigate and gather intelligence on suspicious activities and transactions at BC gaming facilities. The Task Force would report out to the Senior Officials Committee on Gaming Integrity on the types and magnitude of any criminal activity it found occurring in relation to gaming facilities in BC.

I do not believe that the CEO BCLC or BCLC Corporate Security can be part of a law enforcement task force, if that is what is being suggested.

HGET surfaced that issue on occasions. It is believed that there are competing interests and it could be a conflict of interest or perceived as a conflict of interest. I would suggest keeping it clean and independent to avoid unnecessary controversy. Policy decision.

2. Engaging an independent firm with expertise in anti-money laundering strategies and compliance to conduct compliance, effectiveness, and best practices review of the anti-money laundering measures currently protecting BC's gaming industry.

IPSA did this before on contract with BCLC.

## 1. BACKGROUND

Gaming in BC is regulated under the provincial *Gaming Control Act* (GCA), which was introduced in 2002, and the *Criminal Code of Canada*. The Gaming Policy and Enforcement Branch (GPEB) is an office of government established under the GCA. GPEB's mandate is to regulate and provide oversight of gaming in the province. Its responsibilities include ensuring the integrity of gaming operators, staff, and equipment, generally through the development of gaming policy, as well as monitoring BCLC and investigating regulatory and criminal offences connected to gaming facilities. Additionally, GPEB is accountable for managing grants derived from gaming funds, and responsible gaming programs.

GPEB monitors anti-money laundering (AML) strategies and other efforts to protect gaming from organized crime primarily through its audit and investigative functions. Licensing operations at GPEB also provide preventative and protective measures.

**I am not sure that licensing belongs in the enforcement group.**

The British Columbia Lottery Corporation (BCLC) is incorporated as a Crown Corporation under the GCA. Its mandate is to, on behalf of the Government of BC, conduct, manage and operate lotteries, casino gaming, community gaming, and more recently, electronic gaming offered over the internet. The directors and chair of BCLC are appointed by the Lieutenant Governor in Council. The corporation's mission is to deliver a player focused, high quality, profitable gaming experience in a socially responsible manner. BCLC publicly commits to building and maintaining public trust through the values of integrity, social responsibility and respect.

Gaming services at casinos are delivered on behalf of BCLC by gaming operators under contract. BCLC bears the responsibility for implementing and managing AML strategies at gaming facilities. This includes responsibility for reporting requirements under the

GCA and the federal *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*.

## 2. EMERGING CONCERNS

In early January 2011, CBC ran a series of news stories on cash transactions at BC gaming facilities. The stories focused on a number of large cash transactions involving small denomination Canadian currency, typically \$20.00 bills, which occurred over the summer of 2010. While the stories acknowledged that BCLC was meeting all reporting requirements, questions still arose in the media around the adequacy of AML efforts, and other measures, intended to protect BC gaming facilities from criminal activity. Ultimately the Minister responsible for BCLC and GPEB ordered a review of the AML strategies employed at BC's gaming facilities.

## 3. PURPOSE AND SCOPE OF REVIEW

The purpose of the review is to develop advice to the Minister on specific issues related to gaming integrity in the province.

The Minister directed that a review be undertaken of the measures, predominantly focusing on anti-money laundering procedures, employed by BCLC and GPEB and aimed at protecting gaming facilities from organized criminal activity. The review was conducted at a high level and was intended to determine what policies, practices, and strategies were in place. From there any opportunities for improvement were to be identified. The scope of the review did not include an in-depth analysis of the extent to which existing policies and procedures were adhered to by BCLC or GPEB, or the

robustness of GPEB's monitoring of BCLC's efforts aimed at preventing criminal activity at gaming facilities.

#### 4. METHOD

Interviews were conducted with selected executive members and staff at BCLC. Documentation provided by BCLC germane to the review was reviewed. Interviews were conducted with senior government officials from GPEB including those with overall responsibility for audit, investigations, and policy. Documentation provided by GPEB was reviewed.

A comprehensive site tour was conducted at a large gaming facility. The visit included an opportunity to discuss anti-money laundering efforts, compliance, and business impacts with two different gaming facility operators.

Senior members of the RCMP responsible for investigations involving money laundering, terrorist financing, and other financial crimes were interviewed. A senior municipal police official with expertise in money laundering and organized crime investigations was interviewed. An official from FINTRAC was interviewed. An independent consultant with expertise in anti-money laundering compliance and forensic auditing in both the Canadian and international financial services sectors was interviewed.

Literature on anti-money laundering strategies was reviewed as were the proceedings from a recent Canadian symposium on money laundering. Relatively recent reports prepared by the Ombudsman and Deloitte & Touche LLP on the BC lottery system were reviewed.

Recent media reports on large cash transactions at BC gaming facilities were reviewed.

## 5. SUMMARY OF FINDINGS

### BCLC

Those interviewed at BCLC were clearly concerned that gaming services were delivered in a manner that ensured and protected the integrity of gaming in the province. This review was met with an approach on the part of BCLC that was open, helpful and straightforward. It was evident that BCLC understands its mandate in regard to the delivery and management of gaming. Moreover, BCLC is fully aware of its responsibility to make sure gaming is delivered in a manner that is compliant with anti-money laundering requirements and which appropriately balances gaming revenue objectives with strategies to minimize the risk of criminal activity at gaming facilities.

BCLC and its operators employ standard and appropriate anti-money laundering strategies. These measures include amongst other things:

- mandatory training for all staff delivering gaming services;
- policies and procedures dealing with identifying and knowing a client;
- tracking all play that falls within reporting requirements;
- segregating and verifying gaming wins from the cash-out of funds brought into a gaming facility to buy-in;
- policies prohibiting customers from exchanging small denomination bills for large denomination bills;

It should be noted that this policy is continuously not complied with by Service Providers

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- prohibiting the movement of gaming chips between players and gaming facilities;  
BCLC does not have written policy on chip passing
- issuing cheques only in relation to verified gaming wins; and,  
It is not effective and it is very difficult to ensure "verified win" but it is a policy
- reporting large or suspicious cash transactions.

While BCLC has standard anti-money laundering measures in place, opportunities exist to further strengthen current efforts. Agree....

#### Player Buy-ins

Where a player buys-in with a large number of small denomination bills (usually \$20.00 bills), BCLC policy dictates that cash-outs will be in the same denominations. For example, a player buying-in with \$10,000 in \$20.00 bills, after playing and losing \$2,000, would receive \$8,000 in \$20.00 bills when cashing out. This policy is intended to prevent the placement of proceeds of crime into the legitimate economy. This policy does effectively inhibit the placement of illegitimate funds through gaming facilities.

Unfortunately, this policy is not adhered to by the Service Provider in its entirety.

Non-compliance by Service Providers to this Policy does not meet with effective deterrence.

A change in policy that allows BCLC to cash-out a patron with a cheque that clearly and unequivocally identifies funds as not being winnings would have two primary advantages over the current policy. First, when a cash-out cheque from BCLC is negotiated it will give any subsequent investigator an audit trail to follow that is not currently available under the existing policy. Second, cheque issuance will reduce the security risks and vulnerabilities associated with clients leaving a casino with large sums of cash. Clearly marking cheques "not gaming winnings" will thwart any future attempts to claim the funds were derived from legal gaming activity.

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While this policy change could potentially allow a money launderer to place funds in the legitimate economy the subsequent audit trail and reduction in risks associated with carrying large amounts of cash, provide benefits that outweigh the negative aspects of allowing the placement.

I have been classified and testified as a Money Laundering expert in a number of countries and in the Supreme Court of BC and Queens Bench in Manitoba and I have difficulty agreeing with this logic. As previously stated,

I cannot agree with this recommendation if it means that a person can come into the gaming facility with 100K in \$20 dollar bills or even \$100 dollar bills gamble and loose \$1K and get a cheque for 99K and leave the casino. These cheques stamped as "No Win" can still be placed into any financial institute or account anywhere in the world. Agree there is an audit trail to minimize criminals from saying the funds are gambling winnings. It could also assist investigators in identifying "Unexplained Income" but the Casinos would be greatly assisting money launders by converting cash to a convenient transferrable negotiable instrument. Patron safety is always a concern and the Player Gaming Fund Account through the banking system is fool proof for individual safety and generally AML, if administered properly. It cannot get any better. However, as previously stated this is a Policy decision and this is only my (Division) opinion.

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Reporting Obligations

BCLC takes the position that a patron is known to it where picture identification has been produced, the patron has stated an occupation in general terms, and the patron has an established pattern of play at a BC gaming facility. Where a patron meets these criteria, BCLC concludes that any cash used by the patron to buy-in at a gaming facility is legitimate and not criminally tainted. BCLC has a statutory duty to be curious about cash transactions and to report large or suspicious transactions. Vigilance is needed especially in regard to transactions involving large volumes of small denomination bills. BCLC's obligation is primarily a duty to report. These reporting obligations do not extend to a duty to investigate and confirm the exact provenance of cash used to buy-in. Detailed inquiries and investigation into the legitimate or illegitimate source of cash appropriately fall to the various enforcement and regulatory authorities.

Allowing BCLC and the Service Provider the latitude to be just curious and only have an obligation to report is somewhat surprising. I do not believe that will be acceptable to public perception. I believed that Crown Corporations obligations should be to a higher standard. Shouldn't a Crown Corporation at least have the same obligation and corporate high road as Banks.

Alternately, under this logic, I would suggest that it may be prudent to have the regulatory agency on site in the gaming facility, like the OPP in Ontario. This has been suggested previously and was not met with negative push back. It would mean additional resources to this Division but it would fulfill this and a number of other needs. The Regulator would be immediately be alerted to the situation and make additional on site enquiries as to the origin of the cash, the identity and background of the individual. (investigation) It should also be realized that the Investigation and Regional Operations Division has immediate access to police data bases. Alternately the police could be immediately alerted/called.

Drawing the conclusion that a large cash transaction involves funds from legitimate sources based only upon patron identification and playing history is not consistent with



best anti-money laundering practices. Conclusions and statements as to the ultimate legitimacy of cash should only be made where there is detailed, independent information verifying the source of the funds and should only be made by the enforcement agencies with a mandate to conduct these types of inquiries. BCLC's AML efforts would be improved by ensuring gaming staff do not draw conclusions about the ultimate origin of funds based solely on the identification of a patron and his or her pattern of play. Training and business practices should result in gaming staff having a clear understanding that the duty to diligently scrutinize all buy-ins for suspicious transactions applies whether or not a patron is considered to be known to BCLC or the facility operator.

#### Independent Regulator on site... ?

#### Gaming Losses

BCLC holds the view that gaming losses on the part of a patron provide evidence that the patron is not involved in money laundering or other related criminal activity. BCLC's rationale is that where a patron puts significant funds at risk through gaming and loses, the loss demonstrates the patron was not engaged in laundering because the patron did not achieve a financial gain or retain a significant portion of his or her initial buy-in. This view of money laundering is much narrower than the definition of laundering found in the *Criminal Code* and is not in accord with the opinion of police or regulators as to what constitutes money laundering. Moreover, this view does not recognize the inherent value, irrespective of outcome, of gaming services to a gambler. BCLC's AML practices would be strengthened by aligning its corporate view and staff training on what constitutes money laundering with that of enforcement agencies and the provisions of the relevant statutes.

#### Electronic Funds Transfer

At present, gaming is almost entirely a cash business in BC. This presents opportunities for organized crime and creates significant safety risks for patrons travelling to and from

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gaming facilities with large sums of money. Transition from cash transactions to electronic funds transfer (EFT) would present the opportunity to improve both anti-money laundering efforts and patron safety. Implementation of EFT, however, presents challenges for both BCLC and GPEB.

In 2010 BCLC, in consultation with GPEB, introduced the Patron Gaming Fund Account program which allows players to transfer funds from a Canadian banking institution to a gaming account for play at a gaming facility. Very few players have chosen to establish accounts. Of the accounts set up, many are dormant or have never been used. BCLC believes that the combination of a cumbersome application process, overly strict account controls, and a perceived desire for a high degree of privacy amongst higher stakes gamblers have created barriers to moving to EFT.

I have recently given my opinion on the BCLC and Service Provider

Recommendations to continue the PGF Account. I believe that this mechanism can be a very effective AML mechanism, ensure public safety and is audit trail friendly but it must be encouraged and on occasions demanded to be a norm and effective.

While EFT presents opportunities to strengthen anti-money laundering efforts, it can also create money laundering vulnerabilities if appropriate account controls are not put in place. With the appropriate controls in place, EFT provides a better level of protection than cash transactions. While account controls are necessary to protect the integrity of gaming, it is not possible to completely eliminate any chance of money laundering and associated criminal activity. The establishment of EFT processes should be approached from a risk based framework where risk is effectively managed, but beyond that as much flexibility as possible is retained to make sure the service is useful and marketable to patrons.

I believe that we are doing that at the present time. Again, we provide area expertise to Policy.

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A reassessment of the Patron Gaming Fund Account program from a risk based context by BCLC and GPEB may be warranted. This work would benefit from independent advice from an expert from within the financial services sector where there is extensive experience and expertise in developing EFT processes that maximize service delivery and marketing objectives, but that are also fully AML compliant.

## GPEB

Senior management at GPEB, not unexpectedly, demonstrated a professional and informed approach to gaming integrity in participating in this review. They have a strong understanding of their roles and responsibilities as regulator, but at the same time remain well attuned to the goals and interests of the industry and stakeholders. GPEB's approach to this review was open and fully cooperative. They brought a number of suggestions forward and showed a keen commitment to improving gaming integrity on a continuing basis.

A number of organizational and policy changes at GPEB have been implemented since 2007 in response to the report of the BC Ombudsman and an audit conducted by Deloitte & Touche on the retail lottery systems. While these reports focused on lotteries, as opposed to casino operations, there were changes that benefited all of GPEB's operations and improved gaming integrity generally. Notwithstanding these improvements, there are areas where further gains can be made.

There is a strong sense of investigative independence on the part of the Investigations Division within GPEB. This helps to maintain the required degree of separation between policy and enforcement functions in the Branch. Having said this, the Investigative Division's perspective on independence may be overly broad. The Investigative Division limits its involvement in Branch corporate functions such as strategic planning and

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the setting of annual business objectives for fear that participation in these activities may unduly influence its' enforcement role. We do not "fear" but are cognizant of individual potential conflicts. We also have legal obligations as SPConstables in relation to Criminal Intelligence that must be keep independent and confidential. "limit its involvement in Branch Corporate functions" is not true.

I am not quite sure where this is coming from but the Investigation Division (and I believe the Audit Division , however, I will not speak for them) always participates in all Branch planning sessions and provides area expertise and recommendations to the policy makers of the Branch on a number of enforcement issues and strategic directions. We do not create policy. We provide subject expertise, we investigate and enforce. Often policy disagrees with our recommendations and opinions and on occasion they do not like and sometimes they do not ask us for our opinion. They seem to have difficulty understanding enforcement issues, the prosecutor role, evidence and the independent investigative authority delegated by the GM under the authority of the GCA and SPC. However, we continue to clarify and participate. I have made enquiries with other Divisions and they all understand our role and priorities.

GPEB's oversight role, including investigations, and its ability to prevent, detect and respond to money laundering concerns may be further optimized by the following:

5. Adopting the perspective that licensing, audit and enforcement/investigations lie on a compliance continuum and making sure the Branch structure, including reporting relationships, supports this approach.

I really do not understand the licensing role.

6. Strengthening gaming oversight by developing an annual unified licensing, audit and investigations plan which sets out and coordinates compliance objectives and priorities for that year.

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7. Formally involving the police agencies of jurisdiction, including those with specific anti-money laundering and organized crime mandates, in annual enforcement objective and priority setting planning.

GPEB is a member of the Canadian Partnership for Responsible Gaming, the Canadian Association of Gaming Regulators, and the North American Horse Racing Association. GPEB's AML efforts would benefit and be strengthened through more extensive and formal contact with gaming regulatory, enforcement and governance bodies from other jurisdictions, especially those from outside of Canada with long standing gaming industries. The establishment of formal contacts, relationships and partnerships with governance and enforcement agencies in jurisdictions with large gaming industries would be of particular benefit in keeping informed of developing trends and best practices.

We do but I agree the Investigation and Regional Operations Division must be more involved nationally and internationally on enforcement issues on a continuous basis.

## POLICE

As is the case with most areas of enforcement, multiple layers of jurisdiction and responsibility are in play when it comes to the investigation and prosecution of offences at gaming facilities. Investigation of money laundering offences is primarily a federal responsibility falling to the RCMP Proceeds of Crime sections; whereas gaming operations and oversight are a provincial mandate. Additionally, criminal activity not directly related to money laundering falls within the mandate of both GPEB and the police agency of jurisdiction where a gaming facility is located. GPEB's authority and mandate to investigate criminal offences is more limited than that of police agencies. For instance, GPEB does not have the authorities required to conduct investigations that necessitate the carrying of firearms, require surveillance to be conducted, or call for the interception of private communications. Investigations involving these requirements and techniques must be lead by police agencies proper.

Currently there are no formal links between the GPEB Investigations Division, the RCMP Proceeds of Crime Section or police agencies of jurisdiction. (I am a member of BCACP Gaming Committee) The Investigations Division does, however, enjoy strong informal links with police. Despite this, it will remain difficult to assure an appropriate level of response to, and investigation of, criminal offences related to gaming, including money laundering, without a formal agreement or arrangement of some form between the province (GPEB) and the police agencies with jurisdiction. Without these changes money laundering and other serious criminal activity suspected at gaming facilities will infrequently rise sufficiently in priority to warrant investigation by police.

## 6. CONCLUSIONS AND FUTURE DIRECTIONS

This review was an initial, high level look at the AML policies, practices, and strategies in place at BC gaming facilities. The scope of the review did not include audit measures or other similar analysis to determine the extent to which existing policies were being adhered to, or their actual effectiveness as implemented at gaming facilities in the province.

The review found that BCLC, in terms of policies and procedures, has a strong AML regime in place. Further, it was determined that GPEB has the required level of AML expertise and is capable of discharging its responsibility to provide oversight as it relates to AML and associated criminal activities at gaming facilities. Despite the strength and adequacy of the measures in place, opportunities to close gaps, further minimize vulnerabilities and strengthen AML strategies exist and have been identified above. Efforts to close the identified gaps will move BCLC and GPEB further into the realm of best practices.

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As has been noted previously, determining or testing the effectiveness of existing AML strategies was beyond the scope of this initial review as was the investigation of the circumstances of any specific financial transaction or series of transactions occurring at gaming facilities. Circumstances set out by BCLC (Service Providers reported via Section 86 not BCLC) in a series of Section 86 (of the *Gaming Control Act*) Reports, Large Cash Transaction Reports, and Suspicious Transaction Reports completed between May and September of 2010, and reported upon in the media, have given rise to questions about cash transactions occurring at BC gaming facilities. Further inquiry would assist in confirming the exact nature of these transactions, thereby alleviating any residual concern and more clearly pointing the way to additional action that may be required in regard to serious criminal offences. The following steps provide the additional information needed in relation to the cash transactions in question and will contribute to strengthening and maintaining gaming integrity in the province on a continuing basis:

3. Establishing a standing Senior Officials Committee on Gaming Integrity. The Committee would be managed and chaired by the ADM GPEB with membership comprised of the ADM Policing, ADM Criminal Justice Branch, CEO BCLC, Regional Director Public Prosecution Service Canada, Chief Constable Vancouver Police Department, RCMP Officer-in-Charge of Criminal Operations, and the Executive Director Civil Forfeiture. The mandate of the committee would be to ensure appropriate measures were in place to protect gaming from serious criminal offences.

This is somewhat similar to the IIGET Board; I would suggest that the Senior Officials Committee should be chaired by ADM Police Services as it involves serious criminal offences. In IIGET, the CEO BCLC was only at the Board table for financial matters not operational issues. ADM GPEB could brief CEO BCLC as I suggested earlier.

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4. Creating a cross agency Task Force to investigate and gather intelligence on suspicious activities and transactions at BC gaming facilities. The Task Force would be comprised of investigators from GPEB, the RCMP Integrated Proceeds of Crime unit, the Combined Forces Special Enforcement Unit, and Vancouver Police with dedicated support from Crown Counsel. The Task Force would have a time limited mandate at the end of which it would report out to the Senior Officials Committee on Gaming Integrity on the types and magnitude of any criminal activity it found occurring in relation to gaming facilities in BC.

Task Force, I believe should be Police driven with assistance by IGPEB Investigations. Same as it is now.

5. Engaging an independent firm with expertise in AML strategies and compliance to conduct AML compliance and best practices review. The review would: assess existing BCLC and GPEB measures to assure that AML practices at BC gaming facilities are compliant with AML legislation and regulations; provide advice on how to go beyond regulatory compliance to meet financial sector best practices; and, provide advice on how to improve the service quality, marketability, and security of electronic funds transfer.

The information gleaned from the independent audit and Task Force will allow the Senior Official's Committee to make further recommendations, if needed, to the Minister on gaming integrity.

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

The two main reasons for concern in BC Casinos have been and will continue to be Loan Sharking and Money Laundering. Most of the time they go hand in hand.

The large of volumes of \$20 bills into Casinos are of preliminary concern.

Preliminary Option: Objective, AML, Player Safety, and Audit trail.

PGF Account can be utilized for all three objectives.



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- Ministerial Directive to prohibit Large Volumes of \$20 bills directly in casinos. #10K-\$20K daily. This will not prevent "smurfing" but will be an improvement.
  - Strong encouragement, incentive and direction to players to use Canadian Banks/Credit Unions to EFT funds from Canadian Banks/Credit Unions to PGF Account. Customer Service could play a strong role.
  - Additional Regulatory Investigative staff on site to interview and query suspicious large cash placement at the time it is at the cash cage.
  - Couple the above with selective targeted enforcement on individuals with the Investigations and Regional Operations providing assistance and intelligence to IPOC and/or CFSEU and/or Vancouver Drug Section and/or Gang Task force. (we are doing this now)
- I am of the opinion that this alone could significantly reduce if not eliminate the majority of the problem.

These are my recommendations and suggestions and those of the minds in my Division.

Again, we do not make Policy; we provide area expertise to those who make those decisions.

This is Exhibit "W" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.

  
\_\_\_\_\_  
A Commissioner for taking Affidavits within British Columbia

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**From:** Vander Graaf, Larry P SG:EX  
**Sent:** Thursday, September 8, 2011 11:01 AM  
**To:** Burrows, Colin SG:EX; Chamberlain, Robert D SG:EX; Dickson, Derek SG:EX; Giesbrecht, Al SG:EX; Halpenny, Barry SG:EX; Mulcahy, William SG:EX; Schalk, Joe SG:EX; Werner, Peter H SG:EX  
**Subject:** FW: AML Input - Methods to Reduce Reliance on Cash ...  
**Attachments:** Methods to Reduce Reliance on Cash in BC Casinos.docx; BCLC Methods to Reduce Reliance on Cash in BC Casinos Sept 2011.docx

Gents, my thoughts on BCLC suggestions. Any thoughts please advise. Joe and Derek we can discuss and I will put our combined submission to the Group. Thanks

*Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch  
Ministry of Public Safety and Solicitor General*

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**From:** McCrea, Bill J SG:EX  
**Sent:** Friday, September 2, 2011 8:59 AM  
**To:** Scott, Douglas S SG:EX; Burke, Lisa SG:EX; Ridley, Sheena SG:EX; Birge, Sue SG:EX; Horricks, David SG:EX; Van Sleuwen, Terri SG:EX; Vander Graaf, Larry P SG:EX; Schalk, Joe SG:EX; Dickson, Derek SG:EX; Saville, Rick SG:EX; Merchant, Ron J SG:EX  
**Cc:** Fair, Susan P SG:EX  
**Subject:** AML Input - Methods to Reduce Reliance on Cash ...

Good Morning,

In response to a recent meeting, and GPEB's expressed desire to keep up momentum on the AML solutions BCLC have developed the attached proposed suggestions. Some of these are controversial. All parties know that. However, we have a place to begin. We will not be reviewing this list in our meeting today, but will talk about our approach to move forward, with developing solutions. See you at 12:45.

Bill

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**Bill McCrea** BES MBA FCIP  
Executive Director Internal Compliance and Risk Management  
Phone: 250 356-1109  
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## Methods to Reduce Reliance on Cash in BC Casinos

In response to several audits and reports which have suggested that BCLC needs to improve their AML (anti-money laundering) compliance and make efforts to reduce the reliance on cash within casinos, below are some proposed suggestions.

### ***Patron Gaming Fund Accounts (PGF)***

PGF accounts were introduced into the larger lower mainland casinos beginning in December 2009 as a way for the casinos to reduce their reliance on cash. Their use has been limited. Suggestions for improvements are listed below:

1. Allow PGF accounts to be opened and replenished with a wider variety of financial instruments including: certified, personal and casino cheques, bank drafts and debit or credit cards. This provides an avenue to move away from the issue of patrons carrying large sums of cash into the casino to game with. In regards to the use of personal cheques, the service providers would have to establish their own cheque-clearing waiting periods as any financial institution does.
2. Allowing international funds transfer from a major Canadian chartered bank with an international office (e.g. RBC Shanghai). Funds would be transferred to Service Provider, head office PGF accounts. Remove the restriction that the EFT must come from a Canadian bank. The patron should also have the ability to return funds to the same international bank account it was received from.
3. Allow patrons to EFT funds from their PGF account back to their own bank account at a different financial institution. This could be an account at a different financial institution, other than the one in which the EFT was originally received. For example, the patron EFTs funds from their Scotia bank account into their PGF account and later EFTs the funds from their PGF account to an account they have with the Bank of Montreal. As long as the patron is identified as the owner of both bank accounts, this should not be an issue.

The two recommendations above provide full audit trails and do not differ in nature to the current large cash transaction (LCT) procedures which require full patron identification and recording of relevant transactions separately.

4. Accept EFTs from other Canadian financial institutions besides Canadian banks (such as Credit Unions).

5. Allowing funds to be transferred to a PGF account from any Banking institution. The Service Provider would be allowed to file its' own 'due diligence' report, attesting to the origin of the funds, just like a Canadian bank.
6. Patrons currently have the ability to deposit into their PGF accounts any verified wins on the same day the win occurs.

### ***Casino Cheques & Other Financial Instruments***

Currently, BCLC policy only permits casinos to issue cheques for verified wins. Suggestions to increase the use of cheques and still maintain AML compliance are listed below:

1. For the safety and convenience of patrons, create a new type of casino cheque clearly labeled **"Not a Verified Win, Return of Funds Only"**. These casino cheques would also be accepted as buy-ins should the patron return to play.
2. If a patron is cashing out and the amount is \$10,000 or over, offer the patron the option to open a PGF account and deposit the funds there.
3. Accept buy-ins at the casino in a wider variety of financial instruments including certified, personal and casino cheques, bank drafts, money orders and debit or credit cards. This provides an avenue to move away from the issue of patrons carrying large sums of cash into the casino to game with. In regards to the use of personal cheques, the service providers would have to establish their own cheque-clearing waiting periods as any financial institution does.

### ***Extend Credit or Provide Cash Advances***

Currently, the Responsible Gambling Standards for the province of BC do not allow gaming service providers to extend credit or lend money to patrons as per provincial policy. This policy would need to be amended in order to allow the following suggestions to be implemented:

1. Extend credit to patrons who qualify. The credit amount would have a minimum threshold, \$100,000 as an example and a maximum threshold. Credit amounts below \$100,000 would not be offered. Patrons would submit all necessary identification information in order to be eligible for the credit. The casino service providers would have to determine how much credit they are willing to extend and thus be liable for.
2. Credit would be offered to both local and international players. Credit would only be available at the larger casino properties in the lower mainland – namely River Rock, Starlight, Grand Villa and Edgewater.

3. With credit capability extended to high limit players, offer a Casino 'VIP Card' that can be loaded with funds and utilized at the cash cage for buy ins and for disbursements to a pre-determined credit limit. To obtain a Casino card the patron would register at a Casino and reveal their banking information. This process would be administered and tracked by the Service Provider.

### ***Use of Legitimate Money Transfer Companies***

1. A company called "TrustCash" has the potential to offer the ability for patrons to purchase casino chips on-line and pay for them in cash at their nearest banking location. The company would provide the patron with a slip or chit which would be redeemable at the casino for the chips purchased.
2. Benefits include a fully auditable trail of the funds transactions.
3. A system called "Global Cash" is currently in use at the Edgewater, Grand Villa, Cascades and River Rock casinos. There is a "Global Cash" terminal which patrons can use their credit cards and request a cash advance. The patron then attends the "Global Cash" cage on site and they will provide the funds to the patron. Using this method the patron is not charged a daily interest fee that is common with a regular cash advance on credit cards. There are service fees involved and the fees increase as the amount of the cash advance increases. There is no limit on the amount of the cash advance – it would be based on the credit card limit.

## Methods to Reduce Reliance on Cash in BC Casinos

In response to several audits and reports which have suggested that BCLC needs to improve their AML (anti-money laundering) compliance and make efforts to reduce the reliance on cash within casinos, below are some proposed suggestions.

### ***Patron Gaming Fund Accounts (PGF)***

PGF accounts were introduced into the larger lower mainland casinos beginning in December 2009 as a way for the casinos to reduce their reliance on cash. Their use has been limited. Suggestions for improvements are listed below:

1. Allow PGF accounts to be opened and replenished with a wider variety of financial instruments including: certified, personal and casino cheques, bank drafts and debit or credit cards. (( OK from a AML perspective, but I believe that Problem Gambling would a strong say (may even be resistant) in these initiatives)) This provides an avenue to move away from the issue of patrons carrying large sums of cash into the casino to game with. ((Add (mandatory)that with this change patrons cannot bring more that 10K in \$20 bills)) In regards to the use of personal cheques, the service providers would have to establish their own cheque-clearing waiting periods as any financial institution does. (This Division has limited faith in the ability of Service Provider to administer cheque cashing clearances)
2. Allowing international funds transfer from a major Canadian chartered bank with an international office (e.g. RBC Shanghai). (No) Funds would be transferred to Service Provider, head office PGF accounts. (No) Remove the restriction that the EFT must come from a Canadian bank. (No) The patron should also have the ability to return funds to the same international bank account it was received from. (No) Under certain strict due diligence (by BCLC and Service Provider) this Division can agree with EFT transfer from Canadian Bank (institution) to PGF account and return of funds to that account under certain conditions. (only verified wins, bank drafts, and financial instruments). (NOT value CHIPS or cash) This must be in conjunction with Mandatory 10k limit on \$20 bills.
3. Allow patrons to EFT funds from their PGF account back to their own bank account at a different financial institution. (WHY, I suggest NO back to the same account as received. The patron can move the money to any other account anywhere) This could be an account at a different financial institution, other than the one in which the EFT was originally received. For example, the patron EFTs funds from their Scotia bank account into their PGF account and later EFTs the funds from their PGF account to an account they have with the Bank of Montreal. As long as the patron is identified as the owner of both bank accounts, this should not be an issue. (No)

The two recommendations above provide full audit trails and do not differ in nature to the current large cash transaction (LCT) procedures which require full patron identification and recording of relevant transactions separately. (Only under the conditions we have mentioned above)

4. Accept EFTs from other Canadian financial institutions besides Canadian banks (such as Credit Unions). (This Division does not have an issue with this request)
5. Allowing funds to be transferred to a PGF account from any Banking institution. (Canadian only to Service Provider) The Service Provider would be allowed to file its' own 'due diligence' report, attesting to the origin of the funds, just like a Canadian bank (Service Provider is not a Bank and has competing interest)
6. Patrons currently have the ability to deposit into their PGF accounts any verified wins on the same day the win occurs. (Verified Win yes)

### ***Casino Cheques & Other Financial Instruments***

Currently, BCLC policy only permits casinos to issue cheques for verified wins. Suggestions to increase the use of cheques and still maintain AML compliance are listed below:

1. For the safety and convenience of patrons, create a new type of casino cheque clearly labeled **"Not a Verified Win, Return of Funds Only"**. These casino cheques would also be accepted as buy-ins should the patron return to play. ( NO, this Division does not agree, unless bone fide financial instrument is used to buy-in other than that only Verified Wins)
2. If a patron is cashing out and the amount is \$10,000 or over, offer the patron the option to open a PGF account and deposit the funds there. ( NO, this Division does not agree, unless bone fide financial instrument is used to buy-in other than that only Verified Wins) Use Bank transfer to open PGF account.
3. Accept buy-ins at the casino in a wider variety of financial instruments including certified, personal and casino cheques, bank drafts, money orders and debit or credit cards. This provides an avenue to move away from the issue of patrons carrying large sums of cash into the casino to game with. In regards to the use of personal cheques, the service providers would have to establish their own cheque-clearing waiting periods as any financial institution does. (( OK from a AML perspective, but I believe that Problem Gambling would a strong say (may even be resistant) in these initiatives)) (This Division has limited faith in the ability of Service Provider to administer cheque cashing clearances)

### ***Extend Credit or Provide Cash Advances***



Currently, the Responsible Gambling Standards for the province of BC do not allow gaming service providers to extend credit or lend money to patrons as per provincial policy. This policy would need to be amended in order to allow the following suggestions to be implemented: (Problem Gambling issue of Policy)

1. Extend credit to patrons who qualify. The credit amount would have a minimum threshold, \$100,000 as an example and a maximum threshold. Credit amounts below \$100,000 would not be offered. Patrons would submit all necessary identification information in order to be eligible for the credit. The casino service providers would have to determine how much credit they are willing to extend and thus be liable for loss. From an AML perspective payment for losses on extended credit must be from a Bone Fide Canadian Financial Institute. Not cash. Also chips that are purchased cannot be comingled with chips obtained by Credit.
2. Credit would be offered to both local and international players. Credit would only be available at the larger casino properties in the lower mainland – namely River Rock, Starlight, Grand Villa and Edgewater. (From an AML perspective payment for losses on extended credit must be from a Bone Fide Canadian Financial Institute. Not cash. Also chips that are purchased cannot be comingled with chips obtained by Credit).
3. With credit capability extended to high limit players, offer a Casino 'VIP Card' that can be loaded with funds and utilized at the cash cage for buy ins and for disbursements to a pre-determined credit limit. To obtain a Casino card the patron would register at a Casino and reveal their banking information. This process would be administered and tracked by the Service Provider. (only buy in or payment from Canadian Financial Institute EFT or an instrument thereof)

### ***Use of Legitimate Money Transfer Companies***

1. A company called "TrustCash" has the potential to offer the ability for patrons to purchase casino chips on-line and pay for them in cash at their nearest banking location. The company would provide the patron with a slip or chit which would be redeemable at the casino for the chips purchased. (No)
2. Benefits include a fully auditable trail of the funds transactions.
3. A system called "Global Cash" is currently in use at the Edgewater, Grand Villa, Cascades and River Rock casinos. There is a "Global Cash" terminal which patrons can use their credit cards and request a cash advance. The patron then attends the "Global Cash" cage on site and they will provide the funds to the patron. Using this method the patron is not charged a daily interest fee that is common with a regular cash advance on credit cards. There are service fees involved and the fees increase as the amount of the cash advance

increases. There is no limit on the amount of the cash advance – it would be based on the credit card limit. (Not a AML issue to receive cash as long as they cannot put large amounts of cash into “Global Cash” )

DRAFT

This is Exhibit "X" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia



# GPEB Response to BCLC input: Methods to Reduce Reliance on Cash in BC Casinos

## Patron Gaming Fund Accounts (PGF):

PGF accounts were introduced into the larger lower mainland casinos beginning in December 2009 as a way for the casinos to reduce their reliance on cash. Suggestions for improvements are listed below:

No.	Source of Input	Discussion
1	BCLC	<b>Allow PGF accounts to be opened and replenished with a wider variety of financial instruments including: certified, personal and casino cheques, bank drafts and debit or credit cards. This provides an avenue to move away from the issue of patrons carrying large sums of cash into the casino to game with. In regards to the use of personal cheques, the service providers would have to establish their own cheque-clearing waiting periods as any financial institution does.</b>
1	ADMO	Require diligence at the front end with cheques.
1	INV	<b>Allow PGF accounts to be opened and replenished with a wider variety of financial instruments including: certified, personal and casino cheques, bank drafts and debit or credit cards.</b> OK from AML perspective, but I believe that Problem Gambling would have a strong say (may even be resistant) to these initiatives. <b>This provides an avenue to move away from the issue of patrons carrying large sums of cash into the casino to game with.</b> Add (mandatory) that with this change patrons cannot bring more than 10K in \$20 bills to gamble. <b>In regards to the use of personal cheques, the service providers would have to establish their own cheque-clearing waiting periods as any financial institution does.</b> This Division has limited faith in the ability of Service Provider (maybe BCLC) to administer cheque cashing clearances.
1	Policy / RG	Agree that we need to be more flexible in terms of how these accounts can be topped up, but do not support the use of credit cards to do so. All other instruments noted above are based on cash or equity; credit cards are not. This could not be supported through an RG lens.
1	ICRM	On the whole, okay. Some concerns include the use of casino cheques may not meet Anti-Money Laundering needs. Also there is a concern if the use of credit cards would have any Responsible Gambling impacts.
1	Audit	We believe that this needs to be limited to Canadian financial institutions ONLY.
1	Reg / Cert	Is it intended to accept the instruments from a "recognized" Canadian financial institution only?  Are we giving approval for the extension of credit within gaming facilities; ie the source of funds could be from credit cards, bank loans etc. and how would we address problem gaming issues.

No.	Source of Input	Discussion
2	BCLC	Allowing international funds transfer from a major Canadian chartered bank with an international office (e.g. RBC Shanghai). Funds would be transferred to Service Provider, head office PGF accounts. Remove the restriction that the EFT must come from a Canadian bank. The patron should also have the ability to return funds to the same international bank account it was received from.
2	ADMO	No comment made in response to this suggestion.
2	INV	Allowing international funds transfer from a major Canadian chartered bank with an international office (e.g. RBC Shanghai). (No) Funds would be transferred to Service Provider, head office PGF accounts. (No) Remove the restriction that the EFT must come from a Canadian bank. (No) The patron should also have the ability to return funds to the same international bank account it was received from. (No) However, under certain strict due diligence by BCLC and Service Provider this Division can agree with EFT from a Canadian Banking Institution to PGF account and return of funds to that same account. (only EFT, verified wins, bank drafts, and financial instruments to open PGF). (NOT value CHIPS or cash) Those conditions must be strictly enforced. This must also be in conjunction with the Mandatory 10k limit on \$20 bills.
2	Policy /RG	Inclined to agree.
2	ICRM	Okay for allowing international funds transfer from a major Canadian chartered bank with an international office, once AML diligence is confirmed. Less likely to agree to proposal to remove restriction that EFT must come from Canadian bank as we do not know what AML diligence is in place. Okay for the proposal that the patron should also have the ability to return funds to the same international bank account it was received from.
2	Audit	We find this far too risky to consider. We do not believe that you can appropriately place reliance on Canadian banks in foreign locations adhering to Canadian laws.
2	Reg / Cert	I believe this should be explored with the Canadian financial institutions to determine if there is a comfort level in accepting overseas funds.

*Will require BCLC to provide more details on this and whether we can accept it - GPEB will check into it w/ FINTRAC + FICOM (Shelma Siglos to carry it out)*

No.	Source of Input	Discussion
3	BCLC	<p>Allow patrons to EFT funds from their PGF account back to their own bank account at a different financial institution. This could be an account at a different financial institution, other than the one in which the EFT was originally received. For example, the patron EFTs funds from their Scotia bank account into their PGF account and later EFTs the funds from their PGF account to an account they have with the Bank of Montreal. As long as the patron is identified as the owner of both bank accounts, this should not be an issue.</p> <p>The two recommendations above provide full audit trails and do not differ in nature to the current large cash transaction (LCT) procedures which require full patron identification and recording of relevant transactions separately.</p>
3	ADMO	Should this be an issue if the patron is identified as the owner of both bank accounts?
3	INV	<p>Allow patrons to EFT funds from their PGF account back to their own bank account at a different financial institution. WHY? I suggest NO back to the same account as received. The patron can move the money to any other account anywhere. This could be an account at a different financial institution, other than the one in which the EFT was originally received. For example, the patron EFTs funds from their Scotia bank account into their PGF account and later EFTs the funds from their PGF account to an account they have with the Bank of Montreal. As long as the patron is identified as the owner of both bank accounts, this should not be an issue. (No) (KIS) This Division is also of the opinion that BCLC as Conduct and Manage should be responsible for due diligence of PGF accounts.</p> <p>The two recommendations above provide full audit trails and do not differ in nature to the current large cash transaction (LCT) procedures which require full patron identification and recording of relevant transactions separately. Only under the conditions we have mentioned above.</p>
3	Policy / RG	Inclined to agree, unless someone else has a strong argument as to why this should not be permitted.
3	ICRM	Okay.
3	Audit	<p>I find it fanciful that the service providers will be able to get enough information on who the bank accounts belong to feel comfortable that it is going to the correct individual. Asian names are particularly difficult.</p> <p>Money laundering seeks to hide the true source of funds. Allowing funds to be move to and fro from various bank accounts accomplishes this.</p>
3	Reg / Cert	<p>I would recommend "back to the original account".</p> <p>Who will be responsible for auditing?</p>

No.	Source of Input	Discussion
4	BCLC	Accept EFTs from other Canadian financial institutions besides Canadian banks (such as Credit Unions).
4	ADMO	Criteria needs to be established as not all financial institutions are not alike i.e. payday companies. We need to be careful with this. Credit unions are likely.
4	INV	This Division does not have an issue with this request.
4	Policy / RG	Agree.
4	ICRM	Should be okay, as AML diligence is required of all deposit-taking institutions. Concern with some money companies (e.g. Payday Loans).
4	Audit	This seems acceptable to us.
4	Reg / Cert	Partially agree – there would need to be consensus on the legitimacy of some financial institutions.

No.	Source of Input	Discussion
5	BCLC	Allowing funds to be transferred to a PGF account from any Banking institution. The Service Provider would be allowed to file its' own 'due diligence' report, attesting to the origin of the funds, just like a Canadian bank.
5	ADMO	Question if this can be done, especially if a foreign bank.
5	INV	Allowing funds to be transferred to a PGF account from any Banking institution. (Canadian Banking Institute only to Service Provider) The Service Provider would be allowed to file its' own 'due diligence' report, attesting to the origin of the funds, just like a Canadian bank Service Provider is not a Bank and has competing interest. Again, Canadian Banking Institute to Service Provider and return funds to the same Canadian Financial Institute.
5	Policy / RG	This one makes me nervous. Foreign banking institutions are not regulated in the same way; even the US has much less regulatory oversight of its financial institutions. And we know that proceeds of crime are laundered through offshore banks. We would have to be very cautious with this if we were to permit.
5	ICRM	If this refers to foreign banks, do not agree.
5	Audit	Banks have an ongoing relationship and detailed profile with customers they know. That is how they are able to determine whether the stated source of funds makes sense in the circumstances. Service providers have an incomplete knowledge of their clients at this time.  Again once the funds are in the financial system it is on its way to being legitimate. The service provider is at the tail end of the transaction and it is fairly useless to say that funds were "received from Bank XYZ Cayman Islands" therefore it is clean. Relying on foreign based banks to handle the attestation prior to allowing funds to enter the financial system is potentially risky.
5	Reg / Cert	As above – definition required for "banking institution."

Also, to S/PS becoming 'quasi banks' and then there are other reports that they would need to meet (i.e. FICOM).

Helma to explore w/ FICOM in conjunction w/ her other discussion as she will be having with them.



No.	Source of Input	Discussion
6	BCLC	<b>Patrons currently have the ability to deposit into their PGF accounts any verified wins on the same day the win occurs.</b>
6	ADMO	No comment made in response to this suggestion.
6	INV	<b>Patrons currently have the ability to deposit into their PGF accounts any verified wins on the same day the win occurs.</b> "verified win", yes agree. Although this Division will always question the reliability of ensuring it is a "verified win". Restriction on moving value chips between Casinos may help but certainly is not fool proof.
6	Policy / RG	So this is in place, right?
6	ICRM	Already in place.
6	Audit	No comment made in response to this suggestion.
6	Reg / Cert	Gaming facilities don't have enough dedicated resources to verify all wins.

### Casino Cheques & Other Financial Instruments

Currently, BCLC policy only permits casinos to issue cheques for verified wins. Suggestions to increase the use of cheques and still maintain AML compliance are listed below:

No.	Source of Input	Discussion
1	BCLC	For the safety and convenience of patrons, create a new type of casino cheque clearly labeled "Not a Verified Win, Return of Funds Only". These casino cheques would also be accepted as buy-ins should the patron return to play.
1	ADMO	Only under specific guidelines and circumstances.
1	INV	NO, this Division does not agree, unless bone fide financial instrument or EFT is used to buy-in. Only "verified win" cheques.
1	Policy / RG	Only to a certain limit, as has been discussed, to address the "granny" wins and help with patron safety. Limit to \$5,000 or \$8,000 – TBD.
1	ICRM	Okay, subject to AML diligence - BCLC policies and procedures.
1	Audit	This will end up being the first step in allowing cash to be converted to a negotiable instrument. "Smurfing" activities will almost certainly increase after such a policy implementation. <i>Non-starter</i>
1	Reg / Cert	No comment made in response to this suggestion.

*above to provide more details on how this can work to provide safety to smaller players who don't want to carry amounts of cash.*

No.	Source of Input	Discussion
2	BCLC	If a patron is cashing out and the amount is \$10,000 or over, offer the patron the option to open a PGF account and deposit the funds there.
2	ADMO	We have not agreed to the \$10 000. The expectation was that BCLC would do research and make a proposal. Is there a risk here?
2	INV	NO, this Division does not agree, unless bone fide financial instrument, EFT, "verified win" cheque is used to buy-in. Use EFT or financial instrument to open PGF account.
2	Policy / RG	I don't see a problem with this, as long as the funds being deposited have been verified as being legit.
2	ICRM	Concern as this could be the equivalent of opening a PGF with cash.
2	Audit	We would expect that this would be for "verified wins" only.
2	Reg / Cert	This would defeat the purpose of the PGF accounts.

No

No.	Source of Input	Discussion
3	BCLC	Accept buy-ins at the casino in a wider variety of financial instruments including certified, personal and casino cheques, bank drafts, money orders and debit or credit cards. This provides an avenue to move away from the issue of patrons carrying large sums of cash into the casino to game with. In regards to the use of personal cheques, the service providers would have to establish their own cheque-clearing waiting periods as any financial institution does.
3	ADMO	These all look good to me with the exception of the credit cards, which we will have to look at closely.
3	INV	OK from an AML perspective, but I believe that Problem Gambling would have a strong say (may even be resistant) to these initiatives. This Division has limited faith in the ability of Service Provider to administer cheque cashing clearances. If Policy is changed then add "mandatory" that with this change patrons cannot bring more than 10K in \$20 bills in a 24 hour period to gamble.
3	Policy / RG	Only to a certain limit, as has been discussed, to address the "granny" wins and help with patron safety. Limit to \$5,000 or \$8,000 – TBD.
3	ICRM	Concern with the use of credit cards from an RG perspective. Concern with the vetting process of casino cheques. Otherwise, okay, subject to AML diligence - BCLC policies and procedures.
3	Audit	No comment made in response to this suggestion.
3	Reg / Cert	Credit cards bring up the issue of extension of credit (problem gaming).

### Extend Credit or Provide Cash Advances

Currently, the Responsible Gambling Standards for the province of BC do not allow gaming service providers to extend credit or lend money to patrons as per provincial policy. This policy would need to be amended in order to allow the following suggestions to be implemented:

No.	Source of Input	Discussion
1	BCLC	Extend credit to patrons who qualify. The credit amount would have a minimum threshold, \$100,000 as an example and a maximum threshold. Credit amounts below \$100,000 would not be offered. Patrons would submit all necessary identification information in order to be eligible for the credit. The casino service providers would have to determine how much credit they are willing to extend and thus be liable for.
1	ADMO	How they pay back credit is of key importance. Obviously, they would not be able to pay back with cash.
1	INV	From AML perspective <u>repayment</u> for losses on extended credit must be from a Canadian Financial Institute EFT, or approved financial instrument. <u>Not cash</u> . Also, chips that are purchased cannot be comingled with chips obtained by Credit.
1	Policy / RG	As discussed with BCLC, I think this can be viable but believe \$100K is way too low as a minimum threshold. This is meant for high stakes patrons, not for people who may qualify but for whom such extension of credit could be a real problem. Service providers will want to keep the threshold low so as to reduce their exposure....we need to be vigilant about this.
1	ICRM	Support for a high-limit preapproved gambling line. Details to be developed.
1	Audit	Will the service provider be allowed to sell the debt to another party?  We would be concerned about this option if government revenue is impacted. For example, if a patron defaults on the credit would the bad debt be expensed and therefore reduce revenue transferred to government. This could be seen as offloading a portion of the risk to government. It would be important to ensure that the policies around this are crafted properly.
1	Reg / Cert	No comment made in response to this suggestion.

*need patronate from BCLC on thresholds selected and more details on specifics of how this would operationalize*

No.	Source of Input	Discussion
2	BCLC	Credit would be offered to both local and international players. Credit would only be available at the larger casino properties in the lower mainland – namely River Rock, Starlight, Grand Villa and Edgewater.
2	ADMO	Why would credit be offered?
2	INV	From an AML perspective payment for losses on extended credit must be from a Bone Fide Canadian Financial Institute. <u>Not cash</u> . Also chips that are purchased <u>cannot be comingled</u> with chips obtained by Credit.
2	Policy / RG	No issue, keeping in mind comments above (No. 1 in this section).
2	ICRM	How does it get paid back?
2	Audit	No comment made in response to this suggestion.
2	Reg / Cert	No comment made in response to this suggestion.

No.	Source of Input	Discussion
3	BCLC	With credit capability extended to high limit players, offer a Casino 'VIP Card' that can be loaded with funds and utilized at the cash cage for buy ins and for disbursements to a pre-determined credit limit. To obtain a Casino card the patron would register at a Casino and reveal their banking information. This process would be administered and tracked by the Service Provider.
3	ADMO	No comment made in response to this suggestion.
3	INV	Only buy in or repayment from Canadian Financial Institute, EFT, a financial instrument or "verified win") No cash....
3	Policy /RG	No issue, keeping in mind comments above (No. 1 in this section).
3	ICRM	No comment made in response to this suggestion.
3	Audit	Buy-ins usually occur at a table.
3	Reg / Cert	No comment made in response to this suggestion.

### Use of Legitimate Money Transfer Companies

No.	Source of Input	Discussion
1	BCLC	A company called "TrustCash" has the potential to offer the ability for patrons to purchase casino chips on-line and pay for them in cash at their nearest banking location. The company would provide the patron with a slip or chit which would be redeemable at the casino for the chips purchased.
1	ADMO	No comment made for this suggestion.
1	INV	Potentially, this is off loading the due diligence to the Canadian Financial Institute. That maybe ok.....
1	Policy / RG	Would need more info before commenting fully. Lots of red flags with this proposal, from an RG perspective.
1	ICRM	Interesting possibilities. AML vetting procedures to be developed. More details required re: payment for chips at nearest banking location.
1	Audit	No comment made for this suggestion.
1	Reg / Cert	No comment made for this suggestion.



No.	Source of Input	Discussion
2	BCLC	A system called "Global Cash" is currently in use at the Edgewater, Grand Villa, Cascades and River Rock casinos. There is a "Global Cash" terminal which patrons can use their credit cards and request a cash advance. The patron then attends the "Global Cash" cage on site and they will provide the funds to the patron. Using this method the patron is not charged a daily interest fee that is common with a regular cash advance on credit cards. There are service fees involved and the fees increase as the amount of the cash advance increases. There is no limit on the amount of the cash advance – it would be based on the credit card limit.
2	ADMO	We need to discuss this. I am surprised this service is available with our policy. How did this come to be?
2	INV	Not AML issue to receive cash as long as they cannot put large amounts of cash into "Global Cash".
2	Policy /RG	Which part of "no extension of credit" does BCLC not understand? I am unaware this is being offered in Lower Mainland casinos and am surprised it has not been picked up in our audits pertaining to public interest standards. Section 5.1 of the Responsible Gambling Standards for the BC Gaming Industry states, "gaming services providers may not extend credit or lend money to patrons as per provincial policy". I suppose, technically, it could be argued the service provider is not extending credit, it is Global Cash. However, this flies in the face of the spirit of the standard and I'm surprised BCLC permitted it.  I do not support from an RG perspective.
2	ICRM	What is in place right now? And what is different in this proposal? Are there RG issues associated with the use of credit, from credit cards? Need to know what is going on.
2	Audit	No comment made for this suggestion.
2	Reg / Cert	How can the source of funds be verified?

This is Exhibit "Y" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia

**Vander Graaf, Larry P SG:EX**

From: Vander Graaf, Larry P SG:EX  
 Sent: Friday, April 8, 2011 10:49 AM  
 To: Johnson, Eugene SG:EX; McCrea, Bill J SG:EX; Van Sleuwen, Terri SG:EX  
 Cc: Birge, Sue SG:EX  
 Subject: RE: Q&A - anti-money laundering

Importance: High

Eugene,  
 Further to our conversation this date, your request that in order to ensure the Q and A that you have forwarded is in context it appears appropriate to forward you some of the Investigation and Regional Operations insight that surfaced in our review of the report. Again, this Division does not make policy decisions but I agree that it is important for you to understand and put the issues in context. I have taken some clips from the Report and our Division response is underlined

BCLC, in consultation with GPEB, should revise its buy-in/cash-out policy to allow for cash-outs to be paid by cheque, where cash-out cheques clearly and unequivocally indicate that the funds are not from gaming winnings. This change will create an audit trail available to enforcement where one presently does not exist, and will have the added benefit of enhancing patron safety.

This Division believes that this recommendation causes great risk if it means that a person can come into the gaming facility with 100K in \$20 dollar bills or even \$100 dollar bills gamble and loose \$1K and get a cheque for 99K and leave the casino. These cheques stamped as "No Win" can still be placed into any financial institute or account anywhere in the world. Agree there is an audit trail to minimize criminals from saying the funds are gambling winnings. It could also assist investigators in identifying "Unexplained Income" but the Casinos would be greatly assisting money launders by converting cash to a convenient transferrable negotiable instrument. I am of the opinion that a Crown Corporation has a greater degree of responsibility to deter money laundering at the source.(AML) I believe that the public will expect that from a Crown Corporation. I realize some foreign jurisdictions do give cheques at anytime but usually they have immediate on site regulatory scrutiny while other jurisdictions give cheques and do not have concerns about money laundering at all. (Macau etc)

Gaming is almost entirely a cash business in BC. This presents opportunities for organized crime and creates significant safety risks for patrons. Transition from cash transactions to electronic funds transfer would strengthen the anti-money laundering regime and patron safety. BCLC, in consultation with GPEB, should take the steps necessary to develop electronic funds transfer systems that maximize service delivery, create marketing opportunities, and are compliant with anti-money laundering requirements. Agree Player Gaming Fund Account is in place.

Players should be directed/encouraged to use the PGF Account on suspicious currency transactions over \$20k. (especially \$20 bills) Give incentives. Encourage the player (LCT Player) to use the Bank and then transfer the funds to the PGF Account. This also eliminates player safety issues in carrying large amounts of cash, provides an audit trail and is an AML mechanism.

While this policy change could potentially allow a money launderer to place funds in the legitimate economy the subsequent audit trail and reduction in risks associated with carrying large amounts of cash, provide benefits that outweigh the negative aspects of allowing the placement.

I have been classified and testified as a Money Laundering expert in a number of countries and in the Supreme Court of BC and Queens Bench in Manitoba and I have difficulty agreeing with this logic. As previously stated, this recommendation if it means that a person can come into the gaming facility with 100K in \$20 dollar bills or even \$100 dollar bills, gamble and loose \$1K and get a cheque for 99K and leave the casino. These cheques stamped as "No Win" can still be placed into any financial institute or account anywhere in the world. Agree there is an audit trail to minimize criminals from saying the funds are gambling winnings. It could also assist investigators in identifying "Unexplained Income" but the Casinos would be greatly assisting money launders by converting cash to a convenient transferrable negotiable instrument. I believe that the public expect expects a Crown Corporation should have deterrence(AML)as the priority. Patron safety is always a concern and the Player Gaming Fund Account through the banking system is fool proof for individual safety and generally AML, if administered properly. It cannot get any better. However, as previously stated this is a Policy decision but this is the Investigation Division opinion.

- policies prohibiting customers from exchanging small denomination bills for large denomination bills;  
It should be noted that this policy is continuously not complied with by Service Providers

- issuing cheques only in relation to verified gaming wins; and,  
It is not effective and it is very difficult to ensure "verified win" but it is a policy

. BCLC has a statutory duty to be curious about cash transactions and to report large or suspicious transactions. Vigilance is needed especially in regard to transactions involving large volumes of small denomination bills. BCLC's obligation is primarily a duty to report. These reporting obligations do not extend to a duty to investigate and confirm the exact provenance of cash used to buy-in. Detailed inquiries and investigation into the legitimate or illegitimate source of cash appropriately fall to the various enforcement and regulatory authorities.

This Division believes that allowing BCLC and the Service Provider the latitude to be just curious and only have an obligation to report is not only risky but somewhat surprising. We do not believe that will be acceptable to public perception. This Division believes that Crown Corporations obligations should be to a higher standard, Shouldn't a Crown Corporation at least have the same obligation and corporate high road as Banks. Alternately, under this logic, I would suggest that it may be prudent to have the regulatory agency on site in the gaming facility, like the OPP in Ontario. This has been suggested previously and was not met with negative push back. It would mean additional resources to this Division but it would fulfill this and a number of other needs. The Regulator would be immediately be alerted to the situation and make additional on site enquiries as to the origin of the cash, the identity and background of the individual. (investigation) It should also be realized that the Investigation and Regional Operations Division has immediate access to police data bases. Alternately the police could be immediately alerted/called.

The information gleaned from the independent audit and Task Force will allow the Senior Official's Committee to make further recommendations, if needed, to the Minister on gaming integrity.

This Division offers a preliminary alternative to the formation of a Senior Officials Committee and Task Force.

The two main reasons for concern in BC Casinos have been and will continue to be Loan Sharking and Money Laundering. Most of the time they go hand in hand. The large of volumes of \$20 bills into Casinos are of preliminary concern. Preliminary Option: Objective, AML, Player Safety, and Audit trail. PGF Account can be utilized for all three objectives.

Ministerial Directive to prohibit Large Volumes of \$20 bills directly in casinos. #10K-\$20K daily. This will not prevent "smurfing" but will be an improvement.  
Strong encouragement, incentive and direction to players to use Canadian Banks/Credit Unions to EFT funds from Canadian Banks/Credit Unions to PGF Account. Customer Service could play a strong role.  
Additional Regulatory Investigative staff on site to interview and query suspicious large cash placement at the time it is at the cash cage.  
Couple the above with selective targeted enforcement on individuals with the Investigations and Regional Operations providing assistance and intelligence to IPOC and/or CFSEU and/or Vancouver Drug Section and/or Gang Task force. (we are doing this now)  
I am of the opinion that this alone could significantly reduce if not eliminate the majority of the problem.

Again, we do not make Policy; we provide area expertise to those who make those decisions with the ultimate goal of ensuring that the Deputy and the Minister are armed with as much information as possible to make informed decisions. Obviously the decision is up to them.

Eugene as discussed and with this in context, Joe, Derek and I will call you on Monday and we will provide you with our recommendations on the Q and A. I must point out that we are extremely busy but we consider this issue as extremely important both publicly and politically.

Thanks

*Larry Vander Graaf, Executive Director  
 Investigations and Regional Operations  
 Gaming Enforcement  
 Gaming Policy and Enforcement Branch  
 Ministry of Public Safety and Solicitor General*

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**From:** Johnson, Eugene SG:EX  
**Sent:** Thursday, April 7, 2011 4:33 PM  
**To:** McCrea, Bill J SG:EX; Vander Graaf, Larry P SG:EX; Van Sleuwen, Terri SG:EX  
**Cc:** Birge, Sue SG:EX  
**Subject:** Q&A - anti-money laundering

Hi Bill, Larry, and Terri,

We've been asked to provide the Minister with briefing material in relation to Rob Kroeker's report on anti-money laundering measures. The attached Q&A provides background to anti-money laundering issues, but does not address the specifics of Rob's report, which are apparently being tweaked.

I've put in questions and information that seem relevant to me, but as anti-money laundering touches on all your business areas, I would appreciate you reviewing what I've included and adding components that seem relevant to you. Please send me your responses by end of day Monday. Please use track changes.

Cheers

Eugene Johnson  
Manager, Strategic Initiatives  
Gaming Policy and Enforcement  
Ministry of Public Safety and Solicitor General

(t) 250-952-6651  
(f) 250-387-1818  
Eugene.Johnson@gov.bc.ca

This is Exhibit "Z" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia

**Vander Graaf, Larry P SG:EX**

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**From:** Vander Graaf, Larry P SG:EX  
**Sent:** Tuesday, April 12, 2011 9:25 AM  
**To:** Johnson, Eugene SG:EX  
**Subject:** Anti Money Laundering- talking points April -2011  
**Attachments:** QA on Anti Money Laundering - Inv Div.doc

**Importance:** High

**Confidential**

Eugene, please find attached the Investigations and Regional Operations version of the talking points on money laundering. This response is in detail and quite frankly I believe that the Deputy and Minister would find more clarity in a more in depth document. This document can be read in conjunction with our previously forwarded thoughts on the money laundering report. Once you have reviewed the document I suggest a further conversation with Joe and I on the matter.

Please do not hesitate to call.

Larry

*Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch  
Ministry of Public Safety and Solicitor General*

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## **Q & A on Anti Money Laundering Measures – Talking Points**

### **1) What are recognized money laundering activities involving casinos**

Without going into great detail, the main objectives of organized crime are: to exchange small currency (street drug profits) to larger currency, obtain a piece of "paper" (cheque) to justify or validate to enforcement agencies and the courts "unexplained income", and to place proceeds of crime into a bona fide financial institution, if possible.

The following are examples of, **but certainly not limited to**, suspicious currency transactions/money laundering strategies in British Columbia casinos.

- Slot machines
  - The payout percentage on slot machines is approximately 92% based on 10,000 spins. Therefore if an individual plays \$10,000 in cash on one machine over an extended period of time [small denomination bills (\$5, \$10) are pumped into a slot machine with relatively no play] the individual could walk away with approximately \$9,200. Exchanging the ticket recording winnings at the machine for a cheque from the casino marked as a "verified win" is ideal. However, at a minimum the ticket redeemed for larger denomination bills (\$20, \$50 and \$100) is a method of "colouring up" or "refining" small denominations of suspicious cash.
- Purchase and redemption of chips
  - Criminal individuals purchase chips (themselves and/or through associates known as "smurfs") with small denomination bills that are the proceeds of crime. They intentionally keep the chip purchases under \$10,000 to avoid FINTRAC reporting. One individual then gathers all the value chips outside surveillance areas (i.e. washrooms) to confuse the origin of an individual's chips. This allows the individual to request a cheque, ideally a "verified win cheque" from the casino when cashing out the chips. Even if a cheque is not obtained the small bills have been "coloured up" or "refined".
  - Colluding at table games with associates so that one person appears to be losing (in fact doing so deliberately) while another person appears to be winning at the first person's expense. Although rare, it should be noted that high limit patrons that bring large amounts of suspicious cash into a casino are playing at the baccarat tables. The outcome is predetermined much easier at a baccarat game. To have a dealer involved in a collusion incident is rare.
  - Loan sharks and money launderers also purchase, or have purchased for them, large amounts of value chips, primarily purchased with small denomination bills. These value chips become the currency used when

loaning large sums to high limit patrons with which to legitimately gamble. Value chips are much easier to transport, carry and conceal than large amounts of cash. Casinos do not stop patrons from removing value chips from the premises.

- Value chips purchased with small denominations by numerous persons can also be redeemed at a later time for larger denomination bills, effectively "colouring up" or "refining" the cash.

- Loansharking

- Criminal organizations "lend" gamblers funds in the form of small denomination bills, that are the proceeds of crime, at an attractive rate (sometime at zero interest) in return for repayment through personal cheque, money order, or other forms of payment. Repayment of loans of cash (\$20 bills) by negotiable instrument will allow organized crime the ability to legitimize and place cash in bona fide financial institutions.
- Loan sharks associated with organized crime groups will lend high limit patrons large sums of money, on some occasions in excess of \$1,000,000 in the course of a few days. This money is primarily in \$20 denominations and is derived from the illicit sale of illegal narcotics. The money is always bundled in bricks of \$10,000 and is wrapped with two elastic bands. The money is carried into the casino in a variety of carriers, including plastic bags and sports bags.
- Although the \$20 bill is the primary source of the suspicious cash utilized by loan sharks, it is not exclusive. All bills, including \$100 bills, are also used by loan sharks.
- Repayment can come in many forms, including the transfer of overseas properties in countries like China. Transfer of local properties and other instruments of value are also repayment methods.

2) What is a verified win?

- In the event that an individual wins a sum of money at a casino, when cashing out, he/she can request a cheque in lieu of cash marked as "verified win". This type of cheque increases the security for individuals when leaving the casino (i.e. they do not have to carry cash) and in the case of large financial transactions provide verification at financial institutions that the funds are legitimate.
- In the case of individuals who exchange large sums of cash for chips, play minimally and then cash out, casino personnel are expected to exchange the chips for cash of the equivalent denomination of the original purchase. This policy is not/cannot be well monitored (see below). The policy, if fully and

continually practised, would help considerably in deterring people from attempting to launder proceeds of crime at casinos.

- Investigations and Regional Operations Division has little faith in the "verified win" determination at casinos because, to truly verify any win, there must be one-on-one (in real time) surveillance of every hand being played to verify opening buy-in, each bet, each hand won or lost and then the eventual pay-out. This is all complicated by the possible introduction of chips from pockets or other persons at any time with or without detection. Therefore, it makes it impractical and almost impossible to actually "verify a win".
- The only way to virtually "verify a win" would be by way of gaming chips being computerized and play with chips monitored at each table or game.
- There would also have to be **very tight** control over persons entering and/or leaving any facility with chips in pockets, something that occurs in a very large way at present (One day – medium-size casino had over \$1.5 million in chips out among clients)
- Investigations and Regional Operations Division continually sees examples where supposed verified wins were paid out either in cheques or in large denomination bills payback vs. small bill buy-in.
- Media in January 2011 reported on where casinos have provided individuals with cheques marked "verified win" where individual acquired cheque with chips whose source was highly questionable and certainly not won at venue.

### 3) What is a Section 86 Report?

- Under Section 86(1) of the GCA, BCLC must provide to Gaming Enforcement any information, records or things requested by the Investigators that are relevant to an investigation.
- Under Section 86(2) of the GCA, BCLC and gaming service providers (Registrants) must notify Gaming Enforcement immediately about any conduct, activity or incident which potentially involves or involved:
  - The commission of an offence under a provision of the Criminal Code that is relevant to gaming; or
  - The commission of an offence under the GCA or the Regulations.
- Under GCA section 87, a person acting under the authority of the Act, including BCLC and gaming service providers (Registrants) and its officers and employees:
  - Must submit to an investigation conducted by Gaming Enforcement;
  - Must not obstruct or interfere with an investigation conducted by Gaming Enforcement; and
  - Must not withhold or refuse to produce any information, record or thing that is requested by an Investigator or Inspector.

**Notification – BCLC and Registrant Section 86 Reporting Requirements**

- Section 86(2) of the GCA requires (legal requirement) **BCLC and registrants including but not limited to: casinos, community gaming centres, bingo halls, lottery kiosks, retail stores and locations that sell lottery products, horse racing venues, online lottery schemes:**

to immediately notify GPEB Investigations and Regional Operations, Gaming Enforcement without delay, about any conduct, activity or incident that may be considered contrary to the Criminal Code of Canada, the Gaming Control Act or Gaming Control Regulations, or that may affect the integrity of gaming or horse racing.

**This includes, but is not limited to:**

Cheating at play; theft affecting the integrity of the game (e.g. thefts from the house or by a gaming worker); theft of lottery products from a lottery retailer; any theft or wrongdoing in relation to lottery products, gaming equipment or gaming supplies from the Corporation; inventory before the lottery product is distributed to lottery retailers; prize claims by an individual with an alleged stolen lottery ticket; fraud; any suspicious or alleged fraud or theft by a lottery retailer/retail employee; any forgery of any lottery tickets; money laundering; (this includes any suspicious currency transactions in the venues) persons suspected of passing counterfeit currency; loan sharking; robbery; assault; threats against, or intimidation of gaming employees; all lottery retailer lottery wins or lottery retailer employee lottery wins; all suspensions, revocations, or cancellations of Lottery Operator Agreements with lottery retailers; unauthorized lottery schemes; unauthorized gaming by minors; unregistered gaming workers; and unregistered service providers.

The Registrants immediately notify the Investigations and Regional Operations Division Regional Offices in LMD, Victoria Prince George and Kelowna on a supplied form. Copies of the Section 86 Reports are generally shared with BCLC.

4) What is FINTRAC and what is its role in the BC Gaming?

No comment - Audit

5) What were the conclusions of the Deloitte report on BCLC's FINTRAC non-compliance

No comment – Audit

6) What relevant audits do GPEB conduct on BCLC business?

No comment – Audit

7) What is the Patron Gaming Fund (PGF)?

- The PGF account was created to offer high limit players at Lower Mainland casinos a viable option to transport large sums of money to gaming facilities. The PGF account would grant the patron the ability to deposit funds, withdraw these funds for gaming at the facility, re-deposit for subsequent play or be returned to the patron. These accounts were intended for patrons who typically gamble at VIP table games frequently and would provide the patron a higher level of security in handling these large sums. Properly managed, it was intended that these accounts would aid in anti money laundering efforts in BC casinos and reduce reliance on cash in-flow to and outflows from the casino.
- All money into the accounts must be by way of electronic transfer from a chartered Canadian bank.
- No cash can come into the account and chips can be redeemed back into the account.
- There is an automatic audit trail of **all monies** in and out of the accounts.
- The PGF account allows for legitimate patrons to feel secure about their funds and not have to carry large amounts of cash in or out of the gaming venue.
- Because of the paper trail, this is **not** an appealing mechanism for those attempting to launder money in casinos or for those who are handling money with a "proceeds of crime" background.
- The PGF account enrolment is completely voluntary.
- The PGF account could help deter money laundering efforts if used by most big money players.
- The PGF account has only been very minimally used – only 84 total accounts were opened in a year and only 8 accounts were open and being used a year after implementation of the pilot project on PGF Accounts.
- Because of no or very little use of PGF accounts, there has been **no** deterrence or affect on money laundering or loan sharking, in fact reported incidents of money laundering/suspicious currency transactions have risen dramatically in the past year.
- An important issue related to PGF accounts is it relies on verified wins money being re-deposited into the account. As discussed above, there can be very little reliance on "verified win" policies being properly used. Similarly, introduction of chips to a PGF account holder, not originally belonging to him/her cannot be controlled at the present time.

8) How does the role of the Investigations and Regional Operations Division of GPEB differ from the Police of Jurisdiction?

- In the Investigations and Regional Operations Division, Gaming Enforcement, Gaming Policy & Enforcement Branch, investigators and management are all ex-

police officers and have lengthy investigative knowledge and expertise in all areas of criminal and regulatory offences

#### Authority

- Pursuant to section 24(3) of the GCA, the General Manager has delegated sole authority to the Executive Director, Investigations and Regional Operations Division, Gaming Enforcement to:
  - Independently direct confidential investigations in relation to Criminal Code and GCA offences including any other matter that may affect the integrity of gaming;
  - Exercise the discretion, under section 85 of the GCA, to place a gaming site under video surveillance as part of an investigation under section 81(2); and
  - Certify evidence as required under section 103(2)(a) of the GCA.
- As delegated by the General Manager, Investigations and Regional Operations, Gaming Enforcement is solely responsible for all investigations conducted under section 81 of the GCA.
- Section 27(3)(a) of the GCA authorizes GPEB to conduct investigations respecting the integrity of all gaming, including provincial gaming.
- The Minister has appointed all Investigators in Investigations and Regional Operations, Gaming Enforcement, including the Executive Director, as **Special Provincial Constables (SPC)** under **section 9 of the Police Act**. For this purpose, **Investigators are empowered to enforce the Criminal Code and all Provincial Statutes of BC to the extent necessary.**
- SPCs have on-site internal authorized access to CPIC, JUSTIN, BC Online and are awaiting access to PRIME/IQT. (Access is not at the same level as police.)

#### Investigating Allegations of Wrongdoing

- GPEB Investigations and Regional Operations, Gaming Enforcement has the legal authority to ensure the integrity of gaming by investigating, and/or assisting law enforcement agencies in the investigation of, complaints or allegations of criminal or regulatory wrongdoing in provincial gaming in the province. This includes:
  - **Investigating complaints and allegations of wrongdoing** in provincial gaming in the province for the purpose of prosecution and/or administrative hearings;
  - **Conducting investigations in relation to allegations of wrongdoing** internal to the BC Lottery Corporation;

- Conducting all investigations in relation to allegations of wrongdoing, including investigations involving licensees and registrants (**Post Registration and Licensing Investigations**);
- **Investigating and/or assisting law enforcement agencies in investigating illegal gambling activity;**
- **Gathering and maintaining intelligence** concerning the extent, type, and nature of unlawful activity in gaming and horse racing; and
- **Identifying trends in unlawful gaming activity** by tracking complaints and allegations and referring and assisting police of jurisdiction.

### **Police of Jurisdiction**

- Includes all police officers appointed under Section 4 (1) of the Police Act.
- Includes all municipal police and the Royal Canadian Mounted Police. (Provincial Police)
- Includes all specialized police enforcement units, including but not limited to: Combined Forces Special Enforcement Unit (CFSEU), Integrated Proceeds of Crime (IPOC), Integrated Homicide Investigation Team (IHIT).
- Police of Jurisdiction have true independence in the investigation of all offences in all Provincial Acts and the Criminal Code of Canada.
- Police of Jurisdiction have the equipment, person power, and true independent authority to conduct investigations using investigative techniques such as, wiretapping, undercover operations, mobile surveillance, arrests, and the use of firearms in the performance of duties. Understandably, police prioritize, and resources and investigations are continually shifted, to meet operational priorities.

### **Differences**

- GPEB Investigations and Regional Operations Investigators are appointed under Section 9 of the Police Act while Police of Jurisdiction are appointed under Section 4 (1) of the Police Act and have overall independent authority to investigate Criminal Code offences in the Province. The levels of independence between GPEB Investigations and Regional Operations and Police of Jurisdiction are completely different.
- The Investigations and Regional Operations Division investigates Regulatory Offences and some Criminal Code offences committed at registered gaming venues.
- The Investigation and Regional Operations Division lacks the legislative authority, staff resources, and investigative authority to investigate high level organized crime. This Division does not have the legal authority, independence and funding to use wiretap, undercover techniques or mobile surveillance, and does not have the authority to arrest persons or to possess and use firearms.

- Police of Jurisdiction investigate organized crime including, money laundering, loan sharking and other organized crime activity in or as a result of legal gaming venues.
- Investigations and Regional Operations has an important intelligence and assistance role to the Police of Jurisdiction on organized crime matters.

9) What was IIGET?

- The Integrated Illegal Gaming Enforcement Team (IIGET) was created in April 2003 as a joint partnership between the RCMP and the Ministry of Public Safety and Solicitor General, under the terms of an MOU to "ensure the integrity of public gaming in British Columbia".
- The original MOU extended for 5 years (2008) and was extended for a further year (2009). IIGET was disbanded on March 31, 2009.
- IIGET was to be made up of a maximum of 12 RCMP personnel who were to be assisted by investigative personnel from GPEB's Investigations and Regional Operations Division.
- IIGET answered to a Consultative Board who determined global objectives, priorities and goals for IIGET. The Consultative Board was headed by the ADM, Police Services. The person in charge of IIGET was a designate NCO of the RCMP.
- Following a review of IIGET conducted in 2008/09, the Consultative Board recommended IIGET be disbanded. Some of the considerations were:
  - IIGET did not produce significant enforcement results beyond existing work of GPEB Investigations and Police of Jurisdiction.
  - A joint and "equal" partnership in gaming enforcement could not work effectively over a long period of time. In conducting law enforcement investigations, the police are an independent investigative body that do not directly report to the Province in the same manner as Investigations and Regional Operations Investigators.
  - The RCMP, due to a variety of reasons, was not able to adequately staff IIGET over the terms of the MOU and their personnel changed frequently, making continuity on enforcement actions difficult.
  - GPEB Investigations and Regional Operations was not empowered nor did they have the legal authority to contribute to various areas of independent investigative enforcement activity and was not able to provide equal share of enforcement personnel to the makeup of IIGET.
  - IIGET's major focus both in priority assessment and enforcement commitment (Board approved) was on unregulated online gaming that became something beyond the capacity and ability of IIGET to address and/or manage.
  - BCLC was no longer willing to directly fund IIGET under the terms of the previous sponsoring agreement.



- The funding costs of IIGET (approx. \$1.8 million in 2008/09) were not seen as wise expenditures of funds for the enforcement benefits gained.
- It was believed that Police of Jurisdiction could take over most illegal enforcement investigative actions. This has been shown not to be the case to the present day, although through the media surfacing money laundering issues in the casinos, specialized units within the RCMP have shown an increased interest in enforcement. How long that will be sustained is unknown at this time.

**Prepared by:**

Derek Dickson, Director, Casino Investigations  
Joe Schalk, Senior Director, Investigations and Regional Director LMD  
Larry Vander Graaf, Executive Director

Investigations & Regional Operations, Gaming Enforcement

April 12, 2011

This is Exhibit "AA" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia

**Vander Graaf, Larry P FIN:EX**

---

**From:** Vander Graaf, Larry P FIN:EX  
**Sent:** Tuesday, September 09, 2014 10:20 AM  
**To:** McCrea, Bill J FIN:EX  
**Subject:** FW: Revision to Sec 7.1

Bill,  
I think you are wrong...  
Larry

Good Morning,

To clarify my first paragraph, I didn't mean to state that a Reg change would have to go to the House. Rather it would have to go to Cabinet, after moving through the Associate DM and the Minister, and I'm told that this would be unlikely until 2015.

*Bill*

---

**Bill McCrea** BES MBA FCIP  
Executive Director Quality Assurance & Risk  
Phone: 250 356-1109  
Mobile: 250 508-8962  
Fax: 250 387-1818  
Email: [bill.mccrea@gov.bc.ca](mailto:bill.mccrea@gov.bc.ca)

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**From:** Vander Graaf, Larry P FIN:EX  
**Sent:** Tuesday, September 09, 2014 10:09 AM  
**To:** Vander Graaf, Larry P FIN:EX  
**Subject:** FW: Revision to Sec 7.1

Jerome,

It has been proven many times in the past that a regulation and accompanying guidelines gets the attention of and meets with compliance by the service provider. The service provider is very cognizant of the reputational consequences of noncompliance with a regulation. (Regulations are OIC and not an Act change) Remember that we are speaking of a huge amount of suspicious money and the industry benchmarks are based on revenue. The industry will be resistant to anything that potentially restricts cash flow. A Regulation clearly demonstrates an entrenched public record of commitment to deter money laundering by the regulator (government). Morale persuasion with options, in my opinion, has not been effective. I am of the opinion that Jerome has it correct from our discussion and I am of the belief that this recommendation is only a recommendation and if Gov't wishes a directive or another approach then they can go that route. This is an important portion of the report and I am of the opinion that it does not restrict us to make

recommendations to government. The Ministry views this as a significant strategic priority and they are very capable of making things happen if extreme negative public opinion may be present. It is.....

I believe the recommendation as written is fine.....

My thoughts.....your report...

Thanks...

Larry

Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Policy and Enforcement Branch

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**From:** Vander Graaf, Larry P FIN:EX  
**Sent:** Tuesday, September 09, 2014 9:39 AM  
**To:** McCrea, Bill J FIN:EX  
**Subject:** RE: Revision to Sec 7.1

Bill,  
You continue to try and water it down....  
Larry.

Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Policy and Enforcement Branch

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**From:** McCrea, Bill J FIN:EX  
**Sent:** Tuesday, September 09, 2014 9:35 AM  
**To:** 'Jerome Malysh'  
**Cc:** Meilleur, Len FIN:EX; Vander Graaf, Larry P FIN:EX; Van Sleuwen, Terri FIN:EX  
**Subject:** RE: Revision to Sec 7.1

Hi Jerome,

Yes, please include this sentence. We talked about Directives yesterday and have throughout our discussions on potential regulator actions. So it should go in the report. Thanks for your help.

*Bill*

---

Bill McCrea BES MBA FCIP

Executive Director Quality Assurance & Risk  
Phone: 250 356-1109  
Mobile: 250 508-8962  
Fax: 250 387-1818  
Email: [bill.mccrea@gov.bc.ca](mailto:bill.mccrea@gov.bc.ca)

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**From:** Jerome Malysh [<mailto:jmalysh@malyshassociates.com>]  
**Sent:** Tuesday, September 9, 2014 8:59 AM  
**To:** McCrea, Bill J FIN:EX  
**Subject:** RE: Revision to Sec 7.1

I can add another sentence at the end of the 1<sup>st</sup> para, following Len's suggestion:

"Alternatively, a Public Interest Directive could be issued to establish GPEB's AML program."

---

*Jerome Malysh, CPA CGA CFE*

**MALYSH ASSOCIATES**

Investigative & Forensic Accounting

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**From:** McCrea, Bill J FIN:EX [<mailto:Bill.McCrea@gov.bc.ca>]  
**Sent:** Monday, September 08, 2014 4:33 PM  
**To:** 'Jerome Malysh'  
**Cc:** Vander Graaf, Larry P FIN:EX; Melleur, Len FIN:EX; Van Sleuwen, Terri FIN:EX  
**Subject:** RE: Revision to Sec 7.1

On the whole I am good with this. However the first sentence needs some modification, based on what I heard us talk about this morning. This new version only considers creating an AML Regulation. This is too restrictive and might not allow us to recommend a workable solution to government. There are some very practical reasons for broadening the solution, as I'm told that only one out of three proposed Regulation changes has been approved to move forward by our Associate DM. So that's a tough row to hoe. Plus we would not be able to get a Reg change, even if approved, into the House until 2015.

I believe we discussed both the notion of Regulations and/or Directives. So, I would like the first sentence to also include Directives as a possible solution to "enhancing our leadership in AML compliance". Plus a Directive may be the more appropriate way to input our requirements. Then the sentence about building a companion Guideline can continue from there. This gives us options that could be debated, by GPEB, and flexibility to get the job done.

If you wish to have further discussion about this I can give a bit more background on the Reg change difficulties. Thanks.

*Bill*

---

**Bill McCrea** BES MBA FCIP  
Executive Director Quality Assurance & Risk  
Phone: 250 356-1109  
Mobile: 250 508-8962  
Fax: 250 387-1818  
Email: [bill.mccrea@gov.bc.ca](mailto:bill.mccrea@gov.bc.ca)

---

**From:** Van Sleuwen, Terri FIN:EX  
**Sent:** Monday, September 8, 2014 3:41 PM  
**To:** 'Jerome Malysh'  
**Cc:** McCrea, Bill J FIN:EX; Vander Graaf, Larry P FIN:EX; Melleur, Len FIN:EX  
**Subject:** RE: Revision to Sec 7.1

This looks good to me.  
Thanks,

*Terri Van Sleuwen, CPA, CGA*  
604-660-0274

Executive Director, Audit and Compliance Division | Gaming Policy and Enforcement Branch  
*Know your limit, play within it.*

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**\*\*\*THIRD PARTY RULE APPLIES.\*\*\***

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**From:** Jerome Malysh [<mailto:jmalysh@malyshassociates.com>]

**Sent:** Monday, September 8, 2014 3:03 PM

**To:** McCrea, Bill J FIN:EX; Vander Graaf, Larry P FIN:EX; Van Sleuwen, Terri FIN:EX; Meilleur, Len FIN:EX

**Subject:** Revision to Sec 7.1

Here is the revision to Section 7.1 relating to AML Guidelines. Please review the text and let me know if it meets your approval.

"We believe that GPEB could greatly enhance its leadership in AML compliance by creating an AML compliance regime regulation under the Gaming Control Act/Regulations. Additionally, a companion Guideline for Detering and Detecting Money Laundering should be implemented to establish the policy expectations of the new regulation.

The intention is to direct gaming industry businesses in their responsibility to develop and maintain robust AML compliance programs that meet GPEB's governance and control expectations.

The Guideline is not to replace the federal guidelines published by FinTRAC nor create any new requirements under federal legislation.

They are to establish the "tone at the top" and provide industry specific policy for AML compliance expectations.

As an example, if GPEB wants specific policy for the determination of source of funds, the policy expectation can be specified in the Guideline. Gaming businesses can then determine the procedures required to comply with policy."

Regards ... jerome

---

***Jerome Malysh CPA CGA CFE***  
**MALYSH ASSOCIATES**  
**CONSULTING INC**

---

604.833.5133 Direct Cell

This is Exhibit "BB" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia

**Vander Graaf, Larry P FIN:EX**

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**From:** Vander Graaf, Larry P FIN:EX  
**Sent:** Thursday, September 11, 2014 9:12 AM  
**To:** McCrea, Bill J FIN:EX; Van Sleuwen, Terri FIN:EX; Meilleur, Len FIN:EX  
**Subject:** RE: AML CDD Research Report Sep 2014

Bill,  
Is the only change the sentence in 7.1? I have given my opinion on that previously and again below. Source or origin of funds declaration appears clear. I believe we should all be present when this is presented to John. I also believe that the entire AML group should get a copy and have Input.....my thoughts.  
Larry

Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Policy and Enforcement Branch

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**From:** Vander Graaf, Larry P FIN:EX  
**Sent:** Thursday, September 11, 2014 9:04 AM  
**To:** McCrea, Bill J FIN:EX  
**Subject:** RE: AML CDD Research Report Sep 2014

Thanks,  
As I previously wrote a Regulation with an accompanying guideline has a chance of success. The other alternative mentioned in 7.1, in my opinion will not meet with success.  
Thanks  
Larry

Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Policy and Enforcement Branch

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**From:** Jerome Malysch [<mailto:jmalysch@malysshassociates.com>]  
**Sent:** Thursday, September 11, 2014 8:26 AM  
**To:** McCrea, Bill J FIN:EX; Van Sleuwen, Terri FIN:EX; Meilleur, Len FIN:EX; Vander Graaf, Larry P FIN:EX  
**Subject:** AML CDD Research Report Sep 2014

Attached .... Jerome

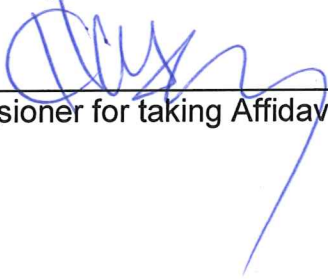


*Jerome Malysh CPA CGA CFE*  
**MALYSH ASSOCIATES  
CONSULTING INC**

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604.833.5133 Direct Cell

This is Exhibit "CC" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.

A handwritten signature in blue ink, appearing to be 'D. J. Smith', is written over a horizontal line.

A Commissioner for taking Affidavits within British Columbia

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**GPEB – AML  
WORKING GROUP**

**Client Due Diligence in  
BC Casinos**

**September 15, 2014**

**Private & Confidential**

**M** MALYSH ASSOCIATES  
CONSULTING INC  
INVESTIGATIVE & FORENSIC ACCOUNTING

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## GPEB – AML WORKING GROUP

### Client Due Diligence in BC Casinos

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<b>TERMINOLOGIES USED</b>	AML	Anti-money laundering
	BMP	Best Management Practices
	Cash	Bank notes
	CDD	Client Due Diligence
	CO	Compliance Officer
	DTI	Deposit-taking Institution
	EDD	Enhanced Due Diligence
	EFT	Electronic Funds Transfer
	FATF	Financial Action Task Force
	FinCEN	Financial Crimes Enforcement Network
	FinTRAC	Financial Transaction and Reports Analysis Centre of Canada
	Fx	Foreign exchange
	GPEB	Gaming Policy & Enforcement Branch
	IIROC	Investment Industry Regulatory Organization of Canada
	LCTR	Large Cash Transaction Report
	MSB	Money Service Business
	OSFI	Office of the Superintendent of Financial Institutions

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PCMLTFA	Proceeds of Crime (Money Laundering) and Terrorist Financing Act and its accompanying Regulations
STR	Suspicious Transactions Report

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## GPEB – AML WORKING GROUP

### Client Due Diligence in BC Casinos

#### 1.0 INTRODUCTION

**1.1 Retainer of  
Malysch  
Associates  
Consulting Inc**

Our firm was engaged by the Gaming Policy Enforcement Branch – AML Working Group to provide research of client due diligence standards used by financial institutions and other businesses when accepting cash deposits.

**1.2 Terms of  
Engagement**

We were asked to develop information relating to the management practices used by deposit-taking institutions, money service businesses, brokerage firms and gaming businesses for cash deposit transactions.

Our report summarizes best practices based upon experiences of businesses that are required to maintain an AML compliance regime under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act and its Regulations*.

Additionally, we are to report on other AML compliance issues that we may encounter during our research to assist GPEB with conducting a gap analysis of their AML policies.

**1.3 Scope of This  
Report &  
Restriction  
on Its Use**

This report is not intended for general circulation or publication. It is not intended to be reproduced or used for any purpose without our written permission in each specific instance. We do not assume any responsibility or liability for losses occasioned by any party as a result of the circulation, publication, reproduction or use of this report contrary to the provisions of this paragraph.

This report is based on review of the documents as described in Section 1.4. In the event that further documents or other



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information becomes available that could impact our findings, we reserve the right to review such records and reconsider and amend the findings set out in this report.

#### **1.4 Documents Referenced**

During the course of our research, we referred to various documents. These documents include:

- The Proceeds of Crime (Money Laundering) and Terrorist Financing Act and its Regulations ("PCMLTFA"), Revised Federal Statute of Canada
- FinTRAC Guidelines, 1 through 9, for Casinos, Money Service Businesses, Foreign Exchange Dealers and other businesses
- Action Plan to Review AML Measures at BC Gaming Facilities, GPEB, August 22, 2011
- Audit & Compliance Division 5 Year Audit Plan, GPEB, June 24, 2013
- Key Regulatory Responsibilities of GPEB and Their Application to the British Columbia Lottery Corporation, GPEB, March 25, 2008
- Roles and Responsibilities of Participants in British Columbia's Gaming Industry, GPEB, February 22, 2010
- Summary Review AML Measures at BC Gaming Facilities, Province of British Columbia, February 2011
- Follow the Money: Is Canada Making Progress in Combatting Money Laundering and Terrorist Financing? Not Really, Report of the Standing Senate Committee on Banking Trade and Commerce, March 2013
- Guideline for Detecting and Deterring Money Laundering & Terrorist Financing, OSFI, March 2008

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- AML Compliance Guideline, IIROC, October 2010
  - Vulnerabilities of Casinos & Gaming Sector, Asia Pacific Group, FATF, March 2009
  - Prevention of Money Laundering in Macau Casinos, Jorge Godinho, Gaming Law Review and Economics, Volume 17 Number 4, 2013
  - Remarks of FinCEN Director, Bank Secrecy Conference, American Gaming Association & UNLV International Gaming Institute, June 12, 2014
  - Suspicious Activity Reporting in the Gaming Industry, FinCEN, March 2012

#### 1.5 Sources of Information

During the course of our research, we interviewed people employed in AML compliance functions at various businesses. Participation in discussions on industry practices was secured on a 'no-name basis. Therefore, we generically provide a list of these confidential sources.

Information Source	Description
GPEB AML Working Group	Executive Directors of Audit, Investigation, Registration & Risk
BC Lottery Corporation	VP Corporate Security & Compliance, Manager AML & Operational Analytics Unit
Deposit Taking Institutions	AML Compliance Officers of Schedule I and II Banks & AML Compliance Officers of BC Credit Unions

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Information Source	Description
Gaming Corporations	AML Compliance Officers of corporations who operate casinos in Canada and USA
Money Service Businesses & FX Dealers	AML compliance officers of MSB's in Canada and USA

#### 1.6 Research Work Plan

Our work plan consisted of identifying potential sources of information, conducting interviews, and reviewing research papers relating to policy, procedures and management practices for client due diligence and the acceptance of cash.

We compiled written material from open sources and utilized our network of business contacts to solicit participation in our survey of AML compliance practices.

Survey questions were developed to generate discussion and determine the procedures adopted by businesses to manage client risk.

The high-lites of our research are summarized by participant categories of deposit taking institutions, money service businesses, gaming businesses and gaming regulators.

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## **2.0 BACKGROUND INFORMATION**

### **2.1 Suppression of ML**

Since 1988, the Government of Canada has continually supported international efforts in the suppression of money laundering and terrorist financing activities. Using the FATF recommendations, Canada has developed its AML laws and regulations.

These laws protect the integrity of Canada's financial systems.

### **2.2 FIU Responsibility**

The AML laws establish a financial intelligence unit, FinTRAC, to analyze financial transactions.

### **2.3 Police Responsibility**

Using FinTRAC's technical analysis, the police will investigate suspected money laundering cases as well as other criminal offenses.

Unfortunately, the RCMP Proceeds of Crime Section responsible for investigating FinTRAC referrals has been disbanded. The RCMP has re-organized their federal resources and investigation sections. Money laundering investigations are now investigated by the Federal Organized Crime Section and are only a part of the larger criminal enterprise crime investigations.

FinTRAC referrals are now being sent to the local police agency where the suspected ML offense(s) have occurred. Usually, the local investigators do not have experience investigating ML offenses. According to our source, very little direct money laundering investigative cases are being undertaken by local police. However, FinTRAC referral reports are being used to further other criminal investigations.

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## 2.4 Businesses & Compliance Regimes

Financial sector businesses and other designated businesses, such as casinos, provide reports of financial transactions to FinTRAC.

Businesses must maintain an AML compliance regime to deter ML and to ensure transactions are reported to FinTRAC. Further, these compliance programs are designed to mitigate the risks of MF/TF. Businesses are expected to know their clients and not transact with people or business entities who are attempting to launder the proceeds of crime.

Businesses do not have the resources or expertise to actually prove money laundering. They can only observe clients' behavior to determine whether a transaction is suspicious. Businesses use "indicators" of client behavior to form their suspicions. FinTRAC provides examples of these indicators in their AML Regulation Guidelines.

Businesses are required to report suspicious transactions to FinTRAC. The STR is filed after the client has left the business premise. Further, clients must not be informed or "tipped-off" that the STR is being filed.

But in order to obtain information for the STR which FinTRAC needs for analysis, businesses usually conduct the financial transaction in all but the most glaring circumstances.

It is not the role of business to prove money laundering as "indicators" are not evidence of ML. Their role is to identify and report suspicious transactions.

It is the role of FinTRAC and the police to examine the matter further and determine the link to ML/TF activities.

Businesses have legal obligations to not facilitate ML knowingly or by being willfully blind. If clients are too high a risk, financial institutions and businesses will exit the client relationship. In

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## 2.5 Money Laundering Issues

practice, transactions will be completed until a behavior pattern is established that exceeds the risk tolerance set by the business.

The purpose of ML is to disguise the source of funds and conceal the ownership of funds. The goal is to make “dirty” money appear “clean”. It never really gets clean – it just looks that way.

In our financial system, extensive records are maintained to document transactions and financial activity. Being constrained by the laws that govern the operation of the financial system, the money launderer must make concessions to the system while limiting his exposure and vulnerability to detection.

In fact, AML laws are written for the purpose of creating a paper trail for cash (bank notes) transactions.

From an investigative viewpoint, having verifiable and traceable monetary instruments is critical to successful ML prosecutions.

ML risks are assessed based upon the 3 phases of money laundering; placement, layering, and integration. ML methods must be understood and considered when formulating risk mitigation controls.

Examples of ML methods include the use of nominees, front people and businesses, or structuring transactions to avoid identification requirements.

The goal of the money laundering method is to avoid creating a paper trail and identifying the people who launder the proceeds of crime.

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### **3.0 DEPOSIT TAKING INSTITUTIONS**

Over the past decade, Canada's financial institutions have become increasingly more observant in not only complying with AML legislation but in exceeding the guidelines in order to protect their hard-won reputation as the conservative, dependable backbone of Canada's financial system.

We have summarized AML policies and discussed the management practices generally used by DTI's to mitigate risks for cash deposits and EFT's.

#### **3.1 AML Experience**

In countries not as well regulated, some banks have received large fines for non-compliance; however this has not happened in Canada.

Knowing the banks are compliant, FinTRAC will look to other cash handling businesses to ensure the same level of effort is being applied.

Compliance Departments have grown more quickly than any other facet of banking and every new product or system must be first vetted and approved by these new compliance regimes before integration.

New individual banking clients are identified using government issued photo identification documents. Usually, no other formal background verification is conducted.

High net worth, politically exposed, or persons without normal documentation are carefully vetted through the enhanced KYC/CDD processes. Background screening is conducted using databases, such as "Worldcheck", Credit Bureaus and verification inquiries with other financial institutions used by the client.

Business clients require a more thorough review prior to acceptance. Often, businesses with even the slightest connection to drug activity – for example hydroponic

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equipment suppliers, are monitored for excess cash deposits. MSB's and Fx dealers endure close scrutiny of their AML compliance programs to ensure their client's bone fides are verified and present an acceptable risk to the DTI.

Mandatory on-line AML training and testing all line staff and management is delivered regularly in order to ensure consistent application of compliance procedures.

Banks used to allow their clients to deposit large quantities of cash without questioning its source. Since the enactment of AML laws, banks routinely conduct KYC/CDD inquiries to deter ML/TF activities. This includes asking clients the source of funds and making a record of the response. See Section 3.3 for further discussion on DTI practices for accepting cash deposits.

Sophisticated computer systems monitor account activity for unusual patterns. Anything of a suspicious nature is forwarded to Compliance or Corporate Security Departments for review and investigation. The slightest concerns tend to result in the closing of accounts as a proactive defense.

Most DTI's have adopted a policy to exit a client relationship if more than 3 STR's have been filed against the client. Bank AML Compliance Officers will examine the STR narratives, KYC information and account transaction history in their decision-making process.

EFT's from foreign locations are only accepted from banks that are known to have strong AML processes in place, and a correspondent banking relationship has been established. Cheques and other monetary instruments are held until cleared, verified, or the client is well known and able to cover should there be a defect in the instrument.



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**3.2 AML Compliance Practices**

Federally licensed financial institutions are regulated by OSFI. ML/TF guidelines are issued by OSFI to ensure that financial entities develop robust systems and practices.

Likewise at the provincial level, credit unions, trust companies, and other provincially regulated businesses have oversight agencies that issue guidelines to augment the federal AML regulations.

The guidelines of the regulatory organizations are a public record of the commitment of an industry to deter ML/TF activities.

**3.3 Cash Acceptance**

In our discussions with AML compliance officers of deposit taking institutions, we were advised of the following best practices used to mitigate the risk of cash deposits. We have focused our discussion on the practices used to manage individual accounts to draw some comparisons to the gaming patron.

- a) Using a risk based approach, questions are directed to a potential new client to determine what financial services they will need and the approximate transaction volumes to be anticipated. Based on responses, or lack thereof, decisions are made as to whether to open the account, ask further questions to make a more accurate assessment, or decline the business. A risk based approach enables efforts to be focused on clients, transactions, and payment methods that pose the greatest risk for ML/TF.
- b) When cash over CAD \$10,000 is tendered, a supervisor will interview the client to determine the source of funds and other related questions to ensure the deposit is of non-criminal origin. Some DTI's require the client complete and sign a Source of Funds Declaration, which

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is kept in the client account file. If suspicions arise, details are reported to the compliance department via a STR. The client's account is flagged for monitoring

- c) Enhanced due diligence is performed when account transactions do not make sense or conform to original account/client intentions. This includes interviewing the client, assessing their information, verify information from independent sources, and increasing the frequency of account transaction monitoring
- d) New client account opening procedures require the client produce government issued documents that bear the name and photograph of the individual. Accounts KYC forms are completed to record client information relating to various issues, such as resident address, employment and occupation, sources of income etc. High net worth clients are vetted for source of wealth and may be vetted through banker databases. New immigrants may have their financial information verified by the bank from the previous resident country.
- e) A hierarchy of referral and information sharing capability from front line staff to supervisors to head office compliance/security departments is established as part of the compliance culture. The account manager who brought the client onboard is responsible for making decisions to close the account based upon CDD information obtained from all sources within the DTI and advice from AML CO's.
- f) A graduated level of AML training is used as not everyone needs to be trained alike. Frontline staff require the knowledge to identify large or unusual/suspicious transactions and report them. Supervisors and account management personnel must be familiar with due diligence protocols and have the ability

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to ask questions without offending the client. Head Office departments become more specialized in performing enhanced CDD and enter into relationships with regulators, police or other bank investigative sections to ensure business is conducted with legitimate clients handling legitimate funds.

Knowing the source of funds is helpful in that it makes up a component of the risk matrix evaluation. As an example, a depositor advising that a large volume of \$20 bank notes came from "business" would have to be connected to a business where cash is normally expected to be generated. The client's story must be verifiable and make economic sense to be believable.

While there is data that certain nationalities deal in cash more than others, they still must have the personal resources to account for it and answer questions relating to the source of funds to substantiate large cash deposits.

#### **3.4 Electronic Funds Transfers**

International EFT's are risky in that it is difficult to confirm the source of the funds being wired in.

Financial Institutions have developed trusted relationships with certain foreign banks – a correspondent banking relationship – and rely on these entities to conduct the same level of due diligence as done in Canada.

All international EFT's over CAD \$10,000 are reported to FINTRAC.

Banks will monitor EFT activity carefully. Transaction value thresholds are established to focus attention on higher risk transactions and to reduce compliance and surveillance costs.

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**3.5 Comment**

Banks have an advantage over other businesses, such as casinos, as businesses cannot form these “banking” relationships that are key to client information sharing.

Businesses can leverage their banking partner’s relationships with other banks to provide a safe harbor for international EFT’s. While the funds may have come from a foreign jurisdiction, they have come through a trusted correspondent bank.

A prudent business practice is to only conduct EFT’s between domestic banks.

Banks do not hesitate to interview clients and demand economic reasons for any transaction. The results of the inquiries are documented in the client file.

Client risk is assessed based upon a risk matrix for various ML indicators. Conducting transactions, such as depositing cash, is only 1 of the ML risks, which may or may not affect the risk profile of the client.

Transactions are monitored and assessed against the stated purpose and intent of the client maintaining a bank account.

Banks will close out client accounts if sufficient and appropriate evidence indicates the risk is too great for the bank to continue the relationship.

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**4.0 BROKERAGE FIRMS** Brokerage firms are unique in that they are heavily regulated by provincial statutes and by the rules of IIROC. Their rules for KYC and CDD activities are onerous.

AML compliance is another layer in their management and practices of KYC programs.

**4.1 AML Experience** In general, brokerage firms react to AML risk similar to banks. Their reputation for honesty and integrity is paramount to establish client trust.

As such, most firms do not want connections to clients who may be using their firm to conceal assets derived from ML/TF activity. A brokerage firm's ML risk is focused on the layering and integration phases.

**4.2 Cash Acceptance** Most brokerage firms do not accept cash for deposit into client accounts. They do not want the ML/TF risk associated with cash.

Deposits to client accounts are made using other monetary instruments. For individual accounts, cheques and EFTs are the norm.

**4.3 Electronic Funds Transfers** Rules vary for EFTs depending upon the client. Institutional clients have different rules than corporate and individual clients. The risk matrix is complex depending upon client net worth and market-knowledge sophistication.

For individuals, most brokerage firms will accept EFTs from domestic banks that are drawn on the client's personal bank account. There are exceptions for very wealthy clients depending upon the KYC/CDD inquiries that have been documented prior to the trade/transaction.

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Each firm establishes its own risk tolerance for payment and settlement, in concert with their banking partners, to accept or reject international EFTs. Firms rely on the KYC program to assess client risk.

#### 4.4 Comment

Brokerage firms are in a unique position. Their rules for KYC are extensive. Account managers continually interact with clients, discuss personal financial affairs and record results of discussions in the client file.

Their CDD is documented to protect the firm and broker(s) from any transaction liability, such as knowing their client's knowledge of markets or financial products, investor sophistication and investment risk tolerance, client's wealth and source of income, and client investment objectives.

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**5.0 MONEY SERVICE  
BUSINESSES**

MSB's typically provide two types of services; currency/foreign exchange and remittance payments. Payment and settlement of the transaction is conducted either by cash or other monetary instruments.

In Canada, MSB's are required to maintain an AML compliance regime under the PCMLTFA. As such, the CDD and risk assessment practices are an integral part of their business operations.

Note: Currency exchange describes the buying and selling of bank notes, while Fx describes the buying and selling of foreign currencies using other monetary instruments (cheques, drafts, EFT) for payment and settlement.

MSB's have a bad reputation with banks because in the past, many engaged in ML. As a result, banks are hesitant to provide service for any but the very best AML compliant businesses.

Regular auditing of their AML compliance regimes and targeted questioning of EFT activity is the norm. Such a reputation is difficult to overcome and this exemplifies the need of the MSB to have a robust and strict compliance program.

Our discussion is based upon the BMP's generally followed by reputable MSB's.

**5.1 Cash Acceptance**

MSB's who provide currency exchange services transact almost exclusively in cash, as cash is the most used instrument of exchange.

The ML risk is that cash is anonymous. As such, AML regulations require currency exchange transactions greater than CAD \$3,000 to record client identification. Transactions greater than CAD \$10,000 require a report to FinTRAC.

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Money launderers will avoid transactions where they have to identify themselves, or they will use nominees, also known as smurfs.

The compliance requirements to monitor transactions and risk assess clients has increased significantly since the February 2014 amendments came into force. Most MSB's had been performing this type of CDD work prior to the new regulations. KYC programs were established to satisfy the banks' maintenance rules for operating their bank accounts.

MSB's generally do not have an issue accepting cash in a transaction providing the client cooperates with the CDD inquiries and identification rules. If a client exhibits some 'red flag' indicators for ML risk, a Suspicious Transaction Report will be filed with FinTRAC. Some MSBs require the client to complete and sign a Source of Funds Declaration, which is kept on the client file.

Once an STR is filed, the client risk profile will be elevated for enhanced DD. The next time the client transacts, the MSB will interview the client to determine their ML risk. Judgments will be made by the AML compliance officer as to whether the MSB will continue with the client relationship. Current industry practice is to close client accounts after 3 STR's as MSB's will mirror bank practices.

Some MSB's adopt a business model where they will not accept cash as payment for Fx. Their risk focus is on the layering and integration ML phases to assess client risk.

Effective KYC/CDD programs include 3<sup>rd</sup> party relationships and nominees to expand and mitigate ML risks, adding an additional level of complexity to CDD processes.



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**5.2 Electronic Funds Transfers**

MSB's who focus on being a payments company use EFT's to settle transactions. EFT services are offered in conjunction with a Fx transaction.

The CDD practices used to mitigate ML risk center around the economic purpose of each transaction. KYC interviews are conducted to obtain stated purposes, values, and frequencies of transactions. This information is then compared to actual transaction history. Any changes in behavior will result in enhanced CDD being conducted. The MSB may ask the client to produce 3<sup>rd</sup> party documentation to support the need for Fx/EFT transactions. Further, the sender or ultimate beneficiary of the transaction will be identified and verified.

Any remittance transaction greater than CAD \$1,000 requires the identification of the client. International EFT's greater than CAD \$10,000 require a report to FinTRAC. The information reported to FinTRAC is extensive as the original sender, intermediaries and ultimate beneficiaries must be recorded and reported.

**5.3 Comment**

Prior to the new February 2014 regulations, client transaction monitoring was not mandatory. Established MSB's did have account monitoring firmly established to provide assurances to their banking partners that they were mitigating ML/TF risks.

Individual account KYC/CDD practices consist of recording the identification documents used to verify client identity. Source of wealth, source of funds inquiries are conducted when transaction values and frequency of transactions change, thus elevating the client risk.

The new regulations have increased the compliance requirements for client risk management. EDD procedures to maintain higher-risk client accounts will require increased client interviews and more frequent transaction monitoring.

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Like banks, once a client account relationship is established, MSBs will conduct all transactions unless the behavior pattern of the individual is glaringly and suspiciously "indicating" ML.

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**6.0 GAMING  
BUSINESSES**

We surveyed AML compliance officers of casinos in Canada, Nevada, and Washington State. Some of the Nevada companies also had casino/resort operations in other countries.

There is a general acknowledgment that AML risk assessments of "VIP" clients have increased significantly over the last 5 years. The current US ML issue is to conduct CDD for determining source of wealth and source of funds.

Since September 2013, the Director of FinCEN has publicly stated that casinos need to do more CDD and track clients gaming transactions to monitor for ML activities.

In Ontario, casino operations have entered into a contractual relationship with the Ontario Provincial Police. The Chief Superintendent in charge reports to the OPP Deputy Commissioner of Investigations and Organized Crime for criminal matters and to the Registrar of Alcohol and Gaming (AGCO) on regulatory matters.

They work closely to devise strategies and policies to combat ML that are effective and viable from a resourcing perspective taking into account the unique nature of the industry.

From a practical perspective, a Police Inspector acts as the Director of the Gaming and Enforcement Branch and police officers are fully integrated into the AGCO. The Inspector is responsible for the Casino Enforcement Unit, the Corporate Investigations Unit, the Internet Gaming Unit and the Gaming Specialist Unit. The focus of their AML activity centres around the Casino Enforcement Units who provide 24/7 policing services to gaming venues. They are first responders to any criminal activity within each site and deal with any other offences that affect the integrity of the industry, or its stakeholders.

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They also perform an intelligence role and share information quickly via their on-site personnel who are responsible for interviewing clients referred by the cash cage operators when large or suspicious cash is presented for deposit.

**6.1 Cash Acceptance** Casinos generally do not have an issue with accepting cash from clients. US-AML COs reported that they do not place limits on the amount of cash that can be used for buy-in.

Their reasoning is that their KYC/CDD procedures provide the risk mitigation strategies to identify and confirm the individual as a legitimate gaming player. They also utilize investigative resources to research clients that pose higher risk.

Source of funds and source of wealth interviews are becoming normal procedures as FinCEN is developing policy initiatives to increase the KYC/CDD activities. But this policy is in its infancy and will take a few more years to be fully implemented industry wide.

Casinos in Ontario generally will not allow more than CAD \$10,000 – 15,000 cash/in. These large deposits trigger a CDD interview to learn the source of funds. This interview is usually conducted by the OPP police officer.

However, there are thresholds that trigger managers and concierge to identify and interview those clients. The threshold amount is based upon the risk tolerance for backing bets. Some casinos have thresholds starting at \$10,000 buy-ins while other set thresholds at \$100,000. CDD procedures are focused on betting patterns and betting amounts.

US AML CO's reported that compliance resources are focused on approximately 15% of the total client base for enhanced CDD. Statistically, the top 15% clients account for the majority of gaming revenue.

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VIP clients are risk rated based upon the ease with which client information can be independently verified. In some cases, private investigators will be hired to conduct verification work, particularly if the client is not a US resident.

Cash/out policies generally set procedures for how disbursements are paid. Most casinos follow a policy of using the same instrument for cash/out as used for cash/in.

Some casinos will set maximums on the amount of cash returned with the remaining balance by cheque. The casinos want verifiable and traceable instruments to help law enforcement in ML investigations.

**6.2 Electronic Funds Transfers**

There is not a general consensus on the use of EFT's to fund player accounts.

Some casinos will allow international EFT's as well as domestic. Others will only accept domestic EFT. However, this may change depending upon future guidelines from FinCEN relating to CDD and client risk procedures. US-AML Co's reported that most casinos eventually will adopt a domestic only EFT to fund player accounts. Corporations who operate casino/resorts in other jurisdictions (domestic or international) reported that they will not allow inter-company transfers of player funds between casinos.

**6.3 Best Management Practices**

The industry standards used as BMPs are summarized as follows:

- AML compliance officers must be qualified and experienced. They must have direct reporting to the corporation CEO and to the corporate audit committee
- A compliance culture must be developed through all levels of casino staff. Line staff and managers must work cooperatively with surveillance and compliance staff

- 
- Top 10 – 15% of revenue generating clients receive the most CDD. All clients in this category are interviewed by trained staff to determine source of wealth and source of funds. Client risk is based upon the ability to verify information.
  - KYC/CDD interviews are conducted based upon triggering thresholds of buy-ins. The threshold is determined by statistical analysis of buy-in and bets per hand at each casino
  - All clients who are identified either by loyalty reward programs or concierge services at minimum are background checked through a commercial database, such as Worldcheck
  - Information sharing arrangements with local police agencies are established to identify known criminal gang members and affiliates. Casinos do not want these associates on their premises
  - Clients who come from Asia-Pacific countries, especially PRC, are automatically classed as high-risk and require EDD
  - Player funded accounts are used to prevent loan-sharking. Players can only pay where they play and with funds on deposit or funds available through pre-approved credit lines
  - Cash/outs should mirror the cash/in instrument, ie, banknote to banknote, cheque to cheque, EFT to EFT etc.
  - Client wanting cash/out in cash are limited to 10% of cash/in or player account balance to a pre-set maximum. The remainder is paid by cheque or EFT to client's personal domestic account. This creates a traceable paper trail for investigation purposes. The returned cancelled cheque is investigated to verify bank account used to deposit the cheque

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- Do not allow any bank-like transactions, such as transferring funds direct from off-shore accounts to casino bank accounts or vice versa, or allowing chip churning to occur without intervention interview by AML CO
  - EFTs are conducted from/to accounts held by domestic financial institutions. The account must be in the name of the client

**6.4 Law Enforcement Partnerships**

CO's reported that having police partnerships greatly assist with deterring criminal activities within the gaming industry including ML.

Some of the areas of police assistance specifically stated include:

- Sharing of information related to criminal gangs, their members and affiliates, and to criminal activity directed at the casino including ML
- Interdicting 'undesirable' persons and supporting local security personnel to evict potentially violent persons
- Providing a level of security for public safety in and around the casino
- Investigating and prosecuting criminal offenses directly related to gaming

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**7.0 GPEB**

We were asked to comment on any gaps that we encountered that may assist GPEB in its role as regulator of the gaming industry.

**7.1 AML Guidelines**

We believe that GPEB could greatly enhance its leadership in AML compliance by creating an AML compliance regime regulation under the Gaming Control Act/Regulations. Additionally, a companion Guideline for Deterring and Detecting Money Laundering should be implemented to establish the policy expectations of the new regulation. Alternatively, a Public Interest Directive could be issued to establish GPEB's AML program.

The intention is to direct gaming industry businesses in their responsibility to develop and maintain robust AML compliance programs that meet GPEB's governance and control expectations.

The Guideline is not to replace the federal guidelines published by FinTRAC nor create any new requirements under federal legislation.

They are to establish the "tone at the top" and provide industry specific policy for AML compliance expectations.

As an example, if GPEB wants specific policy for the determination of source of funds, the policy expectation can be specified in the Guideline. Gaming businesses can determine the procedures required to comply with policy.



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**7.2 Intelligence & Analytical Unit**

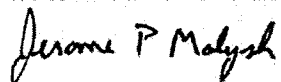
GPEB currently does not have resources dedicated to criminal intelligence and crime analysis relating to the gaming industry.

Further, the province does not have dedicated police officers responsible for gaming related investigations and prosecutions.

GPEB should consider establishing a police-accredited unit to provide policing services for the gaming industry, including but not limited to:

- criminal intelligence and risk analysis
- investigations and prosecutions
- liaison with police departments in communities that host casinos
- information sharing program between GPEB, the BC police community, FinTRAC and other law enforcement agencies
- assist GPEB's Special Provincial Constables with conducting intelligence inquiries
- annual reporting to GPEB executive on the overall risks to gaming
- subject-matter experts in gaming industry related issues

---

**MALYSH ASSOCIATES CONSULTING INC**

Per: Jerome Malysh, CPA CGA, CFE  
Principal

**SUBJECT MATTER  
EXPERTISE**

Jerome Malysh and John Paterson conducted the research for this report. Our bios are as follows:

John Paterson – in his 25 year professional banking career, he held senior management positions in Corporate Security and Compliance for HSBC Canada and for CIBC. He was responsible to develop the banks' AML compliance programs during the formative years of Canada's ML/TF legislation. He developed and wrote the AML policies, and trained employees in AML compliance and risk management. Following retirement from HSBC, John provides AML consulting services to the financial services industry. Prior to his banking career, John was a member of the RCMP in British Columbia specializing in economic crime investigations and drug enforcement.

Jerome Malysh, CPA CGA CFE – developed his money laundering expertise during his 20 year career in the RCMP Proceeds of Crime Section. Since retirement from the Force in 2000, he has built a risk management consulting practice helping financial service businesses develop their AML compliance programs. Jerome has provided AML consulting services to businesses in Canada, USA, Australia and New Zealand. Representative assignments consist of technical writing of AML policy and procedures, developing internal control and audit programs, assessing ML/TF risks and building mitigation strategies, training line staff and management in AML compliance, and conducting statutory reviews of AML compliance regimes. He has provided expert witness testimony in money laundering in the Supreme Court of British Columbia.

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Private & Confidential

This is Exhibit "DD" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia

**Vander Graaf, Larry P FIN:EX**

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**From:** McCrea, Bill J FIN:EX  
**Sent:** Tuesday, September 16, 2014 8:37 AM  
**To:** Vander Graaf, Larry P FIN:EX  
**Subject:** RE: CDD Final Report

Hi Larry,

Yes, please call. I'm out of the office from 9:30-11:00 but will be here after that. If you let me know a time that you are calling I'll make sure to be available.

*Bill*

---

**Bill McCrea** BES MBA FCIP  
Executive Director Quality Assurance & Risk  
Phone: 250 356-1109  
Mobile: 250 508-8962  
Fax: 250 387-1818  
Email: [bill.mccrea@gov.bc.ca](mailto:bill.mccrea@gov.bc.ca)

---

**From:** Vander Graaf, Larry P FIN:EX  
**Sent:** Tuesday, September 16, 2014 8:27 AM  
**To:** McCrea, Bill J FIN:EX  
**Subject:** Fw: CDD Final Report

Bill,

I will call you sometime today. I may not have been involved in some of the discussions in relation to the recommendations. I want to make sure I am reading and interpreting this correctly. "Helpful" concerns me. My perception that you are promoting Guidelines is an observation as the word "Alternate" has been changed to "or" in 7.1. I believe there is a different perception in that word change.

The recommendation on SPC was not discussed with Jerome from my perspective.

Just my observations for now.

It is final now so this whole email chain is really redundant

Have a good one

Larry

Sent from my BlackBerry 10 smartphone on the TELUS network.

---

**From:** Vander Graaf, Larry P FIN:EX <[Larry.VanderGraaf@gov.bc.ca](mailto:Larry.VanderGraaf@gov.bc.ca)>  
**Sent:** Monday, September 15, 2014 11:25 PM  
**To:** McCrea, Bill J FIN:EX  
**Subject:** Re: CDD Final Report

Bill

You continue to dilute the situation with such influence saying as, "source of funds would be helpful". It is mandatory not helpful. You continue to promote guidelines rather than a regulation with guidelines as guidelines are not enforceable. We have a serious situation and you continue to minimize the problem. I can not agree with this process.

Larry

Sent from my BlackBerry 10 smartphone on the TELUS network.

**From:** McCrea, Bill J FIN:EX

**Sent:** Monday, September 15, 2014 6:35 PM

**To:** Mazure, John C FIN:EX; Vander Graaf, Larry P FIN:EX; Van Sleuwen, Terri FIN:EX; Meilleur, Len FIN:EX

**Subject:** CDD Final Report

Good Afternoon,

Following our meeting with Jerome Malysh and subsequent discussion here is the final report (September 15, 2014), which I have received this afternoon. I have reviewed the final version and am satisfied that it contains the changes that we discussed, or Jerome has explained why the report reads as it does. This includes:

- p14 – the report remains with the wording that “Knowing the source of funds is helpful in that ...”, as this is the evidence obtained through the research.
- p27 – Section 7.1 makes the recommendations of developing Regulation change, or creation of a Directive either supported by a Guideline document is included.
- P28 – Section 7.2 speaks to GPEB resources.
- p29 – gives bios for Jerome and John

This should satisfy our requests and discussion. Please let me know if you have any comments. Thanks.

*Bill*

---

**Bill McCrea** BES MBA FCIP  
Executive Director Quality Assurance & Risk  
Phone: 250 356-1109  
Mobile: 250 508-8962  
Fax: 250 387-1818  
Email: [bill.mccrea@gov.bc.ca](mailto:bill.mccrea@gov.bc.ca)

This is Exhibit "EE" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia

**Vander Graaf, Larry GPEB:EX**

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**From:** Vander Graaf, Larry GPEB:EX  
**Sent:** Monday, March 08, 2004 2:30 PM  
**To:** Sturko, Derek SG:EX  
**Subject:** FW: MOU Illegal Integrated Gaming Enforcement Team (IIGET)

Derek: This was forwarded to Sofie Mah, Police Services, at her request, prior to her forwarding it to Ron Bell and Judy Reykdal in January in relation to the MOU issue. A decision has been made and we will get on with the job. I believe that Kevin is aware of this. Just for your information.

Thanks Larry VDG

*Larry Vander Graaf, Director  
 Investigation Division  
 Gaming Policy and Enforcement Branch  
 Public Safety and Solicitor General*

*This message is confidential and is intended only for the individual named. It may contain privileged information. If you are not the named addressee you should not disseminate, distribute or copy this e-mail. Any unauthorized disclosure is strictly prohibited. If you receive this e-mail in error, please notify the sender immediately and delete this e-mail from your system.*

-----Original Message-----

**From:** Mas, Sophie SG:EX  
**Sent:** Monday, March 08, 2004 12:56 PM  
**To:** Vander Graaf, Larry GPEB:EX  
**Subject:** FW: MOU Illegal Integrated Gaming Enforcement Team (IIGET)

-----Original Message-----

**From:** Vander Graaf, Larry GPEB:EX  
**Sent:** Wednesday, January 28, 2004 11:05 AM  
**To:** Mas, Sophie SG:EX  
**Subject:** MOU Illegal Integrated Gaming Enforcement Team (IIGET)

Further to our conversation, please be advised that the Investigation Division, Gaming Policy and Enforcement Branch (GPEB) believes that British Columbia Lottery Corporation (BCLC) being a voting member or even a signatory in any way on the MOU would/could cause significant issues in court. The MOU clearly goes to great lengths to eliminate BCLC from the document. There should not be a perception that the police and the government body that regulates gaming (GPEB), (including regulating BCLC) is investigating illegal gaming activity with the perceived intent to eliminate competition for BCLC. In recent court cases by GPEB, defence counsel has clearly argued that perception. Special interest groups will surface a similar argument. That, of course, is not the case and criminal activity is criminal activity and the IIGET has a mandate to enforce the law..

The fact that the Consultative Board in the MOU is responsible for broad objectives, effectiveness of the IIGET, and provides the Solicitor General with recommendations regarding continued operation, funding and success of the IIGET provides a significant accountability mechanism for the IIGET. It should be remembered that the Solicitor General has directed the British Columbia Lottery Corporation (BCLC) to provide the funds.

Accountability of the funds through Police Services directed to the Solicitor-General, as presently outlined in the MOU is transparent. BCLC should be at arms length both in reality and perception. Justification of funds to the BCLC Board should be the responsibility of the Solicitor-General.

The Investigation Division, GPEB and the RCMP do not want to have to defend the above perception in court. As you are aware, the MOU will undoubtedly be entered in court at some time.....

Harry Vander Graaf, Director  
Investigation Division  
Gaming Policy and Enforcement Branch  
Public Safety and Solicitor General

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This is Exhibit "FF" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.

A handwritten signature in blue ink, appearing to be 'D. Van', is written over a horizontal line.

A Commissioner for taking Affidavits within British Columbia

**Vander Graaf, Larry SG:EX**

---

From: Sturko, Derek SG:EX  
Sent: Wednesday, March 23, 2005 10:34 AM  
To: Vander Graaf, Larry SG:EX  
Subject: Re: Draft to McKechnie

*Nicole  
IIGET  
file  
p/br.*

Okay.

I'll have Susan contact you and set something up for next week. Okay?

Derek

-----  
Sent from my BlackBerry Wireless Handheld

-----Original Message-----

From: Vander Graaf, Larry SG:EX <Larry.VanderGraaf@gov.bc.ca>  
To: Sturko, Derek SG:EX <Derek.Sturko@gov.bc.ca>  
Sent: Wed Mar 23 10:29:09 2005  
Subject: RE: Draft to McKechnie

Derek: I believe that the issues in relation to this are bigger than an isolated situation. Issues of the IIGET independance., who approves charges, how discretion is utilized, and who is repsonsible for enforcement under the Act and the Criminal Code. I think that this is important and warrants a person to person discussion with all managers, you and I ...Your thoughts

Larry Vander Graaf, Director  
Investigation Division  
Gaming Policy and Enforcement Branch  
Public Safety and Solicitor General

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-----Original Message-----

From: Sturko, Derek SG:EX  
Sent: Tuesday, March 22, 2005 4:12 PM  
To: Vander Graaf, Larry SG:EX  
Subject: RE: Draft to McKechnie

Larry:

Re: your four comments (in random order):

- \* I've added the word "evidence" where it was missed;
- \* I've made me the only named contact in the letter;
- \* It is not uncommon for one person to respond for another. I've had letters to me answered by a Minister. This demonstrates the reponse is considered important; and
- \* I understand but disagree with your comments on "the sentence". It is important to demonstrate we are aware of the issue and to respond in a manner consistent with the SG. I, as does the Minister, believe we over-reacted on this one. You don't. I have spoken with you and Joe and your regional managers about this a few times now. Both of your draft responses, and your comments, suggest you haven't heard the message. This concerns me and I'd like to discuss it further.

Derek Sturko  
Know your limit, play within it.

-----Original Message-----

From: Vander Graaf, Larry SG:EX  
Sent: Monday, March 21, 2005 4:29 PM  
To: Sturko, Derek SG:EX  
Subject: RE: Draft to McKechnie

Derek:

I must make a comment on a couple of areas.

I do not believe that the second sentence in the last paragraph is the way to go on this matter. I believe that sentence states that we were or may have been excessive in the penalty given in this situation. I don't believe that we should be accepting any liability in that regard. I believe that sanctions are discretionary as long as they are within the law and that should be left as that.....

I don't believe that an ADM should respond on behalf of a Director and for consistency sake, I believe that only your number should be contacted for discussion.

Third paragraph 1st sentence, I believe that it should be gathered evidence. (word missed)

Your understanding is appreciated.

Larry Vander Graaf, Director  
Investigation Division  
Gaming Policy and Enforcement Branch  
Public Safety and Solicitor General

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-----Original Message-----  
From: Sturko, Derek SG:EX  
Sent: Monday, March 21, 2005 3:02 PM  
To: Vander Graaf, Larry SG:EX  
Subject: Draft to McKechnie

A draft of the letter I propose to send.

Derek Sturko  
Know your limit, play within it.

<< File: 282122 McKechnie1.doc >>



*Know your limit, play within it.*

April 11, 2005

Log # 282122

Via Facsimile: [REDACTED]

[REDACTED]  
[REDACTED]  
[REDACTED]

Dear [REDACTED]

Thank you for your March 1, 2005 letter to Larry Vander Graaf, Director of Investigations. I am responding on Mr. Vander Graaf's behalf.

In fall 2004, the Gaming Policy and Enforcement Branch received a complaint that unlicensed bingo activity was taking place at the Grand Central Emporium on Galiano Island. The Branch takes all complaints seriously and investigates all allegations of wrongdoing. In this instance, the complainant requested anonymity. The Branch honors requests for anonymity and I cannot advise you of the name of the complainant.

In December, 2004, an investigator visited Galiano Island and gathered evidence. On February 8, 2005, investigators again visited Galiano Island to gather evidence. Investigators do not identify themselves when gathering evidence in order to do so in a way that does not affect the activity being observed.

Investigators concluded the activities represented offenses under the Criminal Code of Canada (operating a common gaming house) and British Columbia's Gaming Control Act (conducting an unlicensed lottery scheme). On February 9, 2005, investigators issued you a Ticket Violation Notice for the unauthorized sale of a lottery ticket. The penalty is set at \$289.00. Investigators do not have the authority to change the penalty. The investigators advised you that you had thirty days to dispute the ticket in court. I understand investigators conducted themselves in a professional and courteous manner during all interactions with you.

Investigators have the discretion to determine an appropriate and reasonable course of action when undertaking an investigation. In this instance, it appears staff chose a course of action that may have been excessive for the circumstances. Discretionary power should always be coupled with common sense and I have reviewed the circumstances regarding this enforcement action with staff.

.../2

**Ministry of  
Public Safety and  
Solicitor General**

Gaming Policy and  
Enforcement Branch  
Assistant Deputy Minister's  
Office

Mailing Address:  
PO BOX 9311 STN PROV GOVT  
VICTORIA BC V8W 9N1  
Telephone: (250) 387-1301  
Facsimile: (250) 387-1818

Location:  
Third Floor, 910 Government Street  
Victoria, BC

Web: [www.pseg.gov.bc.ca/gaming](http://www.pseg.gov.bc.ca/gaming)

I trust this general outline provides you with a clearer understanding of the circumstances concerning this investigation. Your cooperation and understanding in this matter is appreciated.

If you wish to discuss this matter further, please contact me at 250 953-4482.

Sincerely,



Derek Sturko  
Assistant Deputy Minister and General Manager

pc: Honourable R.T. (Rich) Coleman  
Tony Heemskerk  
Larry Vander Graaf

FROM : Donna

PHONE NO. : 5395122

MAR. 02 2005 10:57AM P2

  
March 1, 2005  


Gaming Policy and Enforcement Branch  
Attention: Larry Vander-Graff  
Director of Investigations  
PO Box 9310, Stn. Prov. Govt.,  
Victoria, B.C. V8W 9N1

Dear Sir,

On February 8 I was investigated and then on February 9 I was ticketed in my home on Galiano Island. The ticket was for \$289.00 and was for the sale of an illegal lottery ticket (IE. bingo card).

I would like the complete details of the original complaint so that I am able to understand the actions that were taken.

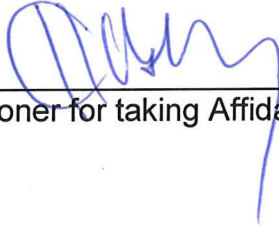
Please mail this information to me at my mailing address:

Yours Sincerely,   


cc. Honourable Rich Coleman, Minister of Public Safety and Solicitor General  
(Fax: 250-356-8270)

<b>RECEIVED</b>	
MINISTER OF PUBLIC SAFETY AND SOLICITOR GENERAL	
MAR - 2 2005	
REFER TO MAIL REGISTRY	
OTHER	282-122
<input type="checkbox"/> DRAFT REPLY	<input type="checkbox"/> REPLY DIRECT
<input type="checkbox"/> ACTION FILE	<input type="checkbox"/> FILE <input type="checkbox"/> INFORMATION

This is Exhibit "GG" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.

A handwritten signature in blue ink, appearing to be 'D. J. ...', is written over a horizontal line.

A Commissioner for taking Affidavits within British Columbia





*Know your limit, play within it.*

April 10, 2008

Log # 361010

Mr. Michael Graydon  
President and CEO  
BC Lottery Corporation  
74 West Seymour Street  
Kamloops BC V2C 1E2

Dear Mr. Graydon:

I am writing further to our brief April 4, 2008 discussion on the following matter.

In spring 2007, members of the Gaming Policy and Enforcement Branch's Investigations and Regional Operations Division (the Division) met with representatives from the Royal Canadian Mounted Police National Initiatives Against Money Laundering, Financial Intelligence Analysis Group (FIA), and representatives of the Financial Transactions and Reports Analysis Centre (FINTRAC).

FIA and FINTRAC raised concerns about the perceived lack of Suspicious Currency Transactions (SCT) reports from British Columbia casinos. These concerns reflect 2006 national statistics, during which the number of SCT reports originating from British Columbia casinos (29), compared to the national total of SCT reports (487), represents approximately 6% of all SCT reports nation-wide. This percentage appears low in comparison to the gaming activity in the province.

Further, the 2006 national statistics for Large Cash Transactions (LCT) were also reviewed. The percentage of LCT reports from British Columbia casinos (14,258) represented 33% of the total number of reports (43,178) nationally. That percentage appears logical.

The low level of SCT reports, compared to LCT reports, resulted in the Division monitoring Section 86 reports submitted to the Division by casino service providers throughout the province that related to suspicious currency transactions

The British Columbia Lottery Corporation is currently the conduit for all reporting to FINTRAC from British Columbia casinos. The Branch's monitoring of suspicious currency transaction Section 86 reports submitted by service providers indicated that, in a number of instances, the initial circumstances reported as "suspicious" by the service providers were deemed by BCLC to be "not suspicious". It is presumed that, in such instances, the Corporation did not forward a SCT report to FINTRAC.

.../2

Ministry of  
Public Safety and  
Solicitor General

Gaming Policy and  
Enforcement Branch  
Assistant Deputy Minister's  
Office

Mailing Address:  
PO BOX 9311 STN PROV GOVT  
VICTORIA BC V8W 9N1  
Telephone: (250) 387-1301  
Facsimile: (250) 387-1818

Location:  
Third Floor, 910 Government Street  
Victoria, BC  
Web: [www.pssg.gov.bc.ca/gaming](http://www.pssg.gov.bc.ca/gaming)

In December 2007, the Branch conducted a further review of the Section 86 reports relating to suspicious currency transactions where the ensuing BCLC I-Trak report indicated the circumstances of the currency transaction was thought to be "not suspicious". The Branch noted the Corporation's definition of "suspicious" was much narrower and more restrictive than the Branch's definition of "suspicious". It is likely the low level of SCT reports in 2006 is related to the Corporation's narrow and more restrictive interpretation of "suspicious".

A representative of the Division subsequently met again with FINTRAC. In an effort to ensure compliance with our regulatory responsibilities and reduce the potential for money laundering through British Columbia casinos, and through agreement with FINTRAC, the Branch now voluntarily reports all currency transactions submitted by casino service providers via Section 86 report the Branch deems to be "suspicious". This voluntary reporting initiative by the Branch's Investigation Division is ongoing.

On June 23, 2008, amendments will be made to the Proceeds of Crime (Money Laundering) and Terrorist Financing Act, (PCMLTFA). As a result:

- Casinos will be required to report not only suspect financial transactions, but also *attempted* suspect transactions;
- Casinos will be required to take specific measures to identify individuals, including any individuals involved in suspicious transaction reports (with reasonable measures and exceptions);
- Transactions carried out on behalf of third parties will require casinos to obtain specific information about the third party and the relation between the person(s) carrying out the transaction and the third party; and
- Casinos will be required to implement a Compliance Regime, comprised of the following five elements:
  - The appointment of a compliance officer;
  - The development and application of written compliance policies and procedures;
  - The assessment and documentation of risks of money laundering and terrorist financing and measures to mitigate high risks;
  - Implementation and documentation of an ongoing compliance training program; and
  - A documented review of the effectiveness of policies and procedures, training program and risk assessment.

Further, as of December 2008, the PCMLTFA will be enforced through the use of newly established Administrative Monetary Penalties, (AMPs) for non-complying entities.

As a result of the noted issues and legislative changes, the Branch will enhance its oversight of the Corporation in relation to the reporting of suspicious currency transaction by service providers. The intention is to assist the Corporation and service providers in complying with the requirements. At a minimum:

- The Division will monitor and review related compliance training programs the Corporation develops for service providers. Please notify the Division about any compliance policies, procedures and training programs developed by BCLC for the service providers in relation to suspicious currency transaction reporting. This will allow the Branch to ensure consistency in the interpretation of suspicious currency transaction reporting;
- The Branch will initiate discussions with the Corporation and service providers to standardize definitions;
- As outlined in the Branch's five year audit plan, the Branch will audit the Corporation's ongoing compliance with FINTRAC reporting obligations; and
- The Branch will continue to discuss the Corporation's ongoing compliance with the Corporation and Federal officials.

Your cooperation in this matter is appreciated.

Sincerely,

Derek Sturko  
Assistant Deputy Minister

pc: David Morhart, Deputy Solicitor General  
Larry Vander Graaf, Executive Director, Investigations and Regional Operations  
Joe Schalk, Senior Director, Investigations and Regional Director  
Ed Rampone, Director, Casino Investigations, Investigation Division  
Terri Van Sleuwen, Executive Director, Audit and Compliance

This is Exhibit "HH" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.

A handwritten signature in blue ink, appearing to be 'D. A. S.', is written over a horizontal line.

A Commissioner for taking Affidavits within British Columbia

FINTRAC REPORTING  
BC - ONT CASINO ACTIVITY SECTOR

2009			British Columbia				Ontario		
			LCTR		STR		LCR		STR
January			793		26		1814		399
February			310		24		1654		514
March			1463		12		1808		463
April			1067		16		1545		322
May			1109		18		1566		329
June			892		15		1575		272
July			898		13		1586		309
August			845		25		1340		233
September			1014		21		1603		281
October			1504		20		1451		322
November			1460		25		1458		276
December			1397		12		1621		215
Total			12752		227		19021		3935
Total Reports				12979				22956	
% STR					1.74%				17.14%

FINTRAC REPORTING  
BC - ONT CASINO ACTIVITY SECTOR

2009				British Columbia				Ontario	
			LCTR		STR			LCR	STR
January			793		26			1814	399
February			310		24			1654	514
March			1463		12			1808	463
April			1067		16			1545	322
May			1109		18			1566	329
June			892		15			1575	272
July			898		13			1586	309
August			845		25			1340	233
September			1014		21			1603	281
October			1504		20			1451	322
November			1460		25			1458	276
December			1397		12			1621	215
Total			12752		227			19021	3935
Total Reports				12979				22956	
% STR					1.74%				17.14%

FINTRAC REPORTING  
BC - ONT CASINO ACTIVITY SECTOR

2010			British Columbia			Ontario		
		LCTR		STR		LCTR		
January		1181		17		1705		217
February		1489		31		1588		201
March		1533		15		1738		232
April		1322		18		1614		320
May		1584		37		1478		220
June		1462		38		1736		208
July		1433		33		1728		248
August		1736		28		1873		243
September		1426		32		1866		243
October		1810		54		1615		293
November		1894		51		1682		270
Total		16870		354		18623		2695
Total Reports			17224			21318		
% STR				2%				14.50%

This is Exhibit "II" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



---

A Commissioner for taking Affidavits within British Columbia



**CONFIDENTIAL**

27 December, 2012

Bryon Hodgkin  
Director, Operational Compliance  
Corporate Security and Compliance  
British Columbia Lottery Corporation  
2940 – Virtual Way  
Vancouver, B.C. V5M 0A6

Dear Bryon:

**Re: Suspicious Currency Transactions/Money Laundering –  
British Columbia Casinos**

This memorandum is further to previous correspondence between Investigations and Regional Operations Division, Gaming Policy and Enforcement Branch and Mr. Gordon Friesen, that commenced on 24 November, 2010. It should be noted that since 2007/2008 the incidents of reported Suspicious Currency Transactions (SCT) have been increasing yearly at an alarming rate.

In late 2011, GPEB's Investigations and Regional Operations Division conducted a review of SCT reporting for the period between 1 September, 2010 and 31 August, 2011. The following results were found:

**Total SCT files: 543**  
**Total dollar amount: \$39,572,313.74**

**Top Three Venues:**

**River Rock Casino: 213 files**  
**Total dollar amount: \$21,703,215.00**  
**Starlight Casino: 140 files**  
**Total dollar amount: \$13,540,757.00**  
**Grand Villa Casino: 103 files**  
**Total dollar amount: \$2,815,470.00**

- Eighty (80) different patrons bought in for over \$100,000 on at least one occasion.
- The top five patrons had suspicious currency buy-ins with a combined total of \$10,408,210.00
- The top individual patron had suspicious currency buy-ins totaling \$5,855,760.00
- The vast majority of all the suspicious currency buy-ins was in \$20 dollar denominations.

It has become abundantly clear that most of these patrons are of Asian descent and are using large amounts of suspicious currency supplied by loan sharks, often operating in the vicinity of the casinos. It is known that these Asian gamblers are using suspicious currency obtained from loan sharks who we believe are obtaining the proceeds of crime from organized crime subjects or groups.

In 2011, the Minister responsible for Gaming in British Columbia commissioned Robert Kroeker to conduct a review and author a report on anti-money laundering measures in British Columbia gaming facilities. The review was also "to identify any opportunities to strengthen the existing anti-money laundering regime." The first paragraph of the Summary Review authored by Kroeker stated:

"In January 2011, a series of news reports ran on cash transactions occurring at gaming facilities in British Columbia. The media stories focused on a number of large cash transactions involving small denomination Canadian currency, typically \$20.00 bills, which occurred over the summer of 2010. In the course of these reports the media raised questions about how well gaming in the province was protected from money laundering."

Mr. Kroeker's report made several recommendations regarding suspicious currency transactions in casinos, including that British Columbia Lottery Corporation (BCLC) accept law enforcement's professional opinion that this activity is money laundering. BCLC accepted these recommendations and agreed to enhance its anti-money laundering initiatives and strategies.

A further review of SCT reports was conducted by Investigations and Regional Operations in October/November 2012. This review was for the nine (9) month period between 1 January, 2012 and 30 September, 2012. The following results were found:

**Total Money Laundering/SCT files: 794 files**

**Total dollar amount: \$63,971,727.00**

**Total dollar amount in \$20 dollar denominations: \$44,168,660.00**

This represents over 70% of all suspicious cash entering casinos.

79 different patrons had SCT buy-ins at least once with \$100,000

17 different patrons had total SCT buy-ins over \$1,000,000

The top 22 patrons had SCT buy-ins totaling: \$45,812,130.00.

This represents 71% of the total dollar amount of all SCT.

The top ten patrons' SCT buy-ins generated 285 separate Gaming Control Act (GCA) Section 86 Reports from the Service Providers and BCLC.

By comparison: the top 22 patrons who generated 285 SCT reports between them, in a nine month period in 2012, is more than the total number of SCT reports generated in 2007, 2008 and 2009 and is only ten less than 2010.

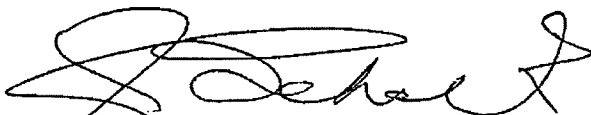
**Using the previously mentioned figures from the first nine months of 2012, it is projected that the yearly totals will be:**

**Total Money Laundering /SCT files: 1,090 + files**  
**Total dollar amount: \$85,300,000.00 +**  
**Total dollar amounts in \$20 denominations: \$59,000,000.00 +**

It has become routine for patrons to buy- in with suspicious currency totaling \$200,000, \$300,000, \$400,000 and on two occasions where \$500,000 and \$580,000 respectively were presented at the cash cage of a casino.

### **Conclusions**

- The number of Section 86 GCA, Suspicious Currency reports received from the Service Providers and BCLC have almost doubled every year since 2010.
- The total dollar amount of reported suspicious currency entering British Columbia casinos continues to rise exponentially, year over year.
- The twenty (\$20) dollar bill is currently used in over 70% of all Suspicious Currency Transactions.
- All large SCT buy-ins are in Canadian currency.
- Asian males are the subject of the majority of all Section 86 GCA Suspicious Currency reports generated within Lower Mainland casinos.
- BCLC initiated several enhancements to the Player Gaming Fund Account (PGFA) in April, 2012 in order to reduce the reliance on cash in British Columbia casinos.
- A GPEB Investigations and Regional Operations Division review of 2012 indicates that enhancements to the PGFA and other measures taken to date to reduce the flow of cash into casinos **have not slowed the flow of Suspicious Currency into Lower Mainland casinos.**
- The continued significant increase of Suspicious Currency being **brought into and accepted** at several casinos in the Lower Mainland is a cause of great concern to the Investigations and Regional Operations Division. We believe that this is significantly impacting the overall integrity of gaming in British Columbia.



Joe Schalk, Senior Director  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

CC: Larry P. Vander Graaf, Executive Director

This is Exhibit "JJ" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



---

A Commissioner for taking Affidavits within British Columbia

**Vander Graaf, Larry P MEM:EX**

---

**From:** Vander Graaf, Larry P MEM:EX  
**Sent:** Thursday, January 17, 2013 2:26 PM  
**To:** Scott, Douglas S MEM:EX  
**Subject:** RE: Investigations Letter to BCLC Dec 27th

*Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch*

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**From:** Scott, Douglas S MEM:EX  
**Sent:** Wednesday, January 16, 2013 11:33 AM  
**To:** Vander Graaf, Larry P MEM:EX  
**Subject:** RE: Investigations Letter to BCLC Dec 27th

That is fine.

---

**From:** Vander Graaf, Larry P MEM:EX  
**Sent:** Wednesday, January 16, 2013 11:29 AM  
**To:** Scott, Douglas S MEM:EX  
**Subject:** RE: Investigations Letter to BCLC Dec 27th

Doug, I was going to bring this up with you tomorrow at our meeting...I still think we should discuss tomorrow.....

*Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch*

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**From:** Scott, Douglas S MEM:EX  
**Sent:** Wednesday, January 16, 2013 11:26 AM  
**To:** Vander Graaf, Larry P MEM:EX  
**Subject:** Investigations Letter to BCLC Dec 27th

Hi Larry,

I received a complaint from Mike Graydon regarding a letter that your office sent to BCLC. He has a number of concerns that on the face of them have weight. I would like to discuss the letter – I am coming out to Vancouver next week so

perhaps we can meet in person. Just to prep you – the following are questions I have – no need to respond before we meet.

1. This past fall I asked all formal correspondence going out to BCLC come through my office before being sent. Why was that not done for this letter?  
I do not understand why this a complaint from BCLC? The Investigation and Regional Operations Division communicates both formally and informally on an ongoing basis with BCLC Corporate Security on a number of issues which include Lottery Retailer issues, Money Laundering issues, Voluntary Self Exclusion matters and many more. We continue to communicate openly both formally and informally with Police on the same issues. I have a number of examples of this correspondence and on occasion it originates from BCLC Corporate Security and on other occasions it originates from the Investigation and Regional Operations Division. This Division replies to the correspondence and receives replies to correspondence from lower levels of both organizations. The continuous exchange of correspondence originating from this office and BCLC include follow-up exchanges of correspondence dated 24 November, 2010 from the Director, Casino Investigations to Assistant Manager Casino Security and Surveillance BCLC, and the reply on the 24 November, 2010 as well as other correspondence to the Manager, Casino Security and Surveillance 14 April, 2010. That correspondence was followed up to the Manager, Casino Security and Surveillance from the Senior Director, Investigations on the 28 February, 2011. All these correspondences were a continuous exchange, correlation and update of our statistical review of mainly Section 86 Suspicious Currency Reporting (SCT) data with the intent of advising BCLC Corporate Security of the concerns and opinions that the Investigation Division continues to have in relation to suspected money laundering activity and loan sharking activity in BC Casinos. These correspondences were almost always a vetted version of a Report of Findings generated by investigators or supervisors in this Division. On the 19 November, 2012 this Division authored a Report of Findings containing a review of statistical data on SCT reporting that again outlined our concerns and opinions. On the 27 December, 2012 nearing the end of the calendar year the Senior Director Investigations authored a letter and sent it to the Director, Operational Compliance which contained the same empirical data and concerns, although vetted to some degree, outlining the Division perspective and concerns as outlined in previous correspondence directly sent to BCLC Corporate Security. I was aware of the memorandum and concurred with the content as I knew it. From my understanding, the Director, Operational Compliance, BCLC contacted the Senior Director Investigations had a professional conversation surrounding the empirical data and our observations in the letter. I was not privy to that conversation. I must point out that BCLC Corporate Security gets identical copies of all Section 86 Suspicious Currency Transactions from the Service Provider that are reported to Division. All this Division did was to continue the analysis and opinions of the empirical data that the Enforcement Division continues to receive from the Service Provider. I believe that this Division felt that this dialogue would continue as always and that was our job. I did not send a copy of the correspondence to you as you were away and at the time did not believe that forwarding it to your Acting ADM was appropriate. I was intending to bring this letter to your attention during our weekly meeting upon your return.
2. As you are aware, Bill McCrea is leading a review of the efficacy of the AML measures put in place this past year taking data from multiple sources to gain a complete picture of this situation. In this context why would you prepare and send this document externally when it likely should inform Bill's broader review.  
On the 19 November, 2012 this Division authored a Report of Findings containing a review of statistical data on SCT reporting that again outlined our concerns and opinions. This Report of Finding was forwarded on that date. I had a number of conversations with Bill McCrae in that regard. On the 27 December, 2012 nearing the end of the calendar year the Senior Director Investigations authored a letter and sent it to the Director, Operational Compliance which contained the same empirical data and concerns, although vetted to some degree, outlining the Division perspective and concerns as we have done and outlined in previous correspondence directly sent to BCLC Corporate Security. I believe that this Division felt that this dialogue would/could continue at that level as always. I could be wrong but I do not believe that this letter in any way impacts the process, is the truth as we know it and could assist both BCLC and Bill in the overall review. I must say that this process and situation provides this Division with very conflicting responsibilities when all the staff surface and truly believe that the Suspicious Currency Transaction situation has impact on the integrity of

gaming. Should we be wrong in that regard someone please advise me that we are incorrect. They believe that it is their role and duty to investigate as Special Provincial Constables and under the Gaming Control Act as best they can in any matter that may bring or continues to bring the integrity of gaming into disrepute. This letter was from an Enforcement perspective only and was only intended to update the situation to BCLC Corporate Security on the data accumulated and analysed from an Investigation perspective.

3. Why is the letter directed to BCLC when the AML solution is a joint effort?

The AML is a joint effort and this Division has continually and will continue to provide input to the Branch AML initiative. From my understanding, the Director, Operational Compliance, BCLC contacted the Senior Director, Investigations had a professional conversation surrounding the empirical data and our observations in the letter. I must point out that BCLC Corporate Security gets identical copies of all Section 86 Suspicious Currency Transactions from the Service Provider that are reported to this Division. All this Division did was continue the analysis of the empirical data that the Enforcement Division and BCLC continues to receive from the Service Provider. I believe that this Division felt that this dialogue would continue as always. It was not intended to impact on an AML solution but was in fact a process this Division has done in the past to inform the BCLC Corporate Security of our concerns.

4. What was the purpose of the letter? There are no recommendations for action made to BCLC so the purpose is unclear.

It is my opinion that the intent of the letter was to demonstrate to BCLC Corporate Security that from an Enforcement perspective that the number of Section 86, SCT Reports continues to increase, the volume of suspicious currency continues to increase, the number of \$20 bills being used continues to increase. It was not our intention to make recommendations to BCLC Corporate Security in relation to a solution, it was to inform them of the Investigation and Regional Operations concerns that the continuation of this increase was from our perspective impacting the integrity of gaming. We have stated this in previous correspondence to BCLC and had discussions a number of discussions at this level. The content of the letter was not to make recommendations that is left to others but was to inform BCLC Corporate Security of the true empirical fact as we knew them.

5. There is reference to an ethnic group in the letter without explanation as to why this is relevant to the issue.

I want to ensure you that this is not intended as derogatory, defamatory or profiling in nature in any correspondence between BCLC Corporate Security and this Division or visa versa, nor was it intended to suggest that in any manner. I am being advised that it is a fact that "most of these patrons are of Asian descent". That is revealed in footage and visual contact of individuals by investigators. In memorandum dated 24 November, 2010 BCLC Corporate Security in itself says "gaming in British Columbia gaming facilities is cash based business. Our experience has been that this is amplified even more when it involves patrons of Asian ethnicity." I am positive that statement was not intended to be derogatory or defamatory in any way, just fact.

I hope this goes beyond the initial read and clarifies the content of the memorandum.

I will see if Susan can book us some time Wednesday afternoon or Thursday morning of next week.

Thanks,

*Doug*

Douglas S. Scott  
Assistant Deputy Minister  
Gaming Policy and Enforcement Branch  
Ministry of Energy and Mines

PO Box 9311, Stn Prov Govt

Victoria, BC  
V8W 9N1

Telephone: 250-953-4482

Website: [www.pssg.gov.bc.ca/gaming](http://www.pssg.gov.bc.ca/gaming)

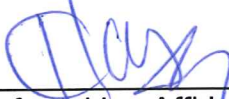
*Know your limit, play within it.*



*Please consider the environment before printing this e-mail*



This is Exhibit "KK" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.

A handwritten signature in blue ink, appearing to be "Larry", is written above a horizontal line.

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A Commissioner for taking Affidavits within British Columbia

**Vander Graaf, Larry P EMNG:EX**

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**From:** Vander Graaf, Larry P EMNG:EX  
**Sent:** Monday, October 21, 2013 12:52 PM  
**To:** 'natalie.malatestinic@cbsa.gc.ca'  
**Subject:** FW: Currency Import Question

**CONFIDENTIAL**

Natalie,

As discussed I have spoken to Liz Boregom in this regard. I now understand that Liz, who was extremely helpful, has been seconded to FINTRAC and that may be an advantage in this regard. I again would like to know (period (1 April 2012 to 2013 or any other yearly period you decide),

1. How many seizures (unreported currency) have been made in the Pacific Region relating to Canadian currency entering Canada from South East Asia? Denominations of Canadian currency? 20s, 100s etc.
2. How much Canadian currency (reported) came into Canada from Hong Kong, Taiwan and or China in the last year?
3. Does anyone have any idea how much Canadian currency is shipped abroad to China or Hong Kong (by the Canadian Govt legally) in a fiscal or calendar year? What amount and denominations?

Reason why I ask,

The horrendous influx of Canadian currency into the Casinos in large amounts, 200k to 500k in \$20 dollar bills (in excess of 80M each of the last two years) continues to cause great concern to the Gaming industry. We believe that loan sharks affiliated to org crime are involved in providing this money to gamblers.

Can this money be smuggled into Canada from abroad (China) and be used by organized crime and loan sharks to fund wealthy Asian gamblers? I do not believe that remote possibility but I am trying to gather as much data as possible to dispute any suggestions that could be happening or is even a remote possibility.

Larry

Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

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-----Original Message-----

**From:** Bodegom, Liz [<mailto:Liz.Bodegom@cbsa-asfc.gc.ca>]  
**Sent:** Tuesday, April 9, 2013 9:48 AM  
**To:** Vander Graaf, Larry P EMNG:EX  
**Subject:** RE: Currency Import Question

Please give me a call anytime m-f, 8-4 to chat. I will be off this Friday, but other than that, I will be available.

Regards

Liz

This is Exhibit "LL" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia

**Vander Graaf, Larry P MEM:EX**

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**From:** Vander Graaf, Larry P MEM:EX  
**Sent:** Wednesday, March 6, 2013 2:29 PM  
**To:** McCrea, Bill J MEM:EX  
**Cc:** Scott, Douglas S MEM:EX; Schalk, Joe MEM:EX; Dickson, Derek MEM:EX  
**Subject:** RE: Money Trails

Bill et al....

I saw the articles as well and the underground banking system in South East Asia has been and continues to work well. I don't disagree that there is movement of funds out of China but I would suggest the majority of the movement is through wire transfers, bonds, companies, etc and it is unlikely that these articles are linked to the 200K in \$20 dollar bills in duffle bags we see entering BC Casinos. However, repayment to the loan sharks by wealthy Asian gamblers could well be through funds in southeast Asia. What I am suggesting is a possibility is that the gambler receives the cash money from loan sharks, who receives the cash money from what I believe is criminal sources, the gambler loses the cash money gambling at the Casino and ultimately repays his debt in the foreign jurisdiction. This happens in Hong Kong and Macau and has been happening for some time. Our investigations and intelligence do not show any evidence that the SCT funds being used in the Casinos through loan sharks has been cash directly smuggled from South East Asia. (87 Million reported SCT in BC Casinos last year approx. 70% in \$20 bills)

In money laundering expect the unusual and anything is possible but we don't believe that the SCT funds in small Canadian Currency packaged in 10K bundles wrapped with elastic bands is smuggled from China. Eg. Recently 40k in \$100 bills entered the Casino in a bag with a small amount of crystal methamphetamine. We have other reasons to believe that the SCT reported funds used by gamblers does not originate from PRC or Hong Kong.

*Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch*

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---

**From:** McCrea, Bill J MEM:EX  
**Sent:** Wednesday, March 6, 2013 10:32 AM  
**To:** Vander Graaf, Larry P MEM:EX  
**Cc:** Scott, Douglas S MEM:EX; Schalk, Joe MEM:EX; Dickson, Derek MEM:EX  
**Subject:** Money Trails

Hi Larry,

As Doug and I have been working to finalize the AML Performance Progress report we have picked up the attached two media articles. Both discuss the dramatic reality of money fleeing China. The first article provides a broad picture of the expanding situation. The second article starts with some specific observations about our Pacific Region (YVR) experience. It is significant to note the difference here on the west coast, from the rest of the country. And, the differences between Canadian laws vs. US laws.

During our AML meetings we have heard that the BC casino experience, with large cash, is different from other jurisdictions. No doubt our province, for many reasons, is different from other parts of Canada and the US. We are

interested in your thoughts about this subject and its relation to our discussion of large cash, given the context of the known movement of money out of China. Thanks.

*Bill*

---

**Bill McCrea** BES MBA FCIP  
Executive Director Quality Assurance & Risk  
Phone: 250 356-1109  
Mobile: 250 508-8962  
Fax: 250 387-1818  
Email: [bill.mccrea@gov.bc.ca](mailto:bill.mccrea@gov.bc.ca)

Province of British Columbia  
Gaming Policy and Enforcement Branch  
Location: 3rd Floor 910 Government Street V8W 1X3  
Mailing: PO Box 9311 Stn Prov Govt Victoria BC V8W 9N1

This is Exhibit "MM" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia



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*immediate, direct,*

January 4, 2011

## 'Dirty money' suspected in B.C. casino deals

By CBC News  
CBC News

*Millions of dollars flowed through two B.C. casinos in 2010 in what police say may have been a money-laundering scheme, CBC News has learned.*

Millions of dollars flowed through two B.C. casinos in the spring and summer of 2010 in what the RCMP believes may have been a sophisticated scheme to launder money from the drug trade, CBC News has learned.

In documents obtained from a Freedom of Information request, the casinos reported to the B.C. Lottery Corporation in late 2010 a multimillion-dollar spike in suspicious transactions, but police were not immediately informed.

In one instance in May, a man entered the Starlight Casino in New Westminster carrying chips worth \$1.2 million and immediately had casino staff convert the chips to cash.

**'We're suspicious that it's dirty money.'**-RCMP Insp. Barry Baxter

And after stuffing the money into a suitcase, the man said he was about to catch a plane and was concerned about questions from airport security about such a large amount of currency.

He requested and was given a letter from the staff confirming the money was a casino payout, the documents said.

The casino characterized the large transaction as "unusual activity" in its report to the B.C. Lottery Corporation.

In another incident days later, a man entered the River Rock Casino in Richmond and bought gambling chips with \$460,000 in \$20 bills. The casino report on the incident noted that "none of [the man's] actions are suspicious."

### \$8 million in 90 days

Over the next three months, staff at both casinos reported a combined total of \$8 million in 90 large cash transactions, an average of one a day.

Police became aware of the activities after the fact, said Insp. Barry Baxter, who is with the RCMP's Integrated Proceeds of Crime Section.

"We're suspicious that it's dirty money," Baxter told CBC News. "The common person would say this stinks, there's no doubt about it."

"The casino industry in general was targeted during that time period for what may well be some very sophisticated money-laundering activities by organized crime."



Authorities are concerned that criminals can try to confound investigators by hiding illegally gained cash in a complex set of financial transactions at establishments like casinos, which have a large cash flow.

The CEO of the Starlight Casino declined a request for an interview regarding the \$1.2-million cash-for-chips transaction.

Howard Blank, a spokesman for the River Rock Casino, said the summer was unusually busy at that gambling site. "We had a lot of influx of tourism from Southeast Asia, from Mainland China," Blank said.

He also said it's not unusual for gamblers to walk into a casino with bags of \$20 bills.


"A lot of that money is people who have businesses here, who are taking the money out of their business and they're coming in and they're gambling," he said.

That explanation does not account for the amounts involved in the string of unusually large transactions in 2010, according to former RCMP investigator Terry Betts.

"How many cash businesses can consistently ... generate six figures of cash?" said Betts. "I challenge anybody to give me an example."

Casino reports filed to the Financial Transactions and Reports Analysis Centre of Canada, a federal money-laundering watchdog, show that while the dollar value of suspicious transactions at casinos in other provinces has stayed the same or gone down in the past year, they have tripled in B.C.

Canadian Broadcasting Corporation

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This is Exhibit "NN" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia

**Date:** November 22, 2010

**Prepared for:** ADM, Derek Sturko

**Issue:** Addressing illegal gambling and criminal activity associated with gambling

**Background:**

The pervasiveness of cash transactions in gaming venues has resulted in a long tradition of illegal activity associated with gambling. For the purposes of enforcement considerations, this illegal activity can be divided into two categories: illegal gambling and illegal activity at licensed gaming venues. Examples of illegal gambling range from localized operations such as bookmaking or common gaming houses to international activity such as the unlicensed online gambling websites (i.e. Bodog, PartyPoker) and lottery ticket printing and resale. Illegal activity at licensed gaming venues can range from small scale theft or cheating at play to systematic money laundering and/ or loan sharking by organized crime.

As part of the provincial regulatory activity of the Gaming Policy and Enforcement Branch (GPEB), the Investigations Division has a mandate to investigate and sanction illegal activity occurring at licensed gaming venues in cooperation with police of jurisdiction. Illegal gambling occurring at unlicensed venues is outside the mandate of the Investigations Divisions and the onus falls on police to investigate such activity and enforce the law. In actuality, police devote little or no resources to gambling related crime because of other priorities that take precedence. The GPEB Investigations Divisions investigates and sanctions low to mid-level illegal activity at licensed venues, but lacks the staff resources, equipment, and investigative authority to address high level organized criminal activity centred on money laundering and loan sharking. Such investigations would require surveillance capacity, wire tapping, and firearms for emergency situations, all of which is well beyond the budget of GPEB and the scope of its staff in their role as Special Police Constables.

In order to link the gaming expertise of the Investigations Division with the investigative capacity of police, the Province created the Integrated Illegal Gambling Enforcement Team (IIGET) in 2004/05, which consisted of branch investigators and 12 RCMP officers. For various reasons, IIGET did not produce significant results beyond the existing work of the Investigations Divisions and was disbanded at the end of 2008/09. Currently, there is no mechanism being used for investigating and penalizing illegal gambling and high level criminal activity at legal gaming venues despite public expectations that these issues are being addressed by the government.

The scope of illegal gambling and illegal activity at licensed gaming venues is such that eradicating both would require such a massive increase in resources and regulating activity as to be unrealistic. Recognizing that any additional resources directed by the government to illegal gambling and criminal activity at licensed venues will not be sufficient for a comprehensive solution, the following points were considered in determining a strategic approach to addressing illegal gambling:

- Unregulated online gambling is a massive international industry that would require the concerted effort of the entire Canadian RCMP in order to conduct enforcement that would have

any impact. Similarly, investigating illegal lottery ticket printing and resale would require a massive police investment. In both cases, the risks to the B.C. citizens and business are significantly lower than the scope of the enforcement required to impact either activity. Therefore, any new efforts regarding illegal gambling and illegal activity at licensed gaming venues should be focused elsewhere.

- Common gaming houses, unregistered video lottery terminals, and bookmaking form a spectrum of mid-level illegal gaming activity that is sometimes associated with organized crime. Investigations into these forms of illegal gambling require police participation because of the potential dangers associated with sites of these activities and the often criminal background of the operators.
- Money laundering and loan sharking are organized criminal activities that make use of gaming venues and specific forms of gambling to operate. Both the RCMP and FINTRAC have concluded that these activities are occurring with alarming frequency and with high monetary sums in Canadian casinos. Effective investigations into these activities requires surveillance capacity, wire tapping, and firearms for emergency situations, making it beyond the scope of the GPEB Investigations Division staff, who have Special Constable Status.
- Illegal activities at licensed gaming venues, such as theft, fraud, and cheat at play are within the scope of the GPEB Investigations Divisions and are effectively regulated by investigation activities in coordination with the police of jurisdiction.
- The Investigations Divisions possesses considerable expertise and collected intelligence on gaming related issues. Currently, there is no operating mechanism to merge the resulting information with existing intelligence on criminal activity in B.C. to create a more comprehensive and useable profile of illegal gambling and illegal activity at licensed gaming venues in B.C.

In sum, there are three areas where new initiatives by the Province would significantly improve deterrence of illegal activity associated with gaming:

1. Money laundering and loan sharking associated with commercial gaming venues, and
2. Illegal gambling in the form of common gaming houses, unlicensed Video Lottery Terminals, and bookmaking, and
3. Intelligence sharing and coordination.

#### Recommendations

The following three recommendations are put forward to address the above three areas. Each recommendation could function as a self-contained initiative, but implementing multiple recommendations would have the potential to complement and enhance the effectiveness of the other initiatives. Each recommendation varies significantly in scope, implications, and required resources. What follows is not a detailed business case, but a brief summary for discussion purposes.

**Recommendation 1:****Create a Combined Forces Special Enforcement Unit (CFSEU) task force to address organized crime operations related to gambling**

CFSEU already has a mandate to disrupt and suppress organized crime which affects British Columbians. The unit has a presence in major urban centres across British Columbia, where money laundering and loan sharking are likely to occur. Given that RCMP and FINTRAC findings suggest that much of the suspected money laundering and loan sharking activity at casinos is either run by or affiliated with organized crime, assigning a task force to focus on these activities would be a logical extension of the CFSEU mandate. CFSEU has the resources and authority to operate surveillance, conduct wire taps, and make warranted arrests of dangerous individuals, all of which are necessary components of effective enforcement on money laundering and loan sharking. Smaller scale operations by this task force could focus on illegal gambling such as common gaming houses, which often have ties to organized criminal activity. For all these investigations, GPEB Investigations Divisions would act as a resource for CFSEU as needed, providing intelligence and gaming expertise.

While a detailed business case has not yet been conducted, an order of magnitude estimation for the size of the task force necessary to address money laundering and loan sharking at licensed gaming venues in an effective manner would be approximately 40 CFSEU officers. A similarly rough estimate of required budget would likely be between \$10 and \$15 million annually.

It might reasonably be asked why this approach would be more effective than the now disbanded IIGET, which produced minimal results. The following considerations would indicate a different and more positive result from a CFSEU taskforce:

- The MOU governing IIGET established it as joint partnership between GPEB and the RCMP. Such oversight runs contrary to police expectations of complete independence over investigation and reporting aspects and likely contributed to low commitment from the RCMP.
- The RCMP is not directly accountable to the Province. This likely contributed to two problems. One was the chronic understaffing by the RCMP and its frequent changes in personnel. The other was the unproductive focus for over two years on unregulated online gambling, which as noted, was beyond the capacity of IIGET to address, and was not provincial priority.
- CFSEU is accountable to the Solicitor General through the Police Services Board. A sub-board involving the ADM of GPEB could be established to ensure the task force retained its focus on illegal activities associated with gambling.
- As money laundering and loan sharking in particular, and common gaming houses to a lesser extent, involve the proceeds of organized crime, an opportunity exists to obtain federal funding to combat organized crime for a CFSEU task force.

**Pros**

- A successful investigation leading to an arrest and conviction of money launders and/ or loan sharks would significantly curtail money laundering and loan sharking activities, while also

removing criminal individuals who are likely involved in drug trafficking, violence, and fraud, and thus harming British Columbians through multiple venues.

- The lack of enforcement activities to date may provide an advantage to investigators as criminals participating in multiple illegal activities may be less vigilant in evading detection from money laundering or loan sharking at casinos than in activities such as drug trafficking that draw more focus from police.

#### Cons

- A significant additional cost to government
- A CFSEU task force would require sustained cooperation from the Police Services Board to ensure that its focus remained on illegal activity associated with gambling and was not diverted for sustained periods to other investigations involving violence or drug trafficking.

#### Recommendation 2:

In coordination with the B.C. Lottery Corporation (BCLC), impose a requirement on service providers (i.e. casinos) that limits the number of twenty dollar bills an individual can use in a 24hr period to purchase chips or slot machine credits.

Much of the appeal of money laundering through casinos resides in the opportunity to transform twenty dollar bills (the most frequent denomination in street level drug transactions) either into higher denominations, a process known as "refining," or into cheques that signify "verified wins," which legitimizes the money. The following are some examples of methods through which either process can occur:

- Feeding a set amount of money through a slot machine over an extended period of play, i.e. 10,000 spins, without replaying with any winnings. Over an extended period of play, the payout percentage will come close to the pre-set rate of return (on average 92% in B.C.), allowing the individual to cash in their slot ticket(s) for a verified cheque.
- Purchasing chips with cash, playing a minimal return and then pretending to have gambled so as to obtain a cheque for a verified win. Please note that this technique can involve a number of complex variations, including exchanging chips with other players and sending other individuals to cash out chips.
- Using proceeds of crime to fund loans to gamblers, who return payment in the form of endorsed cheques, or other legitimate payments.

All of these processes start with an individual entering the casinos with a monetary sum in twenties well beyond what would be accepted by financial institutions. If casinos imposed a limit on how many twenties in a given 24hr period an individual could use, enforced it, and were subject to sanctions for failing to enforce it, the appeal of casinos as venues for money laundering would be significantly curtailed.

#### Pros

- Process could be implemented by existing staff.

- Proactive measure that would enhance the social responsibility profile of casinos.

#### Cons

- Implementation process would likely be complex
- Has the potential to significantly reduce revenue by
  - Preventing large sums associated with illegal activity from being used in a casino, and
  - Making B.C. less attractive to individuals not associated with crime, but who for cultural reasons, are disinclined from gambling in venues that require extensive reporting. The example frequently cited are small business owners in the Lower Mainland of Chinese origin who tend to spend cash when betting and resent the appearance of government oversight on their activities.

**Recommendation 3: Fund a position within Criminal Intelligence Services British Columbia (CISBC) to consolidate information provided by GPEB (and possibly other PSSG branches such as Liquor) with criminal databases that GPEB staff do not have permission to access.**

As noted on their website:

Criminal Intelligence Service British Columbia and Yukon Territory (CISBC/YT) is one of ten Provincial Bureaux operating independently within the Criminal Intelligence Service Canada (CISC) umbrella. Its fundamental purpose is to research and produce timely, relevant, analytical products that assist in the detection and disruption of serious and organized crime in both BC and Yukon. Staffed with employees currently seconded from the Royal Canadian Mounted Police and from the Vancouver Police Department, CISBC/YT provides these products for the greater law enforcement community to assist both police managers and organized crime investigators in making intelligence led decisions.

A recurrent problem for GPEB, both for its Investigations and Registration Division, is that suspicious activity by an individual cannot often be linked to other information indicating association with criminals or suspicion of criminal activity. A funded position with CISBC focused on individuals involved in gambling or who are seeking to register as a licensed gaming worker/ corporation would extend the effectiveness of GPEB's investigations and allow for more coordination with police.

#### Pros

- Would greatly enhance intelligence gathering and investigation regarding illegal gambling and undesirable persons seeking to register as a licensed gaming worker/ corporation.
- Minimal additional investment by government.

#### Cons

- To use this intelligence to deter money laundering and/or loan sharking, this recommendation would have to be used in conjunction with recommendation 1, or similar police initiative.

**Conclusion**

Assuming approval in principle, more work needs to be done to develop a feasible business case for all three recommendations. Further steps towards implementation would require this more definitive assessment of feasibility. Such steps will not be undertaken without support from senior levels of the ministry given that all three recommendations require either additional resources or the potential loss of revenue. It should be noted, however, that at present, there is no effective disruption of illegal gambling or money laundering and loan sharking at casinos. Initiating measures to deter these activities will incur costs whether it is any or all of the recommendations in this paper or any alternatives developed at a later time.

Draft and Confidential



This is Exhibit "OO" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia

**Vander Graaf, Larry P FIN:EX**

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**From:** Vander Graaf, Larry P FIN:EX  
**Sent:** Wednesday, September 24, 2014 3:06 PM  
**To:** Mazure, John C FIN:EX  
**Cc:** Bell, Suzanne N FIN:EX  
**Subject:** Assist IHIT in recent "Targeted Killing"  
**Attachments:** 20140924145428.pdf  
  
**Importance:** High

Urgent Confidential at this time.

RCMP will be releasing brief details on Birinder Khangura (29 years) being killed in what is being called by RCMP as "believed to be a Targeted Killing". Khangura is subject of many Suspicious Currency Transactions (SCT) in BC Casinos that have been reported to this Division as per legal requirement of Section 86 of the Gaming Control Act. RCMP are aware of those suspicious currency transactions through liaison with Investigation Division GPEB. No further comment on this police investigation.

Briefing Note attached....

Larry

Larry Vander Graaf, Executive Director  
Investigations and Regional Operations  
Gaming Policy and Enforcement Branch

*This message is confidential and is intended only for the individual named. It may contain privileged information. If you are not the named addressee you should not disseminate, distribute or copy this e-mail. Any unauthorized disclosure is strictly prohibited. If you receive this e-mail in error, please notify the sender immediately and delete this e-mail from your system.*

**Briefing Document****Page 2**

**TITLE:** Assist Police with a Targeted Murder Investigation.

**ISSUE:** Murder Victim, Birinder Khangura, has a history of Suspicious Cash Transactions in BC Casinos.

**BACKGROUND:**

14-09-20

A male by the name of Birinder Khangura was shot and killed in Surrey in what the police have determined was a targeted hit. The RCMP Federal Organized Crime Unit subsequently contacted the Burnaby Investigations office requesting any information we have on Khangura and the Suspicious Cash Transactions.

It was determined that Khangura has been the subject of 36 Suspicious Cash Transaction files reported to GPEB Investigations by way of Section 86, Gaming Control Act. The vast majority of these investigations related to Khangura bringing suspicious cash into numerous Lower Mainland Casinos. The total amount of suspicious cash involved is in excess of \$660,000.00, and is primarily in 20 dollar denominations.

GPEB Investigations is continuing to assist the RCMP Investigators with this murder.

**DISCUSSION:**

The police investigation is ongoing and no further details will/should not be released.

This is Exhibit "PP" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.



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A Commissioner for taking Affidavits within British Columbia

**Ministry of Finance**  
**BRIEFING DOCUMENT**

**To:** John Mazure, ADM, GPEB

**Date Requested:**

**Initiated by** Larry Vander Graaf

**Prepared:** 8 October, 2014

**Ministry**

**Phone Number:** 604-660-0276

**Contact:** Larry Vander Graaf, Executive Director

**Email:** [Larry.VanderGraaf@gov.bc.ca](mailto:Larry.VanderGraaf@gov.bc.ca)

Investigation and Regional Operations 2014-10-08

**CLIFF Number**

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**TITLE:** One Million Dollar Suspicious Currency Transaction Buy-In

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**PURPOSE:**

FOR INFORMATION

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**COMMENTS:**

INVESTIGATION IS ONGOING

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On the 24 and 25 September, 2014 Mr. Kesi WEI, a purported wealthy business man, bought in within a two hour time frame, with \$1,000,070.00 cash at River Rock Casino High Limit room. The buy-ins included:

First buy-in \$500,040.00 in twenty dollar bills wrapped in elastic bands in ten thousand dollar bundles. Most cash wrapped in silver plastic bags.

Total weight: 55lbs.

Second buy-in almost entirely in twenty dollar bills total \$500,030.00 wrapped in ten thousand dollar bundles. Most cash wrapped in silver plastic bags.

Total weight: 55 lbs.

Total weight of both buy-ins is in excess of 110 lbs of twenty dollar bills.

WEI seen outside casino associating with Kwok TAM, (barred from Casino for suspected loan sharking) Jain Rong (f) and Bo BAO. All are associated with known high level loan shark Paul JIN. JIN is well known by all and known to associate with organized crime.

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Executive Director approval: \_\_\_\_\_

ADM approval: \_\_\_\_\_

DM approval: \_\_\_\_\_

**Briefing Document****Page 2****DATE PREPARED:** 8 October, 2014**TITLE:** One Million dollar suspicious currency buy-in.**ISSUE:** One million dollar buy-in of suspicious currency in twenty dollar bills accepted at River Rock Casino.**BACKGROUND:**

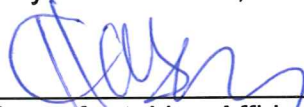
Suspicious currency transactions are legally required to be reported to the Investigation Division of the GPEB in accordance with Section 86 of the Gaming Control Act. In the fiscal year in excess of \$118,000,000 in suspicious currency transactions were reported with approximately 75% of that suspicious currency being twenty dollar bills. This is the largest suspicious currency transaction report and the person buying-in with the suspicious currency was observed associating outside and receiving cash from persons barred from the casino for loan sharking activities. The loan sharks are in fact associated with a specific known loan shark and an organized crime associate.

**DISCUSSION:**

This investigation is ongoing. Police have been advised of our Report of Findings.

*Copies forwarded to:*  
*Terris V. ED Audit*  
*Ken M. ED Registration*  
*Rolene Johnson - Dir Corp Reg.*  
*all Directors.*

This is Exhibit "QQ" referred to in the affidavit of Larry Vander Graaf sworn before me this 8<sup>th</sup> day of November, 2020 at Coquitlam, British Columbia.

A handwritten signature in blue ink, appearing to be "Stacy", written over a horizontal line.

A Commissioner for taking Affidavits within British Columbia



December 2, 2014

Larry Vander Graaf  
6882 Ryall Crescent  
Delta BC V4E 2H7

Dear Larry Vander Graaf:

Re: Notice of Termination of Employment

It is with regret, I am writing to confirm your position as Executive Director, Investigations and Regional Operations has been declared surplus to the needs of the Province of British Columbia effective end of day, December 2, 2014. This action results from operational requirements and is in no way a reflection of the quality and value of your service to the Government of the Province of British Columbia.

Confidential career and/or financial counselling support is available to assist in your transition from your current position to other employment. To access these services, please contact Caroline Chu of the BC Public Service Agency at 250-387-3832 or by e-mail at [Caroline.Chu@gov.bc.ca](mailto:Caroline.Chu@gov.bc.ca).

I regret this action is necessary and wish you well in your future endeavors. Thank you for your many years of service to the BC Public Service.

Sincerely,

Cheryl Wenezenki-Yolland, CPA, CMA, FCMA  
Associate Deputy Minister

Attachment

cc: Caroline Chu, Specialist, Workforce Restructuring Services, BCPSA