

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

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

**AFFIDAVIT**

I, Terry Towns, of the City of Penticton, in the Province of British Columbia, MAKE OATH AND SAY:

1. I am the former Vice President of Corporate Security and Compliance of the British Columbia Lottery Corporation ("BCLC"), a participant in this Commission of Inquiry, and as such, have personal knowledge of the facts and matters hereinafter deposed to, save and except where such facts and matters are stated to be made upon information and belief, and as to such facts and matters I verily believe them to be true.
2. I swear this affidavit to provide evidence to the Commission of Inquiry into Money Laundering in British Columbia pursuant to a summons issued to me pursuant to the *Public Inquiry Act*.

**Policing and Educational Background**

3. Prior to joining BCLC in 2000, I was an RCMP officer for 29 years, 26 of which were spent investigating drugs and organized crime cases while stationed in Alberta and British Columbia.
4. During my time with the RCMP, I participated in investigations focusing on high level conspiracy drug cases that required using informants, agents, electronic surveillance and physical surveillance. The cases were often national and international in scope and required the assistance of foreign law enforcement agencies.
5. The major investigations that I was involved in as a team leader were conducted primarily in the late 1980s and early 1990s with RCMP Integrated Proceeds of Crime ("IPOC")



investigators as part of the investigative teams. I was involved in the seizure of cash in several RCMP investigations related to drug trafficking in the 1980s and early 1990s.

6. In or about the late 1980s, I received training in the RCMP Anti-Drug Profiteering Course, which, among other things, provided instruction on how to identify and prevent money laundering. I also attended several seminars and workshops on anti-money laundering ("AML") conducted by the RCMP.

7. In April 1994 I was commissioned to the rank of Inspector and transferred to Greater Vancouver Drug Section ("GVDS") as the Officer in Charge of Drug Operations. GVDS was the largest federal drug unit in Canada at the time with over 120 personnel positions. I was promoted to the Officer in Charge of GVDS in 1996.

8. I attended AML seminars during my time with the GVDS, initiated by the three large IPOC units in Vancouver, Montreal and Toronto. In 1997, I attended the Royal Hong Kong Police Triad Course for Overseas Police Officers. The course dealt with Chinese triads and their criminal enterprises. I led the United Nations Drug Control Program delegation of RCMP officers to China in the late 1990s, who trained a number of Chinese federal police in physical surveillance techniques and drug investigation procedures. In 2000, I was selected as the RCMP participant to attend the Australian Federal Police Management of Serious Crime Course. Several officers from various police forces attended which consisted of major crime management with a component on money laundering.

9. GVDS investigations were largely international in scope, with the USA, Mexico, Hong Kong, Australia, South America and China comprising most of the case origins. The major cases had IPOC investigators attached to each investigation, working with the GVDS investigation teams. Federal prosecutors were assigned to those cases from the IPOC unit. From my police experience, I am aware of the many challenges of major police investigations, including use of informants and agents and electronic surveillance.

10. My experience at that time (mid-1990s) was that most issues related to money laundering drug crimes indicated that criminals were anxious to convert any proceeds from Canadian crimes to US funds. It is my understanding that US currency was required to conduct international drug transactions on any import basis. As such, I understood that Canadian currency was of little use in any international drug transaction which were conducted in US currency.

11. I also hold a diploma in Business Administration with a Major in Accounting from the Southern Alberta Institute of Technology from 1995 and completed the Segal School of Business-Executive Management Program in 2006/07 from Simon Fraser University.
12. I retired from the RCMP in the fall of 2000.

**Joining BCLC (Director of Security, 2000 – 2008)**

13. In November 2000, I was hired by BCLC as Director of Security. At that time BCLC was not directly responsible for reporting to the Financial Transactions and Reports Analysis Centre of Canada (“FINTRAC”) and the current *Gaming Control Act*, SBC 2002, c 14 (*GCA*) had not yet been enacted.

14. In my role as Director of Security, I reported to the Vice President of Finance, Doug Penrose, with an indirect reporting line to the CEO, Vic Poleschuk. The BCLC security staff was quite small at that time with approximately 25 personnel comprised of lottery investigators and manager, front desk staff at both the Kamloops and Richmond offices, clerical staff, a small group of casino investigators and manager and a small compliance group.

15. My primary roles and responsibilities for my first years with BCLC were for the security of three BCLC offices, lottery security, bingo security and casino gaming security. I was tasked with improving, developing and enhancing policies and procedures for gaming security under the mandate of BCLC. This including drafting and developing casino policy and procedures related to casino security and surveillance and patron safety. The procedures were required to be compliant with the *Gaming Act* of the time, the *Criminal Code* and other provincial laws.

16. Attached to this affidavit and marked as **Exhibit “1”** is a copy of a draft BCLC Corporate Security Departmental Operating Plan that I prepared, dated October 21, 2004 [BCLC0015114].

**Developments in the Gaming Industry in early 2000s**

17. During my early years at BCLC, a number of important developments occurred in the BC gaming industry: a) BCLC’s assumption of responsibility for casino gaming in the province; b) the establishment of casino reporting obligations to FINTRAC, and c) the enactment of the *Gaming Control Act*.

**a) BCLC Responsibilities**

18. Beginning in or about the late 1990s, I understand that the casino industry began to evolve in BC from a charity casino model to being conducted and managed by BCLC with private sector service provider companies providing day-to-day operational services pursuant to service agreements with BCLC ("Service Providers"). Generally, the Service Providers provided the gaming sites and staff to operate the casinos, while BCLC staffed the casinos with gaming control managers and slot machine technicians and provided gaming equipment including slot machines.

19. The casino industry was still quite small in BC for the first few years after I began with BCLC, with most of the casinos in the bottom of hotels or small stand-alone buildings. The casinos were small, had limited numbers of slot machines and limited operating hours. With government approval, it was BCLC's vision to upgrade these facilities over time to a more modern gaming facility, with more amenities and entertainment for the public.

20. With larger facilities being developed it was also necessary to modernize the security and surveillance capabilities of the casinos. At the time I joined BCLC and until in or about 2002 when the *GCA* was enacted (described in greater detail below), Service Provider reporting obligations were poorly defined. Each Service Provider had its own reporting system with analog surveillance systems and reported to BCLC via email.

21. In or about 2003 or 2004, the iTrak casino reporting system was purchased by BCLC on my initiative and customized to support mandatory casino reporting to the Gaming Policy Enforcement Branch ("GPEB"), and later FINTRAC. All the Service Provider surveillance departments were required to switch to the new system after being trained by BCLC. The system allowed BCLC to see all the casino incident files across the province at the time they were created and permitted standardized reporting from all casinos and Service Providers. Subsequently other provinces such as Manitoba, Saskatchewan and Ontario adopted the iTrak reporting system.

22. In the early 2000s new surveillance and security policies were developed by BCLC in response to shifting security needs related to the growth of the casino industry in BC, requiring the implementation of digital surveillance systems by Service Providers. BCLC attempted to implement facial recognition into the iTrak system on several occasions over the years. In or



about 2008 or 2009, licence plate recognition systems were installed in the Lower Mainland casinos, which allowed for the identification of vehicles as they entered the properties, including vehicles connected to patrons who were voluntarily self-excluded from BCLC casinos, banned or on “watch” status in iTrak.

23. In that regard, a patron could be placed on “watch” in iTrak by BCLC investigators for any number of reasons, including involvement in incidents of assault, theft, or chip passing. BCLC investigators could include surveillance photos and narratives on the patron’s profile, providing additional information about the patron and their activities of concern. iTrak would then send an automatic alert to Service Provider surveillance staff whenever that patron was identified in the casino, so that surveillance staff could monitor their activities.

#### **b) FINTRAC Reporting**

24. BCLC’s FINTRAC casino reporting obligations pursuant to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, SC 2000, c 17 (*PCMLTFA*) were established early in my tenure with BCLC.

25. The *PCMLTFA* established two main types of reports that BCLC was required to submit to FINTRAC: Suspicious Transaction Reports (“STRs”) and Large Cash Transaction Reports (“LCTRs”).

26. LCTRs were reported for all cash transactions of \$10,000 or more in a 24-hour period, including any single cash buy-in of \$10,000 or more, or multiple cash transactions by a patron within a 24-hour period that total \$10,000 or more. Later, BCLC was also required to report cash disbursements of \$10,000 or more in a 24-hour period.

27. Any transaction that was considered potentially suspicious according to prescribed FINTRAC indicators, whether it be an attempted or completed transaction, was to be documented in iTrak by the Service Provider. Where the circumstances of the file were reviewed by BCLC and confirmed to be suspicious, BCLC would submit to FINTRAC an STR as soon as practicable. An STR could be filed with FINTRAC regardless of the amount of cash involved, based on the presence of FINTRAC indicators and suspicious behaviours.

28. BCLC provided STRs to GPEB, IPOC and police of jurisdiction at the same time they were reported to FINTRAC. My recollection is that BCLC began providing STRs to IPOC and



police of jurisdiction either at the same time or shortly after it began reporting to FINTRAC and GPEB.

29. Initially, and as set out above, BCLC's reporting process was manual with each Service Provider having its own analog reporting system and reporting to BCLC via email. Eventually, the iTrak centralized reporting system was purchased by BCLC and implemented for all Service Providers.

30. I do not recall any major FINTRAC reporting issues in my early years at BCLC. There were occasional problems where something that should have been reported was not, but my perception was that at a company level the Service Providers were committed to compliance.

31. Attached to this affidavit and marked as **Exhibit "2"** is a copy of a letter dated June 22, 2005 from Terri Van Sleuwen to me, attaching GPEB's audit report of BCLC's FINTRAC reporting for the period of April 1, 2004 – March 31, 2005 [BCLC0000001].

**c) Gaming Control Act**

32. To my recollection, the *GCA* was enacted in 2002 or 2003 and outlined the respective roles and responsibilities of GPEB and BCLC. In anticipation of the enactment of the *GCA*, BCLC began updating its operational policies and procedures for the Service Providers to operate within and to be audited against.

33. Prior to the enactment of the *GCA*, in or about 2001, I attended meetings with GPEB's predecessor, the Gaming Audit and Investigation Office, on behalf of BCLC to provide input into the new legislation and in particular the regulations from an operational standpoint. I do not specifically recall who else attended these meetings.

34. Based on my attendance at those meetings, I recall that BCLC supported the need for regulation in the casino industry as it was strictly a cash-based business at that time and BCLC did not have any police authority. I do not recall any discussions focusing on money laundering or the proceeds of crime at these meetings.

35. Attached to this affidavit and marked as **Exhibit "3"** are copies of minutes from two BCLC security meetings that I attended in 2001 and 2002 where the new *GCA* was discussed [BCLC0010750; BCLC0010751].

36. Attached to this affidavit and marked as **Exhibit "4"** is a copy of a letter dated March 28, 2003 from Derek Sturko to Vic Poleschuk, then President and CEO of BCLC, cc'ing me and others, regarding the reporting of offences under the *GCA* [GPEB0068].

### **Common Gaming Issues in my Early Tenure**

#### **a) Organized Crime and Relationship with Police**

37. I do not recall organized crime presenting a major issue at the beginning of my tenure with BCLC, but I recall that on occasion suspected members of organized crime groups would be identified by BCLC investigators in casinos. To the extent that suspected members of criminal organizations were present in BCLC casinos, BCLC's concerns with their presence included the potential for money laundering and loan sharking as well as public safety concerns.

38. The *GCA* allowed BCLC to bar undesirable patrons from BC gaming facilities. If BCLC investigators were aware of suspected organized crime or gang affiliated persons in the casino, such individuals could be barred as undesirable. BCLC investigators barred dozens of such persons over my tenure at BCLC. Persons who violated casino policies could likewise be barred by BCLC.

39. BCLC investigators hired in the initial years of my tenure were primarily former police officers. As the casino industry grew at a very rapid pace in BC, BCLC hired more investigators and compliance personnel. The BCLC investigators were initially assigned to more than one casino and would travel between them on a daily basis. The BCLC investigators would, amongst other things, review incident reports and surveillance footage from the previous day to determine a course of action on a given incident, if any.

40. In or about 2005 or 2006, I made the decision to station BCLC investigators to work in individual casinos. The stationing of investigators in casinos evolved over several years with more investigators being added to specific sites as necessary. This decision was made in part to ensure BCLC investigators received information in a more timely manner so that appropriate action could be taken if necessary. It was also intended to allow BCLC investigators to develop relationships with Service Provider staff at that particular site and develop contacts and relationships with the police major crime units or gang units of that particular jurisdiction.

41. To the best of my recollection, the first site to have dedicated BCLC investigators on-site was River Rock Casino Resort ("River Rock"). As set out below, River Rock was the busiest BCLC casino from the time it opened in 2004. In addition, because it was a newer and larger facility than other BCLC casinos, it had available office space that could be exclusively used by BCLC investigators.

42. I do not recall any particular instance during this time where a law enforcement group was not helpful to BCLC in relation to deterring suspected organized crime in BCLC casinos. On some occasions law enforcement would provide BCLC with information about suspected gang members or persons connected to organized crime who attended BCLC casinos, and BCLC could bar those persons.

### **c) Cash Facilitation and Chip Passing**

43. At the beginning of my time at BCLC, BCLC casino investigators spent a fair amount of time dealing with issues relating to cash facilitation, i.e. players providing money and chips to other players at and around gaming facilities.

44. For clarity, cash facilitators were often referred to as "loan sharks" colloquially during my time at BCLC, including in correspondence between BCLC and GPEB and in BCLC policy and procedure documents (see e.g. Exhibit 4 above). In my view that description was not technically or legally accurate, as BCLC could not establish the requisite criminal rate of interest for "loan sharking". A more accurate description of these individuals would be "cash facilitators" or "suspected loan sharks", however describing a person as a "loan shark" was considered useful for BCLC's training of Service Providers' employees, as the term seemed to be widely known amongst Service Providers. As such, the term "loan shark" was used by BCLC in part to ensure the mandated reporting by Service Provider staff regarding suspicious activities, including chip passing and cash facilitation.

45. Suspected cash facilitation or "loan sharking" was a reportable offence under the *GCA* and was reported by BCLC to GPEB when identified. I believe BCLC investigators at that time were aware of the risk of cash facilitation and were trained to identify cash facilitators on the gaming floor. The basis for this belief is the fact that that all BCLC investigators at that time were former police officers who had historically been trained in surveillance and observational



skills. I observed that BCLC investigators in turn trained Service Provider staff to be aware of cash facilitators.

46. At that time (early 2000s), an individual who was identified as engaging in cash facilitation might be given a warning or provincially banned by BCLC. Service Providers could also bar individuals from their properties. BCLC's approach to dealing with these individuals varied depending on the circumstances, including whether they had previously been warned by BCLC, whether they were suspected to be affiliated to organized crime, and the nature of the activity in which they were engaged. Similarly, association with a known cash facilitator may or may not lead to sanctions, depending on the nature of the transaction and other factors.

47. I was involved in the development of BCLC policy regarding cash facilitation, including policy in relation to chip passing which had been in place for several years prior to my retirement in 2012. Chip passing was prohibited even between friends and family members.

48. BCLC's chip passing practice at the time of my departure was that Service Provider surveillance staff who observed chip passing would radio down to Service Provider staff on the gaming floor to alert them of the incident. The gaming floor staff member would then speak with the patron in real time, either alone or in conjunction with a BCLC investigator if available, and the incident would be detailed in iTrak. A BCLC investigator would then review the iTrak report along with the surveillance footage. If the BCLC investigator was satisfied with the action taken by the Service Provider staff, the BCLC investigator would close the incident report. If the BCLC investigator was not satisfied with the Service Provider staff's action, they could take actions ranging from a warning, to initiating a barring in consultation with the BCLC investigator's supervisor.

49. According to BCLC general practice at the time, BCLC casino investigators were not to direct or instruct Service Provider staff without Service Provider management consensus, as BCLC was not the employer of Service Provider staff. In my view there were sound, practical reasons for this procedure. Many incidents observed on the gaming floor, including chip passing, were required to be dealt with in real time and BCLC personnel were not always readily available. Moreover, the casinos were open 24/7, the Service Provider staff quite often knew the patrons, and in many cases there were language issues requiring translation that could be dealt with by Service Provider staff. BCLC also did not have investigators on-site full-time at all casinos, including at many of the Interior and Vancouver Island casinos.



50. Some chip passing incidents did not appear to be suspicious or criminal in nature but were considered innocent, with chips being passed between family or friends. Patrons who were found to be chip passing but were not believed to be participating in systematic cash facilitation or suspected loan sharking would be warned and the incident would be recorded in iTrak. On the third warning, the patron could be barred.

51. If the BCLC investigator believed the chip passing incident constituted organized cash facilitation or suspected loan sharking, the player would be barred.

52. Where a patron was barred for chip passing, the BCLC investigator who reviewed the incident and their manager would determine the length of the barring, which would then be reviewed by the Director of Corporate Compliance (once that position was created in or about 2010) for consistency with previous decisions and accuracy with BCLC policy. BCLC barring decisions were also reviewed by BCLC compliance auditors, GPEB auditors and GPEB investigators. I was not directly involved in these barring decisions.

53. In or about 2010 or 2011, BCLC required Service Providers to post signage indicating that players passing chips could be banned.

54. I am aware that BCLC barred dozens of persons for cash facilitating and suspected loan sharking over my tenure, but I was not made aware in every instance. In my earlier years cash facilitation was more prevalent on the gaming floors. Once BCLC began barring cash facilitators and suspected loan sharks, BCLC investigators observed that the activity became less common on the gaming floors and casino properties.

55. During the time I was with BCLC I do not specifically recall receiving any resistance or negative feedback from Service Providers about BCLC banning cash facilitators or suspected loan sharks.

### **c) River Rock Opening – 2004**

56. The River Rock opened in 2004 as the largest casino in the province in terms of size and patron traffic. Given the anticipated increase in gaming volume, BCLC determined that it would need to add additional resources including BCLC investigators prior to its opening. Traffic at the River Rock further increased in or about 2009 with the opening of the Canada Line station.

57. My recollection is that the volume of cash facilitation and suspected loan sharking observed at the River Rock was initially lower compared to suspected loan sharking at the old Richmond Casino. I expect that this may have been the result of BCLC's efforts to sanction individuals involved in suspected loan sharking. As a result of these measures, patrons may have been more aware of the potential consequences of engaging in loan sharking.

**d) Reporting Suspicious and Large Cash Transactions**

58. In British Columbia, and until 2009 with the introduction of some account-based gaming, discussed further below, gaming was a government-designated cash-only business.

59. I was aware of the increase in volume of cash entering BCLC casinos beginning in or about 2009 and 2010. Although I viewed the volume of cash as suspicious, in my view to determine whether the cash used for gaming was proceeds of crime required a criminal investigation, which BCLC had no authority to conduct as it had no police authority.

60. To my knowledge, law enforcement and GPEB, or a combination of both, were the only agencies with the authority to conduct the type of investigation which could determine whether cash used for gaming in BCLC casinos was in fact the proceeds of crime. To that end, prior to 2010 BCLC arranged working group meetings with GPEB and various law enforcement agencies to facilitate the sharing of information gathered by BCLC investigators regarding suspicious and suspected criminal activity in casinos. BCLC investigators liaised with various managers of gang task forces and specialized police units to provide current and up to date information to law enforcement. I also met regularly with the officers in charge of the various detachments and with senior law enforcement personnel to ensure that their officers were getting the information they required from BCLC.

61. I understood that BCLC's mandate was to report to GPEB and FINTRAC in accordance with the *GCA* and *PCMLTFA*, which it did in the form of LCTRs and STRs to FINTRAC and section 86 reports to GPEB. In addition, BCLC used its authority under the *GCA* to bar persons connected to suspected criminal activity, including persons with suspected organized crime affiliations.

62. From my previous police experience, disclosures made by FINTRAC to law enforcement tended to be made to police months after an incident had occurred, and were of diminished value

because of the time lag. As such, once BCLC's reporting obligations were established under the *PCMLTFA*, BCLC began providing STRs directly to GPEB, IPOC and police of jurisdiction at the same time they were reported to FINTRAC, so that the information would be available to law enforcement more quickly.

**Vice President of Corporate Security and Compliance, 2008 – 2012**

63. In 2008, I was promoted to the Vice President of Corporate Security and Compliance of BCLC. In this role, I reported directly to the CEO of BCLC and my additional responsibilities included BCLC's legal department, BCLC responses to freedom of information requests, IT security, lottery security, casino security and surveillance, operational gaming compliance, and BCLC administrative staff in the Corporate Security and Compliance division.

**a) Compliance Examinations**

64. In 2008, BCLC engaged IPSA International ("IPSA") to review BCLC's Casino Gaming Anti-Money Laundering Program. Attached to this affidavit and marked as **Exhibit "5"** is a copy of IPSA's report dated March 24, 2008 entitled "Casino Gaming Anti-Money Laundering Program Review" [BCLC0000005]. Attached to this affidavit and marked as **Exhibit "6"** is a copy of a memorandum from me to Michael Graydon summarizing BCLC's proposed actions in response to the IPSA report [BCLC0000006].

65. Attached to this affidavit and marked as **Exhibit "7"** is a copy of IPSA's report dated November 18, 2009 entitled "BCLC Casino Gaming AML/ATF Program: Risk Assessment Update" [BCLC0001545].

66. Attached to this affidavit and marked as **Exhibit "8"** is a copy of an email dated January 11, 2011 from me to Michael Graydon, attaching a document entitled "BCLC Compliance Program Continuous Improvement Actions" [BCLC0013114; BCLC0013115].

67. From time to time, BCLC engaged other third parties to conduct reviews and audits of BCLC's reporting and AML compliance, including Navigant Conseil LJ Inc. ("Navigant"). Attached to this affidavit and marked as **Exhibit "9"** is a copy of a compliance report prepared by Navigant dated February 29, 2012 [BCLC0001551].



68. BCLC was also subject to regular FINTRAC audits every two years.

69. In 2010, FINTRAC issued BCLC a Notice of Violation assessing an administrative monetary penalty for alleged reporting deficiencies following an audit.

70. Attached to this affidavit and marked as **Exhibit "10"** is a copy of a letter dated January 29, 2010 from FINTRAC to Doug Morrison, cc'ing me and others, regarding FINTRAC's 2009 compliance examination [BCLC0001533].

71. Attached to this affidavit and marked as **Exhibit "11"** is a copy of a letter dated February 24, 2010 from Doug Morrison to Murray Dugger, cc'ing me and others, in response to FINTRAC's January 29, 2010 letter [BCLC0001535].

72. Attached to this affidavit and marked as **Exhibit "12"** is a copy of a letter dated June 15, 2010 from Chantal Jalbert to Michael Graydon, cc'ing me and others, enclosing the Notice of Violation [BCLC0015662].

73. Following receipt of the Notice of Violation, BCLC conducted an internal investigation of the allegations and discovered that the BCLC server and FINTRAC server were not properly communicating such that FINTRAC was not receiving all of the reports that BCLC was filing. It is my recollection that the majority of the alleged violations cited in the Notice of Violation were the result of technical issues related to a batch file transfer issue in which BCLC cash disbursement reports were not received by FINTRAC and were deemed to be filed late. BCLC was issued a fine for each report not received by FINTRAC within the prescribed time.

74. Attached to this affidavit and marked as **Exhibit "13"** is a copy of a letter dated June 30, 2010 from Michael Graydon of BCLC to the FINTRAC Review and Appeals Unit, providing BCLC's response to the Notice of Violation [BCLC0001537].

75. Attached to this affidavit and marked as **Exhibit "14"** is an Internal Auditor's Report dated July 30, 2010 authored by Gurmit Aujla, in respect of the Notice of Violation [BCLC0012811].

76. Attached to this affidavit and marked as **Exhibit "15"** is a copy of a letter dated August 3, 2010 from Michael Graydon to FINTRAC, providing additional submissions in respect of the Notice of Violation and attaching the Internal Auditor's Report [[BCLC0015663].

77. BCLC ultimately appealed the issuance of the Notice of Violation in the Federal Court. Attached to this affidavit and marked as **Exhibit "16"** is a copy of the Notice of Appeal dated October 29, 2010 [BCLC0001539].



78. The appeal process was ongoing at the time I left BCLC, and I cannot speak to how it was resolved.

79. My view is that BCLC had not been deficient in its FINTRAC filing obligations. Although there may have been instances from time to time where BCLC filed a report late or improperly, my view was that the Notice of Violation resulted primarily from technical issues with the BCLC and FINTRAC reporting software.

80. In response to the deficiencies alleged in the Notice of Violation, BCLC created a new IT position to monitor and report on BCLC-FINTRAC batch filings. Alarms were programed into BCLC's batch filing system so that BCLC would be alerted if there was a server communication failure or FINTRAC was not receiving BCLC batch files. Other changes were implemented by BCLC including to prevent the use of non-descriptive occupations on FINTRAC filings, such as "unemployed" or "businessman".

**b) Correspondence with GPEB (2010/2011)**

81. Attached to this affidavit and marked as **Exhibit "17"** is a copy of a letter dated April 14, 2010 from Derek Dickson of GPEB to Doug Morrison of BCLC, cc'ing me and others [GPEB0166].

82. Attached to this affidavit and marked as **Exhibit "18"** is a copy of a letter dated May 4, 2010 from Gordon Friesen of BCLC to Mr. Dickson in response to his April 14, 2010 letter [GPEB1929].

83. Attached to this affidavit and marked as **Exhibit "19"** is a copy of a letter dated November 24, 2010 from Derek Dickson of GPEB to Gordon Friesen of BCLC, cc'ing me and others [GPEB0169].

84. The patron described in this letter was well known to BCLC. After receiving the November 24, 2010 letter from Mr. Dickson, BCLC conducted a thorough investigation into the patron's gaming. Attached to this affidavit and marked as **Exhibit "20"** is a copy of a letter dated December 24, 2010 from John Karlovcec of BCLC to Mr. Dickson, cc'ing me and others [GPEB0581], responding to Mr. Dickson's November 24, 2010 letter and setting out the results of BCLC's investigation into the patron.



85. My perception of this patron was that he was not laundering money in BCLC casinos because he lost almost all of the cash that he bought in with. On one occasion, the patron was given a verified win cheque for \$270,000 and returned the following day to cash it in. In my experience including with the RCMP, if this patron was a money launderer he would have deposited the cheque at a financial institution.

86. To the best of my recollection, BCLC had no information at that time indicating that this patron's buy-ins were connected to criminal activity. While the buy-ins may have been unusual or suspicious, BCLC reported these buy-ins to GPEB and FINTRAC as it was obligated to do, as well as the police of jurisdiction and IPOC. I have no knowledge as to whether GPEB, FINTRAC, or law enforcement took any action in relation to this patron.

87. Attached to this affidavit and marked as **Exhibit "21"** is a copy of a letter dated February 28, 2011 from Joe Schalk of GPEB to Mr. Friesen, cc'ing me and others [GPEB0171].

88. I do not recall whether BCLC responded to Mr. Schalk's February 28, 2011 letter.

89. To the best of my recollection, BCLC did not entertain the idea of placing a limit on \$20 bill cash buy-ins at this time. I did not consider at that time that I had the authority to place any limit on the acceptance of cash-buy ins by Service Providers. Instead, BCLC, with the support of GPEB, was exploring and implementing options for offering cash alternatives to patrons.

#### **c) Patron Gaming Fund ("PGF") Account Pilot Project**

90. As previously mentioned, during my tenure with BCLC, the casino industry grew at a rapid pace and the government had only mandated the use of cash in casinos. Beginning in 2009, BCLC began meeting with Service Providers to discuss ways to reduce high value players' reliance on cash for gaming.

91. BCLC also had discussions in 2009 with the Ontario Lottery Gaming Corporation, Lotto-Quebec and US casino jurisdictions about their experiences with the use of patron credit as an alternative to cash in casinos.

92. Discussions with Service Providers and other jurisdictions in 2009 led to the idea of establishing an account-based system for players to use in the casinos. BCLC considered that account-based gaming would reduce the levels of cash used in the casinos, enhance player safety,

reduce opportunities for cash facilitators, and reduce cash handling and reporting by Service Provider staff.

93. The approval of the implementation of Player Gaming Fund (“PGF”) accounts was sought from GPEB over the summer and fall of 2009, and was approved on a limited pilot basis in or about December 2009 for three casino sites (River Rock, Starlight Casino, and Edgewater Casino).

94. To my recollection, because the 2010 Olympics were approaching, the PGF program was initially implemented on a trial basis only so as to limit impacts on Service Providers. The PGF pilot program accounts were very restrictive and the use of the accounts had limited initial success, in my view due to those restrictions. For example, the accounts could be funded only with wire transfers, bank drafts or certified cheques. It is also my recollection that opening a PGF account under the pilot program required an initial deposit of at least \$10,000.

95. Attached to this affidavit and marked as **Exhibit “22”** is a copy of an email dated December 9, 2008 from me to Larry Vander Graaf and others attaching a draft policy document for the PGF pilot project [GPEB4552].

96. Attached to this affidavit and marked as **Exhibit “23”** is a copy of a letter dated February 16, 2009 from Doug Morrison of BCLC to Derek Sturko, Assistant Deputy Minister, cc’ing me and others regarding the proposed PGF pilot program [GPEB0546].

97. Attached to this affidavit and marked as **Exhibit “24”** is a copy of a letter dated August 11, 2009 from Derek Sturko to Michael Graydon providing approval-in-principle for the PGF pilot project [GPEB3706].

98. Attached to this affidavit and marked as **Exhibit “25”** is a copy of a letter dated August 18, 2009 from BCLC to Mr. McCrea, attaching draft policy materials for the PGF pilot project [GPEB1593].

99. Attached to this affidavit and marked as **Exhibit “26”** is a copy of an email dated September 11, 2009 from Bill McCrea to me and others regarding the PGF pilot program [GPEB0209].

100. Attached to this affidavit and marked as **Exhibit “27”** is a copy of a GPEB audit report of the PGF pilot project for 2009/2010 [GPEB0562]. Attached to this affidavit and marked as **Exhibit “28”** is a copy of BCLC’s response to the GPEB audit dated February 17, 2010 [GPEB0563].



101. Attached to this affidavit and marked as **Exhibit “29”** is a copy of an email dated June 7, 2010 from Mr. McCrea to me and others, regarding proposed enhancements to the PGF pilot program [GPEB0575].

102. The PGF pilot project was a new initiative in British Columbia and required training of Service Provider staff and the establishment of account systems in the casinos. Account-based gaming also required comprehensive policy and procedures to be drafted.

103. According to BCLC-developed policy, Service Providers were required to set up accounting systems to handle PGF accounts. Service Provider cash cage personnel were trained in the set-up requirements of PGF accounts per BCLC policy. BCLC investigators, and later the AML Trend Analyst, reviewed PGF accounts for suspicious activity and ensured new accounts were opened as per BCLC policy.

104. Attached to this affidavit and marked as **Exhibit “30”** is a copy of a letter from Michael Graydon, then-CEO of BCLC, to Rob Kroeker dated January 24, 2011, cc’ing me, outlining in part some of BCLC’s concerns with the PGF pilot project accounts [BCLC0013117].

#### **d) Kroeker Report and GPEB/BCLC AML Strategy**

105. To the best of my recollection, Mr. Kroeker was retained by the Province to conduct a review of AML measures in BC gaming facilities in 2010 or 2011.

106. To my recollection, the government released the Mr. Kroeker’s report in or about the spring or summer of 2011 (the “Kroeker Report”), which recommended amongst other things a number of enhancements to PGF accounts to make the accounts easier for players to utilize.

107. BCLC engaged Mr. Kroeker to help implement his recommended changes to PGF accounts in or about 2011. A number of enhancements were proposed by BCLC to GPEB regarding PGF accounts over 2011 and 2012. If a proposal was approved in principle by GPEB, BCLC would then draft policy and procedures for formal GPEB approval.

108. Ultimately, the use of high limit debit cards, linkage of Canadian bank accounts to a PGF account, casino-verified win cheques from another Canadian casinos, cheque hold program (described further below), electronic fund transfers, and bank drafts from Canadian banks and top 50 US banks were approved by GPEB to fund the PGF accounts.



109. Several PGF funding proposals were not approved, such as the use of credit cards and international fund transfers (except from recognized US banks) to fund PGF accounts.

110. BCLC observed that the use of PGF accounts significantly increased after the new funding policies were implemented by BCLC. With the improvements to the PGF accounts, significant player use and deposits were seen over the summer and fall of 2012.

111. Also following the release of the Kroeker Report, an AML/Proceeds of Crime Working Group was formed, including BCLC, GPEB, Service Providers, IPOC, the Vancouver Police Department, and the Civil Forfeiture Office. I was not a member of the working group, who carried on the day-to-day operations, but I was a member of the inter-agency Steering Committee that directed the activities of the working group. Attached to this affidavit and marked as **Exhibit “31”** is a copy of the terms of reference for the AML/Terrorist Financing Inter-Agency Steering Committee and the AML/Proceeds of Crime Working Group [BCLC0013123].

112. Attached to this affidavit and marked as **Exhibit “32”** is an email dated September 1, 2011 from me to Bill McCrea of GPEB and others, attaching a document entitled “Methods to Reduce Reliance on Cash in BC Casinos” [BCLC0015760/0015761].

113. Attached to this affidavit and marked as **Exhibit “33”** is a letter dated October 4, 2011 from Mr. McCrea to me in response to BCLC’s “Methods to Reduce Reliance on Cash in BC Casinos” [BCLC0013121].

114. Attached to this affidavit and marked as **Exhibit “34”** BCLC Corporate Security and Compliance Discussion Document dated November, 2011, setting out some of BCLC’s proposed AML measures in response to the Kroeker Report [BCLC0011917].

#### **e) Development of Cash Alternatives Programs**

115. The introduction of cash alternatives became a focus of BCLC’s AML measures in 2011 and 2012 following the release of the Kroeker Report. The intention was to offer players alternatives to the use of cash in gaming facilities, which was until that point a strictly cash-based business (aside from the PGF account pilot project, discussed above).

116. Attached to this affidavit and marked as **Exhibit “35”** is an undated document entitled “Improvements to BCLC’s AML Regime/Processes” [BCLC0013094].

117. Attached to this affidavit and marked as **Exhibit “36”** is an undated PowerPoint presentation entitled “BCLC’s Anti Money Laundering Regime: A Risk Based Approach” [BCLC0013096], describing the AML initiatives implemented by BCLC up until about mid-2012.

118. Cash alternative programs were not easy to implement. Each step of the program was independent and required consideration, approval and implementation, including input from Service Providers. BCLC had to ensure that the Service Providers could operationalize the proposals, so it was not possible to implement these programs overnight. My recollection is that Service Providers were actively involved in BCLC’s efforts to develop cash alternative programs, and were generally supportive of these efforts.

119. Attached to this affidavit and marked as **Exhibit “37”** is a copy of the minutes for a meeting of the Casino Service Providers Working Group dated October 28, 2011 [BCLC0011888].

120. In addition to seeking input from Service Providers, GPEB approval was required for each cash alternative program. I recall some delays in the process of working with GPEB in this regard. My primary contact at GPEB at the time was Bill McCrea, Executive Director, Internal Compliance and Risk Management. Mr. McCrea was generally receptive to BCLC’s proposals, but had to consult with others within GPEB including investigators, auditors and policy analysts prior to approval of a proposed program. Mr. McCrea would generally relay questions from within GPEB to BCLC, and there would often be back and forth discussion on each proposal.

121. Attached to this affidavit and marked as **Exhibit “38”** is a copy of a letter dated November 30, 2011 from me to Doug Scott [BCLC0011788].

122. Attached to this affidavit and marked as **Exhibit “39”** is a copy of a letter dated January 24, 2012 from Mr. McCrea to me [BCLC0011790].

123. Attached to this affidavit and marked as **Exhibit “40”** is a copy of a letter dated January 25, 2012 from me to Mr. McCrea [BCLC0011789].

124. In addition to improvements to the PGF account program, the cash alternative programs developed by BCLC after release of the Krocker Report included:

- a. hold cheques (allowing a player who was well-known to the Service Provider to present a cheque at the casino and play against the cheque without the cheque being cashed);

- b. certified cheque buy-ins;
- c. convenience cheques (allowing Service Providers to pay patrons out for non-verified winnings in cheques of up to \$5,000 per week per patron); and
- d. and the acceptance of funds from US banks.

125. Attached to this affidavit and marked as **Exhibit “41”** is a letter dated August 17, 2011 from Doug Scott to Michael Graydon advising of GPEB’s support for certified cheque buy-ins [BCLC13072].

126. In or about December 2012, following the initial success of the convenience cheque program, GPEB authorized an increase in the limit of convenience cheques from \$5,000 to \$8,000. Attached to this affidavit and marked as **Exhibit “42”** is a letter dated December 7, 2012 from Mr. McCrea to me regarding the increase [BCLC0011795].

127. Attached to this affidavit and marked as **Exhibit “43”** is an undated BCLC policy proposal for the “Acceptance of Funds from U.S. Banks and Foreign Branches of Canadian Chartered Banks” [BCLC0011797]. Attached to this affidavit and marked as **Exhibit “44”** is a letter dated December 6, 2012 from Bill McCrea to me regarding BCLC’s proposal to accept funds from US banks [BCLC0011793].

128. I also chaired a BCLC Steering Committee on the cash alternatives project (i.e. the “Casino Cash and Payment Business Process Enhancement Project”), with the purpose of overseeing the overall direction of the project and its impact to BCLC’s business processes and AML regime. Attached to this affidavit and marked as **Exhibit “45”** is a copy of the Terms of Reference for the Steering Committee [BCLC0011927].

129. Attached to this affidavit and marked as **Exhibit “46”** is a draft project plan for BCLC’s cash alternatives project dated October 18, 2011 [BCLC0000405].

130. Attached to this affidavit and marked as **Exhibit “47”** is a copy of a memorandum dated January 19, 2012 from me to Paul Smith, Director, Social Responsibility, providing an update on the status of BCLC’s cash alternatives project [BCLC0011895].

131. Attached to this affidavit and marked as **Exhibit “48”** is a document entitled “Reducing Reliance on Cash: New Payment Initiatives” dated August 29, 2012, summarizing data collected in relation to the new cash alternative programs between April 1, 2012 and August 29, 2012 [BCLC0013098]. Attached to this affidavit and marked as **Exhibit “49”** is a copy of an email from me to Jim Lightbody of BCLC, Mr. McCrea and others dated October 10, 2012, providing

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an update on the data in relation to the new cash alternative programs between April 1, 2012 and September 30, 2012 [BCLC0013101; BCLC0013102].

### **Other AML Initiatives**

132. In addition to the cash alternatives program, several other AML initiatives were implemented during my tenure to strengthen BCLC's AML policies and procedures, training and technology. Technology changes were made such as implementing an IT warning system failure on batch filings to FINTRAC, and requiring patron occupations for FINTRAC filings to be selected from a drop-down menu in iTrak, which no longer permitted the use of generic occupations such as "businessman" or "self-employed". Other technology changes included iTrak system prompts requiring verification of player identification every 23 months and electronic cash cage reporting standardization in 2012 at all facilities, which eliminated transposition errors when entering data to the FINTRAC module.

133. A number of AML training changes for Service Providers were made with online AML training being implemented in September 2009, and an enhanced online version being developed in April 2011. All Service Provider staff were required to complete the online training before they could work on the gaming floor, and were required to re-train every two years with refresher training annually. BCLC also enhanced training of Service Provider personnel to include know-your-customer training. In-person AML classroom training with mandatory exams was updated in March of 2012 and was required for key Service Provider personnel (*i.e.* pit boss, cage personnel, dealers and surveillance).

134. To the best of my recollection, in or about 2010 a full-time AML Trend Analyst position was created, as well as a new position for a Director, Operational Compliance. Both new positions reported to me. A full-time AML position at the assistant manager level was also created to oversee and ensure BCLC AML programs were communicated and implemented at all gaming facilities, and were consistent with FINTRAC AML policies and guidelines. The BCLC AML assistant manager was to provide direction and clarification to Service Provider staff and update me on AML issues that were arising. The AML assistant manager was to liaise with local law enforcement and GPEB investigators to ensure reporting of STRs was consistent and meeting their needs. The AML assistant manager was to review GPEB/BCLC audits and

determine a course of action to correct and identify any deficiencies and implement an action plan, if required.

135. A dedicated IT resource was also added to oversee FINTRAC reporting, and an IT Quality Assurance process was established to monitor service and enhance communication between the BCLC and FINTRAC IT departments. Automatic notifications were also programmed to ensure consistent data transmission between BCLC and FINTRAC.

136. Several policy changes were made to BCLC's AML risk assessment matrix as a result of external audits conducted to evaluate and assess BCLC AML policies against FINTRAC guidelines. The risk assessment included program risk such as missing pieces, channel risk, geographical risk, product risk and player risk. Criteria were also established for BCLC investigators to identify and categorize high-risk patrons who could then be identified in iTrak, placed in the "watched" category, and tracked through iTrak. Where possible, licence plate recognition was used to alert a casino when a high-risk patron was on-site at a facility.

137. The high-risk patron list was reviewed every six months by the AML Trend Analyst and the BCLC AML assistant manager. The risk assessment process was a continuously evolving process, which involved changes as necessary. A regular review schedule was established to review the risk assessment matrix and other AML policies and procedures. A semi-annual review was also completed by the BCLC Operation Gaming Audit group.

138. Attached to this affidavit and marked as **Exhibit "50"** is document outlining BCLC's AML compliance program dated October 14, 2011 [BCLC0000098].

### **Verified Win Cheques**

139. Verified win cheques are issued by Service Providers for gaming winnings which are won by a patron during gaming play over and above their buy-in. Verified win cheques are issued in the amount of the verified winnings, minus the amount of the buy-in. To the best of my recollection, verified win cheques were first introduced in the early 2000s.

140. During my time at BCLC, BCLC casino investigators were tasked with regularly reviewing the issuance of verified win cheques on a monthly basis. Verified win cheques were also reviewed quarterly by the BCLC Operational Gaming Audit group and by GPEB in the course of audits.

141. Although I recall occasional incidents where verified win cheques were issued by Service Providers in cases where Service Provider staff had not properly followed BCLC policy and procedure, this did not happen often. Generally, verified win cheques were issued by Service Providers in accordance with BCLC policies.

142. Attached to this affidavit and marked as **Exhibit “51”** is a copy of a letter dated May 21, 2008 from me to Service Providers regarding verified win cheques [BCLC0006938].

### **\$50,000 Reporting Threshold**

143. To the best of my recollection, BCLC never implemented a reporting threshold for STR reporting to FINTRAC. Consistent with BCLC training to Service Providers, all transactions that were suspicious according to FINTRAC indicators were to be reported by STR, regardless of value. An STR could be filed for any amount of buy-in, and I recall that hundreds of STRs were filed for buy-ins under fifty thousand dollars.

### **Ross Alderson/Steve Beeksma/Stone Lee Meeting**

144. I do not specifically recall attending a meeting in April 2012 with BCLC investigators Ross Alderson, Steve Beeksma and Stone Lee in which I am alleged to have directed them not to speak with casino patrons.

145. At that time there was no general prohibition preventing BCLC investigators from speaking with patrons. However, as set out above, the practice at that time in regards to chip passing incidents was for Service Provider staff to first observe the incident, speak with the patron and report the incident in iTrak. After reviewing the report and video footage of the incident, a BCLC investigator would then follow up with the patron if necessary. The BCLC investigator would then decide whether to warn or ban the patron depending on the circumstances.

### **Considerations of Revenue in Decision Making**

146. In both positions I held at BCLC, I received an annual bonus based on a combination of



individual and corporate goals, in addition to a regular salary. While the corporate goals were related to revenue, the individual goals were not revenue-based. My recollection is that my individual goals would have had some connection with compliance, though they changed from year to year.

147. I do not recall ever being influenced by potential impacts on revenue in making decisions related to AML.

**Departure from BCLC (2012)**

148. I retired from BCLC in or about December, 2012.

149. At the time I left BCLC, I believed there was still work to be done with respect to AML policy and procedure.

150. Over my tenure at BCLC, I believe that I acted with integrity and in good faith. I endeavored to emphasise co-operation with the GPEB regulators, law enforcement and FINTRAC. I attempted to continually improve BCLC's AML policies, procedures and reporting. At the time I departed BCLC, BCLC had a wide-ranging layered system of AML controls in place, and it was my belief at that time that systematic money laundering in a casino would have been very difficult. In my view BCLC was pro-active in responding to suspicious circumstances, developed extensive AML policy and procedures, and provided appropriate AML training to BCLC & Service Providers' employees. BCLC conducted frequent and thorough internal and external audits to ensure reporting compliance and effectiveness, and initiated appropriate changes to its policies when deficiencies were noted in the course of those audits.

SWORN BEFORE ME via videoconference )  
with the affiant in Mesa, Arizona and the )  
Commissioner in Vancouver, British )  
Columbia on this 22 day of January, 2021 )  
\_\_\_\_\_)  
A commissioner for taking affidavits for )  
British Columbia )

  
\_\_\_\_\_  
TERRY TOWNS

**JULIA E. ROOS**  
**Barrister & Solicitor**  
**Hunter Litigation Chambers**  
**Suite 2100 - 1040 West Georgia Street**  
**Vancouver, BC V6E 4H1**  
**Telephone: 604-891-2406**

# COMMISSION OF INQUIRY INTO MONEY LAUNDERING IN BRITISH COLUMBIA

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

## CERTIFICATE

I, Julia Roos, certify that I participated in a video conference call with Terry Towns on the afternoon of January 22, 2021 for the purposes of commissioning Mr. Towns Affidavit #1 in respect of this matter in accordance with the Supreme Court of British Columbia Notice to the Profession, the Public and the Media re Affidavits for use in Civil and Family Proceedings dated March 27, 2020 (the "Notice").

I further certify that the process set out in the Notice was followed and that I am satisfied that this process was necessary because it was impossible or unsafe, for medical reasons, for me and Mr. Towns to be physically present together.

DATED at Vancouver, British Columbia this 22 day of January, 2021.

  
\_\_\_\_\_  
Julia Roos

**JULIA E. ROOS**  
*Barrister & Solicitor*  
**Hunter Litigation Chambers**  
**Suite 2100 - 1040 West Georgia Street**  
**Vancouver, BC V6E 4H1**  
**Telephone: 604-891-2406**

THIS IS **EXHIBIT "1"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 12 DAY OF JANUARY, 2021.



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A Commissioner/Notary Public for the  
Province of British Columbia.





**BRITISH  
COLUMBIA  
LOTTERY  
CORPORATION**

**BCLC  
CORPORATE SECURITY  
DEPARTMENTAL OPERATING PLAN**

**Date: OCTOBER 21, 2004**

**SUBMITTED BY:  
Terry Towns  
Director, Corporate Security**

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A handwritten signature in black ink, appearing to be 'STL' or similar, located at the bottom right of the page.

## MISSION STATEMENT

- To ensure and maintain the integrity of all Provincial gaming, while maintaining and earning the public trust of British Columbians.

## CORE ACTIVITIES

- To ensure and safeguard the public's confidence in the security and integrity of all of the British Columbia Lottery Corporation's business lines, including Lotteries, Bingo, Race Track gaming floors, eGaming and Casino Gaming.
- To work with and forge working relationships with Service Providers, Retailers, Police, GPEB and Suppliers to promote consumer confidence in BCLC as an organization, its products and services.
- To continue the efforts of strong vigilance and controls in our efforts against crime directed toward the gaming industry in British Columbia.
- To protect BCLC personnel, buildings and property in an effective and efficient manner.
- To provide analysis and advice on long range corporate plans for the Senior Management of BCLC.
- To exercise sound judgement and discretion in providing advice on confidential, sensitive and controversial issues.
- To guide and direct the development of a continued comprehensive security plan maintaining the integrity of the Corporation's gaming business segments.
- Conduct BCLC Lottery ticket draws, Bingo draws, major casino contest draws and large prize validations ensuring regulatory compliance.
- To conduct internal and external investigations within the business lines currently being conducted and managed by BCLC.
- To protect BCLC's computing and information assets from intentional or unintentional disclosure, modification, destruction, or denial through the implementation, review, and testing of appropriate information security and business resumption planning, policies, procedures and guidelines.

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## PRIMARY PROGRAMS

| Rank | Primary Programs   | Strategies |
|------|--|------------|
| 1.   | Open new Casinos in Langley, Queensborough, and expansion of Coquitlam and Burnaby Casinos and open new gaming floor facilities in Hastings Park and Sandown Raceway.                                      | 1          |
| 2.   | Open six new Community Gaming Centres throughout the Province.   | 1          |
| 3.   | Complete the roll out and training of Service Provider staff for facial recognition in Queensborough, View Royal, Hastings Park, Penticton, Vernon, Kelowna, Quesnel and Nanaimo.                          | 3          |
| 4.   | Support re-invention of Lottery  | 1          |
| 5.   | Implement training and certification standards for surveillance personnel to build a high performance culture that encourages innovation and supports the growth of casino and race track gaming business. | 4          |
| 6.   | Assist in launch of eLottery programs, including risk and vulnerability assessments, testing and certification of e-instant games and other planned types of e-gaming initiatives.                         | 1          |
| 7.   | Information Security policy development and incident response program.   | 4          |
| 8.   | Employee development, recognition and interdepartmental partnerships   | 6          |
| 9.   | Intrusion Detection - Casino   | 4          |
| 10.  | Research and implement the Amber Alert Program within BCLC and our retail network.   | 3          |
| 11.  | Continued refinement of Casino and Bingo auditing processes including the development of identification and resolution of deficiency benchmarks.   | 2          |
| 12.  | Research and pilot the use of Licence Plate Capture System for use at gaming facilities to identify barred and self-excluded persons.  | 4          |
| 13.  | Research and implement Computer Investigation Forensic Tools.  | 4          |
| 14.  | Research and explore centralized surveillance image storage for Community Gaming Centres.  | 4          |
| 15.  | Research and pilot web-based Community Gaming Centre computerized reporting system.  | 4          |
| 16.  | Implement electronic computerized reporting forms from all casinos and race tracks for self-exclusion, large cash transaction forms including batch file reporting to FinTrac.                             | 3          |
| 17.  | Provide support, policy, testing and certification for the use of Wager-Link technology in Casino's, CGC'S and Racetrack Gaming Facilities.  | 3          |

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## ORGANIZATIONAL STRUCTURE

Corporate Security is made up of four distinct units: Lottery Security, Casino Security and Surveillance, Operational Gaming Audit, and Computer Security for a total of 38.65 FTE'S.

### LOTTERY SECURITY

**Total of 17.75 FTEs:**

- 1 – Manager
- 5 – Lottery Investigators
- 2 – Administration Officers
- 1 – Senior Security Draws Officer
- 11 – Security Draws Officers (6 full time and 5 part time)

**Core Functions:**

- Investigate, respond and review Lottery, eGaming and Bingo complaints/integrity issues involving retailer/service providers, gaming/lottery workers, BCLC employees, frauds, thefts, gaming offences, contractual disputes; Detection/reporting of illegal gaming in Lottery Retailer Network; Ticket Reselling; Tracking stolen/missing lottery tickets/bingo paper; Testify in court on behalf of BCLC.
- Incorporate and administer crime prevention programs for BCLC, retailers and service providers including the Amber Alert program.
- Lottery Draws (BC/49, Extra, Daily 3, Keno, Keno Bonus, Chaser, LLL and Sports Action Substitution Draw) using ADM and/or Draw Ball Technology; Bingo Draws (SuperStar) using SuperStar ADM; Contest/2<sup>nd</sup> Chance Draws (Lottery Retailers, Lottery Players, Bingo Players, Bingo Halls) using draw balls and/or paper entries; Internet Draws using draw balls, paper or ADM; Event Draws (live events) using draw balls or paper entries.
- Technical Integrity Testing, including functionality testing of lottery gaming equipment, bingo gaming equipment (independent).
- Prepare and submit Lottery and Bingo Rules and Regulations, Lottery and Bingo Game Conditions, Lottery and Bingo Contest Conditions to Senior Management/Legal Counsel for review/approval.
- Conduct ongoing view of Lottery and Bingo marketing documents to ensure relevancy, uniformity and adherence to legal requirements and sign off legal wording on tickets and in guides, review of advertising scripts, selection slips, POS etc to ensure that they conform to Gaming Control Act, Rules and Regulation and Game Conditions.
- Physical Security of BCLC premises, parking lots and assets including monitoring security equipment, cameras, visitors and employee access/egress.
- Liaise with Police, GPEB.

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## CASINO SECURITY AND SURVEILLANCE

### Total of 6.9 FTEs:

- 1 – Manager
- 4 – Casino Investigators (1 vacant)
- 1 – Administration Officer
- 1 – Casino Clerk part time (.75)
- 1 – Casino Clerk part time (.15)

### Core Functions:

- Investigate, respond and review Casino and Community Gaming Center complaints / integrity / policy issues involving casino service providers, BCLC employees, frauds, thefts, gaming offences, contractual disputes; Detection/reporting of illegal gaming in Casinos; illegal internet gaming; counterfeit currency; Testify in court on behalf of BCLC.
- Investigate internal problems in the casinos.
- Incorporate and administer crime prevention programs for casino service providers.
- Testing of casino games and equipment to maintain integrity and obtain GPEB Certificates of Technical Integrity as required by the Gaming Control Act.
- Ensure integrity of casino games and gaming equipment going into the casinos.
- Provide training to casino gaming employees in the detection of counterfeit currency and requirements of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act & Regulations.
- Quality Assurance of Large Cash Transaction Reports to ensure compliance to our policies and the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and Regulations.
- Report Large Cash Transactions and suspicious financial transactions data to FinTrac.
- Monitor and review Surveillance and Security to minimize risk and maintain integrity.
- Develop Security Standards for Casino Gaming.
- Administer Self Exclusion policies and forms; referrals to problem gambling counselors; intervention with self excluded persons as required.
- Develop initiatives to ensure compliance with the Gaming Control Act as it pertains to minors in gaming facilities.
- Prepare and submit amendments to Casino Standards, Policies and Procedures, as required to insure integrity of our games, processes and people.

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- Conduct ongoing review of Casino marketing documents to ensure relevancy, uniformity and adherence to legal requirements of the Gaming Control Act and the Criminal Code of Canada.

## **OPERATIONAL GAMING AUDIT**

### **Total of 12 FTEs:**

- 1 – Manager
- 1 – Supervisor
- 10 – Auditors

### **Core Functions:**

- To conduct comprehensive operational audits to ensure all commercial gaming facilities operate in compliance with government policy, the British Columbia Gaming Control Act, Gaming Control Regulations, Service Providers Operational Service Agreements and BCLC Casino and Bingo Standards, Policies and Procedures.
- Perform integration testing on approximately thirty percent of all newly installed slot machines, as well as approximately thirty percent of all newly converted slot machines, to ensure the functionality and integrity of the equipment.
- Assist with Casino and Bingo customer complaints and investigations, when required, to ensure appropriate follow up is conducted in a reasonable time frame, to meet the Corporations expectation of good customer service.
- To continually develop, review and revise Casino and Bingo Audit Guides, to ensure the audit process is current, meaningful and effective.
- Meet with individual casino and bingo site service providers, on a yearly basis, for the purpose of discussing the audit program, as well as the overall audit results for the specific sites, and to assist in the enhancement of the partnership between BCLC and the service providers.
- Liaise with Gaming Policy and Enforcement Branch, Audit and Compliance Division to maintain a cohesive working relationship.

## **COMPUTER SECURITY**

### **Total of 2 FTEs:**

- 1 – Analyst
- 1 – Network Security Specialist (vacant)

### **Core Functions:**

- Review Security Risks of New Systems and Specify Security Requirements to ensure that information security requirements are incorporated into new applications by participating in the systems design and development processes.

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- Produce policy as required, review and update existing policy as needed, and audit and review the use of Corporate computing resources for compliance with security policies
- Review and comment on proposed changes and modifications to game systems and review access rights and account management
- Maintain the network IDS systems and monitor activity in order to respond to any unusual reported activities
- Review and report on system implementation, usage, and procedures to identify risk activities and recommend mitigating solutions
- Review Anti-virus defence implementation and respond to unusual reported activity
- Respond to and investigate reported security incidents and breaches
- Maintain User Awareness in order to educate and inform employees on risks, security issues, and related policy and procedures in order to ensure the integrity of processes and people
- Perform or direct assessments on various applications and networks
- Monitor/review DRP plans, tasks, and test results
- Provide analysis and recommendations to reduce vulnerability of systems
- Ensure the prudent selection and use of existing and proposed safeguards.
- Provides on going support to users relating to Computer Security


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*[Signature]*

## REVIEW OF PRIOR YEAR ACCOMPLISHMENTS

- Pilot and implementation of Casino Reporting System
- Development of digital surveillance standards for Casinos and Community Gaming Centres
- Testing and certification of Altura terminals for the lottery network
- Policy development, system security requirements, testing certification for the eLottery gaming system
- Development and implementation of Community Gaming Centre and gaming at Race Track policies
- Developed, defined, and negotiated security requirements for the SAP project.
- Review testing and policy implementation of the SAP project
- Opening of Fraser Downs (temporary site)
- Opening of Kamloops Enterprise Entertainment facility
- Development and implementation of Digital Surveillance Standards and policy.
- Opening of new casinos in Richmond, Prince George and the opening of Community Gaming Centres in Dawson Creek and Williams Lake.
- Opening of Boardwalk Gaming & Entertainment Community Gaming Centre (Burnaby)

## KEY PERFORMANCE MEASURE FOR 2005/2006

- Explore implementation of iTrak (Casino Reporting System) at Community Gaming Centres.
- Integration of Large Cash Transaction and Self Exclusion Forms into iTrak.
- Continue install and enhance the use of iGWatch (Facial Recognition) in Casinos.
- Continue to develop and enhance Security and Surveillance at Casinos and Community Gaming Centres.
- Explore use of Smart Cards (Wager-Link) for both self-exclusions and security.
- Continue training in the use of the Casino Reporting System (iTrak) to ensure uniformity by casino users.
- Enhance security of off site storage for gaming machines.
- Establishment of operating audit benchmarks to identify and resolve outstanding priority issues in casinos, bingos and race track gaming floors.
- Successful opening of Casino, Race Track and Community Gaming Centres throughout BC.
- Successful launch of eBusiness programs and certification of eInstant games.
- Successful implementation of the Licence Plate Capture System for identification of barred and self-excluded persons.
- Successful implementation of the Amber Alert Program throughout BCLC gaming systems.

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## INTERNAL ASSESSMENT

### Staff and Organizational Strategy

The Corporate Security Department has been affected by the retirement of two senior personnel from the Lottery area and reduction of one Operational Gaming Auditor, along with one Operational Gaming Auditor being placed full time in the River Rock Casino.

The reduction of two full time personnel within Corporate Security has led to a heavier work load on an already busy group. In addition, the introduction of Community Gaming Centres and eLottery will add to this work load.

The reduction of positions and the implementation of new programs such as the iView product, Casino Management System and the IVS system have significantly increased the volume of duties and responsibilities.

The implementation of E-Lottery has resulted in a great deal of work for Computer Security due to the requirements for external certification, the new risks of Internet Gaming, and the implementation of a new system on a new operating platform. This has also resulted in the need for a new position.

### Training & Development

**Leadership** will play a large role as we depend on our people to promote a high performance culture which values innovation, integrity, engagement and accountability.

**Technology** will play a significant part in being able to manage some of the integrity issues and our people will have to have a good understanding of those technology capabilities and vulnerabilities.

## EXTERNAL ASSESSMENT

The support to be offered by Corporate Security is greatly affected by the regulatory environment, public acceptance, responsible play, government policy and municipal approval.

The desire of revenue generation must be balanced with the objectives of gaming integrity and social responsibility.

The threat of problem gambling lawsuits which have been initiated in Quebec, Ontario and Nova Scotia is very real and could have a serious negative impact in British Columbia. Having the trust and support of the citizens of BC is vital to the sustainability and growth of the gaming industry.

*DRAFT* 



THIS IS **EXHIBIT "2"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.



---

A Commissioner/Notary Public for the  
Province of British Columbia.





*Know your limit, play within it.*

June 22, 2005

Mr. Terry Towns  
Director of Security  
British Columbia Lottery Corporation  
10760 Shellbridge Way  
Richmond, BC V6X 3H1

Comm-135  
Cliff #290513

Dear Terry:

Our audit of the BC Lottery Corporation FINTRAC Reporting is now complete. Please find a copy of the final report accompanying this letter. Thank you for taking the time on June 3<sup>rd</sup>, 2005 to discuss our findings in relation to this audit.

As we discussed, a copy of this final report has been sent to the Financial Transactions and Reports Analysis Centre of Canada.

I trust there are no outstanding issues. However, if you wish to discuss further any aspect of this report please do not hesitate to contact me.

Sincerely,

Terri Van Sleuwen, CGA  
Manager, Commercial Gaming Audit

RECEIVED

JUN 27 2005

GAMING COMPLIANCE

Ministry of  
Public Safety and  
Solicitor General

Gaming Policy and  
Enforcement Branch  
Audit and Compliance Division

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

Telephone: **Personal Information**  
Facsimile:  
Web: [www.pssg.gov.bc.ca/gaming](http://www.pssg.gov.bc.ca/gaming)

  
BCLC0000001

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**GAMING POLICY  
AND  
ENFORCEMENT  
BRANCH**

**AUDIT REPORT**

**BC Lottery Corporation  
FINTRAC Reporting Audit  
GPEB File # Comm-135**

**EXECUTIVE SUMMARY**

An audit of BCLC FINTRAC reporting was conducted for the period April 1, 2004 to March 31, 2005 to verify compliance with the *Gaming Control Act, Regulation*, FINTRAC requirements under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)* and all applicable standards, policies and directives.

The scope of this audit included a review of: large cash and suspicious transaction reporting systems in place at the casino sites through the central reporting location at the BCLC Richmond office to FINTRAC; and, casino service provider staff training and understanding of requirements. Procedures were performed on a test basis to provide reasonable assurance of compliance.

The audit concluded that there was an overall level of compliance with some minor exceptions noted. The findings of this audit were discussed with BCLC and they are in agreement with the content of this report.

**OBJECTIVE**

The objectives of this audit are to:

- Verify whether a compliance system is in place that ensures that required information is captured, protected, reported in a timely manner and safeguarded;
- Verify compliance with the *Gaming Control Act and Regulation*;
- Verify compliance with BCLC *Casino Standards, Policies and Procedures* (September, 2004 as amended);
- Verify compliance with FINTRAC reporting requirements under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)*.

**SCOPE**

The scope of this audit included:

- Review of the BCLC system in place for capturing and recording information at the casino level;
- Review of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)* training provided by BCLC to service provider staff and understanding thereof;





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- o Review of the BCLC system in place to process information for submission to FINTRAC (confirmation as to receipt of information by FINTRAC was not included in the scope).

## PROCEDURES

An audit of BCLC FINTRAC reporting was conducted for the period April 1, 2004 to March 31, 2005. Audit procedures were conducted on a test basis to provide reasonable assurance of compliance as stated in the objectives.

The following procedures were performed:

- o Data samples collected as part of annual casino audits were traced through to the BCLC reporting system.
- o An additional sample of buy-ins was selected from the BCLC reporting system (IRMS) and tested to determine whether information was reported to FINTRAC within 15 days.
- o Information obtained during annual casino audits in relation to money laundering and suspicious currency transactions was collated and analyzed.
- o *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)* training provided by BCLC to service provider staff was reviewed for content and frequency of delivery.

## FINDINGS

1. Prior to July 4, 2004 BCLC reported both Large Cash Transactions (LCT) buy-ins and cash-outs to FINTRAC although the FINTRAC requirement was that only cash-outs had to be reported. This resulted in a high volume of transactions being submitted by the service providers to BCLC and in turn reported to FINTRAC.
  - 16% (14 of 89) of the total sample of buy-ins tested were found to have been reported to FINTRAC in excess of the fifteen day requirement. Ten of these occurred prior to the date of July 4, 2004 at which time BCLC was reporting both buy-ins and cash outs. We have been advised by BCLC that they are working towards streamlining the process in order to improve the efficiency of the reporting process. The process currently takes about 15 minutes per transaction due to the number of steps required for each one.
2. For the period April 1, 2004 to March 31, 2005 training was provided to four casinos and four Community Gaming Centres. Additional training was provided to staff by the service providers as needed due to staff turnover.
  - We were advised that it is BCLC's goal to train staff at all sites at least every two years. Meeting this goal is highly recommended as the service provider training process is the key mechanism in place to ensure that all necessary information is captured.
3. Details of Large Cash Transactions are currently e-mailed by BCLC representatives at the gaming sites to a public outlook folder with restricted access. They are reviewed, processed



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and then deleted once entered into the FINTRAC system. There is no control in place that would identify any information that was deleted in error. However, in other testing that was carried out we did not identify any instances where information captured at the casino level was not traced through to having been entered into the BCLC IRMS system.

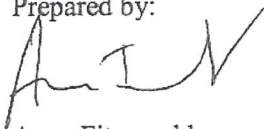
## SUMMARY

The first audit resulting from the agreement between FINTRAC and GPEB has been performed for the year ended March 31, 2005.

In conclusion, we found that:

- there was a system in place that ensured that required information was captured, protected and reported at both the casino site level through BCLC to FINTRAC. Although receipt of information by FINTRAC was not confirmed.
- a high level (84%) of buy-ins sampled were reported to FINTRAC within the required fifteen day time frame.
- service provider staff at all casinos generally had a good understanding of the requirements under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)*.

Prepared by:



Anna Fitzgerald  
Auditor  
June 3, 2005

Approved by:



Terri Van Sleuwen, CGA  
Manager, Commercial Gaming Audit

## REFERENCE SOURCES

The following information and reference sources were employed during this review:

- *Gaming Control Act and Regulation*;
- *BCLC Casino Standards, Policies and Procedures*;
- *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)*.



THIS IS **EXHIBIT "3"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 21 DAY OF JANUARY, 2021.

  
A Commissioner/Notary Public for the  
Province of British Columbia.





**SECURITY QUARTERLY MEETING  
RICHMOND  
SEPTEMBER 21, 2001**

1:00 p.m.- 2:30pm

**Attendees**

|                  |               |                  |
|------------------|---------------|------------------|
| Terry Towns      | Denis Savidan | Bob Vanderaegen  |
| Gord Board       | Barb Ham      | Wayne Zaksauskas |
| Bob Hale         | Doug Hopulak  | Bob Leach        |
| Ron Thom         | Steve Barwell | Sheri Folk       |
| Stan Yaholkoski  | Greg Fulmer   | Bill Welsh       |
| Bruno Bourassa   | Bob Meihuizer | Craig Robinson   |
| Jerry Williamson | Murray Ross   | Jeff Barnett     |
| Bill MacDiarmid  | Ryan Austin   | Wes Hermiston    |
| Lila Zelinski    | Warren Smith  | Larry BAUER      |

---

Terry opened the meeting by apologizing about the video conference meeting and that there will other meetings in December 2001. Ones that will be on a more personal basic.

**Increased Mandate**

Terry explained about the announcement of the Minister. Where gaming will now be in two parts, one being Regulatory and the other Operational. There will be a new Gaming Act coming out in the Spring of 2002. BCLC will be taking over all Commercial Bingo and Horse Racing. New Gaming Act means that BCLC will be changing their name. The Horse Racing has been put on hold for the time being. There needs to be a new Horse Racing Act. BCLC will be responsible for Manage and Conduct as well as for the security and auditing. There will be new positions with security.

Will regionalize the positions throughout the province. (eg: Cranbrook position will have an audit and bingo experience, rather than try to service from Kamloops). Will affect other areas as well. They will be working from their homes rather than the BCLC office.

Compliance will be changing their name to Operational Gaming Audit/Investigations, which includes Bingo.

**Organization Chart**

Working on the org. chart right now. Then we will be hiring people for that function. Some will need to be involved in lottery, casino and Bingo. Applies on the island and in the north. Need to work through it. Admin. Positions will need to be flexible. Total of 8 positions for Bingo. – Kelowna/Kamloops, Prince George and another location in the north, 2 in Richmond and hoping for Victoria/Nanaimo and Campbell River.

Looking at upgrading the PT2 positions to PT3, and cross training staff. Things are changing and need to be more flexible of doing things, jobs make rotate. Will be a bit complex at first until things are ironed out. You may not report to the same person.

1 

**SECURITY QUARTERLY MEETING  
RICHMOND  
SEPTEMBER 21, 2001**

We are taking over in December 2001. Require new procedures, inventory of all of the halls. Automate Management System, audit once a month. Lost of work to do. Need security in the Bingo halls. Paper play as well as Electronic Bingo.

**Self Exclusions**

Mentioned that may be having people voluntarily have treatment. Then they can show it to us a paper, certificate that they have had treatment.???

**IRMIS**

The reasons that we went to IRMIS is because of the retrieval and record management capabilities. The program uses a lot of memory. The more we work with it the better it will get.

**Laptops**

Terry sent an e-mail to have them sent to us, we are short four of them. Terry will follow up.

**Ticket Testing**

ILC – OLC Lab.

Two new casinos opening – Oct. 5 – Coquitlam and Oct. 8 – Royal View

**Core Review**

There will be a government committee. Phase I the mandate to review all. BCLC will need to justify why we exist. Are we doing the right thing? Terry will be sitting in on the meeting taking place on Sept. 24 & 25<sup>th</sup>. BCLC will be affected by the Core Review. Need to have someone sitting on the committee so that we have a say in what is happening.

Meeting adjourned at 2:30 p.m.

  
2

## CORPORATE SECURITY DEPARTMENT MEETING MINUTES

June 24, 2002  
RICHMOND

Attendees:

|                 |               |                |
|-----------------|---------------|----------------|
| Terry Towns     | Ray Lifton    | Bob Leach      |
| Denis Savidan   | Hamid Sadeghi | Murray Ross    |
| Bob Vanderaegen | Bill Boyd     | Craig Robinson |
| Brian Wallwin   | Steve Barwell | Jim Whawell    |
| Gordon Board    | John Ramsay   | Evonne Tang    |
| Bill Welsh      | Bob Meihuizen | Ron Thom       |

### 1. Doug Penrose – Opening Remarks

- What's coming in next year that will affect Corporate Security
- Gaming Control Act – huge impact on BCLC
  - Proclaimed at the end of the month
  - Tries to break gaming down
    - GPEB – overall policies for gaming and programs (compliance reports)
      - 107 B licensed gaming
      - Enforcement of act
    - BCLC – responsible – operations
      - Management of own contracts
      - We are responsible for gaming integrity
        - Procedures, etc
        - New games
  - Our policy and procedures tied with GPEBs and gaming act
  - Doug, Terry, and Jackie Moore involved
  - Core – Casino and b/o back on premises
  - Says smooth transition re: CSDO new duties and Corp Security not as impacted
  - HR/Payroll changes
  - Enhance social responsibility program
    - HAVE to be responsible
    - Visibility in the field
    - Service Providers are complying with the program (involved and not just doing)
    - Self-exclusion/barring programs
      - Must ensure S/P are aware and complying
    - Strategic Communication Plan
      - Gaming – “few winners and lots of losers”
      - How does gaming revenue benefit the Province
    - Business Plan
      - More market place management role in horse racing
      - Help develop industry
    - Corporate-wide e-Business plan (corporate security involved – integrity)
      - Protection
      - Ken Sell
    - New Product Development (corporate security involved – integrity)
      - UPF (unclaimed prize fund)
      - Over/under
      - Enhancement fo Keno products
    - Revitalizing Lottery Brands (corporate security involved – integrity)
    - Lottery Network Expansion (ISS) (corporate security involved – integrity)
    - Replace on-line gaming systems/network (corporate security involved – integrity)
      - Over several years



- Product Development of casinos (corporate security involved – integrity)
    - Slot machine
    - Camera coverage
  - Effectiveness of operational model
    - Casino MIS
    - Casino Market Plan
  - Casino Market Development
    - 4 community relocations
      - Royal Diamond
      - Grand
      - Royal Towers
      - Prince George
    - Operation of Wells s sucessful
    - Opening of Cranbrook
    - 3<sup>rd</sup> Campbell River – potential
    - 6-7 in next 2 years
  - Bingo New Product Development
    - Electronic systems – more games
  - Bingo Effectiveness Operational Model
    - Negotiating long-term contracts
    - Complete program
  - Bingo Market Development
    - 5 new starship sites over the next year
    - Market rationalization of superstar sites
    - Commercial bngo - relocation
- Questions for Doug
  - Bill – Richmond – wants to re-locate
    - KPMG developed market model
    - Good site for slots
    - GCC – have casino and not eligible to relocated (denied any relocation)
  - Terry – any locations/locales have more than 2 casinos?
    - ANS: possibly Burnaby and Surrey. Only 4 to reocate
  - Ray – Musqueum Reserve?
    - Will be given fair chance as any other local government
    - Land swaps
  - John – viability of Campbell River having casino
    - Estimates \$18M per year – potential to be positive. Minimum \$15M to survive
    - Still must meet our standards
    - Wells – not viable to us – will watch closely
    - Government picked locations to benefit areas
  - In Kamloops – cars – BCLC to get out of leasng (Still under review)
    - Either car per diem or mileage program
    - Don't want to impact user as less as possible.
  - Car Per Diem (Still under review)
    - Allows you to go out and buy a car
    - If used 100%, monthly allowance to lease car
    - Gas through BCLC
    - Business through BCLC
    - Stand by charge?
    - Type of vehicle – image
    - Higher mileage – higher allowance
  - Jerry – auditors and nvestigators – will be equal for cars?
    - ANS: will try to make it fair for all
    - ANS: will consider looking and allowance for compliance
  - Murray – when in place?
    - ANS: wants fairness in place

- ANS: deadline contemplated but not finalized
- ANS: ACE involved
- Ron – need lead time – concern from ACE
  - ANS: of course
- Craig – public needs to know where money is going; conception is it's going to General Revenue, getting asked by public and BCLC being criticized, Georgia (college ed to some kids), public needs to know the cause
- Doug – looking for another record year – \$1.7 B range (\$2B business)
  - Meeting with Board
    - Strategic plan – going over
    - Mission statement
    - Mandate
    - Corporate objective
  - Changes in direction

## 2. Gambling Control Act & Regulations – update

### 3. Core Review

- Security grew and come out better than other areas due to bingo
- Telephone – positive comments – good job
- CSDO – thank you – added duties
- Budgeting – cut backs to travel, meetings, training and accommodations
  - Reduced from every quarter to semi-annually (June and December) 2 per year
  - Any issues – please bring forward, don't dwell and let's deal
  - Increased in FTE
  - Came from top
  - Done on business cases
    - May be asked to do/be involved
- Computer Security – 1 guy
  - Took over 'cause of core review
  - Bogged down with day-to-day
  - Try to elevate to big picture
  - IT – 140 projects
  - Need system in place – for security aspect
  - Assess risks to projects – prioritize
  - ITs responsible to build in corporate security to programs
  - Everyone's job to protect BCLC's integrity, etc.
  - Ken – "policing" – prior IT was policing own department
- Multi-tasking
  - People required to do more than 1 job
  - Aligned with business units
  - Mis-aligned in rural areas
    - Eg. Fort Nelson – don't need more than 1 auditor/investigator for different units
    - More efficient
  - Managers should be communicating with each other as to who is in what area (rural)
  - Bingo – normally lottery investigator

### 4. IRIMS

- Dictionary feature – not working yet
- Incident and case reports
- More training? Need more advanced, more indepth training , next level
- Need more in-depth reports from IRIMS
  - Be able to retrieve data and manager
- Need to be able to evaluate SP and system

- Is it working?
- IRIMS can be used for much more than what we're currently doing (basic)
- UDF – can hide when printing reports – NO!!
- S/P must catch self-exclusion
  - Validates our program
- Self-Exclusion – huge issues
  - Minors as well
- Searching Names – similar names
  - When add new name to data bank
  - Comment – add detail ex “suspect in loan shark”
  - Contact info – address and phone number
  - Don't just add a name
  - Put as much information on person as you can
- Sub categories – for audits
- Consistency
- Search
- Terry – not using IRIMS to its full capability
- Rob Moonie – working on “save session”
  - Lately T1 not working – “spike” from Telus
- Terry – NO purpose on hard copy – court issue, evidence, tickets, attachments, or issue requires management attention except for audits (GPEB comes to look at)

## 5. Business Units

### Lottery

- Lottery
  - Increasing retailers – focus
  - Majority in lower mainland
  - LM – under serviced
  - Island and north - saturated
- Nextel – Pub
  - Pubs and bars
  - Focus in lower mainland (growth market)
  - TV screen - allows keno, chaser to be visualized
  - Advertising between games – “jazz” up around gaming
  - Possibly new games
- Beer and Wine Stores
  - Lottery sales - 100
- SST terminals
  - Keno, chase and Keno Bonus
  - Put in bars
  - Testing in Kamloops
  - 200 across Province
  - Validate and print out ticket – self-serve
  - Q&A
- Replace Gtech terminals – what's out there
  - Wants from corporate Security
  - Double-sided screens – so customer sees
  - Music played – so customer knows “wins” – “you're in the money” tune
  - No more “double dip” sound
- Validations
  - Tunes should help
- eBusiness
  - Katherine Warren hired to consult
  - Must be in line with integrity



- Heavily consulted
  - Will be out-sourced
  - Ken Sell, Terry and others
  - Many issues – privacy, security of credit card information, etc
- Bingo Investigations
  - Extra time – potential witnesses, complainant and hall staff
  - Auditor on site – then can take over some investigations if not as in depth
  - Vice-versa for investigator in area and no auditor; the investigator will carry out audit
  - Day-t-day contact – important
- Organization chart – reporting structure – not making sense to others
- Report – manager to decide if needs to escalate (on investigation)
  - If yes, then to Terry, then he'll decide
  - Investigators – want to know the answer from management

#### Casino

- GPEB – Victoria – Al Geisbrecht
- Regional Offices
  - Kelowna – Barry Halpenny
  - Prince George – Bob Chamberlain
  - Vancouver – Joe Schultz
- Auditors/investigators
  - Remain in contact with regional managers of GPEB
  - Reassurance and assistance and guidance to those people
- GPEB will audit OUR audits
- Self-Exclusions Policy
  - Repeat customers – flagrantly chronic re-offending – will be followed up by investigator
  - Refer name to counsellor
  - No revocation
  - Can be charged
  - 33% success rate compared to heroin 3-4%
  - Effective program and works and can be beneficial to people
  - We are taking – PRO-active step
- GPEB – can set policy if we don't go out and do it
  - Problem Gaming currently under GPEB but could possibly be contracted out
  - We give only name and number – there is a privacy issue to it (FOI attached)
  - Signs and pamphlets for problem gambling in washrooms, etc
  - All staff – must take part in training program (video)
  - Slot attendant, pit bosses, dealers, surveillance – video, situations
  - How about bingo?
- Minors may work in some capacity
  - Eg. Concessions at Bingo, HR, and Casino
  - Must be registered – all staff – including BCLC staff
  - Exceptions to delivery – like food to concessions
- Needs Assessments – surveillance
  - Greg Homyer – consultant
  - How far do we need to go to reach standard
  - Next step – need to provide/demand training, test those people and have certification process
  - What role does surveillance have
  - Meetings with each facility
    - To fix
- Standards
  - Customer service – same at all casinos

#### Gaming Control Act



- Passed but need regulations
- Future session on this
- Section on Provincial gaming
  - BCLC mission
- Section 7.1i – conduct and management of gaming on behalf of government
  - Must follow rules
- Section 30
  - Follow rules of BCLC and government
- We make rules and must be complied with and okayed by GPEB
- Section 89 – unauthorized gaming by minors
  - FINES to S/P and/or BCLC if not adhered to

#### Bingo

- Bingo prescribed equipment
  - Who pays for what
  - Internal document only
- BPMS – overview
  - What it can and can't do
  - At hall level, etc
  - Physical inventory count – 1 x per month (only) should be
- Audits – will evolve as did casinos audits
- Cameras
  - Need clarity
  - Bingo – don't have same risk factor over casinos
  - 30 frames per second
  - VCR and camera – we supply – over ball chute, 8hr mode in real time
  - Asked for colour
    - But have accepted B&W if clear
  - Multi-plex unit
  - Casino should have tape review on site
  - Needs will be different – fluctuates from hall to hall
    - i.e. more stringent controls in Planet Bingo over a hall in Fort Nelson
  - Minimum 1 camera per POS location
  - Pulling out superstar out of halls that aren't making money
    - Will be rationalization among all all but not our decision
  - Will have 41 licensed halls
  - Bingo – 2-3% set aside for facility improvements
    - Must be approved by BCLC
- Corporate Policy – revisions
  - On in-site
  - updating
- 5 year Corporate Security Strategic Plan
  - Big picture
  - Must align with corporate strategic plan

THIS IS **EXHIBIT "4"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
\_\_\_\_\_  
A Commissioner/Notary Public for the  
Province of British Columbia.





March 28, 2003

Log # 211129

Via Facsimile: 250 828-5637

Vic Poleschuk  
President and CEO  
British Columbia Lottery Corporation  
74 West Seymour Street  
Kamloops BC V2C 1E2

Dear Mr. Poleschuk:

**Re: Reporting of Offences - Section 86 (2) Gaming Control Act**

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

The investigation of incidents, and securing of related evidence, in legal gaming facilities that may affect the integrity of gaming is the responsibility of the Branch. Staff from the Investigation Division are designated Investigators under Section 81 of the *Act*.

**Reporting by the BC Lottery Corporation**

Section 86(2) of the *Gaming Control Act* requires the BC Lottery Corporation to notify the Branch, 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 *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:

- a. Cheating at Play;
- b. Theft affecting the integrity of the game (thefts from the house or by a gaming worker);
- c. Thefts affecting the integrity of the game (thefts of BC Lottery Corporation lottery products from the Corporation or the retailers);
- d. Fraud;
- e. Money Laundering;
- f. Persons suspected of passing counterfeit currency;
- g. Loan Sharking;
- h. Robbery;
- i. Assault;
- j. Threats against, or intimidation of gaming employees;
- k. Unauthorized lottery schemes;



- l. Unauthorized gaming by minors;
- m. Unregistered gaming workers; and
- n. Unregistered service providers.

The Corporation need not report incidents already reflected in "Section 86 reports" forwarded to the Investigation Division by service providers (and copied to the Corporation).

#### Reporting by Service Providers

A service providers' obligation to report incidents under Section 86 of the *Gaming Control Act* is a condition of registration. A service provider's failure to report is an offence under Section 97 (2) (e) of the *Act*. Any clarification of services providers reporting obligations or requirements should be sought from the Investigation Division of the Branch. The Corporation should not direct or advise service providers on reporting requirements.

The Corporation's Casino Standards, Policy and Procedures (amended February, 7, 2003) should clearly reflect the reporting obligations of service providers. Please make the following amendments to that document.

#### Section 2-10.1 General Reporting

- 3.1 should read "the Service Provider has a legal obligation to send the "Section 86 GC Act Report" to GPEB, Investigation Division"

#### Section 7-1.1 Security – General

- 8.1.1 should read "if the criminal activity possibly involves Service Provider employees the Service Provider shall report the incident immediately to GPEB Investigation Division in your geographical area"
- 8.4 should read "the Service Provider has a legal obligation to send the "Section 86 GC Act Report" to GPEB, Investigation Division"
- 8.5.1 should read "GPEB using the On-Call Pager or the Investigation Division Regional Office in your geographical area"
- 9.2 should read "if the information is of a criminal nature, GPEB Investigation Division should be advised immediately"
- 9.2.1.a should read "if the informant wishes to remain anonymous, GPEB Investigation Division should be advised immediately"



Thank you for your co-operation.

Sincerely,

Derek Sturko  
General Manager

pc: Doug Penrose  
Larry Vander Graaf  
Terry Towns

A handwritten signature in dark ink, appearing to be 'JL' or similar, located at the bottom right of the page.



THIS IS **EXHIBIT "5"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 12 DAY OF JANUARY, 2021.



A Commissioner/Notary Public for the  
Province of British Columbia.



**IPSA International**

IPSA International  
601-808 Nelson Street  
Vancouver, BC, V6Z 2H2

Phone: (604) 633-1750  
Fax: (604) 633-1751  
Email: kmarsh@ipsaintl.com

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# **British Columbia Lottery Corporation**

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## **Casino Gaming Anti-Money Laundering Program Review**

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BCLC0000005

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# British Columbia Lottery Corporation

## Casino Gaming Anti-Money Laundering Program Review

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## Section

## 1

**British Columbia Lottery Corporation****Casino Gaming Anti-Money Laundering Program Review****1.0 Executive Summary**

1. The IPSA review of the British Columbia Lottery Corporation's (BCLC) Casino Gaming Anti-Money Laundering Program (AMLPL) has two objectives: (a) To assess its policies, procedures, processes and structure; and (b) To evaluate its risk management policies and procedures.
2. IPSA, relied on: (a) Guidelines issued by the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC)<sup>1</sup>, especially the regulatory changes in Bill C-25; and (b) International standards and best practices.<sup>2</sup>
3. The typical casino-related gaming money laundering scenarios, as identified by FINTRAC and such bodies as the Financial Action Task Force (FATF) and Financial Crimes Enforcement Network (FinCEN), a bureau of the U.S. Department of the Treasury, are unlikely to occur in British Columbia for the following reasons:
  - a. Casinos in B.C. neither receive funds through electronic wire transfers, nor do they transmit funds on behalf of clients via electronic wire transfers.
  - b. Casinos in B.C. only issue cheques for verified wins.
  - c. Casinos in B.C. do not open accounts or lines of credit for patrons.
  - d. Patrons of casinos in B.C. are not allowed to exchange chips inside a casino facility with other patrons.

<sup>1</sup> FINTRAC's mandate includes ensuring compliance by financial intermediaries and other reporting entities with their obligations under the Act and regulations

<sup>2</sup> See section 2.3.





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- e. Surveillance, security and gaming personnel at B.C. casinos are vigilant for patrons who do not engage in normal gaming activity after purchasing chips – i.e. engaging in limited gambling before exchanging their chips for cash at the cash cage. Such activities would generate a Suspicious Transaction Report (STR) to FINTRAC.
  - f. BCLC policies and procedures do not allow patrons to exchange small denomination bills for large denomination bills, a money laundering technique known as refining.<sup>3</sup>
  - g. BCLC corporate AML officers are all very experienced drug enforcement/money laundering officers who, on many occasions, have given expert evidence testimony before the B.C. Courts of Law. This expertise allows them to interpret suspicious activity reports from casino providers and determine whether they meet the FINTRAC STR criteria, or whether they are indicators of other negative activities (for example, loan sharking.) This probably renders a useful service to FINTRAC by having experience former law enforcement officers separate “the wheat from the chaff.”
4. The AMLP's policies, procedures and structure are generally consistent with the current requirements of FINTRAC Guideline No. 4.<sup>4</sup> However, improvements, primarily involving training and risk management, are needed to bring the AMLP in line with the changes in Bill C-25.
5. Through its organizational structure and its policies, procedures and processes, the AMLP appears to be based on sound risk management principles. However, its risk management policies and procedures are not formally documented as required in FINTRAC Guideline No. 4.
6. IPSA also believes that the risk management approach of the AMLP can be enhanced by a formal, customized, structured process for identifying, assessing and mitigating risk based on internationally

<sup>3</sup> The RCMP provides the following definition: “Refining: This money laundering method involves the exchange of small denomination bills for larger ones and can be carried out by an individual who converts the bills at a number of different banks in order not to raise suspicion. This serves to decrease the bulk of large quantities of cash.” See [http://www.rcmp-grc.gc.ca/poc/launder\\_e.htm](http://www.rcmp-grc.gc.ca/poc/launder_e.htm)

<sup>4</sup> FINTAC's Guideline No. 4 states that a compliance program should have the following components: The appointment of a compliance officer; The development and application of written, up-to-date compliance policies and procedures; An ongoing, written training program; A review of compliance policies and procedures to test their effectiveness. Effective June 23, 2008, the review has to cover policies and procedures, an assessment of risks related to money laundering and terrorist financing, and the training program; and An assessment and documentation has to be undertaken of risks related to money laundering and terrorist financing.



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recognized standards like CAN/CSA-Q850-97 (Reaffirmed 2002), *Risk Management Guideline for Decision-Makers, A National Standard of Canada*, and/or Australia/New Zealand Risk Management Standard 4360:2000.

7. "Tone at the top" refers to the ethical and good governance culture set by an organization's leadership. Best practices suggest that, to be effective, anti-money laundering programs require that the Board of Directors and senior executives set the right "tone at the top." IPSA has founds that, with regards to the AMLP, the right "tone at the top" is set at BCLC.
8. Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding the appointment of a compliance officer: The AMLP appears to be consistent with this component of Guideline No. 4. Significantly, the CO plays an ongoing risk management role whenever new products and services are being considered.
9. Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding the development and application of compliance policies and procedures: The AMLP's policies, procedures and processes appear to be generally consistent with FINTRAC's guidelines, although, as noted elsewhere in this report, there are areas where these policies, procedures and processes may be enhanced.
10. Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding the training program: The AMLP's training program appears to be generally consistent with the basic training requirements of Guideline No. 4.
11. The general structure and organization of the AMLP appears to be appropriate for managing an effective compliance program as outlined in Guideline No. 4. Staff and supervisors generally appear to be very experienced and of a high caliber. However, IPSA recommends:
  - a. That BCLC examine how to increase the effectiveness of AMLP personnel.



## Section

**2****British Columbia Lottery Corporation****Casino Gaming Anti-Money Laundering Program Review****2.0 Introduction****2.1 BCLC and Casino Gaming**

Incorporated on October 25, 1984, the British Columbia Lottery Corporation (BCLC) has the sole authority to conduct and manage casino gaming within British Columbia.

BCLC is responsible to the Minister of Public Safety and Solicitor General, through a Board of Directors appointed by the provincial government. It manages and conducts casino gaming through a partnership with private sector companies who provide operational services in compliance with BCLC's requirements.

The Gaming Policy and Enforcement Branch (GPEB) in the Ministry of Public Safety and Solicitor General is responsible for regulating casino gaming.

**2.2 Scope of this Engagement**

BCLC has retained IPSA International (IPSA) to review its Casino Gaming Anti-Money Laundering Program (AMLP).

The review has the following objectives:

1. Provide an overall assessment of the AMLP.
2. Review whether the components and organizational structure of the AMLP, including its policies, procedures and processes, appear to be consistent with guidelines issued by the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), the federal AML regulatory agency.<sup>5</sup>

<sup>5</sup> FINTRAC's mandate includes ensuring compliance by financial intermediaries and other reporting entities with their obligations under the Act and regulations





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3. Review whether the AMLP has effective money laundering risk management policies and procedures that are consistent with Canadian laws and regulations and international best practices.
4. Present recommendations for addressing any deficiencies.
5. Bring urgent issues, if any, to BCLC's attention on a priority basis.

### 2.3 Laws, regulations, guidelines, standards and best practices

In undertaking this review, IPSA relied upon the following laws, regulations, guidelines, standards and best practices:

- The *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) and its regulations;
- Casino gaming-related changes to the PCMLTFA and its regulations as stated in Bill C-25;
- Guidelines issued by FINTRAC;
- Best practices established by the Financial Action Task Force (FATF), included its *Forty Recommendations*<sup>6</sup> and its *Nine Special Recommendations on Terrorist Financing*.<sup>7</sup>
- Best practices<sup>8</sup> established by the Basel Committee on Bank Supervision<sup>9</sup>;
- Best practices established by the Wolfsberg Group;<sup>10</sup>
- Federal Financial Institutions Examination Council<sup>11</sup>, Bank Secrecy Act/Anti-Money Laundering Examination Manual, (Washington, DC: 2006);

<sup>6</sup> [www.fatf-gafi.org/document/28/0,3343,en\\_32250379\\_32236930\\_33658140\\_1\\_1\\_1\\_1,00.html#Introduction](http://www.fatf-gafi.org/document/28/0,3343,en_32250379_32236930_33658140_1_1_1_1,00.html#Introduction)

<sup>7</sup> [http://www.fatf-gafi.org/document/9/0,3343,en\\_32250379\\_32236920\\_34032073\\_1\\_1\\_1\\_1,00.html](http://www.fatf-gafi.org/document/9/0,3343,en_32250379_32236920_34032073_1_1_1_1,00.html)

<sup>8</sup> See [http://www.bis.org/list/bcbs/tid\\_32/index.htm](http://www.bis.org/list/bcbs/tid_32/index.htm)

<sup>9</sup> The Bank for International Settlements (BIS) is an international organization which fosters international monetary and financial cooperation and serves as a bank for central banks.

<sup>10</sup> The Wolfsberg Group is an association of 12 global financial institutions, including Goldman Sachs, Citigroup, ABN AMRO, Barclays and Credit Suisse. Its AML standard can be found at <http://www.wolfsberg-principles.com/risk-based-approach.html>





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- Financial Crimes Enforcement Network, Suspicious Activity Reporting Guidance for Casinos, (Washington, DC; 2003);
- CAN/CSA-Q850-97 (Reaffirmed 2002), *Risk Management Guideline for Decision-Makers, A National Standard of Canada*
- Australia/New Zealand Risk Management Standard 4360:2000;
- American Society for Industrial Security's *The General Security Risk Assessment Guideline*;
- Best practices established by the Association of Certified Fraud Examiners and set out in its Fraud Examiners Manual; and
- The quality management principles<sup>12</sup> embodied in the ISO 9000 standard.<sup>13</sup>

## 2.4 The Work Plan

In conducting this engagement, IPSA undertook the following fact-finding exercises:

- Reviewed AMLP-related policies and procedures;
- Reviewed the findings of the report entitled Winning Fair and Square: A Report of the British Columbia Corporation's Prize Payout Process, prepared by the Office of the Ombudsman and dated May 2007;
- Reviewed the findings of the report entitled Keeping the Decks Clean: Managing Gaming Integrity Risks in Casinos, prepared by the Office of the Auditor General and dated July 2005;
- Reviewed the findings of the report entitled Report on the Independent Review and Assessment of the Retail Lottery System in British Columbia, prepared by Deloitte and dated October 31, 2007;

<sup>11</sup> The members of the Federal Financial Institutions Examination Council are: Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Office of Thrift Supervision

<sup>12</sup> See ISO's "Quality Management Principles" at <http://www.iso.ch/iso/en/iso9000-14000/understand/omp.html>

<sup>13</sup> The eight quality management principles are: Customer focus; Leadership; Involvement of people; Process approach; System approach to management; Factual approach to decision making; and Mutually beneficial supplier relationships. See ISO's "Quality Management Principles" at <http://www.iso.ch/iso/en/iso9000-14000/understand/omp.html>

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- Reviewed the findings of the report entitled BC Lottery Corporation, FINTRAC Report, Summary of Findings, GPEB File # COMM-219, Fiscal 2006/7, prepared by the Gaming and Policy Enforcement Branch and dated December 14, 2007;
- Submitted and analyzed questionnaires to a sample of BCLC corporate security staff and service providers;
- Conducted field visits during the week of February 18, 2008, to BCLC corporate security headquarters at Richmond, B.C., the Starlight Casino in New Westminster, B.C. and the River Rock Casino in Richmond, B.C.
- Interviewed selected BCLC managers, corporate security and operational audit personnel either in person, or where that was not possible, via telephone; and
- Interviewed selected surveillance and cage operations supervisors and front-line staff at the Starlight and River Rock casinos;

## 2.5 IPSA International

Established in 1993, IPSA International, Inc. is a premier global provider of investigative consulting services – in the areas of anti-money laundering, intellectual property, asset location and recovery, fraud and due diligence – serving the corporate, legal and financial communities. IPSA has offices in the U.S., Canada and Mexico, resources in over 75 countries worldwide and a talent base that is focused on assisting clients in making better-informed decisions to protect their investments and assets.

## 2.6 Kim Marsh, CAMS, CFE

The project manager for this engagement is Kim Marsh, CAMS, CFE, Managing Director for IPSA's Vancouver office, which also has geographical responsibilities for Asia. Kim spent 25 years in the RCMP where he retired as a commander of an organized crime unit in Vancouver. Kim, who has conducted money laundering investigations in numerous tax havens, has lectured on covert investigations nationally and internationally to the private and public sectors. He worked as the RCMP liaison officer in London for five years with geographical responsibilities for the UK, Ireland, Scandinavia and the former Soviet Union.



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**2.7 Mario Possamai, CAMS, CFE**

The senior consultant is Mario Possamai, CAMS, CFE. Mario, who has conducted AML audits in a number of sectors, was a guest lecturer from 1993 to 2003 in the AML program at the U.S. Government's Federal Law Enforcement Training Center at Glynco, Georgia. Mario has instructed at AML training sessions of the Criminal Intelligence Service Ontario, in the fraud training program at the Ontario Police College, and in the RCMP's Expert Witness Program for Proceeds of Crime investigators. He is the author of "Money On The Run: Canada and How the World's Dirty Profits are Laundered," published by Penguin Books.





## Section

## 3

**British Columbia Lottery Corporation****Casino Gaming Anti-Money Laundering Program Review****3.0 Compliance Program****3.1 Canadian money laundering laws and regulations<sup>14</sup>**

In 2000, the Proceeds of Crime (Money Laundering) Act (PCMLA), created a mandatory reporting system for suspicious financial transactions, large cross-border currency transfers, and certain prescribed transactions. At the time, the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) was also established to collect and analyze financial transaction reports reported under the PCMLA and to disclose pertinent information to law enforcement and intelligence agencies.

In December 2001, in the wake of the 9/11 attacks, the scope of the PCMLA was expanded to include terrorist financing fighting measures and it was renamed the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA).

In December 2006, the PCMLTFA was further amended through Bill C-25 to ensure Canada's legislation remains consistent with international anti-money laundering and anti-terrorist financing standards and is responsive to areas of domestic risk.

Amendments included enhanced client identification requirements, the creation of a registration regime for money services businesses, and the establishment of an administrative and monetary penalties regime to deal with lesser infractions of the Act. A number of these changes were directed at casinos.<sup>15</sup>

<sup>14</sup> See Treasury Board of Canada, "National Initiative to Combat Money Laundering," June 22, 2007, [http://www.tbs-sct.gc.ca/ma/eppl-ibdrp/hrdb-rhbd/nicml-inlba/description\\_e.asp](http://www.tbs-sct.gc.ca/ma/eppl-ibdrp/hrdb-rhbd/nicml-inlba/description_e.asp).

<sup>15</sup> The rationale behind the casino-related changes was outlined in the Canada Gazette in October 2007: "Under the current PCMLTF Regulations, casinos are required to ascertain the identity of their clients when they disburse \$10,000 or more in cash and to keep a record of that transaction. The information kept on record is available for law enforcement investigations and despite its analytical value, it cannot be used by



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### 3.2 Canadian AML Compliance Guidelines

In addition to collecting, analyzing and disclosing information and intelligence on suspected money laundering and terrorist financing, FINTRAC also ensures compliance with the PCMLTFA and related regulations.

To that end, FINTRAC has developed Guideline No. 4<sup>16</sup> to help affected entities, including casinos, financial institutions and securities dealers, understand their compliance obligations.

While the guidelines do not remove an entities' responsibility to be familiar with and comply with the PCMLTFA and related regulations, they do provide useful procedures, standards and benchmarks for ensuring an appropriate level of compliance.

### 3.3 Components of a Compliance Regime

In reviewing BCLC's AMLP, IPSA relied on the recently updated version of Guideline No. 4, which includes Bill C-25-related requirements that will come into force on June 23, 2008. Where appropriate, IPSA also relied on internationally recognized best practices and standards listed above in section 2.3.

According to FINTRAC's updated Guideline No. 4, a compliance regime should have the following components:

1. The appointment of a compliance officer;
2. The development and application of compliance policies and procedures. Effective June 23, 2008, these policies and

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the Centre because those transactions are not reported. Hence, the Centre loses track of the funds leaving casinos when building a case disclosure. To address this gap, the proposed amendments to the Regulations would require casinos to report large disbursements to the Centre in addition to keeping a record of such transactions.

The Regulations that were published on June 27, 2007, allow persons and entities that are subject to the Act to rely on an agent or mandatary for the identification of a client, provided that the identification is done by referring to a government-issued document and there is a written agreement or arrangement between the parties. The proposed Regulations would provide more flexibility by allowing those agents and mandataries to use prescribed non-face-to-face identification methods as well.

Amendments to the Regulations that were published on June 27, 2007, are also proposed to clarify that for one-off electronic funds transfers sent on behalf of corporations and other entities, financial entities, money services businesses and casinos only have to identify the person who requests the transfer and keep records of the transactions." *Canada Gazette*, Vol. 141, No. 40 — October 6, 2007, *Regulations Amending Certain Regulations Made Under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (2008)*

<sup>16</sup> Other guidelines cover such topics as record-keeping requirements (Guideline No. 6), submitting suspicious transaction reports (Guidelines 3a and 3b) and submitting terrorist property reports (Guideline No. 5). See <http://www.fintrac.gc.ca/publications/guide/guide-eng.asp>

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procedures have to be written and kept up to date. They also have to be approved by a senior officer;

3. An on-going compliance training program. Effective June 23, 2008, the training program has to be in writing and maintained;
4. A review of compliance policies and procedures to test their effectiveness. Effective June 23, 2008, the review has to cover policies and procedures, an assessment of risks related to money laundering and terrorist financing, and the training program. The review also has to be done every two years; and
5. Effective June 23, 2008, an assessment and documentation has to be undertaken of risks related to money laundering and terrorist financing.

### **3.4 The Organization of AML Compliance at BCLC**

#### **3.4.1 Regulatory Guidance**

There is no FINTRAC regulatory guidance regarding the structure and organization of an AML compliance program. Instead, FINTRAC permits a great deal of leeway and discretion in how entities implement their compliance regimes, as long as they contain the core components listed in Guideline No. 4. FINTRAC advises:

Your compliance regime will have to be tailored to fit your individual needs. It should reflect the nature, size and complexity of your operations.

#### **3.4.2 Structure of the AMLP**

1. BCLC's AMLP is housed in its corporate security function and has a front-line complement of eight investigators and 14 auditors.
2. Two of those investigators, plus a supervisor, comprise the core BCLC corporate AML function.
3. Members of the BCLC corporate AML function review Large Cash Transaction records (LCT) filed by all individual casinos in B.C. before they are submitted to FINTRAC in a timely fashion. If there are reporting deficiencies, the members of the BCLC corporate AML function follow-up with the affected casino service provider.
4. The BCLC corporate AML function also: (a) reviews all suspicious occurrences submitted by casino providers and ensures their



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completeness; (b) oversees investigative follow-up of suspicious occurrences by BCLC corporate security investigators and/or operational auditors; (c) determines whether the suspicious occurrences are indicators of money laundering or of some other criminal activity; and (d) if the suspicious occurrences meet the FINTRAC criteria for a suspicious transaction submit a Suspicious Transaction Report (STR) to FINTRAC.

5. The BCLC corporate AML function liaises closely with RCMP proceeds of crime units, which receive copies of any STRs that may be relevant to their jurisdiction.
6. The two investigators in the BCLC corporate AML function are also assigned to lead the onsite BCLC security oversight teams at two of the province's most important casinos. These teams also include an operational auditor.
7. AML is a secondary responsibility of other BCLC corporate security investigators who participate in AML compliance activities, from time to time, as required in the course of their regular duties and responsibilities.
8. Operational auditors review AML compliance in the course of their prioritized operational audit program.
9. BCLC corporate AML function members have traditionally been the primary trainers in AML compliance for casinos, although, in preparation for the Bill C-25 changes which come into effect in June 2008, additional investigators are being trained to provide the required training.
10. The iTrak electronic reporting and record-keeping system appears to be an effective means of managing FINTRAC-related filings and reports from all B.C. casinos.

### 3.4.3 Observations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding the organization of BCLC's AML compliance function:

1. The general structure and organization of BCLC's AMLP appears to be appropriate for managing an effective compliance program as outlined in Guideline No. 4.
2. The structure and organization of the AMLP appear to be consistent with general accepted management best practices





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as set out the ISO 9000 quality management principles.<sup>17</sup> That is:

- a. There appears to be a clear vision of the AMLP's role and function.
  - b. Individuals' contributions are encouraged and recognized.
  - c. Regarding span of control, supervisors appear to control an appropriate number of staff.
  - d. There appears to be clarity in lines of responsibility and authority. Clear responsibility and accountability for managing key activities appears to have been established.
  - e. Supervisors appear to have the necessary authority to discharge their responsibilities effectively.
  - f. Front-line staff appear to have been provided with the required resources and freedom to act with responsibility and accountability.
3. Front-line investigators tend to be retired former law enforcement officers with extensive experience in drug enforcement and money laundering.
  4. IPSA was impressed with the caliber and expertise of the front-line investigators and operational auditors whom it either interviewed or who submitted completed questionnaires.
  5. While IPSA has insufficient data to determine whether there are sufficient numbers of investigators and operational auditors to meet the growth in casinos in B.C., IPSA is informed that their numbers are being increased.
  6. The fact that the three-person BCLC corporate AML function reviews all LCTs and suspicious occurrences on a daily business ensures that "red flag" indicators are monitored in a timely fashion. These "red flag" indicators can range from a rise in the number of errors or late filings in LCTs from a particular casino – to an unusual cluster of suspicious occurrences.

<sup>17</sup> The eight quality management principles are: Customer focus; Leadership; Involvement of people; Process approach; System approach to management; Factual approach to decision making; and Mutually beneficial supplier relationships. See ISO's "Quality Management Principles" at <http://www.iso.ch/iso/en/iso9000-14000/understand/qmp.html>





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This daily oversight of AML-related reports and occurrences not only improves the quality of FINTRAC filings but also helps ensure the early identification and mitigation of internal issues.

7. The effectiveness of the BCLC corporate AML function is enhanced by the presence of provincially mandated internal controls at all casinos, and the regulatory oversight of GPEB.

### 3.4.4 Recommendations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following recommendations regarding the organization of BCLC's AMLP:

1. While it was beyond the scope of this engagement to assess staffing levels, IPSA recommends that the BCLC consider establishing benchmarks for determining appropriate staffing ratios of investigators and operational auditors to the number, size, operations and locations of its casinos. This would help to provide a basis for determining future increases in staffing levels.
2. Even if the number of front-line investigators and operational auditors is increased, IPSA recommends that action be taken to ensuring that their effectiveness is maximized. To that end, IPSA recommends that a review be undertaken of the role of the BCLC corporate AML function in the FINTRAC filing process:
  - a. While there are many benefits to having members of the BCLC corporate AML function review all LCT filings from casinos before submitting them to FINTRAC, IPSA observed that this can be a time-consuming task.<sup>18</sup>
  - b. It appears that the BCLC corporate AML function acts, to a certain extent, as the gatekeeper of STRs<sup>19</sup> filed to FINTRAC. That is, the BCLC corporate AML function receives suspicious occurrences and attempted suspicious occurrences from the casino providers and determines

<sup>18</sup> During the IPSA site visits in February 2008, only one BCLC corporate AML function member on duty. In addition to his BCLC corporate AML function duties, he was also the lead BCLC investigator at one of the province's largest casinos. It appeared that this investigator devoted an inordinate amount of time to the largely clerical functions of LCT filings.

<sup>19</sup> It is important to note that, currently, the requirement is for a suspicious transaction to be reported only when the financial transaction was completed. Once the changes come into effect, the requirement will also apply to attempted transactions

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whether they meet the FINTRAC STR criteria, or are indicators of other negative activities (for example, loan sharking). This probably renders a useful service to FINTRAC by having experienced former law enforcement officers separate "the wheat from the chaff."

### 3.5 AML Compliance Culture

#### 3.5.1 – Regulatory Guidance

"Tone at the top" refers to the ethical and good governance culture created and promoted by an organization's leadership.

The FINTRAC guidelines are silent on the issue of "tone at the top" with regards to a compliance program. Nevertheless, best practices suggest that, to be effective, anti-money laundering policies, procedures, processes and systems require that a corporation's Board of Directors and senior executives and management set the right "tone at the top."

The Association of Certified Fraud Examiners has noted:

Tone at the top refers to the ethical atmosphere that is created in the workplace by the organization's leadership. Whatever tone management sets will have a trickle-down effect on employees of the company. If the tone set by managers upholds ethics and integrity, employees will be more inclined to uphold those same values ... Employees pay close attention to the behavior and actions of their bosses, and they follow their lead. In short, employees will do what they witness their bosses doing.<sup>20</sup>

IPSA believes that setting the right "tone at the top" is all important to ensure effective implementation, compliance and maintenance of an AMLP.

As Nick Le Pan, Superintendent, Office of the Superintendent of Financial Institutions, has stated:

Executive management and the Board should set the tone for the institution on an enterprise-wide basis, making it clear that loss of reputation due to the

<sup>20</sup> <http://www.acfe.com/documents/tone-at-the-top-research.pdf>





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financial institutions products and services being used for money laundering or terrorist financing activities will not be tolerated.<sup>21</sup>

Setting the right “tone at the top” requires good governance and executive leadership. As a former governor of the U.S. Federal Reserve has noted:

It is essential that the board of directors take the lead by requiring a top-to-bottom compliance culture that is well-communicated and incorporated into the organization's day-to-day operations by senior management, in order to ensure that all staff members understand their compliance responsibilities and their roles in implementing the enterprise-wide program. A strong compliance culture is evidenced by the extent to which employees work together both to raise concerns about compliance risks and to design and establish effective controls.

A sound and effective enterprise-wide compliance-risk management program has strong board and senior management oversight. However, it is important to note that the board of directors and senior management have distinct, though complementary, roles in ensuring the program's success. As I mentioned, the board of directors is responsible for requiring a strong compliance culture. This environment should assure that compliance is an integral part of day-to-day operations. To this end, the board should approve the key elements of the program and then entrust responsibility for embedding the culture and implementing the program to managers and staff at all levels of the organization. Periodically, the board should be apprised of the extent to which predetermined benchmarks are being met.<sup>22</sup>

### 3.5.2 – Observations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding BCLC's compliance culture:

1. IPSA has founds that, with regards to the AMLP, the right “tone at the top” is set at BCLC.
2. The British Columbia casino gaming model is based on a culture of integrity and honesty.

<sup>21</sup> Remarks by Nicholas Le Pan, Superintendent, Office of the Superintendent of Financial Institutions, Canada (OSFI) at the OSFI AML / ATF Information Session, Royal York Hotel, Toronto, Ontario, November 09, 2005

<sup>22</sup> Remarks by Governor Mark W. Olson to the Financial Services Roundtable and the Morin Center for Banking and Financial Services, Washington, D.C. May 16, 2006



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3. If the level of integrity and honesty is not maintained, criminal activities, including cheating, money laundering, loan sharking and fraud, will take root. If patrons don't believe casinos are operated honestly, large numbers may stop frequenting them, leading to a reduction in government revenues.
4. Overall, the Auditor General of British Columbia has concluded that: "The BCLC has implemented adequate policies and procedures to help ensure honest casino gaming activities."<sup>23</sup> Everything, IPSA has seen in its AML review supports this assessment, at least as it relates to AML compliance issues.
5. The Director, Corporate Security, reports to the Board's Audit Committee each quarter on the status of the AML program. He also updates the Board on the findings of the BCLC's other operational audits. This enhances the ability of the Board to effectively discharge its duties and responsibilities to oversee the corporation, including its control and accountability systems, and to review and ratify systems of risk management and internal compliance and control, codes of conduct, and legal compliance.
6. There is ongoing monitoring of casino operations by BCLC and GPEB to ensure that gaming related activities are conducted honestly.
7. A wide range of risk-based operational audits are being undertaken by the AMLP's operational auditors on an ongoing basis. Some of the audits are directly relevant to AML compliance – such as testing the ability of a casino's cage, table gaming and surveillance operations to track large cash transactions over a 24-hour period. Others – such as verifying camera surveillance standards – may not appear to be directly related to AML. But, in fact, they help promote AML compliance by insuring that all controls – in this case, the effectiveness of the compliance operation – are functioning effectively.
8. In a pilot project, BCLC investigators and auditors are assigned to be on-site at two major casinos.
9. There is segregation of duties at casino operations to maintain the independence of oversight functions. The all-important surveillance function, for example, operates independently from casino gaming functions.
10. In part, the "tone at the top" is set by the way the province regulates casino gaming. While these regulations may or may not be AML-

<sup>23</sup> Auditor General of British Columbia, "Managing Gaming Integrity Risks in Casinos," (Victoria: June 2005), p. 3.





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related, the standards of behavior and activity they set and the checks and balances they implement help to promote AML compliance.

11. Applications of corporations wishing to be service providers are reviewed and evaluated by GPEB investigators, who look at such things as the corporation's financial, business and criminal history. Corporate registrations are valid for five years, after which the corporation must reapply and be reassessed.
12. Gaming industry participants are screened by GPEB before they can be employed in a casino. Their registrations are valid for three years.
13. GPEB requires both casino service providers and individual casino workers to keep it informed about any changes to their operations or status. For example, casino providers must notify GPEB immediately of any conduct or activity at or near a gaming facility in British Columbia that is or may be contrary to the Criminal Code, the Gaming Control Act or the regulations under the Act. Individual casino workers, for their part, must notify GPEB immediately if they become subject of a criminal investigation, or are charged criminally.

### 3.5.3 Recommendations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA make the following recommendation regarding BCLC's compliance culture:

1. Include compliance culture as one of the issues to be examined in a formal risk assessment process (outlined below in section 4.0).

## 3.6 The Appointment of a Compliance Officer

### 3.6.1 Regulatory Guidance

Guideline 4 provides the following guidance regarding the appointment of a compliance officer:

The individual you appoint will be responsible for the implementation of your compliance regime. Your compliance officer should have the authority and the resources necessary to discharge his or her responsibilities effectively. Depending on your type of business, your compliance officer should report, on a



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regular basis to the board of directors or senior management, or to the owner or chief operator.

If you are a small business, the appointed officer could be a senior manager or the owner or operator of the business. If you are an individual, you can appoint yourself as compliance officer or you may choose to appoint another individual to help you implement a compliance regime.

In the case of a large business, the compliance officer should be from a senior level and have direct access to senior management and the board of directors. Further, as a good governance practice, the appointed compliance officer in a large business should not be directly involved in the receipt, transfer or payment of funds.

For consistency and ongoing attention to the compliance regime, your appointed compliance officer may choose to delegate certain duties to other employees. For example, the officer may delegate an individual in a local office or branch to ensure that compliance procedures are properly implemented at that location. However, where such a delegation is made, the compliance officer retains responsibility for the implementation of the compliance regime.

### 3.6.2 Observations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding the role and position of its compliance officer:

1. BCLC's AMLP appears to be generally consistent with the compliance officer component of Guideline No. 4.
2. BCLC has appointed Mr. Terry Towns, its Director, Corporate Security, as its AML compliance officer (the BCLC CO).
3. The BCLC CO, as suggested by Guideline No. 4, reports each quarter to the Audit Committee of the BCLC Board of Directors. In those presentations, he provides an update regarding each casino's state of compliance with prescribed policies or procedures, including those related to AML compliance. He provides a detailed update on a quarterly basis on the results of prioritized operational audits that BCLC's Operational Audit function conducts at each casino throughout the year. This ensures that the CO is able to directly inform the Board regarding compliance-related issues.
4. The CO has effective tools for monitoring AML compliance on an ongoing basis. These include the BCLC corporate AML function's





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continuous monitoring of AML-related filings from casino providers, and the program of operational audits.

5. The CO plays an ongoing risk management role whenever new products and services are being considered. Before a new product or service is rolled out, the CO plays a lead role in determining whether it might increase the risk of money laundering. The CO's assessment may lead to a modification or even the cancellation of the proposed product or service.

### 3.6.3 Recommendations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following recommendation regarding the role and position of its compliance officer:

1. Currently, there is no requirement under BCLC's gaming regulations for the appointment of an AML compliance officer at each casino. While not formally designated as the AML compliance officer, each casino does, in fact, having senior compliance personnel who are tasked with overseeing compliance on all issues, including AML. At each casino, security managers, surveillance managers, cage managers, slot managers and floor managers conduct daily compliance along with on-site BCLC personnel. They know that these are part of their daily duties regarding the collection of details for LCT reporting.

## 3.7 Compliance Policies and Procedures

### 3.7.1 Guidance

Guideline 4 provides the following guidance regarding the development and application of compliance policies and procedures:

An effective compliance regime includes policies and procedures and shows your commitment to prevent, detect and address non-compliance. Effective June 23, 2008, your compliance program has to include written policies and procedures to assess the risks related to money laundering and terrorist financing in the course of your activities.

The level of detail of these policies and procedures depends on your needs and the complexity of your business. It will also depend on your risk of exposure to money laundering or terrorist financing ...

For example, the compliance policies and procedures of a small business may be less detailed and simpler than those of a large bank. However, effective June



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23, 2008, your policies and procedures have to be in writing and be kept up to date, whether you are a small business, an individual or an entity. Several factors could trigger the need to update, as often as necessary, your policies and procedures, such as changes in legislation, non-compliance issues, or new services or products.

In addition, if you are an entity, your policies and procedures also have to be approved by a senior officer. A senior officer of an entity includes its director, chief executive officer, chief operating officer, president, secretary, treasurer, controller, chief financial officer, chief accountant, chief auditor or chief actuary, as well as any person who performs any of those functions. It also includes any other officer who reports directly to the entity's board of directors, chief executive officer or chief operating officer.

It is important that your compliance policies and procedures are communicated, understood and adhered to by all within your business who deal with clients or any property owned or controlled on behalf of clients. This includes those who work in the areas relating to client identification, record keeping, and any of the types of transactions that have to be reported to FINTRAC. They need enough information to process and complete a transaction properly as well to identify clients and keep records as required.

They also need to know when an enhanced level of caution is required in dealing with transactions, such as those involving countries or territories that have not yet established adequate anti-money laundering or anti-terrorist financing regimes consistent with international standards ...

Your compliance policies and procedures should incorporate, at a minimum, the reporting, record keeping, client identification, risk assessment and risk-mitigation requirements applicable to you. For example, in the case of your reporting obligations relating to terrorist property or suspicions of terrorist financing, your policies and procedures should include the verification of related lists published in Canada. These are available on the Office of the Superintendent of Financial Institutions' Web site at <http://www.osfi-bsif.gc.ca>, by referring to the "Terrorism Financing" link.

Although directors and senior officers may not be involved in day-to-day compliance, they need to understand the statutory duties placed upon them, their staff and the entity itself.

### 3.7.2 Observations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding the development and application of compliance policies and procedures:





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1. BCLC's AMLP policies, procedures and processes appear to be generally consistent with FINTRAC Guideline No. 4, although, as noted elsewhere in this report, there is room for improvement.
2. Compliance policies and procedures, as required by FINTRAC, are in writing and form part of the Casino Standards, Policies and Procedures, which govern how casino service providers conduct business.
3. The compliance policies and procedures as set out in the Casino Standards, Policies and Procedures incorporate the FINTRAC reporting, record keeping, client identification, risk assessment and risk-mitigation requirements applicable to the casino gaming sector.
4. The level of detail in the compliance policies and procedures set out in the Casino Standards, Policies and Procedures is, as mandated in Guideline No. 4, commensurate with the level of complexity of BCLC's casino gaming activities.
5. As mandated in FINTRAC Guideline No. 4, the Casino Standards, Policies and Procedures are approved by a senior officer, in this case the Vice President, Casino Gaming.
6. As mandated in FINTRAC Guideline No. 4, the Casino Standards, Policies and Procedures are regularly reviewed and updated by a policy analyst at BCLC's headquarters in Kamloops. We understand that the updates may be triggered by a variety of factors, including legal and regulatory changes and introduction of new products and services.
7. FINTRAC Guideline No. requires that "your compliance policies and procedures are communicated, understood and adhered to by all within your business who deal with clients or any property owned or controlled on behalf of clients." The level of understanding and adherence is verified through a layered system of checks and balances:
  - a. It is the responsibility of casino service providers to train and supervise all employees to adhere to the Casino Standards, Policies and Procedures.
  - b. Internally at casinos the actions of front-line employees on the gaming floor or in the cage are monitored by their supervisors.
  - c. The adherence of employees to the Casino Standards, Policies and Procedures is further monitored by each



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casino's surveillance department, which typically reviews and submits LCTs and STRs,

- d. The BCLC corporate AML function monitors the quality, completeness and timeliness of LCTs and STRs and follows up as required.
- e. BCLC's operational audits examine the quality, completeness and timeliness of LCTs and STRs.
- f. GPEB conducts an annual review of the BCLC FINTRAC compliance regime, including an analysis of large cash and suspicious transaction reporting systems in place at casino sites, and staff training.
- g. GPEB conducts its own audits of casino operations. We understand that GPEB conducted 17 casino audits in the 2006-7 fiscal year.

### 3.7.3 Recommendations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following recommendations regarding the development and application of compliance policies and procedures:

1. As indicated in section 4.0, BCLC already has effective risk management processes. However, these risk management policies and procedures are not formally set out in a document as required in FINTRAC Guideline No. 4:

Effective June 23, 2008, your compliance program has to include written policies and procedures to assess the risks related to money laundering and terrorist financing in the course of your activities.

IPSA recommends, as set out in section 4.0, that BCLC's AMLP's risk management policies and procedures be formally set out.

2. The BCLC AMLP's policies and procedures at the corporate level consist of a single-page document. While it is a clear, concise summary of its duties and activities, it does not document in writing and in sufficient detail the policies and procedures of its FINTRAC function.

Written, detailed policies and procedures ensure consistency. They can be updated on a regular basis. They can be





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independently evaluated and assessed. They can be enhanced to reflect continuous improvement initiatives.

Ultimately, they are a form of institutional memory. As it stands, the detailed knowledge is now largely in the minds of the highly trained and experienced AMLP corporate function staff members. As documented repositories of institutional memory, written, detailed policies and procedures ensure smooth personnel transitions and successions. They can also assist in the training of new investigators and operational auditors. While detailed policies and procedures cannot replace on the job experience and mentoring, they do provide a sound foundation for getting new personnel quickly "up to speed."

IPSA recommends that the written policies and procedures of the AMLP corporate function be expanded.<sup>24</sup> One possible model are the AML-related sections in the casino gaming surveillance manual prepared by the Justice Institute of British Columbia for its casino surveillance certification program. IPSA recommends that, in addition to being expanded, the written policies and procedures of the AMLP corporate function be reviewed for possible updating on, as a minimum, an annual basis.

### 3.8 Compliance Training

#### 3.8.1 Guidance

Guideline 4 provides the following guidance regarding compliance training:

If you have employees, agents or other individuals authorized to act on your behalf, your compliance regime has to include training. This is to make sure that all those who have contact with clients, who see client transaction activity, who handle cash or funds in any way or who are responsible for implementing or overseeing the compliance regime understand the reporting, client identification and record keeping requirements. This includes those at the "front line" as well as senior management.

Effective June 23, 2008, your training program has to be in writing and you have to maintain it. This means that the program itself has to be in writing, but the way the training is delivered does not have to be in writing. For example, you could deliver your training program using computer-based software, information sessions, face-to-face meetings, etc. You also have to ensure that your training program is reviewed and adjusted in a timely manner to reflect your needs.

<sup>24</sup> The GPEB audit released in December 2007 stated: "There are no policies and procedures for Fintrac activities at the BCLC corporate level. Policies and procedures should be document to ensure consistent and comprehensive work is performed."





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In addition, others who have responsibilities under your compliance regime, such as information technology and other staff responsible for designing and implementing electronic or manual internal controls, should receive training. This could also include the appointed compliance officer and internal auditors.

Standards for the frequency and method of training, such as formal, on-the-job or external, should be addressed. New people should be trained before they begin to deal with clients. All should be periodically informed of any changes in anti-money laundering or anti-terrorism legislation, policies and procedures, as well as current developments and changes in money laundering or terrorist activity financing schemes particular to their jobs. Those who change jobs within your organization should be given training as necessary to be up-to-date with the policies, procedures and risks of exposure to money laundering or terrorist financing that are associated with their new job.

The method of training may vary greatly depending on the size of your business and the complexity of the subject matter. The training program for a small business may be less sophisticated.

When assessing your training needs, consider the following elements:

**Requirements and related liabilities**

The training should give those who need it an understanding of the reporting, client identification and record keeping requirements as well as penalties for not meeting those requirements. For more information about this, see the other guidelines regarding each of those requirements applicable to you.

**Policies and procedures**

The training should make your employees, agents, or others who act on your behalf aware of the internal policies and procedures for deterring and detecting money laundering and terrorist financing that are associated with their jobs. It should also give each one a clear understanding of his or her responsibilities under these policies and procedures.

They need to understand how their institution, organization or profession is vulnerable to abuse by criminals laundering the proceeds of crime or by terrorists financing their activities. Training should include examples of how your particular type of organization could be used to launder illicit funds or fund terrorist activity. This should help them to identify suspicious transactions and should give you some assurance that your services are not being abused for the purposes of money laundering or terrorist financing.

Employees should also be made aware that they cannot disclose that they have made a suspicious transaction report, or disclose the contents of such a report, with the intent to prejudice a criminal investigation, whether it has started or not.



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They should also understand that no criminal or civil proceedings may be brought against them for making a report in good faith.

Background information on money laundering and terrorist financing Any training program should include some background information on money laundering so everyone who needs to can understand what money laundering is, why criminals choose to launder money and how the process usually works. They also need to understand what terrorist financing is and how that process usually works. For more information about this, see Guideline 1: Background and FINTRAC's website (<http://www.fintrac-canafe.gc.ca>).

All businesses should consult, if possible, training material available through their associations. In addition, FINTRAC makes material available on its Web site that can provide help with training. For example, a practice environment is available within F2R, FINTRAC's Web-based tool for electronic reporting, that can be used for training. You can use this to complete simulated electronic reports. However, as a reporting person or entity described in section 2, you are responsible to have your own training program and to ensure that each component of the program is reviewed and adjusted to meet your needs.

### 3.8.2 Observations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations:

1. With regards to training, training has largely been undertaken by the three-person AMLP corporate function. Its policies and procedures state:

#### 3) Casino and Community Gaming Site LCTR and SFT Training

The training of Casino and Community Gaming Centre site staff on Large Cash Transactions and Suspicious Financial Transactions will be conducted by BCLC personnel on an annual, regular basis.

As new Casino and Community Gaming Centre facilities open within the Province, BCLC personnel will ensure training is delivered to the appropriate site staff.



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2. However, as BCLC corporate security management readily concedes, the extent of its training programs in the 2006-7 fiscal year did not meet expectations.<sup>25</sup>
3. BCLC corporate security management is remedying this situation. We are informed that additional instructors have been trained to provide FINTRAC-related training prior to the coming into force of the Bill C-25 changes. Detailed PowerPoint presentations for this training program have been prepared and reviewed by IPSA.

### 3.8.3 Recommendations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following recommendations regarding compliance training:

1. The current formal face-to-face, seminar-type training provided by BCLC corporate security investigators is an important training tool and should be continued, albeit on a more regular basis than occurred in 2006-7.
2. We understand that there is a great deal of employee turnover in the casino gaming sector.<sup>26</sup> IPSA recommends that the formal training program contain a module introducing new casino gaming staff to their FINTRAC duties and responsibilities, as well as risks of exposure to money laundering or terrorist financing that are associated with their new job. Such a module would ensure that new staff at all casinos province-wide are all given the same consistent, comprehensive training.
3. IPSA recommends that this proposed formal training program contain additional modules:
  1. An annual refresher module for all casino employees and supervisors, outlining their FINTRAC-related roles and responsibilities, as well as risks of exposure to money laundering or terrorist financing that are associated with their positions.
  2. Additional modules, when/if required, to introduce significant changes to AML related policies and procedures, arising either from changes at FINTRAC or BCLC's internal policies and procedures.

<sup>25</sup> The GPEB audit released in December 2007 stated: "Only one day of training was provided by BCLC between April 1, 2006 and March 14, 2007 for an opening of a new site ... There have been more than three thousand new employee registrations during this period."

<sup>26</sup> The GPEB audit released in December 2007 stated that between April 1, 2006 and March 14, 2007 there were more than three thousand new employee registrations.





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4. As has been the practice of the BCLC corporate AML function since 1998, anyone taking these modules will continue to have to sign a form attesting that they understand the material presented to them. (Sign-in sheets for every training course given since 1998 have been retained by G.W. Board, the BCLC AML Officer.) And, as has also been the practice, the casino service provider will continue to be responsible for documenting and demonstrating to BCLC that all its employees had taken the appropriate training module(s).

### 3.9 A Review of Compliance Policies and Procedures

#### 3.9.1 Guidance

Guideline 4 provides the following guidance regarding a review of compliance policies and procedures:

Another component of a comprehensive compliance regime is a review of your compliance policies and procedures to test their effectiveness. Effective June 23, 2008, the review has to be done every two years. It has to cover your policies and procedures, your assessment of risks related to money laundering and terrorist financing and your training program to test their effectiveness. The review or your assessment of risks related to money laundering and terrorist financing has to cover all the components of the risk-based approach ... including risk assessment, risk-mitigation and ongoing monitoring. This will help evaluate the need to modify existing policies and procedures or to implement new ones. This may also lead you to update your compliance policies and procedures.

If you are in a sector that is regulated at the federal or provincial level, the need for review of your compliance policies and procedures could also be triggered by requirements administered by your regulator.

The review is to be conducted by an internal or external auditor, if you have one. The review by an internal or external auditor could include interviews, tests and samplings, such as the following:

- interviews with those handling transactions and with their supervisors to determine their knowledge of the legislative requirements and your policies and procedures.
- a review of the criteria and process for identifying and reporting suspicious transactions.



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- a sampling of large cash transactions followed by a review of the reporting of such transactions.
- a sampling of international electronic funds transfers (if those are reportable by the reporting person or entity in question) followed by a review of the reporting of such transactions.
- a test of the validity and reasonableness of any exceptions to large cash transaction reports including the required annual report to FINTRAC (this is applicable only for financial entities who choose the alternative to large cash transactions for certain business clients).
- a test of the record keeping system for compliance with the legislation.
- a test of the client identification procedures for compliance with the legislation.
- a review of the risk assessment.

The scope of the review has to be documented. The scope and details of the review will depend on the nature, size and complexity of your operations. The review process should be well documented and should identify and note weaknesses in policies and procedures. The results of the review also have to be documented, along with corrective measures and follow-up actions.

#### **Reporting to senior management**

Effective June 23, 2008, if you are an entity, within 30 days of the review, you have to report the following in writing to one of your senior officers:

the findings of the above review;

any updates that were made to the policies and procedures during the review period;

the status of implementation of the policies and procedures updates.

Any deficiencies should be identified and reported to senior management or the board of directors. This should also include a request for a response indicating corrective actions and a timeline for implementing such actions.

#### **Self review**





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If you do not have an internal or external auditor, you can do a "self-review". If feasible, this self-review should be conducted by an individual who is independent of the reporting, record keeping and compliance-monitoring functions. This could be an employee or an outside consultant. The objective of a self-review is similar to the objectives of a review conducted by internal or external auditors. It should address whether policies and procedures are in place and are being adhered to, and whether procedures and practices comply with legislative and regulatory requirements.

### 3.9.2 Observations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding a review of compliance policies and procedures:

1. BCLC is largely compliant with this requirement.
2. BCLC operational audits and the annual audits of casinos by GPEB, BCLC's regulator, examine casino providers' internal AML controls, and their compliance with Canadian AML laws and regulations, FINTRAC's guidelines, and BCLC's internally prescribed AML-related policies and procedures.
3. BCLC's operational audits review through tests and samplings the compliance of casino service providers with internal and external requirements regarding large cash transactions, foreign exchange transactions and suspicious transactions. For example, on a quarterly basis BCLC operational auditors conduct the following AML-related tests:

#### Section: 3-8.1 Cage – Large Cash Transactions

- Are buy ins, cash outs and/or jackpots \$10,000 and over as well as foreign exchanges over \$3,000 recorded on an LCT?
- Are cashiers tracking accumulated or third party transactions within the gaming day or 24 hour period?
- Are the LCTs being completed correctly with all required information?
- Are the hardcopy LCTs being retained in the proper location?
- Are the LCTs being entered into iTrak daily? (Quarterly the auditor shall take a random 25% sampling of up to a maximum 50 completed LCTs and compare them to iTrak entries).





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- Is all staff aware of the casino industry indicators for suspicious activity?
- Does staff refuse to complete transactions which appear suspicious?
- Are suspicious activities reported to an immediate supervisor?
- Is an LCT generated for suspicious activity?
- Is an Incident Report generated documenting all available information?
- Is the patron in question advised that they are being suspected of a suspicious transaction? *(Note: it is a criminal offence to do so)*
- Is the BCLC Manager Security & Surveillance informed of all suspicious transactions?

4. GPEB's auditing division reviews the BCLC operational audit program to ensure that the processes and procedures of its operational audits can appropriately test for AML compliance and provide reasonable assurance that instances of material noncompliance, whether intentional or not, are detected.
5. GPEB itself conducts casino audits. Between April 1, 2006, and March 14, 2007, for example, it performed 17 casino audits.
6. GPEB also conducts an annual compliance review of the BCLC FINTRAC compliance regime, which is forwarded to FINTRAC's regional office in Vancouver. This review verifies compliance with the *Gaming Control Act and Regulations, Regulation* and FINTRAC's requirements. The most recent GPEB compliance review examined the BCLC system in place for recording information generated at the casino level, AML-related training provided by BCLC to casino service provider staff, and the BCLC system for processing information for submission to FINTRAC.

### 3.9.3 Recommendations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding a review of compliance policies and procedures:

1. BCLC undertake a review of its corporate AML function on an annual basis.



## Section

## 4

## **British Columbia Lottery Corporation**

### **Casino Gaming Anti-Money Laundering Program Review**

#### **4.0 Risk Management**

##### **4.1 Overview**

###### **4.1.1 Regulatory Guidance**

FINTRAC Guideline 4 provides the following guidance, which takes effect in June 2008, regarding a review of risk management policies and procedures:

Effective June 23, 2008, your compliance regime has to include an assessment and documentation of risks related to money laundering and terrorist financing in a manner that is appropriate to you. This is in addition to your client identification, record keeping and reporting requirements. A risk-based approach is a process that allows you to identify potential high risks of money laundering and terrorist financing and develop strategies to mitigate them. Existing obligations, such as your client identification will be maintained as a minimum baseline requirement. However, when it comes to situations where enhanced due diligence is appropriate, a principle of risk-based approach is to focus your resources where they are most needed to manage risks within your tolerance level. You have to determine what is acceptable for you, taking into account the nature of each product or service, the geographical regions where you do your business and the relationships you have with your clients.

The approach to the management of risk and risk-mitigation requires the leadership and engagement of senior management towards the detection and deterrence of money laundering and terrorist financing. Senior management is ultimately responsible for making management decisions related to policies, procedures and processes that mitigate and control the risks of money laundering and terrorist financing within a business.



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What is a risk-based approach?

In the context of money laundering and terrorist financing, a risk-based approach (RBA) is a process that encompasses the following:

- the risk assessment of your business activities using certain factors;
- the risk-mitigation to implement controls to handle identified risks;
- keeping client identification and, if required for your sector, beneficial ownership information up to date; and
- the ongoing monitoring of financial transactions that pose higher risks.

#### 4.1.2 Observations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding the risk management policies and procedures of BCLC's AMLP:

1. BCLC's AMLP already embodies a generally effective risk based approach. As noted below, key potential risks have been identified and mitigation strategies and controls have been put in place. Further, there is a process in place for money laundering risk to be considered when new products and services are being developed.
2. High-risk activities, such as the issuance of cheques and large cash transactions, are carefully monitored through an integrated network of internal and external checks and balances. Internally, there is the segregation of duties among the cage, floor gaming, security and surveillance operations. As one surveillance manager told IPSA: "We watch each other." Moreover, the all-important surveillance function operates independently from casino gaming functions. Externally, there is the multi-level oversight provided by BCLC, through its monitoring of large cash and suspicious transactions and its operational audits, and the GPEB, through its audits of casinos and the AMLP corporate function.

#### 4.1.3 Recommendations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following recommendations regarding the risk management policies and procedures of BCLC's AMLP:





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1. Although it already embodies a risk-based approach, the AMLP's assessment of risks and their mitigation will need to be documented in order to meet the new regulatory requirement. This will necessitate the implementation of a more formal, structured risk management approach, an approach which is further discussed below in section 4.10. In addition to meeting the new regulatory requirement, such a formal, structured approach would provide these additional benefits:
  - a. Document and assess, in a systematic and structured manner, the internal and external AML risks affecting BCLC;
  - b. Ensure that risk management strategies are cost effective, proportional to the risk, and consistent with regulatory requirements and best practices;
  - c. Ensure that the cost-effectiveness and efficiency of the risk management strategies and initiatives are routinely measured and monitored on an ongoing basis; and
  - d. Ensure that BCLC's executive team and Board of Directors are informed in a structured and timely manner about the internal and external AML risks affecting BCLC so that they can effectively discharge their duties and responsibilities.

## 4.2 Geographic Location

### 4.2.1 Regulatory Guidance

Guideline 4 provides the following risk assessment guidance regarding geographic location:

You have to consider, in a manner that is appropriate to you, whether geographic locations in which you operate or undertake activities pose a potentially higher risk for money laundering and terrorist financing. Depending on your business and operations, geographic locations can range from your immediate surroundings, whether rural or urban to a province or territory, multiple jurisdictions within Canada (domestic) or other countries.

For example, large entities that operate in a number of domestic jurisdictions may refine the geographic locations factor to differentiate between urban locations having known higher crime rates in comparison to other urban or rural districts. Smaller entities that restrict their activities to a single geographic location or district may not need to make that distinction.



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**4.2.2 Observations**

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding the risks related to geographic locations:

1. Money laundering is critical to the effective operation of virtually every form of transnational and organized crime<sup>27</sup>:

Money laundering is the criminal's way of trying to ensure that, in the end, crime pays. It is necessitated by the requirement that criminals -- be they drug traffickers, organized criminals, terrorists, arms traffickers, blackmailers, or credit card swindlers -- disguise the origin of their criminal money so they can avoid detection and the risk of prosecution when they use it.<sup>28</sup>

2. Historically, case studies have demonstrated that organized crime groups may be interested in acquiring controlling interest in casinos in order to further their money laundering needs.<sup>29</sup>
3. Moreover, some money laundering experts believe that, in a casino gaming environment,

<sup>27</sup> John McDowell, Senior Policy Adviser, and Gary Novis, Program Analyst, Bureau of International Narcotics and Law Enforcement Affairs, U.S. Department of State, "The Consequences of Money Laundering and Financial Crime," in *Economic Perspectives*, An Electronic Journal of the U.S. Department of State, Vol. 6, No. 2, May 2001

<sup>28</sup> John McDowell, Senior Policy Adviser, and Gary Novis, Program Analyst, Bureau of International Narcotics and Law Enforcement Affairs, U.S. Department of State, "The Consequences of Money Laundering and Financial Crime," in *Economic Perspectives*, An Electronic Journal of the U.S. Department of State, Vol. 6, No. 2, May 2001

<sup>29</sup> "... in the 1940s and 50s, a money manager for the U.S. Mafia, Myer Lansky, together with his associate "Bugsy" Segal, decided to construct casinos in Las Vegas Nevada to facilitate the laundering of the proceeds of organised crime. Thus the stimulus, in part, for the creation of Las Vegas was result of a major money laundering effort." Presentation by Mr. Stan Morris, director of FinCEN, to the Caribbean Financial Action Task Force, CFATF Typology Exercise II: Casino Regulatory Conference, Aruba - July 16-17, 1997.

"Typically, organised criminal groups in Bulgaria collect proceeds from the illicit organisation of gambling. These activities are carried out using legitimate companies, managed by dummies. Unlicensed illicitly imported gambling machines are used for this purpose. The activities of 6 groups have been dismantled, 451 gambling machines have been confiscated and 36 preliminary proceedings have been initiated against persons who have committed offences under the Penal Code.

Italy reports 10 cases of investigation against 30 persons because of illegal gambling. Lithuania presents as a main type of the activities of organised criminal groups illegal gambling business (closed gaming houses and illegal casinos). Numbers of investigations are not mentioned in the report. Slovenia reports two investigations because of illegal gambling. In the Swedish report it is mentioned that as to automatic gambling machines several networks/groups within organised crime are involved. These activities are very profitable and some incidents of violence in 2001 can probably be linked to these activities." Source: Council of Europe, *Organized crime situation report 2001*, (Strasbourg, December 2002), p. 46





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"... large scale money laundering is only possible if the casino management/ownership is involved. It is therefore vital that the ultimate beneficial ownership of the casino be established and to check on the integrity of the management of the casino and its staff."<sup>30</sup>

4. One possible scenario is as follows:

One scam of casino owners engaged in money laundering is to doctor high-payout slot machines. They have been known to use sophisticated technology to override the machine's random system, using a 'back door'. They then arrange for someone who is part of the plot to make a big win. The 'winner' has not had to supply the casino with personal details, as he would have to do if he were a conventional gambler, and the money is taken without the casino making a report.<sup>31</sup>

5. There is a general correlation between the level of organized criminal activity in a particular geographic location and the resulting demand for money laundering services. Put another way, the intensity of money laundering in a jurisdiction is generally commensurate with the value of the proceeds of organized crime generated in that jurisdiction. Law enforcement analysis indicate that organized crime generates significant proceeds of crime in British Columbia:

Marihuana alone appears of the same order of magnitude as tourism or the fishery as a second-rank industry in the province, and dwarfs (by comparison) the film industry. The estimate of \$6 billion puts BC's marihuana economy at some 4% of provincial GDP.<sup>32</sup>

6. As recommended by the Financial Action Task Force (FATF), an important geography-related casino AML risk mitigation strategy

<sup>30</sup> See presentation by Mr. Rick Smid, National Public Prosecutor-Netherlands, to to the Caribbean Financial Action Task Force, CFATF Typology Exercise II: Casino Regulatory Conference, Aruba - July 16-17, 1997

<sup>31</sup> The Observer, "Taken to the Cleaners," October 31, 2004

<sup>32</sup> See page 13 of The Scope and Impact of Organized Crime in British Columbia, a report prepared for CISBC/YT Provincial Executive Committee and British Columbia Policing Operations Council by Criminal Analysis Section, RCMP "E" Division, June 2005.



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involves sufficient regulation and oversight of casinos. FATF recommends<sup>33</sup>:

24.1.2 Casinos should be licensed by a designated competent authority.

24.1.3 A competent authority should take the necessary legal or regulatory measures to prevent criminals or their associates from holding or being the beneficial owner of a significant or controlling interest, holding a management function in, or being an operator of a casino.

7. Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA believes that the provincial oversight and licensing of casino service providers and casino employees through GPEB and BCLC is an appropriate strategy to mitigate the risk that, in a jurisdiction with significant organized criminal activity, organized crime will try to control one or more casinos.

### 4.3 Products, services and delivery channels

#### 4.3.1 Regulatory Guidance

FINTRAC Guideline 4 provides the following risk assessment guidance regarding products, services and delivery channels:

You have to be aware of and recognize products and services or combinations of them that may pose higher risks of money laundering or terrorist financing. Legitimate products and services can be used to mask illegal origins of funds, to move funds to finance terrorist acts or to hide the true identity of the actual owner or beneficiary of the product or service. Products and services that can support the movement and conversion of assets into, through and out of the financial system may pose a high risk. For example, these could include a money laundering related sale of high value goods that resulted in a cheque payable to a bearer which is then deposited into another individual's account to make the transaction difficult to trace and detect.

In addition, you may also consider services identified by regulators, governmental authorities or other credible sources as being potentially high risk for money laundering or terrorist financing. For example, international correspondent banking services, international private banking services, or services involving banknote and precious metal trading and delivery.

<sup>33</sup> Financial Action Task Force, Methodology for Assessing Compliance with the FATF 40 Recommendations and the FATF 9 Special Recommendations, (Paris: February 2007), p. 37.





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You have to consider, in a manner that is appropriate to you, the channels used to deliver your products or services. In today's economy and global market, many delivery channels do not bring the client into direct face-to-face contact with you (for example, Internet, telephone or mail), and are accessible 24 hours a day, 7 days a week, from almost anywhere. The more remote a client is from you, the more likely you will have to depend on a third party to deliver your products or services. The remoteness of some of these distribution channels can also be used to obscure the true identity of a client or beneficial owners and can therefore pose higher risks.

#### 4.3.2 Observations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding products, services and delivery channels:

1. FINTRAC Guideline No. 4 presents a number of scenarios to identify possible casino-gaming related money laundering scenarios:

- Any casino transaction of \$3,000 or more when an individual receives payment in casino cheques made out to third parties or without a specified payee.
- Client requests a winnings cheque in a third party's name.
- Acquaintances bet against each other in even-money games and it appears that they are intentionally losing to one of the party.
- Client attempts to avoid the filing of a report for cash by breaking up the transaction.
- Client requests cheques that are not for gaming winnings.
- Client enquires about opening an account with the casino and the ability to transfer the funds to other locations when you do not know the client as a regular, frequent or large volume player.
- Client purchases large volume of chips with cash, participates in limited gambling activity with the intention of creating a perception of significant gambling, and then cashes the chips for a casino cheque.
- Client exchanges small denomination bank notes for large denomination bank notes, chip purchase vouchers or cheques.
- Client is known to use multiple names.
- Client requests the transfer of winnings to the bank account of a third party or a known drug source country or to a country where there is no effective anti-money-laundering system.



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2. International standard-setting bodies like the Financial Action Task Force have long been concerned about the ways in which casinos could potentially be used to launder the proceeds of crime. The following money laundering typologies highlight some of the FATF's top-line concerns:

Casinos are the site of the first stage in the laundering process, i.e. converting the funds to be laundered from banknotes (circulating currency) to cheques (bank money). In practice the method is to buy chips with cash and then request repayment by cheque drawn on the casino's account. The system can be made more opaque by using a chain of casinos with establishments in different countries. Rather than request repayment by cheque in the casino where the chips were purchased with cash, the gambler says that he will be travelling to another country in which the casino chain has an establishment, asks for his credit to be made available there and withdraws it in the form of a cheque in due course.<sup>34</sup>

3. Similar money laundering typologies have been cited by the Financial Crimes Enforcement Network (or FinCEN), a bureau of the U.S. Department of the Treasury that collects and analyzes information about financial transactions in order to combat money laundering, terrorist financiers, and other financial crimes. It has stated:

During 1998 – 1999, casinos located in five states filed more than 40 casino SARs which indicated that wire transfers and cashier's checks were being used to deposit funds in casino accounts as "front money", for use by the customer for subsequent gaming activity at the casino. Every SAR indicated that the customer gambled minimally or not at all, and in the majority of the cases took the balance out in cash on the same day or within a matter of days.

Variations on this theme involved an initial deposit by wire or cashier's check, but with the funds:

- subsequently wired to an account outside the casino;
- stored for a period of time in a casino-supplied safety deposit box and then removed by the customer in the presence of a casino employee;
- or

<sup>34</sup> Financial Action Task Force, 1997-1998 REPORT ON MONEY LAUNDERING TYPOLOGIES, (Paris: 12 February 1998), p. 11



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- held by the casino in the form of a safekeeping deposit and then withdrawn.

In several instances, the customer was observed transferring chips to other individuals to cash out, as well as redeeming chips for a series of checks drawn on the casino totaling significantly more than the amount of the deposit (with no apparent winnings to account for the excess amount).<sup>35</sup>

4. The typical casino-related gaming money laundering scenarios, as identified by FINTRAC and such bodies as the FATF and FINCEN, are unlikely to occur in British Columbia for the following reasons:

- Casinos in B.C. neither receive funds through electronic wire transfers, nor do they transmit funds on behalf of clients via electronic wire transfers.
- Casinos in B.C. only issue cheques for verified wins.
- Casinos in B.C. do not open accounts or lines of credit for patrons.
- Patrons of casinos in B.C. are not allowed to exchange chips inside a casino facility with other patrons.
- Surveillance, security and gaming personnel at B.C. casinos are vigilant for patrons who do not engage in normal gaming activity after purchasing chips – i.e. engaging in limited gambling before exchanging their chips for cash at the cash cage. Such activities would generate a Suspicious Transaction Report (STR) to FINTRAC.
- BCLC policies and procedures do not allow patrons to exchange small denomination bills for large denomination bills, a money laundering technique known as refining.<sup>36</sup>

<sup>35</sup> FINCEN, "SAR Bulletin," August 2000

<sup>36</sup> The RCMP provides the following definition: "Refining: This money laundering method involves the exchange of small denomination bills for larger ones and can be carried out by an individual who converts the bills at a number of different banks in order not to raise suspicion. This serves to decrease the bulk of large quantities of cash." See [http://www.rcmp-grc.gc.ca/poc/launder\\_e.htm](http://www.rcmp-grc.gc.ca/poc/launder_e.htm)



#### 4.4 Other Relevant Factors

##### 4.4.1 Regulatory Guidance

FINTRAC Guideline 4 provides the following new guidance regarding risk issues involving other relevant factors:

You need to consider, in a manner that is appropriate to you, any other factors that are relevant to you, your business or sector. For example, you may offer products or services that can be used to convert funds to a more liquid form, such as electronic wallet, internet payment services or mobile payments. Your business activities may also be more attractive to launder money or fund terrorist activity.

*Guideline 1: Background* and *Guideline 2: Suspicious Transactions* have more information about money laundering and terrorist financing that can help you in your risk assessment. You should also periodically review whether additional factors have become relevant to your situation, like risks arising from innovative or emerging technologies.

##### 4.5.2 Observations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding risk issues involving other relevant factors:

1. BCLC's AMLP is compliant with this guidance.
2. The AMLP Compliance Officer plays a significant role in assessing new products and services for their money laundering risks.

#### 4.6 Clients and Business Relationships

##### 4.6.1 Regulatory Guidance

FINTRAC Guideline 4 provides the following new guidance regarding risk issues involving clients and business relationships:

The guidance below does not prohibit you from engaging in transactions with potential clients but provides you with information to effectively manage potential money laundering and terrorist financing risks.





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You have to consider the nature and business of your clients and their relationships with you to determine the level of risk of money laundering and terrorist financing. In other words, you have to know your clients to perform a risk assessment. Knowing your clients is not limited to identification or record keeping requirements. It is about understanding your clients, including their activities, transaction patterns, how they operate and so on. Other elements, such as the magnitude of a client's assets or the number of transactions involved, might also be relevant. Although you should obtain this information through your dealings with the client, it does not necessarily mean that you have to ask the client for additional information or identification documents. You should consider clients you do not know as higher risk than those that you know.

Completing a client risk assessment should be appropriate where there is an ongoing relationship. An ongoing relationship is where a client opens an account or undertakes multiple transactions over a time period with you, regardless of whether the transactions are related to each other. Where your dealings with a client are limited to a single transaction, this is **not** considered to be an ongoing relationship. For example, a money services business would not have to perform a risk assessment for an individual client who conducts a single foreign exchange transaction to buy \$500 US dollars with Canadian dollars because it is not an ongoing relationship. However, if the transaction seems suspicious, the money services business has to report it to FINTRAC as explained in *Guideline 3: Submitting Suspicious Transaction Reports to FINTRAC*.

In addition to assessing risk regarding existing clients, for new clients, it is recommended that you perform a risk assessment at the beginning of a client relationship, although a comprehensive risk profile may only become evident once the client has conducted financial transactions with you. However, if you decide to complete a risk rating of new clients, the client identification and information gathering measures at account opening should be robust enough to provide the information needed to feed into your client risk assessment.

When assessing a client relationship, consider its duration, the client's number of accounts (if applicable), the products and services used and the client's activities. You may also consider third parties that can be involved in the client's relationship for their impact on the client's risk if you are required to make third party determination. Furthermore, you also have to consider the beneficial owners of an entity for their impact on risk if you are required to obtain this information. See Guideline 6 for your sector for more information about third party determinations and beneficial ownership information requirements.





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Situations where you facilitate a transaction for which a client is acting on behalf of a third party but does not know anything about the third party, may lead you to consider that client as a higher risk. Similarly, a client acting on behalf of an entity who is not aware of the entity's beneficial owners (such as the names of the entity's directors or the individuals controlling the entity for example), may lead you to consider that client as a higher risk.

If you know that your client is a politically exposed foreign person (even when you are not required to make the determination or keep related records), you should consider that client as being a higher risk. See the definition of a politically exposed foreign person in Appendix 2.

You should also consider unusual circumstances, cash-intensive businesses and other indicators as potential high risks.

#### 4.6.2 Observations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding risk issues involving clients and business relationships:

1. BCLC's AMLP is compliant with this guidance.
2. Patrons involved in the generation of LCTs, STRs or engaged in possibly inappropriate behavior are identified and carefully tracked internally at casinos by surveillance and security, and externally by BCLC investigative staff.

#### 4.7 Risk Mitigation

##### 4.7.1 Regulatory Guidance

FINTRAC Guideline 4 provides the following new guidance regarding risk mitigation:

##### Risk mitigation

Risk mitigation is about implementing controls to limit the potential money laundering and terrorist financing risks you have identified while conducting your risk assessment to stay within your risk tolerance level. As part of your compliance program, when your risk assessment determines that risk is high for money laundering or terrorist financing, you have to develop written risk-mitigation strategies (policies and procedures designed to mitigate high risks) and apply them for high risks situations.





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**Measures to mitigate the risks**

You have to include risk-mitigation measures in your written policies and procedures. The following summarizes different types of mitigating measures you could develop and apply through your compliance policies and procedures.

**Effective internal controls**

You should consider internal controls such as:

- focussing on your operations (products, services, clients and geographic locations) that are more vulnerable to abuse by money launderers and criminals;
- informing senior management of compliance initiatives, identified compliance deficiencies, corrective action taken, and suspicious transaction reports filed;
- providing for program continuity despite changes in management, employees or structure;
- focussing on meeting all regulatory record keeping and reporting requirements, recommendations for anti-money laundering and anti-terrorist financing compliance and provide for timely updates in response to changes in requirements;
- enabling the timely identification of reportable transactions and ensure accurate filing of required reports;
- incorporating anti-money laundering and anti-terrorist financing compliance into job descriptions and performance evaluations of appropriate personnel; and
- providing for adequate supervision of employees that handle currency transactions, complete reports, monitor for suspicious transactions, or engage in any other activity that forms part of your anti-money laundering and anti-terrorist financing program.

**Generic measures**

These may include the following:

- increase your awareness of higher risk situations within business lines across your entity;
- increase the monitoring of transactions;
- escalate the approval of the establishment of an account or relationship even if you are not otherwise required to do so (see additional requirements for certain sectors in subsection 6.5);



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- increase the levels of ongoing controls and reviews of relationships; and
- review your own internal controls, to ensure that you have:
- personnel that have clear lines of authority, responsibility and accountability;
- adequate segregation of duties (for example, an employee opening an account for a client is not authorized to also approve its opening as that authorization is the responsibility of someone else in the organization);
- proper procedures for authorization (for example, an employee processing a transaction for which the amount exceeds a certain threshold has to follow a procedure to get approval for the transaction by someone else in the organization); and
- internal reviews to validate the risk assessment processes.

**Risk-focused measures**

You may consider additional measures such as:

- seeking additional information beyond the minimum requirements to substantiate the client's identity or the beneficial ownership of an entity;
- obtaining additional information about the intended nature of the relationship, including estimates regarding the amount and type of business activity;
- obtaining additional documented information regarding the client's source of funds and accumulation of wealth;
- requesting high risk clients to provide additional, documented information regarding controls they have implemented to safeguard their operations from abuse by money launderers and terrorists;
- getting independent verification of information (i.e. from a credible source other than the client);
- stopping any transaction with a potential client until identification and account opening information has been obtained;
- implementing an appropriate process to approve all relationships identified as high risk as part of the client acceptance process or declining to do business with potential clients because they exceed your risk tolerance level;
- implementing a process to exit from an existing high risk relationship which management sees as exceeding your risk tolerance level;



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- analysing money laundering and terrorist financing risk vulnerabilities for your new acquisition processes and for product or service development processes.

#### 4.7.2 Observations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding risk mitigation:

1. BCLC's AMLP is compliant with this guidance.
2. As noted throughout this report, effective multi-layered controls and checks and balances have generally been implemented to limit potential money laundering and terrorist financing risks.

### 4.8 Client Identification

#### 4.8.1 Regulatory Guidance

FINTRAC Guideline 4 provides the following new guidance regarding keeping client identification and beneficial ownership up to date:

When your risk assessment determines that risk is high for money laundering or terrorist financing, you have to develop and apply policies and procedures to keep client identification information up to date. If you are a financial entity, a securities dealer, a life insurance company, broker or agent, or a money services business, this also applies for keeping beneficial ownership information up to date.

##### Client identification information

Client identification information depends on the information you have to confirm or obtain from your clients and the records you have to keep. Client identification information that is required to be updated generally includes:

For an **individual**, the individual's name, address, telephone number and occupation or principal business.

For a **corporation**, its name and address and the names of the corporation's directors.

For an **entity other than a corporation**, its name, address and principal place of business.

Reasonable measures to keep client identification up to date include asking the client to confirm or update their information. In the case of an individual:



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client, reasonable measures also include confirming or updating the information through the options available to identify individuals who are not physically present. This can include obtaining information verbally to keep client identification information up to date.

In the case of clients that are entities, reasonable measures to keep client identification up to date include consulting a paper or an electronic document to confirm information or obtaining the information verbally from the client.

Although the frequency with which the client identification information is to be kept up to date will vary depending on your business, you should review it at least every two years for high risk situations. When you review client identification information, you should also update the records you keep for that client.

You may want to consider establishing and implementing a timeline to update the identification information of your clients that you do not consider high risk.

#### **Beneficial ownership information**

If you are a financial entity, a securities dealer, a life insurance company, broker or independent agent, or a money services business, you have to take reasonable measures to obtain beneficial ownership information about entities in certain circumstances. Beneficial ownership information of an entity means the name, address and occupation of all the individuals that own or control, directly or not, 25% or more of the entity. If the entity is a corporation, beneficial ownership information also includes the name and occupation of all the corporation's directors. Guideline 6 for your sector has more information about beneficial ownership requirements. Reasonable measures to keep beneficial ownership up to date are the same as the ones explained for client identification information above. For high risk situations, the beneficial ownership should be updated at least every two years. When you review beneficial ownership information, you should also update the records you keep for that client.

#### **4.8.2 Observations**

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding keeping client information up to date:

1. Policies and procedures for identifying clients and maintaining up to date identification information are consistent with FINTRAC regulatory requirements.





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2. Compliance with these policies is monitored internally through internal controls and oversight and externally by AMLP's operational audits and the GPEB audits.

## 4.9 Ongoing Monitoring

### 4.9.1 Regulatory Guidance

FINTRAC Guideline 4 provides the following new guidance regarding ongoing monitoring:

You have to take reasonable measures to conduct ongoing monitoring of financial transactions that pose high risks of money laundering and terrorist financing to detect suspicious transactions. Reasonable measures may involve manual or automated processes, or a combination of both depending on your resources and needs. They also depend on the size of your business and the risks to which you are exposed. You do not necessarily have to create or purchase an electronic system. You can use your available resources and business processes and build on these.

Your policies and procedures have to determine what kind of monitoring is done for particular high risk situations, including how to detect suspicious transactions. Your policies and procedures should also describe when monitoring is done (its frequency), how it is reviewed, and how it will be consistently applied.

You could consider the following measures to monitor high risk situations:

- review transactions based on an approved schedule that involves management sign-off;
- develop reports or perform more frequent review of reports that list high risk transactions. Flag activities or changes in activities from your expectations and elevate concerns as necessary;
- set business limits or parameters regarding accounts or transactions that would trigger early warning signals and require mandatory review;
- review transactions more frequently against suspicious transaction indicators relevant to the relationship and escalate them should additional indicators be detected. See *Guideline 2: Suspicious Transactions* for more information about indicators.



#### 4.9.2 Observations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding ongoing monitoring:

1. Policies and procedures for ongoing monitoring of high-risk situations are consistent with FINTRAC regulatory requirements.
2. Compliance with these policies is monitored internally through internal controls and oversight and externally by AMLP's operational audits and the GPEB audits.

#### 4.10 A Structured Risk Management Process

The objective of risk assessments is to ensure that significant risks are identified and that, as required and appropriate, proportional action is taken to minimize their potential negative consequences.<sup>37</sup>

FINTRAC Guideline No. 4 provides detailed guidance on the elements of a process for the identification and mitigation of AML-related risks. However, it provides only limited guidance on the practicality of how such a process should be structured.

Therefore, IPSA recommends that BCLC consider implementing a formal risk management process that is customized for its particular needs<sup>38</sup> and is based on internationally recognized risk management standard, like the Canadian Standards Association's CAN/CSA-Q850-97 (Reaffirmed 2002), *Risk Management Guideline for Decision-Makers, A National Standard of Canada*, or Australia/New Zealand Risk Management Standard 4360:2000.

As *Australia/New Zealand Risk Management Standard 4360:2000* concludes:

Risk management involves establishing an appropriate infrastructure and culture and applying a logical and systematic method of establishing the context, identifying, analyzing, evaluating, treating, monitoring and communicating risks associated with

<sup>37</sup> CAN/CSA-Q850-97 (Reaffirmed 2002), *Risk Management Guideline for Decision-Makers, A National Standard of Canada*

<sup>38</sup> Because there is no single widely accepted risk management standard, many companies adapt one or more standard to meet their particular needs. A Conference Board survey<sup>38</sup> found that 50% of corporations customized standards to establish their own risk management strategy.

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any activity, function or process in a way that will enable organizations to minimize losses and maximize gains.

The above-referenced Canadian and Australian risk management standards are metric-based.<sup>39</sup> That is, they are based on the view that the performance of risk management processes must be measured to determine their effectiveness and efficiency, and to provide a basis for continuous improvement.

As an example, a formal risk management process based on the aforementioned Canadian and Australian/New Zealand standards would have the following steps (see Figure 1 below on page 53):

1. Risk Communication and Consultation – The process which incorporates into the risk management process the integral participation of internal stakeholders through continuous communication and consultation.
2. Establishing the Context – The process which establishes the objectives, goals and context of the risk management strategy, the structure of the analysis, and the criteria against which risk will be evaluated.
3. Identifying Risks – The process which initially identifies risks, defines their basic dimension, and prioritizes them. In this process, the following kinds of questions are asked: What can happen? When and Where? How and Why?
4. Risk Analysis – The process which identifies existing controls and establishes the frequency and consequences associated with each risk.
5. Risk Evaluation – The process by which risks are examined in terms of costs and benefits, and evaluated in terms of acceptability of risk considering the needs, issues, and concerns of stakeholders.
6. Risk Mitigation – The process by which: (a) options for controlling risk are identified and evaluated for cost-effectiveness, efficiency and appropriateness; (b) mitigation initiatives are prepared and implemented; and (c) residual risk is analyzed and evaluated.

<sup>39</sup> A metric is a standard of measurement used to gauge a quantifiable component of a company's performance.



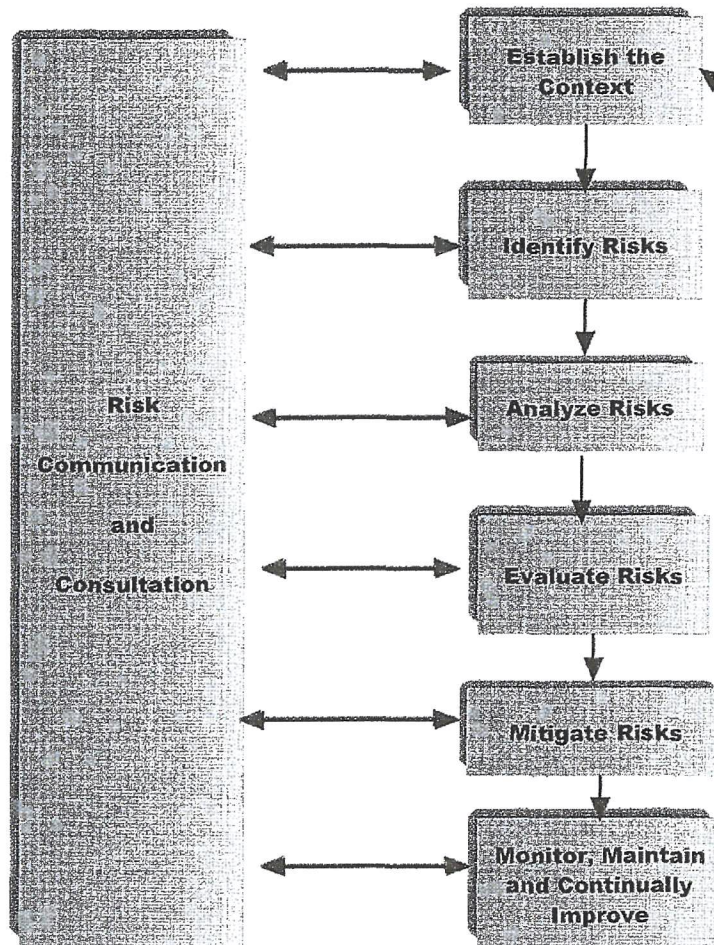
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7. Monitoring, maintenance and improvement – Based on the principle of continuous improvement, this process monitors the effectiveness of all steps of the risk management process and ensures that risk management strategies reflect changing circumstances and that there are continual efforts to make improvements.





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**Figure 1 - Structured Risk Management Process**

Based on CAN/CSA-Q850-97; AS/NZS 4360:2004.

*Jul*

**Section  
6****British Columbia Lottery Corporation**  
Casino Gaming Anti-Money Laundering Program Review**6.0 Conclusion**

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA has reached the following conclusions:

1. The BCLC AMLP's policies, procedures and structure are generally consistent with the current requirements of FINTRAC Guideline No. 4. However, improvements, primarily involving training and risk management, are needed to bring the AMLP in line with the changes in Bill C-25.
2. Although as indicated above in section 4.0, BCLC already has generally effective risk management processes, these risk management policies and procedures are not formally documented as required in FINTRAC Guideline No. 4.
3. IPSA recommends that BCLC consider implementing a formal customized risk management process based on such internationally recognized standards as CAN/CSA-Q850-97 (Reaffirmed 2002), *Risk Management Guideline for Decision-Makers, A National Standard of Canada*, or Australia/New Zealand Risk Management Standard 4360:2000.
4. Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observation: the training program appears to be consistent with the basic training requirements of Guideline 4. However, there are areas for enhancement:
  - a. IPSA recommends that specific modules be prepared for new employees, for supervisors upon their promotion, for refresher courses and, as required, to reflect internal and external regulatory changes.



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- b. IPSA additionally recommends that this formal training program be incorporated and integrated into the employee and supervisor training programs of all casino service providers.
5. The general structure and organization of BCLC's AMLP appears to be appropriate for managing an effective compliance program as outlined in Guideline No. 4. Staff and supervisors generally appear to be very experienced and of a high caliber. However, IPSA recommends:
  - a. Examining how to increase the effectiveness of AMLP's personnel.
6. IPSA has been informed that staffing levels are being increased. While it was beyond the scope of this engagement to assess staffing levels, IPSA recommends that the BCLC consider establishing benchmarks for determining appropriate staffing ratios of investigators and operational auditors to the number, size, operations and locations of its casinos.

## Appendix

**A****British Columbia Lottery Corporation****Casino Gaming Anti-Money Laundering Program Review****Recommendations****3.4.4 Recommendations**

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following recommendations regarding the organization of BCLC's AMLP:

3. While it was beyond the scope of this engagement to assess staffing levels, IPSA recommends that the BCLC consider establishing benchmarks for determining appropriate staffing ratios of investigators and operational auditors to the number, size, operations and locations of its casinos. This would help to





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provide a basis for determining future increases in staffing levels.

4. Even if the number of front-line investigators and operational auditors is increased, IPSA recommends that action be taken to ensuring that their effectiveness is maximized. To that end, IPSA recommends that a review be undertaken of the role of the BCLC corporate AML function in the FINTRAC filing process:
  - a. While there are many benefits to having members of the BCLC corporate AML function review all LCT filings from casinos before submitting them to FINTRAC, IPSA observed that this can be a time-consuming task.<sup>40</sup>
  - b. It appears that the BCLC corporate AML function acts, to a certain extent, as the gatekeeper of STRs<sup>41</sup> filed to FINTRAC. That is, the BCLC corporate AML function receives suspicious occurrences and attempted suspicious occurrences from the casino providers and determines whether they meet the FINTRAC STR criteria, or are indicators of other negative activities (for example, loan sharking). This probably renders a useful service to FINTRAC by having experienced former law enforcement officers separate "the wheat from the chaff."

### 3.5.3 Recommendations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA make the following recommendation regarding BCLC's compliance culture:

1. Include compliance culture as one of the issues to be examined in a formal risk assessment process (outlined in section 4.0).

### 3.7.3 Recommendations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following

<sup>40</sup> During the IPSA site visits in February 2008, only one BCLC corporate AML function member on duty. In addition to his BCLC corporate AML function duties, he was also the lead BCLC investigator at one of the province's largest casinos. It appeared that this investigator devoted an inordinate amount of time to the largely clerical functions of LCT filings.

<sup>41</sup> It is important to note that, currently, the requirement is for a suspicious transaction to be reported only when the financial transaction was completed. Once the changes come into effect, the requirement will also apply to attempted transactions



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recommendations regarding the development and application of compliance policies and procedures:

1. As indicated in section 4.0, BCLC already has effective risk management processes. However, these risk management policies and procedures are not formally set out in a document as required in FINTRAC Guideline No. 4:

Effective June 23, 2008, your compliance program has to include written policies and procedures to assess the risks related to money laundering and terrorist financing in the course of your activities.

IPSA recommends, as set out in section 4.0, that BCLC's AMLP's risk management policies and procedures be formally set out.

2. The BCLC AMLP's policies and procedures at the corporate level consist of a single-page document. While it is a clear, concise summary of its duties and activities, it does not document in writing and in sufficient detail the policies and procedures of its FINTRAC function.

Written, detailed policies and procedures ensure consistency. They can be updated on a regular basis. They can be independently evaluated and assessed. They can be enhanced to reflect continuous improvement initiatives.

Ultimately, they are a form of institutional memory. As it stands, the detailed knowledge is now largely in the minds of the highly trained and experienced AMLP corporate function staff members. As documented repositories of institutional memory, written, detailed policies and procedures ensure smooth personnel transitions and successions. They can also assist in the training of new investigators and operational auditors. While detailed policies and procedures cannot replace on the job experience and mentoring, they do provide a sound foundation for getting new personnel quickly "up to speed."

IPSA recommends that the written policies and procedures of the AMLP corporate function be expanded.<sup>42</sup> One possible model are the AML-related sections in the casino gaming surveillance manual prepared by the Justice Institute of British Columbia for its casino surveillance certification program. IPSA recommends that, in

<sup>42</sup> The GPEB audit released in December 2007 stated: "There are no policies and procedures for Fintrac activities at the BCLC corporate level. Policies and procedures should be document to ensure consistent and comprehensive work is performed."



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addition to being expanded, the written policies and procedures of the AMLP corporate function be reviewed for possible updating on, as a minimum, an annual basis.

**3.8.3 Recommendations**

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following recommendations regarding compliance training:

1. The current formal face-to-face, seminar-type training provided by BCLC corporate security investigators is an important training tool and should be continued, albeit on a more regular basis than occurred in 2006-7.
2. We understand that there is a great deal of employee turnover in the casino gaming sector.<sup>43</sup> IPSA recommends that the formal training program contain a module introducing new casino gaming staff to their FINTRAC duties and responsibilities, as well as risks of exposure to money laundering or terrorist financing that are associated with their new job. Such a module would ensure that new staff at all casinos province-wide are all given the same consistent, comprehensive training.
3. As has been the practice of the BCLC corporate AML function since 1998, anyone taking these modules will continue to have to sign a form attesting that they understand the material presented to them. (Sign-in sheets for every training course given since 1998 have been retained by G.W. Board, the BCLC AML Officer.) And, as has also been the practice, the casino service provider will continue to be responsible for documenting and demonstrating to BCLC that all its employees had taken the appropriate training module(s).

**3.9.3 Recommendations**

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding a review of compliance policies and procedures:

1. BCLC undertake a review of its corporate AML function on an annual basis.

<sup>43</sup> The GPEB audit released in December 2007 stated that between April 1, 2006 and March 14, 2007 there were more than three thousand new employee registrations.





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**4.1.3 Recommendations**

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following recommendations regarding the risk management policies and procedures of BCLC's AMLP:

1. Although it already embodies a risk-based approach, the AMLP's assessment of risks and their mitigation will need to be documented in order to meet the new regulatory requirement. This will necessitate the implementation of a more formal, structured risk management approach, an approach which is further discussed below in section 4.10. In addition to meeting the new regulatory requirement, such a formal, structured approach would provide these additional benefits:
  - a. Document and assess, in a systematic and structured manner, the internal and external AML risks affecting BCLC;
  - b. Ensure that risk management strategies are cost effective, proportional to the risk, and consistent with regulatory requirements and best practices;
  - c. Ensure that the cost-effectiveness and efficiency of the risk management strategies and initiatives are routinely measured and monitored on an ongoing basis; and
  - d. Ensure that BCLC's executive team and Board of Directors are informed in a structured and timely manner about the internal and external AML risks affecting BCLC so that they can effectively discharge their duties and responsibilities.



THIS IS **EXHIBIT "6"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
\_\_\_\_\_  
A Commissioner/Notary Public for the  
Province of British Columbia.



## INTEROFFICE MEMORANDUM

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TO Michael Graydon DATE June 3, 2008

FROM Terry Towns

SUBJECT **Executive Summary**  
**Action Plan – IPSA International - Recommendations**  
**BCLC Anti-Money Laundering Program Review**

---

BCLC has retained the services of IPSA International to review our Casino Gaming Anti-Money Laundering Program as part of the new federal legislative requirement enacted by FinTrac. This review concluded with a number of recommendations which identified some areas aimed at strengthening BCLC's commitment to this legislation. Since this report, as part of their ongoing commitment IPSA have now provided a further report entitled 'Anti-Money Laundering Risk Management Program: Implementation Framework' as a method for BCLC to undertake and implement these recommendations.

There were nine (9) recommendations identified and BCLC Corporate Security has already undertaken action on all of these recommendations with the exception of drafting a Corporate Risk Management Policy to meet the FinTrac legislative requirements under Guideline #4.

Currently, an Implementation Framework to undertake the drafting of our corporate Risk Management policies has been drafted and presented to BCLC for our review and concurrence. This document provides guidance and direction to IPSA to commence their research and draft of an appropriate corporate Risk Management and Risk Mitigation policy and assists with structuring high level Corporate AML policies. This endeavour will ensure that BCLC's implementation plan meets all reporting and conditional requirements imposed by FinTrac legislation.

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A handwritten signature in black ink, appearing to be "JUL".

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### **Action Plan – IPSA International - Recommendations BCLC Anti-Money Laundering Program Review**

Further to our previous discussions and your request for a detailed action plan concerning recommendations identified through review by IPSA dated 6<sup>th</sup> March 2008. As you are aware, throughout this review entitled 'BCLC Casino Gaming Anti-Money Laundering Program Review' IPSA identified a number of recommendations to bring BCLC more inline with new amendments to the current Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA). Recently IPSA has further released an Implementation Framework entitled 'Anti-Money Laundering Management Program: Implementation Framework' which sets out a manageable Action Plan (AP) to move BCLC forward. While many of the recommendations put forward by IPSA in their initial draft have already been implemented or at the very least in draft form for implementation, this latest document allows BCLC a 'sober second review' of our entire FinTrac reporting initiative.

As you're aware, BCLC Corporate Security has been responsible for overseeing, reviewing, analyzing and reporting to FinTrac incidents that have been identified by our Service Providers (SP) as suspicious financial transactions in relation to money laundering - only. This initiative recently changed where it was decided that BCLC would identify and report all issues falling within these four (4) critical areas of our gaming operation:

- a) Money Laundering incidents;
- b) Loan Sharking incidents;
- c) All Chip passing, and
- d) Suspicious Transactions

Thus, in order to provide you with BCLC's AP, this report will refer to IPSA's initial engagement and their specific number system for recommendations they identified. Ultimately, this will assist you (the reader) with your review to understand our progress to date and areas that require immediate review.

#### **Recommendation 3.4.4 – Establishing appropriate Staffing Ratios for Training**

Item 3 - Since January 2008 – it was recognized by Corporate Security Management team that BCLC needed to increase our LCTR training initiative for all provincial gaming locations. It was recognized that this training needed to commence immediately and that it would require follow-up training on a bi-annual basis for all of these locations. To increase this training initiative, BCLC needed to increase our training staff. Thus, in February and early March 2008 – BCLC went from our initial 3 LCTR trainers to 14 LCTR trainers. As a result, since January 2008 to current, BCLC has undertaken 46 training sessions in both casinos and CGC sites offering training to over 746 gaming staff.

As a further initiative, BCLC will continue to undertake additional training for our corporate security staff and gaming auditors to establish more LCTR trainers. As CGC increase in numbers this will require additional trainers to ensure BCLC is meeting their FinTrac training requirements.

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#### **Item 4(a) and (b) – Maintaining and Maximizing Effectiveness**

##### **Effectively Managing Change**

Currently, two (2) corporate security investigators review all LCT filings and Suspicious Transaction Reports (STRs) generated by the SP and once reviewed submit these documents electronically to FinTrac. These two investigators basically act as the gatekeepers for LCT and STRs reporting. Thus, in order facilitate this continued increased reporting, coupled with the additional reporting requirements, as identified, additional training will be developed and provided to all corporate security investigators and auditors to enable them to have the aptitude to file these reports electronically to FinTrac. In so doing, this will enhance BCLC's ability to provide a concise review and complete report to this federal agency. As well, it is our intent that these same investigators/auditors will also be reviewing all suspicious occurrences and attempted suspicious occurrences to ensure they are reporting these activities as well, as required by FinTrac. This then, will help address legislative changes forthcoming June 23, 2008.

As part of their overall review, BCLC Operational Gaming Auditors will also conduct quarterly audits to ensure all reporting needs demands have been fulfilled to meet FinTrac requests.

##### **Recommendation 3.5.3 – Include Compliance Culture to the formal Risk Assessment**

Currently, it is the President/CEO's intention to create a new position of Corporate Compliance Officer to examine and undertake a risk assessment/ analysis and management of BCLC AML culture. This newly created position will help develop and build a corporate culture, together with corporate policy initiatives that will ensure compliance remains first and foremost within the corporation. This will enhance a corporate milieu dedicated to ensuring FinTrac compliance.

Coupled, with this initiative is the fact that IPSA has been retained to undertake a complete review of BCLC corporate policies and procedures to ensure that they reflect the current attitudes of the corporation and that we meet all requirements within this federal legislation.

##### **Recommendation 3.7.3**

##### **Item 1 and 2 - Risk Management Policies and Procedures do not meet FinTrac Guideline**

BCLC does have operational policies and procedures covering FinTrac reporting at the gaming facility site levels. Thus, it is Corporate Security's plan to have IPSA review and develop Corporate policies that accurately reflect the status of BCLC and our role in facilitating the gathering, reviewing and dissemination of AMLP to both FinTrac and our law enforcement community.

Coupled with the development of enhanced policies, IPSA will also review and design procedures that capture and reflect BCLC role within the gaming industry of B.C. These procedures will evolve and highlight the basic foundation of the Canadian AML legislation together with capturing the overall intent and new roles placed on gaming facilities across Canada. In the development of current policies and procedures will help establish BCLC commitment to this legislation province wide.

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Finally, BCLC Corporate Security has been a leader in developing AMLP written policies for both the SP security and surveillance departments province wide. Corporate Security recognizes that having updated and timely AML information available to these two important facets of our gaming casino will enhance our overall effectiveness to conduct and manage gaming. Thus, it is our intention to update and refresh these policies once developed and implemented this on a regular, annual basis. Whether that initiative will remain with IPSA or be maintained and reviewed by the Manager, Casino Security and Surveillance will be determined once these policies are drafted and implemented. Ultimately, this decision can only be made in a timely fashion given any legislative changes and developments originating from FinTrac.

### **Recommendation 3.8.3**

#### **Item 1 – Compliance Training – Seminar-type training**

Currently, all training being provided to SP by our Corporate Security Investigators is through power-point, with handouts and question and answer scenarios. As indicated earlier, since March 2008 there has been 46 training sessions and it is our intention to undertake additional training on a semi-annual basis for all gaming properties.

#### **Item 2 – Training Module to illustrate roles and responsibilities to new gaming employee**

Again, it is a Corporate Security initiative to undertake training to all gaming facilities on a semi-annual basis. Should a need be identified from either the SP or our Corporate Security Investigators that more frequent training is need at specific gaming locations – this training will be undertaken at that time.

Corporate Security will endeavour to strength our LCT training program in the critical areas of 'verified wins' in both table games and slots. While SP's do issue company cheques for only 'verified wins' – it is our corporate security's position that verified 'slot wins' cheques should only be issued for a 'verified' Jackpot (JP) wins only. These wins are easily determined from both the individual slot machine and our CMS within the cash cage. Thus, verification can occur by both the individual slot attendant and the cash cage supervisor. Table games verified wins would only be issued with the evidence of a Dealer Supervisor tracking slip, verifying that the player won. This then, would eliminate any future attempts by suspected money laundering organizations to utilized casinos to launder their ill gotten gains.

Currently, Corporate Security believes that attempts to launder funds through buy-ins/cash-outs at tables has been and continues to be the strength of our policy initiatives in this area. Casino staff involved in tables games continue to be very vigilant in LCT monitoring and any money laundering enterprise that may surface.

#### **Item 3 – BCLC Sign-in Documentation for LCT Training**

BCLC Corporate Security Investigators will continue to require that all SP employees attending a training session to complete a sign-in document to help Corporate Security monitor and maintain training levels and training locations.

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**Recommendation 3.9.3****Item 1 – Corporate Review of its AML function on an annual basis**

Following the drafting of corporate AML policies – these will be reviewed and monitored to ensure consistency with ongoing FinTrac legislation. Should changes be received, all affected policies areas will be reviewed to ensure risk mitigation and risk reporting is being met. This will also entail that the appropriate areas in both the Surveillance Component Training program and the Gaming Security Officer training program from the Justice Institute of British Columbia (JIBC) receive the same due diligence as our corporate policies.

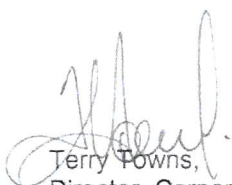
**Recommendation 4.1.3 – Consistency with Regulatory Requirements and Best Practices**

It is the intention of our Corporate Security to provide on a semi-annual basis to the BCLC Board Chairman and CEO/President a report outlining critical risk areas, our risk mitigation initiatives and risk reporting in five (5) areas.

This report will encompass these critical areas:

- all training initiatives undertaken;
- LCT reports submitted;
- Suspicious Money laundering reports submitted;
- Loan Sharking reports submitted and;
- Chip passing reports submitted to FinTrac.

Finally, to ensure BCLC corporate policies and procedures are understood and being followed by SP – Corporate Security will undertake to conduct 'mystery audits' on both slot and table operations throughout all gaming operations in the province. Corporate Security will undertake drafting correspondence to FinTrac executives requesting a variance be provided to BCLC so that this proposed mystery auditing can be undertaken without requiring FinTrac reporting under the current legislative conditions. Should FinTrac be in agreement with our proposal, this additional level of risk mitigation and risk reporting will help strengthen BCLC commitment to our own corporate policy and this federal legislation.



Terry Towns,  
Director, Corporate Security  
British Columbia Lottery Corporation

Attachment: Overview of Recommendations and actions



**JBCLC'S ACTION PLAN:**

**IPSA International - Recommendations  
BCLC Anti-Money Laundering Program Review**



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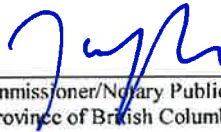
| ACTION ITEM  | ACTION PLAN  | PERSON RESPONSIBLE  | TARGET COMPLETION DATE  |
|--|--|---|---|
| 1<br><b>Recommendation 3.4.4</b> – Establishing appropriate Staffing Ratios for Training             | March 2008 - Training staff increased from 3 to 14 with more trainers coming on stream. Training courses have increase from 1 in 2007 to 46 in 2008. This number will substantially increase as more training is schedule throughout 2008.   | Corporate Security Investigators  | Training is ongoing and further trainers are being identified   |
| 2<br>Item 4(a) and (b) – Maintaining and Maximizing Effectiveness<br><br>Effectively Managing Change | Currently there are two investigators reviewing all LCT filings and Suspicious Transaction Reports (STR). In June 2008 – additional investigators will be identified to assist in this role of reporting. With this BCLC will now be reporting all Money Laundering incidents; all Loan Sharking incidents; all chip passing incidents and all Suspicious Financial Transaction reports. | Currently there are two Corporate investigators assigned to review and report – this number will increase to 12 by the end of June 2008 | Ongoing with additional trainers being identified to assisting with the electronic reporting to FinTrac |
| 3<br><b>Recommendation 3.5.3</b> – Include Compliance Culture to the formal Risk Assessment          | New Corporate Compliance Officer position being created to assess and manage corporate risk.<br><br>IPSA being retained to undertake a review and draft new corporate policies that adequately reflect the attitude of the current administration of BCLC and that capture our legislative responsibilities.   | President and CEO<br><br>IPSA International with project oversight by Director Corporate Sec  | June 2008<br><br>Commence in June and be ongoing to completion in early July 2008                       |
| 4<br><b>Recommendation 3.7.3</b><br><br>Item 1 and 2 - Risk Management Policies and                  | IPSA being retained to undertake a review and draft new corporate policies that adequately reflect the attitude of the current administration  | IPSA  | Completion date scheduled for Mid July 2008   |

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|     |   |  |  |  |
|-----|---|--|--|--|
| 100 | Procedures do not meet FinTrac Guideline  | of BCLC and that capture our legislative responsibilities.   |  |  |
| 5   | <b>Recommendation 3.8.3</b><br><br>Item 1 – Compliance Training – Seminar-type training<br>Item 2 – Training Module to illustrate roles and responsibilities to new gaming employee Training<br>Item 3 – BCLC Sign-in Documentation for LCT | Currently the deliver method utilized by our trainers.<br>Currently being revised for utilization as a PowerPoint.<br><br>Already in use and will continue for all training sessions.  | Corporate Security Invest.<br>Corporate Security Invest.<br><br>Corporate Security Invest.               | Ongoing and this will continue<br>Ongoing and will continue<br><br>Ongoing and will continue |
| 6   | <b>Recommendation 3.9.3</b><br><br>Item 1 – Corporate Review of its AML function on an annual basis   | Both the Corporate Compliance Officer, Director of Corporate Security and the Manager, Casino Security and Surveillance will continue to review this function on an annual basis for refreshing.   | Corporate Compliance Officer, Director, Corporate Security and Manager, Casino Security and Surveillance | Ongoing annually   |
| 7   | <b>Recommendation 4.1.3 – Consistency with Regulatory Requirements and Best Practices</b>   | Increased reporting in five (5) critical areas:<br>- Training initiatives; - LCT annual reports; Suspicious Money Laundering reports; Loan Sharking Reports and chip passing reports. - bi-monthly auditing of SP company cheques to ascertain if concerns are identified; - conduct mystery audits to ascertain that BCLC Corporate policies concerning 'verified wins' are being followed. | Corporate Compliance Officer and Director, Corporate Security Manager, Casino Security and Surveillance  | Annual report<br><br>Annually at random times all gaming location in the province            |



THIS IS **EXHIBIT "7"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 21 DAY OF JANUARY, 2021.



A Commissioner/Notary Public for the  
Province of British Columbia.



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# **British Columbia Lottery Corporation**

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## **BCLC Casino Gaming AML/ATF Program: Risk Assessment Update**

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NOVEMBER 18, 2009



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## BCLC Casino Gaming AML/ATF Program: Risk Assessment Update

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## Section

**1****British Columbia Lottery Corporation****Casino Gaming AML/ATF Risk Assessment Update****1.0 Introduction****1.1 Purpose of this report**

The British Columbia Lottery Corporation's (BCLC) retained IPSA International (IPSA) in 2008 to:

- Conduct a casino gaming anti-money laundering/anti-terrorist financing (AML/ATF) risk assessment using FINTRAC's Risk-Based Approach (RBA) framework; and
- Help develop and implement risk management policies, procedures and processes consistent with the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)*,<sup>1</sup> the RBA guidance in FINTRAC Guideline No. 4 and recognized best practices and standards.

Risk management policies and procedures were finalized in November 2008 and a risk assessment was completed in January 2009. Now, one year later, BCLC retained IPSA to update the risk assessment in conjunction with an overall review of its BCLC Casino Gaming AML/ATF Program.

**1.2 BCLC RBA Implementation Strategy**

FINTRAC defines a Risk-Based Approach as,

a process that allows you to identify potential high risks of money laundering and terrorist financing and develop strategies to mitigate them. Existing obligations, such as your client identification will be maintained as a minimum

<sup>1</sup> Effective June 23, 2008, the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)* requires that all AML/ATF compliance regimes use an RBA.



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baseline requirement. However, when it comes to situations where enhanced due diligence is appropriate, a principle of risk-based approach is to focus your resources where they are most needed to manage risks within your tolerance level. You have to determine what is acceptable for you, taking into account the nature of each product or service, the geographical regions where you do your business and the relationships you have with your clients.

To implement an RBA, BCLC has adopted a structured process to achieve the following four objectives:

1. Identify, analyze and evaluate AML/ATF risks;
2. Develop, implement, monitor and assess appropriate risk control strategies;
3. Focus resources where they are most needed; and
4. Monitor risks and risk control strategies on an ongoing basis.

The foundation of this structured process is formal program of risk reviews and analyses intended to achieve the above four objectives. The risk reviews and analyses are guided by FINTRAC Guideline No. 4, reflect best practices<sup>2</sup> and are based on appropriate risk management standards.<sup>3</sup>

In conducting an RBA-focused risk review and analysis, an appropriate range of casino gaming delivery channels, products, services and risk factors are examined. AML/ATF risks are classified, analyzed and prioritized in one of the following three categories:

- Operational Risk: The risk that B.C. casinos would be used to launder proceeds of crime or funds used to further terrorism.
- Compliance Risk: The risk that BCLC and/or one or more of its casinos might fail to comply with one or more relevant federal and provincial laws and regulations.

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<sup>2</sup> These include: Financial Action Task Force, *Guidance on the Risk-Based Approach to Combating Money Laundering and Terrorist Finance (June 2007)*; Financial Action Task Force *Forty Recommendations* and its *Nine Special Recommendations on Terrorist Financing*; Best practices established by the Basel Committee on Bank Supervision; Best practices established by the Wolfsberg Group; and Federal Financial Institutions Examination Council, *Bank Secrecy Act/Anti-Money Laundering Examination Manual*, (Washington, DC: 2006).

<sup>3</sup> These include: the Canadian Standards Association's CAN/CSA-Q850-97 (Reaffirmed 2002), *Risk Management Guideline for Decision-Makers, A National Standard of Canada*; and Australia/New Zealand Risk Management Standard 4360:2000.

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- Reputational Risk: The risk that the reputation of BCLC and/or one or more of its casinos might be negatively impacted by one or more operational and/or compliance risks. Recent research indicates that a significant proportion of a company's value (potentially over 60 per cent) relates to intangible assets<sup>4</sup> and that it has economic value.<sup>5</sup>

In the course of the risk review and analysis, each identified risk is rated and prioritized as a "Low," "Medium" or "High" risk. The ratings refer to the inherent risk associated with a delivery channel, product category or other casino gaming risk factor.

Once AML risks are identified, analyzed, rated and prioritized, they are addressed on a priority basis through one of the following three risk control strategies:

- Risk Reduction: Lowers a risk by addressing its root causes. This is generally regarded to be the most effective risk control strategy since it seeks to eliminate, or at the very least sharply reduce, the causes of a risk, thereby lessening the need for risk transfer or mitigation strategies.
- Risk Transfer: Where risk reduction is not possible, or only partially effective, this strategy seeks to lower a risk by transferring some or all the risk.
- Risk Mitigation: Where a risk remains after risk reduction and transfer strategies have either been attempted or proven not to be sufficiently effective, risk mitigation seeks to lower a risk through effective internal controls.

The culmination of the risk review and analysis is the Risk Register. Using a risk matrix format, a Risk Register:

- Documents identified risks;
- Summarizes their evaluation and rating;

<sup>4</sup> Nick Rea and Adrian Davis, "Intangible assets: what are they worth and how should that value be communicated?," published in IP Value 2005, Building and enforcing intellectual property value.

<sup>5</sup> Dr. Baruch Levy of the Stern School of Business in New York defines the economic value of reputation as follows:

- It is a seller's guarantee or commitment of contracted performance and product/service quality.
- Accordingly, the benefits to the owner of reputation are the premia paid by the counterparty (customers, employees, suppliers, investors) for the guarantee.
- The value of reputation, and its share in the market value of the company is the discounted value of the expected premia stream, net of the cost of maintaining reputation. Reputation is the outcome of a credible guarantee/commitment.

Source: "The Art and Science of Valuing Intangibles and Managing Reputation (or: The Confession of a Heartless Economist)," by Baruch Lev, New York University [blev@stern.nyu.edu](mailto:blev@stern.nyu.edu), [baruch-lev.com](http://baruch-lev.com), September 2005





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- Outlines recommendations for enhancing controls; and
- Identifies risk control actions undertaken to address the identified risks.

A Risk Register is an “evergreen document.” Its structure, complexity and detail will evolve to meet the BCLC Casino Gaming AML/ATF Program’s needs and requirements.

### **1.3 Methodology of the Risk Review and Analysis Update**

In undertaking the current risk assessment, site visits and field studies were undertaken at the following locations:

- BCLC corporate headquarters in Richmond, B.C.; and
- Three different casinos in the Lower Mainland to allow IPSA to review facilities operated by three Service Providers:
  - River Rock Casino, operated by the Great Canadian Gaming Corp. and located at 8811 River Road Richmond BC V6X 3P8. River Rock generated the most casino gaming revenues in B.C. (\$235.8 million), according to the most recent BCLC annual report for the fiscal year ended March 31, 2009. River Rock has the largest single number of gaming tables among B.C. casinos with 107 or about 22 per cent of the total. It has the third largest number of slot machines (869).
  - Grand Villa Casino, operated by Gateway Casino Corp, and located at 4331 Dominion Street, Burnaby, BC V5G 1C7. Grand Villa generated the third most revenues B.C. (\$176.7 million), according to the 2008-09 BCLC annual report. (It posted revenues of less than \$2 million below the no. 2 revenue generator, the Boulevard Casino.) Grand Villa has the single largest number of slot machines among B.C. casinos with 1,000, or about 11 per cent of the total. It has 54 gaming tables.
  - Edgewater Casino, operated by Paragon Gaming, and located at 311-750 Pacific Blvd. S., Vancouver, BC V6B 5E7. The Edgewater Casino had revenues of \$103 million in fiscal 2008-09, ranking it fifth in the province. It has 493 slot machines and 65 tables.

During the site visits and field studies:

- Interviews were conducted with those handling transactions, in conjunction with their supervisors to determine their knowledge of the legislative requirements and your policies and procedures;
- The criteria and process for identifying and reporting suspicious transactions were reviewed;



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- A sampling of large cash transaction reports was conducted followed by a review of the reporting of such transactions;
- A review of the record keeping system was conducted for compliance with the legislation; and
- A review of the client identification procedures was conducted for compliance with the legislation.

In addition, IPSA:

- Reviewed BCLC's AML/ATF Program policies and procedures;
- Reviewed the findings of recent audits and reviews by FINTRAC and the Gaming and Policy Enforcement Branch were reviewed;
- Researched international best practices; and
- Engaged in ongoing discussions with members of the BCLC corporate AML function.

#### **1.4 Kim Marsh, CAMS, CFE**

The project manager for this engagement is Kim Marsh, CAMS, CFE, Managing Director for IPSA's Vancouver office, which also has geographical responsibilities for Asia. Kim spent 25 years in the RCMP where he retired as a commander of an organized crime unit in Vancouver. Kim, who has conducted money laundering investigations in numerous tax havens, has lectured on covert investigations nationally and internationally to the private and public sectors. He worked as the RCMP liaison officer in London for five years with geographical responsibilities for the UK, Ireland, Scandinavia and the former Soviet Union.

#### **1.5 Mario Possamai, CAMS, CFE, CPP**

The senior consultant is Mario Possamai, CAMS, CFE, CPP. Mario, who has conducted AML audits in a number of sectors, was a guest lecturer from 1993 to 2003 in the AML program at the U.S. Government's Federal Law Enforcement Training Center at Glynco, Georgia. Board Certified in security management by the American Society for Industrial Security (ASIS International), Mario has instructed at AML training sessions of the Criminal Intelligence Service Ontario, in the fraud training program at the Ontario Police College, and in the RCMP's Expert Witness Program for Proceeds of Crime investigators. He is the author of "Money On The Run: Canada and How the World's Dirty Profits are Laundered," published by Penguin Books.



Section  
**2****British Columbia Lottery Corporation**

## Casino Gaming AML/ATF Risk Assessment Update

**2.0 Implementation of the Risk-Based Approach****2.1 Overall Assessment**

The BCLC Casino Gaming AML/ATF Program has made significant progress over the past year to effectively implement a Risk-Based Approach (RBA).

To that end, the BCLC Casino Gaming AML/ATF Program has carefully focused its resources on where they can have the most important risk management impact:

1. Operational priorities are appropriately based on the risk-based identification of the highest risks and the risk-based development of strategies to mitigate them.
2. There is a prudent recognition that complex risks cannot be reduced overnight, that BCLC has many strategic and operational demands, and that its capacity to implement major change is not unlimited.
3. There is reliance on prioritized initiatives and pilot projects.
4. There is an emphasis on continuous improvement.<sup>6</sup>

**2.2. Detailed Assessment**

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following detailed assessment regarding the implementation of Risk-Based Approach. These observations are outlined in greater detail in the body of this report:

1. Based on the 2008 risk assessment and ongoing risk monitoring, the highest priority has been on addressing BCLC casino gaming's greatest AML/ATF

<sup>6</sup> See ISO's "Quality Management Principles" at <http://www.iso.ch/iso/en/iso9000-14000/understand/gmp.html>





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risks – those related to the use of cash – through the introduction of the Patron Gaming Fund Account (PGFA).

2. The risk assessment found that cash presented the highest AML/ATF risk because it is the sole form of monetary exchange permitted in B.C. casinos and no bank-like products or services were allowed. By relying so heavily on cash, BCLC casinos are positioned on the same AML/ATF front-lines as deposit-taking institutions – without many of the key anti-money laundering tools, including those related to knowing your client, available to the latter in the course of normal banking procedures.
3. To help reduce the high AML/ATF risk associated with cash, BCLC is rolling out a pilot project – consistent with best practices found in other jurisdictions – of a Patron Gaming Fund Account. If successful, the new accounts will provide patrons with the ability to avoid having to bring in large amounts of cash into a casino. In the process, it would also reduce opportunities for loan sharks.
4. Based on the 2008 risk assessment and ongoing risk monitoring, the second level of priority has been on implementing new controls or enhancing existing controls that would have the greatest impact across a range of high and medium risks. These initiatives include, but are not limited to, enhancing and expanding training, increasing the deployment of front-line investigators to casino sites and increasing ongoing monitoring.
5. Following the risk assessment, policies and procedures in high-risk areas were closely reviewed and monitored. Arising from this process, policies and procedures for issuing cheques were enhanced to reduce AML/ATF risks.
6. Having regard to the findings of the risk assessment, BCLC recognized that training issues presented an opportunity to both increase compliance and to reduce regulatory risks. To address this issue, the BCLC Casino Gaming AML/ATF Program embarked on an ambitious program to significantly enhance its training regime. This is set out above, especially in Section 3.5.
7. Following the risk assessment, the BCLC Casino Gaming AML/ATF Program recognized the need to improve its ability to develop metric measurements of compliance activities. To address this, a specialist has been hired to enhance the BCLC Casino Gaming AML/ATF Program's ability to develop metrics to gauge compliance performance and better identify and track trends. An initial pilot project has involved analyzing on a monthly basis all cheques above a pre-set amount.
8. The risk assessment identified the importance of improving monitoring function. To that end, the BCLC Casino Gaming AML/ATF Program rolled out a pilot project with regards to "mystery shopping" monitors. .



Section  
**3****British Columbia Lottery Corporation**

## Casino Gaming AML/ATF Risk Assessment Update

**3.0 Risk Category: Delivery Channels****3.1 Overview**

This section presents the updated review and analysis of risks associated with delivery channels. They comprise the systems, policies and procedures through which clients buy in and cash out.

**3.2 Cash****3.2.1 Overview**

This section will outline the casino gaming AML/ATF risks related to cash and how the BCLC is mitigating them.

**3.2.2 Inherent Risks of Cash**

Because cash is the monetary instrument of choice of criminals,<sup>7</sup> it is a high risk delivery channel in casino gaming sectors around the world for the following reasons:

1. Casinos are cash-intensive businesses.
2. The majority of transactions at casinos are cash based.
3. "Casinos undertake high volume/speed financial activities that are similar to financial institutions, but in an entertainment context."<sup>8</sup>

<sup>7</sup> "Cash is the universally accepted mode of payment in the underground economy and, as a result, criminal entrepreneurs – in particular drug traffickers – accumulate cumbersome amounts of currency, often in small denominations. A daunting task that confronts profitable criminal entrepreneurs is how to spend, invest, or transfer large amounts of cash, without attracting suspicion." Source: "Money Laundering in Canada: An Analysis of RCMP Cases," Nathanson Centre for the Study of Organized Crime and Corruption, (Toronto, Canada, 2004), p.4.

<sup>8</sup> FATF, "Vulnerability of Casinos and the Gaming Sector," (Paris: March 2009), p. 7.

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Studies have further shown that:

- There is a strong correlation between cash and illicit economy activities<sup>9</sup>; and
- Criminals generally do not try and hoard cash, but try, as quickly as possible, to launder it and shift it into the legal economy.<sup>10</sup>

Part of cash's high AML/ATF risk arises from the fact that it has lost its primary role in advanced economies for conducting large and mid-range transactions. This has occurred for reasons of safety, convenience and efficiency. Some studies suggest that in general Canadians tend to use credit cards for large retail purposes and debit cards for mid-range retail purchases, leaving cash for smaller payments.<sup>11</sup>

Large amounts of cash generally raise suspicion in the licit world. As one economist has noted:

In a country like Canada, with solid financial institutions, virtually nobody (outside the underground economy) would hold cash for anything other than short-term transactions.<sup>12</sup>

This is why Canada and other nations have instituted the mandatory reporting of large cash transactions and of movements of large amounts of cash across their borders. It is why law enforcement and regulator look for abnormal bulges of cash and regard them as red flags (i.e., possible indicators) of illicit activities. And it is why money launders go to such lengths to structure,<sup>13</sup> or disguise, cash deposits into banking institutions.

<sup>9</sup> Peter Spiro, "Evidence of a Post-GST Increase in the Underground Economy." *The Canadian Tax Journal*, vol. 41, no. 2, pp. 247-258. © 1993

<sup>10</sup> "While income earned under the table may more likely be stuffed into the proverbial mattress than deposited into a savings account, it is still risky and impractical to keep large amounts of cash on hand rather than depositing it, and there are also ways to channel currency from the underground economy back into the official economy. Thus it is likely that less hoarding takes place in the underground economy than in the official economy." Bank of Canada Review, "The demand for currency and the underground economy," (Ottawa: Autumn 1994), p. 53

<sup>11</sup> Globe and Mail, "Banking on technology," January 9, 2005

<sup>12</sup> Peter Spiro, "Evidence of a Post-GST Increase in the Underground Economy." *The Canadian Tax Journal*, vol. 41, no. 2, pp. 247-258. © 1993

<sup>13</sup> The RCMP provides the following definition: "**Structuring ("smurfing")**: Smurfing is possibly the most commonly used money laundering method. It involves many individuals who deposit cash into bank accounts or buy bankdrafts in amounts under \$10,000 to avoid the reporting threshold." See [http://www.rcmp-grc.gc.ca/poc/launder\\_e.htm](http://www.rcmp-grc.gc.ca/poc/launder_e.htm)





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Money laundering acts as a bridge between the licit and illicit worlds, shifting the proceeds of illicit activities from the illegal, cash-intensive world to the legal, increasingly cashless one.

It is for this reason that a great deal of AML/ATF focus has been on the first stage of the money laundering process, known as the placement stage.<sup>14</sup>

Consequently, the most cash intensive entry points into the legal financial system are regarded as the front-lines of the fight against money laundering. A U.S. interagency money laundering threat assessment has noted,

The unique role banks play makes them the first line of defense against money laundering.<sup>15</sup>

### 3.2.3 Cash-related Risks Specific to B.C. Casinos

Cash is a very high AML/ATF risk in a jurisdiction like B.C. where, until now, it has been the sole form of monetary exchange and no bank-like products or services have been allowed.

Unlike casinos in some other jurisdictions, BCLC casinos:

1. Neither accept funds through electronic wire transfers, nor do they transmit funds on behalf of clients via electronic wire transfers.
2. Only issue cheques for verified wins.
3. Do not provide patrons with the option to receive a cheque when redeeming chips where there are no verifiable wins.
4. Do not provide lines of credit for patrons.

By traditionally relying so heavily on cash, BCLC casinos were positioned on the same AML/ATF front-lines as deposit-taking institutions – without many of the key anti-money laundering tools, including those related to knowing your client, typically available to banks.

<sup>14</sup> The RCMP provides the following definition: “**Placement:** The launderer introduces the illegal profits into the financial system. This may be done by breaking up large amounts of cash into less conspicuous, smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (like cashier’s cheques and money orders) that are then collected and deposited into accounts at other locations.” See [http://www.rcmp-grc.gc.ca/poc/launder\\_e.htm](http://www.rcmp-grc.gc.ca/poc/launder_e.htm)

<sup>15</sup> U. S. Money Laundering Threat Assessment, (Washington: December 2005). Prepared by a multi-agency working group, including the Department of the Treasury, FINCEN, Office of Foreign Assets Control (OFAC), Internal Revenue Office, the FBI, the DEA, the Federal Reserve and the U.S. Postal Service.



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That is, unlike BCLC casinos, banks can more carefully vet customers through account opening procedures, including determining the sources of their funds, and can more easily monitor their activities.

We were advised during our field studies in 2008 and during the just-completed ones that a relatively small number of high-stakes gamblers at some major B.C. casinos:

- Generate a disproportionately large number of Large Cash Transaction reports;
- Make a disproportionately large contribution to casino revenues; and
- Arrive at casinos with large amounts of cash or chips.

We were further informed that many of these high-stakes gamblers, especially if from overseas, find it difficult to quickly obtain large amounts of cash and would – if possible – prefer to purchase chips through certified cheques, bank drafts and/or electronic funds transfers.

Because of the difficulty in obtaining cash, a number of BCLC casino gaming patrons evidently turn to the services of illicit money lenders known as “loan sharks.” These individuals facilitate the needs of high stakes gamblers by providing them with cash and/or chips on demand. It is suspected that the cash used by these “loan sharks” may, in some cases, be the proceeds of criminal activity, which is being laundered by being lent to high-stakes and other gamblers.

In this regard, concerning the possible source of the funds lent by the “loan sharks,” it is worth noting that:

- The first stage of the money laundering process – the placement stage<sup>16</sup> – generally occurs close to the underlying criminal activity<sup>17</sup>; and
- Law enforcement analysis indicate that organized crime generates significant cash proceeds of crime in British Columbia:<sup>18</sup>

<sup>16</sup> The RCMP provides the following definition: “**Placement:** The launderer introduces the illegal profits into the financial system. This may be done by breaking up large amounts of cash into less conspicuous, smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (like cashier’s cheques and money orders) that are then collected and deposited into accounts at other locations.” See <http://www.rcmp-grc.gc.ca/poc/laundere.htm>

<sup>17</sup> “Money laundering activity may also be concentrated geographically according to the stage the laundered funds have reached. At the placement stage, for example, the funds are usually processed relatively close to the under-lying activity.” Financial Action Task Force, [http://www.fatf-gafi.org/document/29/0,3343,en\\_32250379\\_32235720\\_33659613\\_1\\_1\\_1\\_1,00.html](http://www.fatf-gafi.org/document/29/0,3343,en_32250379_32235720_33659613_1_1_1_1,00.html)

<sup>18</sup> “Marihuana alone appears of the same order of magnitude as tourism or the fishery as a second-rank industry in the province, and dwarfs (by comparison) the film industry. The estimate of \$6 billion puts BC’s marihuana economy at some 4% of provincial GDP.” See The Scope and Impact of



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Loan sharks are a presence at casinos around the world. But the focus of their business typically involves loaning money at an interest rate above the maximum legal rate, which is sometimes collected under blackmail or threats of violence, and,

usually preying on individuals who are problem gamblers, struggling financially, or, for some reason, are unwilling to seek credit from legal sources.<sup>19</sup>

In B.C., however, the most important part of their business evidently is not preying on problem gamblers (although this is believed to occur), but in facilitating “convenience-type” services that are not needed in other jurisdictions.

That is, the traditional cash-centric focus of BCLC casinos appears to have had the unintended consequence of expanding the business opportunities of loan sharks.

In the process, it has unintentionally created the conditions where some of the casinos' most important customers – for the sake of convenience and possibly cultural issues – may decide to enter into transactions involving criminal elements.

This, in turn, provided a means for the “loan sharks” to move into the second stage of the money laundering cycle – the layering stage.<sup>20</sup> That's when the origins of the proceeds of crime are blurred. The “loan sharks” may do so by asking for repayment of the loans in the form of a cheque. They can then claim that their funds were the proceeds of a legitimate transaction with a client.

### 3.2.4 Mitigation of Cash-Related AML/ATF Risks

BCLC has made a significant effort to mitigate the cash-related risks at the casinos it oversees.

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Organized Crime in British Columbia, a report prepared for CISBC/YT Provincial Executive Committee and British Columbia Policing Operations Council by Criminal Analysis Section, RCMP “E” Division, June, 2005. (p. 13)

<sup>19</sup> FATF, “Vulnerability of Casinos and the Gaming Sector,” (Paris: March 2009), p. 27.

<sup>20</sup> The RCMP provides the following definition: “**Layering**: The launderer engages in a series of conversions or movements of funds to distance them from their source. The funds may be channeled through the purchase and sale of investment products, or the launderer may simply wire the funds through a series of accounts at a number of different banks. In some instances, the launderer may disguise the transfers as payments for goods or services, thus giving them a legitimate appearance.” See [http://www.rcmp-grc.gc.ca/poc/laundry\\_e.htm](http://www.rcmp-grc.gc.ca/poc/laundry_e.htm)



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Perhaps the most important is an initiative to reduce the demand for the services of loan sharks through the introduction of the new Patron Gaming Fund Accounts (PGFA).

The development of the PGFA has been carefully undertaken by the BCLC Casino Gaming AML/ATF Program in close consultation with GPEB. Efforts have been taken to address the major risks associated with the use of patron accounts at casinos:

1. A significant risk associated with casino accounts is that, in some jurisdictions, they operate under less scrutiny and customer due diligence requirements than at financial institutions.<sup>21</sup>
2. In the PGFA, BCLC has appropriately addressed this concern. Electronic funds transfers will only be accepted from a Canadian banking institution. This means that clients will have to undergo the scrutiny and due diligence oversight of a Canadian financial institution. Otherwise, funds will only be accepted if they are from a verified win or were previously withdrawn from a PGFA for using in gaming.
3. A significant risk associated with casino accounts is that, in some jurisdictions, patrons are allowed to wire transfer funds to other jurisdictions without significant play.<sup>22</sup>
4. BCLC has addressed this concern by not permitting any electronic transfers from PGFA's.
5. A significant risk associated with casino accounts is that, in some jurisdictions, patrons are allowed to withdraw funds using cheques that may have the same appearance as cheques from verified wins.<sup>23</sup>
6. BCLC has addressed this concern by requiring that PGFA cheques shall be distinctly different and distinguishable from the cheques issued for verified wins.
7. BCLC has instituted other significant AML/ATF controls over PGFA's including but not limited to:
  - a. Each casino site is required to maintain a separate accounting system for PGFA's specific to that site.

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<sup>21</sup> FATF, "Vulnerability of Casinos and the Gaming Sector," (Paris: March 2009), p. 36.

<sup>22</sup> FATF, "Vulnerability of Casinos and the Gaming Sector," (Paris: March 2009), p. 36.

<sup>23</sup> FATF, "Vulnerability of Casinos and the Gaming Sector," (Paris: March 2009), p. 36.

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- b. A separate, unrelated automated accounting system is required to be used to maintaining and tracking PGFA accounts.
8. Activity in the PGFA's will be closely monitored by the BCLC Casino Gaming AML/ATF Program.

BCLC has taken other significant steps to mitigate the risks associated with cash:

1. The pilot project for stationing investigators at casino sites has been significantly expanded. This initiative was first tested at one casino in May 2006 where two investigators were stationed. Significant resources have been deployed to expand the on-site deployment of investigators, as set out below.

| <b><u>On-Site Deployment of BCLC AML/ATF Personnel</u></b>   |                                       |
|--|---------------------------------------|
| <b>Location</b>  | <b>BCLC Staffing</b>                  |
| River Rock Casino  | 3 investigators/1 operational auditor |
| Edgewater Casino   | 2 investigators                       |
| Starlight Casino   | 2 investigators                       |
| Boulevard Casino   | 2 investigators                       |
| Grand Villa Casino   | 2 investigators                       |
| Cascades Casino and Langley CGC / Mission CGC/ Abbotsford CGC  | 2 investigators                       |
| Kamloops Casino, Kamloops CGC/Kelowna Casino and Kelowna CGC / Vernon Casino and Penticton Casino      | 4 investigators                       |
| Treasure Cove Casino / Dawson Creek CGC/ Ft. St. John CGC/ Billy Barker Casino/ Williams Lake CGC      | 1 investigator                        |
| View Royal Casino/ Nanaimo Casino /Campbell River CGC / Courtney CGC / Port Alberni CGC / Cowichan CGC | 1 investigator                        |
| Casino of the Rockies (Cranbrook)  | 1 investigator                        |
| Prince Rupert CGC / Terrace CGC  | 2 investigators                       |
| Hastings Park Race Course and Casino   | 2 investigators                       |
| Fraser Downs Race Course and Casino  | 2 investigators                       |

2. Members of the BCLC Casino Gaming AML/ATF Program maintain close information-sharing relationships with the RCMP and other law enforcement agencies, especially those involved with proceeds of crime, organized crime and gang activity. These relationships are governed by appropriate memorandums of understanding, and policies and procedures. They are also closely monitored by BCLC Casino Gaming AML/ATF Program supervisors.

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These information-sharing relationships provide important benefits to BCLC and to its ability to protect the integrity of casino gaming. Among other things, they alert the BCLC Casino Gaming AML/ATF Program in a timely manner regarding AML/ATF risks and trends.

3. Training programs and curriculum have been significantly enhanced.

### **3.2.5 Recommendations**

The objective of the PGFA is to create the conditions under which an important patron segment may not longer be tempted to use loan sharks. This will not likely be a quick process because some patrons also may have cultural/historical reasons for mistrusting banks.

Nonetheless, IPSA recommends that BCLC view the PGFA pilot project as the first, albeit significant, step to achieve a long-term goal. To that end, it will be important to review the PGFA after the initial rollout to see whether there are controls that dissuade participation by patrons without significantly reducing AML/ATF risks. It will be important to monitor whether the accounts are structured in a manner that invites participation by patrons, or whether their requirements are too time-consuming and cumbersome to sufficiently attract patrons. If it appears that controls may be too stringent to make the accounts practical, then consideration may be given to conducting a risk-based analysis to see whether certain controls can be appropriately streamlined without significantly increasing AML/ATF risks.

Once the PGFA has been rolled out and assessed – and it is appropriate to start considering enhancements – one possible initiative to consider would be to allow patrons to electronically transfer from their PGFA's. This would be undertaken under certain conditions, such as permitting transactions to be transferred only from the PGFA to a Canadian financial institution – i.e., the direct reverse of the process under which PGFA's receive funds. Such an approach would appear to be consistent with FINTRAC's position:

There is a new requirement for casinos to report when they send out more than \$10,000 outside of Canada or when they receive an EFT of more than \$10,000 from outside of Canada. The requirement kicks in when the EFT is sent directly by the casino. If you go through a financial institution to process your EFTs, then the financial institution is responsible for reporting. However, if the casino sends it to another casino outside of the country, then the casino is responsible for reporting the EFT to FINTRAC.

### **EFT Beneficiary Information**





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When an EFT enters Canada, and there are more than two reporting entities involved, the first reporting entity to touch the EFT when it arrives in Canada is responsible for reporting it to FINTRAC. If the financial institution does not have the information on the beneficiary of the EFT, then the casino would need to report the name and address of the beneficiary and all necessary information about the beneficiary to FINTRAC.<sup>24</sup>

In addition, IPSA recommends that consideration be given to using the Mystery Shopper program to test PGFA-related controls.

### 3.2.6 Risk Register

| AML/ATF Risk Register |           |             |          |   |   |
|-----------------------|-----------|-------------|----------|---|---|
| AML/ATF Risk Category | High Risk | Medium Risk | Low Risk | Risk Controls Observations  | Recommendations   |
| Cash                  |           |             |          | <ul style="list-style-type: none"> <li>Inherent risk is high because of the primary use of cash in casinos and the fact that cash is medium of choice in criminal activities.</li> <li>BCLC has made an important step to mitigate this risk by introducing, as a pilot project, the new Patron Gaming Fund Accounts (PGFA).</li> <li>Risks are also being mitigated by the enhanced training program, the increased deployment of investigators at casino sites and the continued liaison with law enforcement.</li> </ul> | <ul style="list-style-type: none"> <li>The PGFA appears to have stringent controls in place. As the PGFA is rolled out, it will be important to monitor whether any streamlining can be undertaken without inappropriately reducing AML/ATF controls.</li> <li>Once the PGFA has been rolled out and assessed – and it is appropriate to consider enhancements – one possible initiative to consider would be to allow patrons to electronically transfer from their PGFA's. This would be undertaken under certain conditions, such as permitting transactions to be transferred only from the PGFA to a Canadian financial institution.</li> <li>Consideration may be given to possibly using the "mystery shopper" to test PGFA controls.</li> </ul> |

<sup>24</sup> FINTRAC Webinar, "New obligations: Casinos," April 22, 2008, <http://www.fintrac-canafe.gc.ca/multimedia/cas-cas-2008-04-22/1-eng.asp>



### 3.3 Chips

#### 3.3.1 Current Policies and Procedures

At B.C. casinos, value chips are used for betting on all table games. They may be purchased at any casino table and may only be redeemed at the cashier. Non-value chips are used on Roulette only. Each player receives different coloured chips to avoid confusion. Non-value chips must be exchanged for value chips before leaving the table.<sup>25</sup>

#### 3.3.2 The AML/ATF Risks

Studies and analyses suggest that chips are vulnerable to being used for money laundering/terrorist financing purposes.<sup>26</sup>

IPSA field studies suggest that the cash-centric approach discussed above also generates the greatest ML/TF risk related to chips. That is, we were informed that “loan sharks” offer their customers a choice of either cash or chips. As with cash, it is suspected that the chips used by these “loan sharks” may, in some cases, be purchased using the proceeds of criminal activity, which is being laundered by being lent to high-stakes and other gamblers.

#### 3.3.3 Mitigation of Risks

IPSA concludes that the money laundering risk related to chips is “High” as a consequence of AML/ATF risks arising from the primary use of cash.

Therefore, to the extent that BCLC moves away from the primary use of cash, it will reduce the related money laundering risks of chips.

<sup>25</sup> <http://www.bclcc.com/cm/casino/tablegames/home.htm>

<sup>26</sup> “Law enforcement and media reports indicate that criminals typically launder money through casinos by exchanging illicit cash for casino chips and then either:

Holding the chips for a period of time and later cashing them in for a casino check or having the casino wire the money elsewhere;

Using the chips as currency to purchase narcotics, with the drug dealer later cashing in the chips; or,

Using the chips to gamble in hopes of generating certifiable winnings.”

Source: U. S. Money Laundering Threat Assessment, (Washington: December 2005). Prepared by a multi-agency working group, including the Department of the Treasury, FINCEN, Office of Foreign Assets Control (OFAC), Internal Revenue Office, the FBI, the DEA, the Federal Reserve and the U.S. Postal Service



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Regardless of whether this vulnerability is addressed through a reduction in the use of cash as the primary monetary instrument, the residual risk will remain related to the use of chips.

BCLC is moving to address this non-cash-related risk of chips through a pilot project examining the introduction of large denomination chips containing RFID technology, which will permit the tracking of the movement in real-time of large denomination chips.

Risks are also being mitigated by the enhanced training program, the increased deployment of investigators at casino sites and the continued liaison with law enforcement.

### 3.3.4 Recommendation

Consideration may be given to determining whether the RFID technology can be used to develop developing AML/ATF metrics, especially for tracking trends and identifying high-risk situations.

### 3.3.5 Risk Register

| AML Risk Register     |           |             |          |   |   |
|-----------------------|-----------|-------------|----------|---|---|
| AML/ATF Risk Category | High Risk | Medium Risk | Low Risk | Risk Controls Observations  | Recommendations   |
| Chips                 |           |             |          | <ul style="list-style-type: none"> <li>Inherent risk is high because the primary use of cash has heightened the money-laundering risks associated with chips.</li> <li>This cash-related risk is beginning to be addressed through the introduction of the Patron Gaming Fund Account (PGFA).</li> <li>Risks are also being mitigated by the enhanced training program, the increased deployment of investigators at casino sites and the continued liaison with law enforcement.</li> <li>Aside from the cash-related risk, a residual risk remains related to the inherent nature of chips as an anonymous form of</li> </ul> | <ul style="list-style-type: none"> <li>Consideration may be given to determining whether the RFID technology can be used to develop developing AML/ATF metrics, especially for tracking trends and identifying high-risk situations.</li> </ul> |



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|  |  |  |  | <p>currency.</p> <ul style="list-style-type: none"> <li>With regards to the residual risk associated with chips, this being addressed in part through the introduction of large denomination chips containing RFID technology, which will permit the tracking of the movement in real-time of large denomination chips.</li> </ul> |  |
|--|--|--|--|--|--|

### 3.4 Delivery Channel: Customer buy-in processes for table games

#### 3.4.1 AML/ATF Risks

The money laundering/terrorist financing (ML/TF) risks related to the buy-in process include but are not limited to:

- Failure to verify identification of customers;
- Failure to properly submit a LCT, STR or SATR in a timely fashion; and
- Failure to notice and report suspicious behavior/activities.

#### 3.4.2 Mitigation of Risks

In general, the policies, procedures and processes under which customers deposit funds at cages and/or purchase chips for table games appear to be appropriate and are monitored through a layered system of checks and balances.

A number of initiatives have been undertaken to help mitigate the AML/ATF risks associated with the buy-in processes for table games:

- Significant efforts have been made to increase the level of employment-related detail that casino staff obtains from patrons.
- The enhancement of the iTrak system has made compliance easier by eliminating the need of casino staff to follow the 24-hour clock for patron buy-in's. The 24-hour requirement is now automatically calculated by the iTrak software.
- The enhanced training program will ensure that all casino personnel, including those at the lowest level, understand their role and duties in AML/ATF compliance.

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### 3.4.3 Recommendation

IPSA recommends that consideration be given to using “mystery shoppers” to test compliance of buy-in policies, procedures and processes.

### 3.4.4 Risk Register

| AML Risk Register              |           |             |          |   |   |
|--------------------------------|-----------|-------------|----------|---|---|
| AML/ATF Risk Category          | High Risk | Medium Risk | Low Risk | Risk Controls Observations  | Recommendations   |
| Buy in process for table games |           |             |          | <ul style="list-style-type: none"> <li>Appropriate policies and procedures</li> <li>Efforts to increase level of employment-related detail from patrons.</li> <li>Changes to iTrak system make it easier to comply with 24-hour requirement.</li> <li>Enhanced training.</li> </ul> | <ul style="list-style-type: none"> <li>Consider expanding “mystery shopper” program to test compliance</li> </ul> |

## 3.5 Delivery Channel: Customer cash-out process for table games

### 3.5.1 The AML/ATF Risks

The AML/ATF risks related to the cashing out process at table games include but are not limited to:

- Issuing cheques where there is no verified win.
- Failure to track the 24-hour rule.
- Failure to properly submit a LCT, STR or SATR in a timely fashion.
- Failure to verify identification of customers.
- Failure to notice and report suspicious behavior/activities.
- Allowing individuals who may have brought in large amounts of small bills to cash out and receive larger bills (i.e. refining).

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### 3.5.2 Mitigation of Risks

In general, the policies and procedures for the cashing out process at table games appear to be appropriate and are monitored through a layered system of checks and balances.

A number of initiatives have been undertaken to help mitigate the AML/ATF risks associated with the buy-in processes for table games:

- BCLC has clarified the issuance of cheques policy by redefining “a verified win” as the cash out minus the buy in. In addition, surveillance footage of patron’s play for which a cheque is issued for \$25,000 or more is now to be saved in case a review is necessary, and monthly reviews are undertaken of all cheques issued by service providers to analyze trends and multiple wins.
- The enhancement of the iTrak system has made compliance easier by eliminating the need of casino staff to follow the 24-hour clock for patron buy-in’s. The 24-hour requirement is now automatically calculated by the iTrak software.
- The enhanced training program will ensure that all casino personnel, including those at the lowest level, understand their role and duties in AML/ATF compliance, including noticing and reporting suspicious behavior/activities, the complete identification of patrons and spotting attempts at refining.

### 3.5.3 Recommendation

IPSA recommends that consideration be given to using “mystery shoppers” to test compliance of cashing-out policies, procedures and processes.

### 3.5.4 Risk Register

| AML Risk Register                |           |             |          |  |   |
|----------------------------------|-----------|-------------|----------|--|---|
| AML/ATF Risk Category            | High Risk | Medium Risk | Low Risk | Risk Controls Observations   | Recommendations   |
| Cash-out process for table games |           |             |          | <ul style="list-style-type: none"> <li>• Appropriate policies and procedures</li> <li>• Internal controls have extensive checks and balances.</li> <li>• BCLC has clarified the issuance of cheques policy by redefining “a verified win” as the cash out minus the buy in.</li> <li>• Surveillance footage of patron’s play for which a cheque is issued</li> </ul> | <ul style="list-style-type: none"> <li>• Consider expanding “mystery shopper” program to test compliance</li> </ul> |





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|  |  |  |  | <p>for \$25,000 or more is now to be saved in case a review is necessary, and monthly reviews are undertaken of all cheques issued by service providers to analyze trends and multiple wins.</p> <ul style="list-style-type: none"> <li>• The enhancement of the iTrak system has made compliance easier by eliminating the need of casino staff to follow the 24-hour clock for patron buy-in's. The 24-hour requirement is now automatically calculated by the iTrak software.</li> <li>• Enhanced training.</li> </ul> |  |
|--|--|--|--|---|--|

### 3.6 Delivery Channel: Customer cash-out process for slots

#### 3.6.1 AML/ATF Risks

All B.C. Casinos offer coinless slot machines. Bill acceptors accept \$5, \$10, \$20, \$50, or \$100 bills in Canadian funds. When the customer is ready to cash out, he or she can press the Cash Out button and receive a ticket. It can be redeemed at the cashier or at Ticket Express machines located throughout the casino. To continue playing, the ticket also can be inserted into another coinless slot machine. Tickets are valid for 30 days at the casino of issue.<sup>27</sup>

The primary slot-related money laundering risk involves the possibility that Network Redemption Terminals (NRT) may be used in refining<sup>28</sup> schemes. In such schemes, individuals would load small denomination bills from illicit activities into the bill acceptors at coinless slot machines.

<sup>27</sup> <http://www.bclc.com/cm/howtoplay/Casino/Slots.htm>

<sup>28</sup> The RCMP provides the following definition: "**Refining:** This money laundering method involves the exchange of small denomination bills for larger ones and can be carried out by an individual who converts the bills at a number of different banks in order not to raise suspicion. This serves to decrease the bulk of large quantities of cash." See [http://www.rcmp-grc.gc.ca/poc/launder\\_e.htm](http://www.rcmp-grc.gc.ca/poc/launder_e.htm)



### 3.6.2 Mitigation of Risks

In the first risk assessment, IPSA gave this a “Medium” risk rating for the following reasons:

- Interviews with casino staff indicated that they had limited knowledge of new AML regulations and their level of AML training had not been consistent, ongoing or current. While a new training program is being developed, it will take time for it to be implemented and for its impact to be fully felt; and
- The “mystery shopper” program was in the process of being introduced.

IPSA now believes it is appropriate to reduce this risk to a “Low” rating for the following reasons:

- BCLC has clarified the issuance of cheques policy by redefining “a verified win” as the cash out minus the buy in. Monthly reviews are undertaken of all cheques issued by service providers to analyze trends and multiple wins.
- The enhanced training program includes front-line slot attendants as well as supervisors.
- The mystery shopper program focused on this vulnerability and did not identify any instances of non-compliance.
- Surveillance has been sensitized to more closely monitor slot payouts.

### 3.6.3 Recommendation

IPSA recommends that consideration be given to continuing using “mystery shoppers” to test compliance of the cash-out process for slots.

### 3.6.4 Risk Register

| AML Risk Register          |           |             |          |  |  |
|----------------------------|-----------|-------------|----------|--|--|
| AML/ATF Risk Category      | High Risk | Medium Risk | Low Risk | Risk Controls Observations   | Recommendations  |
| Cash-out process for slots |           |             |          | <ul style="list-style-type: none"> <li>• BCLC has clarified the issuance of cheques policy by redefining “a verified win” as the cash out minus the buy in. Monthly reviews are undertaken of all cheques issued by service providers to analyze trends and multiple wins.</li> <li>• The enhanced training program</li> </ul> | <ul style="list-style-type: none"> <li>• Continue the structured “mystery shopper” program.</li> </ul> |

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|  |  |  |  | <p>includes front-line slot attendants as well as supervisors.</p> <ul style="list-style-type: none"><li>• The mystery shopper program focused on this vulnerability and did not identify any instances of non-compliance.</li><li>• Surveillance has been sensitized to more closely monitor slot payouts.</li></ul> |  |
|--|--|--|--|---|--|





## Section

**4****British Columbia Lottery Corporation****Casino Gaming AML/ATF Risk Assessment Update****4.0 Risk Category: Products****4.1 Introduction**

This chapter will examine the money laundering risks associated with each category of gaming products offered at BCLC casinos.

**4.2 Products: High stakes table games****4.2.1 AML/ATF Risks**

Because of their significant impact on overall profitability, high-stakes games receive augmented oversight. In high-stakes rooms, there is one table supervisor to each table. In low-stakes rooms, one supervisor oversees four tables. Surveillance also pays special attention to gaming in high-stakes rooms. This provides for a high-level of checks and balances.

Money laundering risks related to high-stakes table games include, but are not limited to,

- Attempts to evade FINTRAC reporting requirements;
- Minimal gaming activities without reasonable explanation;
- Issuing cheques where there is no verified win;
- Allowing individuals who may have brought in large amounts of small bills to cash out and receive larger bills (i.e. refining);
- Failure to track the 24-hour rule;
- Failure to verify identification of customers; and
- Failure to notice and report suspicious behavior/activities.



#### 4.2.3 Mitigation of Risks

When it conducted its initial risk assessment, IPSA found the following three internal control issues:

- Interviews with casino staff at high stakes tables indicated that they had limited knowledge of new AML regulations and their level of AML training had not been consistent, ongoing or current. While a new training program is being developed, it will take time for it to be implemented and for its impact to be fully felt.
- Employees and supervisors at high-stakes tables did not appear to see AML as part of their core responsibilities. They did not appear to see themselves as being as accountable for AML issues as they would be regarding their gaming-related responsibilities. This, despite the fact that failure to comply with AML laws and regulations has serious criminal and administrative penalties. While efforts are under way to increase accountability by casino employees and supervisors, it will take time for this cultural shift to be fully implemented and for its impact to be fully felt.
- The “mystery shopper” program is in the process of being introduced and, we understand, has not reached full operational capability; and

To address the above three internal control issues, as well as the risks related to high stakes table games, the following initiatives have been undertaken:

- The training program has been enhanced and is being rolled out to all employees.
- The BCLC Casino Gaming AML/ATF Program is committed to improving the culture of compliance at BCLC casinos.
- The pilot project of the mystery shopper program has been completed and the process is under way to make a permanent part of BCLC internal controls.
- BCLC has clarified the issuance of cheques policy by redefining “a verified win” as the cash out minus the buy in. In addition, surveillance footage of patron’s play for which a cheque is issued for \$25,000 or more is now to be saved in case a review is necessary, and monthly reviews are undertaken of all cheques issued by service providers to analyze trends and multiple wins.
- The enhancement of the iTrak system has made compliance easier by eliminating the need of casino staff to follow the 24-hour clock for patron buy-in’s and cash-out’s. The 24-hour requirement is now automatically calculated by the iTrak software.

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#### 4.2.4 Risk Register

| AML Risk Register                      |           |             |          |   |  |
|--|-----------|-------------|----------|---|--|
| AML/ATF Risk Category                  | High Risk | Medium Risk | Low Risk | Risk Controls Observations  | Recommendations  |
| Product Risk - High stakes table games |           |             |          | <ul style="list-style-type: none"> <li>The training program has been enhanced and is being rolled out to all employees.</li> <li>The BCLC Casino Gaming AML/ATF Program is committed to improving the culture of compliance at BCLC casinos.</li> <li>BCLC has clarified the issuance of cheques policy.</li> <li>The enhancement of the iTrak system has made compliance easier by eliminating the need of casino staff to manually track follow the 24-hour clock.</li> </ul> | <ul style="list-style-type: none"> <li>Develop metrics and benchmarks for identifying trends and vulnerabilities.</li> <li>Continue to promote a culture of compliance.</li> </ul> |

#### 4.3 Products: Low stakes table games

##### 4.3.1 AML/ATF Risks

Because of their lesser impact on overall profitability, low-stakes table games receive less oversight. In high-stakes rooms, there is one table supervisor to each table. In low-stakes rooms, one supervisor oversees four tables. In general, surveillance does not pay the same kind of special attention to gaming in low-stakes areas of the casino as it does in high-stakes rooms.

Money laundering risks related to low stakes areas of casinos are similar to those in high-stakes table games, though the magnitude is generally more commensurate to the smaller amounts gambled. They include, but are not limited to,

- Attempts to evade FINTRAC reporting requirements;
- Minimal gaming activities without reasonable explanation;
- Issuing cheques where there is no verified win;
- Allowing individuals who may have brought in large amounts of small bills to cash out and receive larger bills (i.e. refining);



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- Failure to track the 24-hour rule;
- Failure to verify identification of customers; and
- Failure to notice and report suspicious behavior/activities.

In general, the policies, procedures and processes governing the oversight of low stakes table games appear to be appropriate and reasonable. And they are monitored through a layered system of checks and balances.

#### 4.3.2 Risk Register

| AML Risk Register                     |           |             |          |   |  |
|---------------------------------------|-----------|-------------|----------|---|--|
| AML/ATF Risk Category                 | High Risk | Medium Risk | Low Risk | Risk Controls Observations  | Recommendations  |
| Product Risk – Low stakes table games |           |             |          | <ul style="list-style-type: none"> <li>• The training program has been enhanced and is being rolled out to all employees.</li> <li>• The BCLC Casino Gaming AML/ATF Program is committed to improving the culture of compliance at BCLC casinos.</li> <li>• BCLC has clarified the issuance of cheques policy.</li> <li>• The enhancement of the iTrak system has made compliance easier by eliminating the need of casino staff to manually track follow the 24-hour clock.</li> </ul> | <ul style="list-style-type: none"> <li>• Develop metrics and benchmarks for identifying trends and vulnerabilities.</li> <li>• Continue to promote a culture of compliance.</li> </ul> |

#### 4.4 Products: Slots

##### 4.4.1 AML/ATF Risks

All B.C. Casinos offer coinless slot machines. Bill acceptors accept \$5, \$10, \$20, \$50, or \$100 bills in Canadian funds. When the customer is ready to cash out, he or she can press the Cash Out button and receive a ticket. It can be redeemed at the cashier or at Ticket Express machines located throughout the casino. To continue

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playing, the ticket also can be inserted into another coinless slot machine. Tickets are valid for 30 days at the casino of issue.<sup>29</sup>

The primary slot-related money laundering risk involves the possibility that Network Redemption Terminals (NRT) may be used in refining<sup>30</sup> schemes. In such schemes, individuals would load small denomination bills from illicit activities into the bill acceptors at coinless slot machines.

#### 4.4.2 Mitigation of Risks

In the first risk assessment, IPSA gave this a "Medium" risk rating for the following reasons:

- Interviews with casino staff indicated that they had limited knowledge of new AML regulations and their level of AML training had not been consistent, ongoing or current. While a new training program is being developed, it will take time for it to be implemented and for its impact to be fully felt; and
- The "mystery shopper" program was in the process of being introduced.

IPSA now believes it is appropriate to reduce this risk to a "Low" rating for the following reasons:

- BCLC has clarified the issuance of cheques policy by redefining "a verified win" as the cash out minus the buy in. Monthly reviews are undertaken of all cheques issued by service providers to analyze trends and multiple wins.
- The enhanced training program includes front-line slot attendants as well as supervisors.
- The mystery shopper program focused on this vulnerability and did not identify any instances of non-compliance.
- Surveillance has been sensitized to more closely monitor slot payouts.

<sup>29</sup> <http://www.bclc.com/cm/howtoplay/Casino/Slots.htm>

<sup>30</sup> The RCMP provides the following definition: "**Refining:** This money laundering method involves the exchange of small denomination bills for larger ones and can be carried out by an individual who converts the bills at a number of different banks in order not to raise suspicion. This serves to decrease the bulk of large quantities of cash." See [http://www.rcmp-grc.gc.ca/poc/launder\\_e.htm](http://www.rcmp-grc.gc.ca/poc/launder_e.htm)



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#### 4.4.3 Recommendation

IPSA recommends that consideration be given to continuing using “mystery shoppers” to test compliance of the cash-out process for slots.

#### 4.4.4 Risk Register

| AML Risk Register     |           |             |          |   |  |
|-----------------------|-----------|-------------|----------|---|--|
| AML/ATF Risk Category | High Risk | Medium Risk | Low Risk | Risk Controls Observations  | Recommendations  |
| Product Risk - Slots  |           |             |          | <ul style="list-style-type: none"> <li>BCLC has clarified the issuance of cheques policy by redefining “a verified win” as the cash out minus the buy in. Monthly reviews are undertaken of all cheques issued by service providers to analyze trends and multiple wins.</li> <li>The enhanced training program includes front-line slot attendants as well as supervisors.</li> <li>The mystery shopper program focused on this vulnerability and did not identify any instances of non-compliance.</li> <li>Surveillance has been sensitized to more closely monitor slot payouts.</li> </ul> | <ul style="list-style-type: none"> <li>Continue the structured “mystery shopper” program.</li> <li>Develop metrics and benchmarks for identifying trends and vulnerabilities.</li> <li>Continue to promote a culture of compliance.</li> </ul> |



Section  
**5****British Columbia Lottery Corporation**

## Casino Gaming AML/ATF Risk Assessment Update

**5.0 Clients****5.1 Introduction**

This chapter will focus on client-specific risks

**5.2 Regulatory Guidance**

FINTRAC Guideline 4 provides the following guidance regarding keeping client identification and beneficial ownership up to date:

When your risk assessment determines that risk is high for money laundering or terrorist financing, you have to develop and apply policies and procedures to keep client identification information up to date. If you are a financial entity, a securities dealer, a life insurance company, broker or agent, or a money services business, this also applies for keeping beneficial ownership information up to date.

**Client identification information**

Client identification information depends on the information you have to confirm or obtain from your clients and the records you have to keep. Client identification information that is required to be updated generally includes:

For an **individual**, the individual's name, address, telephone number and occupation or principal business.

For a **corporation**, its name and address and the names of the corporation's directors.

For an **entity other than a corporation**, its name, address and principal place of business.

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Reasonable measures to keep client identification up to date include asking the client to confirm or update their information. In the case of an individual client, reasonable measures also include confirming or updating the information through the options available to identify individuals who are not physically present. This can include obtaining information verbally to keep client identification information up to date.

In the case of clients that are entities, reasonable measures to keep client identification up to date include consulting a paper or an electronic document to confirm information or obtaining the information verbally from the client.

Although the frequency with which the client identification information is to be kept up to date will vary depending on your business, you should review it at least every two years for high risk situations. When you review client identification information, you should also update the records you keep for that client.

You may want to consider establishing and implementing a timeline to update the identification information of your clients that you do not consider high risk.

#### **Beneficial ownership information**

If you are a financial entity, a securities dealer, a life insurance company, broker or independent agent, or a money services business, you have to take reasonable measures to obtain beneficial ownership information about entities in certain circumstances. Beneficial ownership information of an entity means the name, address and occupation of all the individuals that own or control, directly or not, 25% or more of the entity. If the entity is a corporation, beneficial ownership information also includes the name and occupation of all the corporation's directors. Guideline 6 for your sector has more information about beneficial ownership requirements. Reasonable measures to keep beneficial ownership up to date are the same as the ones explained for client identification information above. For high risk situations, the beneficial ownership should be updated at least every two years. When you review beneficial ownership information, you should also update the records you keep for that client.

### **5.3 Mitigation of Risks**

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding the mitigation of client-related risks:



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1. Policies and procedures for identifying clients and maintaining up to date identification information appear to be consistent with FINTRAC regulatory requirements.
2. BCLC conducts monthly reviews of all cheques issued by service providers to analyze trends and multiple wins.
3. High-risk individuals and their associates, who may be offering loan-sharking services, are identified and monitored closely. Where possible, action is taken to ban them from casino properties.
4. Members of the BCLC Casino Gaming AML/ATF Program seek intelligence on high-risk clients by maintaining close information-sharing relationships with the RCMP and other law enforcement agencies, especially those involved with proceeds of crime, organized crime and gang activity. These relationships are governed by appropriate memorandums of understanding, and policies and procedures and help alert BCLC to emerging criminal threats.
5. An increase in BCLC corporate security presence at casinos has created the ability to gather intelligence on high-risk customers and monitor their activities.
6. Significant efforts have been made to improve the quality of employment identification information.
7. Compliance with these policies is monitored internally through internal controls and oversight and externally by three levels of review: by BCLC's corporate AML function; by BCLC's operational audits; and by GPEB audits.
8. The names of clients are scrubbed twice a year through the terrorist and sanctions lists maintained by the Office of the Superintendent of Financial Institutions (OSFI).
9. Surveillance footage of patron's play for which a cheque is issued for \$25,000 or more is now to be saved in case a review is necessary.

#### **5.4 Recommendations**

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following recommendations regarding the mitigation of risk-related risks:

1. Develop metrics and benchmarks to more closely monitor the activities of the relatively small number of clients are responsible for a disproportionately large percentage of LCTs.





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2. In addition to scrubbing patrons' names through the OSFI lists, consideration may be given to scrubbing the names of patrons through the kinds of lists that financial institutions use to reduce their AML/ATF risks. These lists contain names from a number of watch lists, including those maintained by the U.S. Treasury's Office of Foreign Assets Control and the Bank of England.

### 5.5 Risk Register

| AML Risk Register     |           |             |          |  |  |
|-----------------------|-----------|-------------|----------|--|--|
| AML/ATF Risk Category | High Risk | Medium Risk | Low Risk | Risk Controls Observations   | Recommendations  |
| Clients               |           |             |          | <ul style="list-style-type: none"> <li>• Policies and procedures for identifying clients and maintaining up to date identification information appear to be consistent with FINTRAC regulatory requirements.</li> <li>• BCLC conducts monthly reviews of all cheques issued by service providers to analyze trends and multiple wins.</li> <li>• High-risk individuals and associates, who may be offering loan-sharking services, are identified and monitored closely.</li> <li>• Members of the BCLC Casino Gaming AML/ATF Program seek intelligence on high-risk clients through appropriate relationships with law enforcement.</li> <li>• Significant efforts have been made to improve the quality of employment information.</li> <li>• The names of clients are scrubbed through lists maintained by OSFI.</li> <li>• An increase in BCLC corporate security presence at casinos has created the ability to gather intelligence on high-risk customers and monitor their activities.</li> </ul> | <ul style="list-style-type: none"> <li>• Develop metrics and benchmarks to more closely monitor the activities of the relatively small number of clients are responsible for a disproportionately large percentage of LCTs.</li> <li>• In addition to scrubbing patrons' names through the OSFI lists, consideration may be given to scrubbing the names of patrons through the kinds of lists that financial institutions use to reduce their AML/ATF risks. These lists contain names from a number of watch lists, including those maintained by the U.S. Treasury's Office of Foreign Assets Control and the Bank of England.</li> </ul> |



Section  
**6****British Columbia Lottery Corporation**  
Casino Gaming AML/ATF Risk Assessment Update**6.0 Internal Controls****6.1 Introduction**

This chapter will focus on four internal controls that IPSA International recommends be enhanced:

- Training;
- Independent testing/mystery shopper;
- Ongoing assessment of adequacy of systems and controls; and
- Accountability.

**6.2 Training****6.2.1 Regulatory Guidance**

The training of employees is widely regarded as being one of the most important internal controls.

The Gambling Commission, which regulates gaming in the U.K., has stated:

One of the most important controls over the prevention and detection of money laundering is to have staff who are alert to the risks of money laundering and terrorist financing, and who are well trained in the identification of unusual activities or transactions which may prove to be suspicious. The effective application of even the best designed control

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systems can be quickly compromised if the staff applying the systems are not adequately trained.<sup>31</sup>

FINCEN, the U.S. agency, has similarly stated:

One of the more important elements of the anti-money laundering compliance program is the obligation to institute an effective and ongoing training program for all appropriate casino or card club personnel. Such a compliance training program should be commensurate with the risks posed by the products and financial services provided. Training should be provided to all personnel before conducting financial transactions on behalf of a casino at the cage (including casino credit and slot booth), on the floor (including table games, keno, poker, other floor games, and slot machines/video lottery terminals), as well as those responsible for complying with BSA currency transaction and suspicious transaction reporting, identification, recordkeeping, and other compliance program requirements.<sup>32</sup>

Guideline 4 provides the following guidance regarding compliance training:

If you have employees, agents or other individuals authorized to act on your behalf, your compliance regime has to include training. This is to make sure that all those who have contact with clients, who see client transaction activity, who handle cash or funds in any way or who are responsible for implementing or overseeing the compliance regime understand the reporting, client identification and record keeping requirements. This includes those at the "front line" as well as senior management.

Effective June 23, 2008, your training program has to be in writing and you have to maintain it. This means that the program itself has to be in writing, but the way the training is delivered does not have to be in writing. For example, you could deliver your training program using computer-based software, information sessions, face-to-face meetings, etc. You also have to ensure that

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<sup>31</sup> Gambling Commission, "The Prevention of Money Laundering and Combating the Financing of Terrorism: Guidance for remote and non-remote casinos," (Birmingham: December 2007), p. 22

<sup>32</sup> Financial Crimes Enforcement Network, "Guidance FIN-2008-G007 - Subject: Recognizing Suspicious Activity - Red Flags for Casinos and Card Clubs," (Washington, DC; August 1, 2008)





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your training program is reviewed and adjusted in a timely manner to reflect your needs.

In addition, others who have responsibilities under your compliance regime, such as information technology and other staff responsible for designing and implementing electronic or manual internal controls, should receive training. This could also include the appointed compliance officer and internal auditors.

Standards for the frequency and method of training, such as formal, on-the-job or external, should be addressed. New people should be trained before they begin to deal with clients. All should be periodically informed of any changes in anti-money laundering or anti-terrorism legislation, policies and procedures, as well as current developments and changes in money laundering or terrorist activity financing schemes particular to their jobs. Those who change jobs within your organization should be given training as necessary to be up-to-date with the policies, procedures and risks of exposure to money laundering or terrorist financing that are associated with their new job.

The method of training may vary greatly depending on the size of your business and the complexity of the subject matter. The training program for a small business may be less sophisticated.

When assessing your training needs, consider the following elements:

**Requirements and related liabilities**

The training should give those who need it an understanding of the reporting, client identification and record keeping requirements as well as penalties for not meeting those requirements. For more information about this, see the other guidelines regarding each of those requirements applicable to you.

**Policies and procedures**

The training should make your employees, agents, or others who act on your behalf aware of the internal policies and procedures for deterring and detecting money laundering and terrorist financing that are associated with their jobs. It should also give each one a clear understanding of his or her responsibilities under these policies and procedures.

They need to understand how their institution, organization or profession is vulnerable to abuse by criminals laundering the proceeds of crime or by terrorists financing their activities. Training should include examples of how your particular type of organization could be used to launder illicit funds or fund terrorist activity. This should help them to identify suspicious transactions and should give you some assurance that your services are not being abused for the purposes of money laundering or terrorist financing.

Employees should also be made aware that they cannot disclose that they have made a suspicious transaction report, or disclose the contents of such a



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report, with the intent to prejudice a criminal investigation, whether it has started or not. They should also understand that no criminal or civil proceedings may be brought against them for making a report in good faith.

Background information on money laundering and terrorist financing  
Any training program should include some background information on money laundering so everyone who needs to can understand what money laundering is, why criminals choose to launder money and how the process usually works. They also need to understand what terrorist financing is and how that process usually works. For more information about this, see Guideline 1: Backgrounder and FINTRAC's website (<http://www.fintrac-canafe.gc.ca>).

All businesses should consult, if possible, training material available through their associations. In addition, FINTRAC makes material available on its Web site that can provide help with training. For example, a practice environment is available within F2R, FINTRAC's Web-based tool for electronic reporting, that can be used for training. You can use this to complete simulated electronic reports. However, as a reporting person or entity described in section 2, you are responsible to have your own training program and to ensure that each component of the program is reviewed and adjusted to meet your needs.

### 6.2.2 Observations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding training:

1. Until recently, training had solely been provided in lecture form by members of the BCLC Corporate Security and Compliance Function. This had been problematic for a number of reasons:
  - a. Difficulty in ensuring that all casino personnel were appropriately trained in a timely manner in a sector with a significant employee turnover.
  - b. There was a single presentation regardless of whether the attendees were new or experienced employees.
2. The AML/ATF training program has been significantly upgraded after an in-depth review of its content, frequency and approach.
3. New training materials were developed and the training curriculum was segmented into separate modules for new employees, existing employees and refresher courses. A testing mechanism was developed for the training modules for both new employees and for the refresher course. BCLC is tracking Service Provider participation in all three modules.





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4. The three modules are as follows:
  - a. An orientation training module for all new staff joining the gaming industry. The module consists of an online presentation and written test.
  - b. Face-to-face intermediate training session delivered by a member of the BCLC Corporate Security and Compliance Function. It will consist of a PowerPoint presentation followed by a written test.
  - c. The advanced refresher training will be delivered on a yearly basis. The module consists of an online presentation and written test.
5. The recent rollout of the enhanced training program appears to have been well received and supported by senior management at Service Providers.
6. Some of the training sessions in the recent rollout brought together personnel in key control areas like cage operations from the major Service Providers. Some attendees remarked to IPSA that this helped break down inter-corporate rivalries. As a sign of cooperation, cage supervisors from some Service Providers said they shared best practices regarding meeting some of their reporting obligations. They indicated that this had never occurred before.
7. The recent training sessions were extended to all levels of front-line staff, even those at the lowest levels. This has an important effect on promoting a culture of compliance. Low-level staff told IPSA that the training helped them understand why AML/ATF efforts are important and how they can contribute to this process. A number of front-line staff told IPSA that, because of the training, they now better understood why they were being asked to monitor certain types of activities and behaviors.

### 6.2.3 Recommendations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following recommendations regarding training:

1. Service Providers tend to have extensive internal training programs, some of which already refer to AML/ATF compliance issues. Consideration may be given to expanding this by establishing ongoing liaison with training functions at all Service Providers to identify opportunities for embedding AML/ATF compliance elements in the ongoing training that Service Providers give their personnel.
2. As part of its commitment to continuous improvement, BCLC will, from time to time change its policies and procedures. While these will be reflected in its three main training modules, some issues may require specific training-related





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communications with casino personnel and supervisors. Consideration may be given to establishing a means for cost-effectively producing brief, focused video presentations that would be shown to casino personnel and supervisors. This would be supplemented with written information.

3. From time to time, compliance issues arise that warrant the Vice President, Corporate Security and Compliance, to write a strongly worded letter to Service Providers. This occurred in August 2009 when a review by members of the BCLC Casino Gaming AML/ATF Program discovered a problem with regards to the issuance of cheques by one Service Provider. In addition to issuing a guidance letter, it may be beneficial to also regard this kind of incident, when it is significant enough, as a possible "teaching opportunity." Consideration may be given to establishing a means for cost-effectively producing video presentations that would be shown to casino personnel and supervisors. This would be supplemented with written information.

#### **6.4 Mystery Shopping/Independent Testing**

An organization may have the best policies and procedures, training programs and operational audits. But one never knows the effectiveness of those internal controls unless they are tested in a structured, planned manner by "mystery shoppers," individuals posing as customers in scenarios intended to test particular internal controls.

Now that the "mystery shopper" pilot project has proved to be successful, it will be important to determine how it can be implemented on a more permanent basis and in a structured manner. "Mystery shopping" is widely used, especially in the United States, and has proved extremely effective to test AML/ATF compliance.

The BCLC pilot project used internal staffing resources. Continuing to do so could create the impression that the "mystery shopping" process was not independent and could be manipulated. To address this issue, consideration might be given to retaining an independent entity to conduct "mystery shopper" site visits. This is the general practice of financial entities like as money services businesses and banks that use "mystery shoppers" to test compliance.

Continued reliance on internal resources also might not be practical for operational reasons. BCLC staff would eventually be recognized, or "made," and their effectiveness would dissipate. Rather, consideration may be given to engaging an outside agency that could provide not only independence but also an appropriate blend of "mystery shoppers" in terms of age, gender and ethnicity.



## 6.5 Ongoing monitoring

### 6.5.1 Regulatory Guidance

FINTRAC Guideline 4 provides the following new guidance regarding ongoing monitoring:

You have to take reasonable measures to conduct ongoing monitoring of financial transactions that pose high risks of money laundering and terrorist financing to detect suspicious transactions. Reasonable measures may involve manual or automated processes, or a combination of both depending on your resources and needs. They also depend on the size of your business and the risks to which you are exposed. You do not necessarily have to create or purchase an electronic system. You can use your available resources and business processes and build on these.

Your policies and procedures have to determine what kind of monitoring is done for particular high risk situations, including how to detect suspicious transactions. Your policies and procedures should also describe when monitoring is done (its frequency), how it is reviewed, and how it will be consistently applied.

You could consider the following measures to monitor high risk situations:

- review transactions based on an approved schedule that involves management sign-off;
- develop reports or perform more frequent review of reports that list high risk transactions. Flag activities or changes in activities from your expectations and elevate concerns as necessary;
- set business limits or parameters regarding accounts or transactions that would trigger early warning signals and require mandatory review;
- review transactions more frequently against suspicious transaction indicators relevant to the relationship and escalate them should additional indicators be detected. See *Guideline 2: Suspicious Transactions* for more information about indicators.

### 6.5.2 Observations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following observations regarding ongoing monitoring:

1. Members of the Casino Gaming AML/ATF function review suspicious occurrences on a daily business ensures that “red flag” indicators are monitored in a timely fashion. This daily oversight not only improves the quality of FINTRAC filings but also helps ensure the early identification and mitigation of internal issues.
2. New efforts have been made to improve the identification of trends and other metrics. An example is that BCLC now conducts monthly reviews of all cheques issued by service providers to analyze trends and multiple wins.
3. An increase in BCLC corporate security presence at casinos has created the ability to gather intelligence on high-risk customers and monitor their activities.
4. High-risk individuals and their associates, who may be offering loan-sharking services, are identified and monitored closely. Where possible, action is taken to ban them from casino properties.
5. Members of the BCLC Casino Gaming AML/ATF Program seek intelligence on high-risk clients by maintaining close information-sharing relationships with the RCMP and other law enforcement agencies, especially those involved with proceeds of crime, organized crime and gang activity. These relationships are governed by appropriate memorandums of understanding, and policies and procedures and help alert BCLC to emerging criminal threats.

### 6.5.3 Recommendations

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following recommendations regarding ongoing monitoring:

1. Individual casinos now do not know how well they are complying with AML/ATF requirements. Consideration might be given to develop metrics so that individual casinos can compare their performance to that of their peers and other benchmarks.

## 6.6 Accountability

An important AML/ATF internal control is that all employees should regard AML/ATF as part of their responsibilities. As one expert has noted, an organization with strong



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compliance culture is one where "compliance is an integral part of day-to-day operations."<sup>33</sup>

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following conclusions and recommendations regarding a culture of compliance:

1. Through the efforts of the BCLC Casino Gaming AML/ATF Program, BCLC has made substantial progress in establishing a culture of compliance.
2. However, significant systemic hindrances remain in place, and they will continue to make it difficult to sustain this progress.
3. Therefore, it will be important for the BCLC Board of Directors and senior management to devote adequate resources to promoting a culture of compliance

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA makes the following recommendations regarding a culture of compliance:

1. Consideration may be given to preparing and disseminating a corporate policy statement on the importance of a culture of compliance and BCLC's commitment to foster the positive partnerships that create it.
2. Consideration may be given to establishing benchmarks and appropriate metrics to gauge progress in fostering a culture of compliance, and whether resources are being effectively deployed in this regard. Periodically, the BCLC Board of Directors should be apprised of the extent to which predetermined benchmarks are being met.
3. Efforts should continue to foster positive partnerships between BCLC Casino Gaming AML/ATF Program personnel and staff and supervisors of Service Provider.
4. One possible way of doing so would be to make supervisors more directly responsible and accountable for AML/ATF compliance.
5. Consideration should be given to making a senior official at each casino site directly responsible for AML/ATF compliance. This responsibility would be in their job description and it would be part of their job performance evaluations.

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<sup>33</sup> "Compliance Risk Management in a Diversified Environment." Remarks by Governor Mark W. Olson. To the Financial Services Roundtable and the Morin Center for Banking and Financial Services, Washington, D.C., May 16, 2006



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6. Consideration should be given to making AML/ATF compliance part of the job description of appropriate managers and supervisors at each casino site. This would include such positions as cage manager, surveillance manager, manager of table games, manager of slots, etc. This responsibility would be in their job description and it would be part of their job performance evaluation criteria.
7. Establish forums among casino personnel chaired by BCLC investigators to develop and share best practices.



Section  
**7****British Columbia Lottery Corporation**

## Casino Gaming AML/ATF Risk Assessment Update

**7.0 Geographic Risk****7.1 Introduction****7.1.1 Regulatory Guidance**

Guideline 4 provides the following risk assessment guidance regarding geographic location:

You have to consider, in a manner that is appropriate to you, whether geographic locations in which you operate or undertake activities pose a potentially higher risk for money laundering and terrorist financing. Depending on your business and operations, geographic locations can range from your immediate surroundings, whether rural or urban to a province or territory, multiple jurisdictions within Canada (domestic) or other countries.

For example, large entities that operate in a number of domestic jurisdictions may refine the geographic locations factor to differentiate between urban locations having known higher crime rates in comparison to other urban or rural districts. Smaller entities that restrict their activities to a single geographic location or district may not need to make that distinction.

**7.1.2 Risk Register**

Based on the interviews, field research and information/documents reviewed during the course of this engagement, IPSA believes that the provincial oversight and licensing of casino service providers and casino employees through GPEB and BCLC is an appropriate strategy to mitigate the risk that, in a jurisdiction with significant organized criminal activity, organized crime will try to control one or more casinos.



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| AML Risk Register     |           |             |          |  |  |
|-----------------------|-----------|-------------|----------|--|--|
| AML/ATF Risk Category | High Risk | Medium Risk | Low Risk | Risk Controls Observations   | Recommendations  |
| Geographic Risks      |           |             |          | <ul style="list-style-type: none"><li>Risk mitigation strategy is appropriate to addressing the risk</li></ul> | <ul style="list-style-type: none"><li>No further action required at this time.</li></ul> |



## Section

## 8

**British Columbia Lottery Corporation****Casino Gaming AML/ATF Risk Assessment Update****8.0 Overall Conclusion and Recommendation**

The BCLC Casino Gaming AML/ATF Program has made significant progress over the past year to effectively implement an RBA.

Resources are now better focused on where they can have the most important risk management impact. Operational priorities, for example, are appropriately based on the risk-based identification of the highest risks and the risk-based development of strategies to mitigate them.

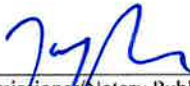
The highest level of priority has been on addressing BCLC casino gaming's greatest AML/ATF risks – those related to the use of cash – through the introduction of the Patron Gaming Fund Account (PGFA).

The second level of priority has been on implementing new controls or enhancing existing controls that would have the greatest impact across a range of high and medium risks. These initiatives include, but are not limited to, enhancing and expanding training, increasing the deployment of front-line investigators to casino sites and increasing ongoing monitoring.

The IPSA risk assessment in 2008 – and the current one – were conducted for the whole B.C. casino gaming sector. IPSA has noted that individual casinos have their own unique characteristics and often serve different kinds of patrons. Consideration may be given to undertaking, on a pilot project basis, risk assessments at individual casinos so that their particular risks are better identified. Such risk assessments would best be jointly undertaken by the BCLC Casino Gaming AML/ATF Program and the individual casino as a way to promote culture of compliance.



THIS IS **EXHIBIT "8"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.



A Commissioner/Notary Public for the  
Province of British Columbia.





**To:** Michael Graydon [Personal Information]  
**From:** Terry Towns  
**Sent:** Tue 2011-01-11 7:46:41 PM  
**Subject:** Fw: Compliance Action Plan - updated  
BCLC COMPLIANCE PROGRAM CONTINUOUS IMPROVEMENT ACTIONS January 11 2011 DRAFT 11 AM.docx

I have not gone over this in detail but it is a list of all the changes we have made. Maybe useful for your meeting today.

T

**From:** Cathy Anastasio  
**Sent:** Tuesday, January 11, 2011 11:20 AM  
**To:** Terry Towns; Gordon Friesen  
**Subject:** Compliance Action Plan - updated

Catherine M sent me the latest version. She has done a great job updating this doc. Take a look....

Cathy Anastasio  
 Compliance & Trend Analyst  
 Corporate Security & Compliance, BCLC

74 West Seymour Street, Kamloops, B.C. V2C 1E2

T [Personal Information]

[Personal Information]

BCLC 0013114

**From:** Catherine A. Matheson  
**Sent:** Tuesday, January 11, 2011 10:54 AM  
**To:** Cathy Anastasio  
**Subject:** RE: Value Chip Redemption

Thanks Cathy,

As requested, this has been done. Please find attached most recent version.

Regards,

Catherine

**From:** Cathy Anastasio  
**Sent:** January 11, 2011 10:11 AM  
**To:** Catherine A. Matheson  
**Subject:** FW: Value Chip Redemption

Catherine, can you please add this to the document you are working on.

Also to answer your voicemail questions, yes when simply a date is showing, it means that is when the new procedure or directive was implemented. Please let me know if you have any other questions.

Cathy Anastasio



Compliance & Trend Analyst  
Corporate Security & Compliance, BCLC

74 West Seymour Street, Kamloops, B.C. V2C 1E2

Personal Information

Personal Information

BCLC 0509

**From:** Terry Towns  
**Sent:** Monday, January 10, 2011 5:59 PM  
**To:** Cathy Anastasio  
**Subject:** FW: Value Chip Redemption

This should go on our list of changes for AML policies.

Terry

**From:** Lisa DaSilva  
**Sent:** January 10, 2011 11:31 AM  
**To:** Michael Graydon; Constance Ladell; Kevin Gass; Terry Towns; Darryl Schiewe  
**Cc:** Rod Bailey; Jerry Williamson; Will Parei; Jovica Perovic  
**Subject:** Value Chip Redemption

The attached was sent to all Casino Service Providers today.

Lisa DaSilva

Executive Assistant  
Casinos & Community Gaming, BCLC  
2940 Virtual Way, Vancouver BC V5M 0A6

Personal  
Information



## BCLC COMPLIANCE PROGRAM CONTINUOUS IMPROVEMENT ACTIONS



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| CATEGORY                               | BCLC ACTION   | STATUS                              |
|--|---|-------------------------------------|
| COMPLIANCE POLICY AND PROCEDURE REVIEW | <ul style="list-style-type: none"> <li>- BCLC is committed to semi-annual FINTRAC Policy and Procedure reviews for all gaming facilities in the province by Operational Gaming Auditing</li> </ul>  | Implemented with Ongoing Monitoring |
|  | <ul style="list-style-type: none"> <li>- Critical Policies and Procedures will be amended and modified to meet operational requirements as required</li> </ul>  | Implemented with Ongoing Monitoring |
|  | <ul style="list-style-type: none"> <li>- Dedicated BCLC policy analyst will provide FINTRAC Policy and Procedure updates as directed</li> </ul>   | Implemented with Ongoing Monitoring |
|  | <ul style="list-style-type: none"> <li>- All Policy and Procedure modifications are reviewed by both VP Corporate Security and Compliance and VP Gaming Operations prior to implementation</li> </ul>   | Implemented with Ongoing Monitoring |
|  | <ul style="list-style-type: none"> <li>- Any Policy and Procedure modifications will be distributed to Corporate Security investigators, Operational Gaming Auditing and Casino Operations to ensure that the appropriate steps are followed for implementation</li> </ul>  | Implemented with Ongoing Monitoring |
|  | <ul style="list-style-type: none"> <li>- Casino Security department has implemented the use of an Extranet site which houses all internal Anti-Money Laundering Compliance Policies and Procedures – including Cheque Issuance tracking and High Profile patron tracking – regularly updated by Compliance and Trend Analyst</li> </ul> | Completed October 2010              |
| ENHANCED REPORTING PROCEDURES          | <ul style="list-style-type: none"> <li>- BCLC has dedicated an IT resource to oversee the FINTRAC reporting system</li> </ul>   | Implemented with Ongoing Monitoring |
|  | <ul style="list-style-type: none"> <li>- BCLC has implemented a Quality Assurance process following industry best practice to ensure compliance with all FINTRAC legislative requirements</li> </ul>  | Implemented with Ongoing Monitoring |



CATEGORY

BCLC ACTION

STATUS

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- BCLC IT has provided new hardware to interface with FINTRAC and installed automatic monitoring and restart of services communicating with FINTRAC system  
Implemented with Ongoing Monitoring
- BCLC IT has created automatic notifications for consistent data transmissions.  
Implemented June 2010 with Ongoing Monitoring
- On a daily basis BCLC IT generates an e-mail to BCLC Investigators identifying number of reports processed, reports in error or waiting  
Implemented June 2010 with Ongoing Monitoring
- BCLC Corporate Security Investigators continue to monitor and review Large Cash Transaction Reports (LCTRs) for data completeness  
Implemented and Ongoing
- Clerical data transposition errors between the hardcopy, LCTR, Disbursement Report and electronic filing have been addressed by:
  - o BCLC Training (Web-based and Classroom modules) have been refreshed to identify this issue for all gaming staff in the province  
Implemented with Ongoing Monitoring
  - o Additional training scenarios have been designed within these new 'refreshed' training modules to capture and address this issue going forward  
Implemented with Ongoing Monitoring
  - o Operational Gaming Auditing conducts quarterly reviews of LCTRs and Disbursement Reports to match hardcopy to electronic filed copy  
Implemented with Ongoing Monitoring



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| CATEGORY                         | BCLC ACTION  | STATUS  |
|----------------------------------|--|---|
|                                  | Occupation Errors  |   |
|                                  | <ul style="list-style-type: none"><li>- Occupations categories are continuously reviewed through dedicated review and generated lists</li><li>- Compliance and Trend Analyst to conduct weekly reviews to ensure proper occupations being obtained</li><li>- Compliance and Trend Analyst together with Corporate Security Investigators will follow-up to ensure compliance</li><li>- Additional workshops to be held to address requirements surrounding ID, address and occupations</li><li>- BCLC has changed policy requirements (June 2010) that now require ID be requested when gaming patron reaches \$9000K level</li></ul>                                  | <ul style="list-style-type: none"><li>Implemented with Ongoing Monitoring</li><li>Implemented with Ongoing Monitoring</li><li>Implemented with Ongoing Monitoring</li><li>Implemented with Ongoing Monitoring</li><li>Implemented with Ongoing Monitoring</li></ul> |
| LARGE CASH TRANSACTION REPORTING | <ul style="list-style-type: none"><li>- BCLC has changed the policy requiring Large Cash Disbursements over \$10,000 be withheld by the Casino from the patron without proper ID</li><li>- Compliance and Trend Analyst conducts weekly reviews to ensure proper occupations being obtained</li><li>- Compliance and Trend Analyst together with Corporate Security Investigators monitors procedures to ensure compliance</li><li>- Additional workshops to be held to address requirements surrounding ID, address and occupations</li><li>- Operational Gaming Auditing conducts quarterly reviews of LCTRs and Disbursement Reports to match hardcopy to</li></ul> | <ul style="list-style-type: none"><li>Implemented with Ongoing Monitoring</li><li>Implemented with Ongoing Monitoring</li><li>Implemented with Ongoing Monitoring</li><li>Implemented with Ongoing Monitoring</li><li>Implemented with Ongoing Monitoring</li></ul> |



| CATEGORY   | BCLC ACTION   | STATUS   |
|--|---|--|
|  | electronic filed copy   |  |
| SUSPICIOUS TRANSACTION REPORTING                           | <ul style="list-style-type: none"><li>- Policy is to file a Suspicious Transaction Report for any transaction that involves buying in with a large amount of small denomination bills or buying in for \$3,000 or more and after minimal play, cashing out, any suspicious financial transaction of any amount of money that appears to be money laundering-related.</li></ul>                                | <p>The number of Suspicious Transaction Reports has increased by 45% to 311 reports in 2010 from 175 in 2009.</p>                                |
|  | <ul style="list-style-type: none"><li>- The policy is that cheques are not issued except for a verified slot win or a verified table win. All cheques are tracked to the specific employee who authorizes the verified win and to the table or slot machine where the win occurs.</li></ul>   | <p>Implemented August 2009 with Ongoing Monitoring</p>   |
| CHEQUE ISSUANCE AND VERIFIED WINS                          | <ul style="list-style-type: none"><li>- Cheque issuance is being reviewed by the Compliance Trend Analyst and BCLC Investigators monthly to ensure policy compliance</li><li>- Ongoing review with CSP site management to review incidents involving HR patrons.</li><li>- Corporate Security investigators continue to meet and assess incidents concerning HR patrons and issues surrounding same</li></ul> | <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented September, 2009 with Ongoing Monitoring</p> |
| IDENTIFICATION OF PATRONS WITH BUY INS OF \$10,000 OR MORE | <ul style="list-style-type: none"><li>- BCLC has changed policy requirements (June 2010) that now require ID be requested when gaming patron reaches \$9000K level</li><li>- BCLC has changed the policy so that Large Cash Disbursements over \$10,000 are withheld by the Casino from</li></ul>   | <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p>  |





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| CATEGORY              | BCLC ACTION  | STATUS  |
|-----------------------|--|---|
| VALUE CHIP REDEMPTION | the patron without proper ID   |   |
|                       | - Policy reflects that should the patron refuse to provide valid ID, gaming privileges will be refused until patron complies   | Implemented with Ongoing Monitoring                             |
|                       | - BCLC has redesigned training modules to reflect this policy notation and change  | Implemented with Ongoing Monitoring                             |
| TRAINING ENHANCEMENT  | - Casino chips issued from a casino facility may be redeemed only within that facility. Casino employees may not cash chips from other casinos.                                | Implemented January, 2011                                       |
|                       | - 98 % of required casino/CGC staff have received Anti-Money Laundering training.  | Completed, with Ongoing Annual Training and Training Refreshing |
|                       | - Policy is that all gaming staff (aside from food and beverage and maintenance staff) requires Anti-Money Laundering training, with annual refresher training.                | Implemented with Ongoing Monitoring                             |
| Online training       | - All training material (both on-line and classroom) updated to current Anti-Money Laundering standards and policies, including acceptable occupation and valid identification | Completed, with Monitoring Ongoing                              |
|                       | - Online Anti-Money Laundering (AML) training website launched.  | September 2009  |
|                       | - AML website houses all training information, both online and classroom sessions.   | Completed   |

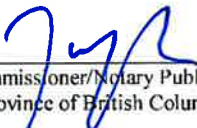
| CATEGORY                     | BCLC ACTION   | STATUS  |
|------------------------------|---|---|
| RISK ASSESSMENT <sup>†</sup> | <ul style="list-style-type: none"> <li>- BCLC has developed a new online Anti-Money Laundering training course.</li> </ul>  | Currently in pilot phase, ready for launch in February 2011 |
|                              | <b>Classroom training</b> <ul style="list-style-type: none"> <li>- BCLC has updated Anti-Money Laundering classroom training module</li> </ul>  | Completed   |
|                              | <ul style="list-style-type: none"> <li>- BCLC provided Anti-Money Laundering training sessions to Senior BCLC executives and the Board</li> </ul>   | Completed December 2010                                     |
|                              | <ul style="list-style-type: none"> <li>- BCLC has assigned Compliance and Trend Analyst to oversee all Anti-Money Laundering training applications and to monitor all Anti-Money Laundering training province wide</li> </ul>                   | Monitored on a monthly basis, ongoing                       |
|                              | <b>Special Measures for High Risk (HR) Gaming Locations</b> <ul style="list-style-type: none"> <li>- BCLC has identified all gaming facilities into four gaming categories (Northern, Interior, Vancouver Island and Lower Mainland)</li> </ul> | Completed March 2010  |
|                              | <ul style="list-style-type: none"> <li>- BCLC has generated a geographical assessment based on these four categories and the associated risks</li> </ul>  | Completed March 2010  |
|                              | <ul style="list-style-type: none"> <li>- Within these four categories, BCLC has identified various High Risk (HR) groups based on a financial profile</li> </ul>  | Completed March 2010  |
|                              | <b>Special Measures HR Patrons</b> <ul style="list-style-type: none"> <li>- BCLC has designed a Risk matrix to specifically identify HR patrons based on a number of critical categories</li> </ul>   | Implemented June 2010 with Ongoing Monitoring               |
|                              | <ul style="list-style-type: none"> <li>- Tracking of HR Patrons maintained by Compliance and Trend</li> </ul>   | Completed November  |

| CATEGORY | BCLC ACTION  | STATUS                              |
|----------|--|-------------------------------------|
|          | Analyst, data updated in ITRAK by Casino Investigators   | 2010                                |
|          | - Corporate Security using LPR technology to assist in tracking HR patrons attending gaming facilities             | Implemented with Ongoing Monitoring |
|          | - Corporate Security has defined criteria for investigators to categorize HR patrons through developed Risk Matrix | Implemented with Ongoing Monitoring |

<sup>i</sup> BCLC has these risk assessment measures in place to assist in identifying and reporting suspicious activities. However, further disclosure of specific information related to these measures cannot be provided as it could harm the effectiveness of investigative techniques and procedures used in law enforcement, with a resulting harm to the financial and economic interests of BCLC, casino service providers, and the Province.



THIS IS **EXHIBIT "9"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
\_\_\_\_\_  
A Commissioner/Notary Public for the  
Province of British Columbia.



NAVIGANT

Navigant Conseil LJ Inc.

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BRITISH COLUMBIA  
LOTTERY CORPORATION  
("BCLC")

Proceeds of Crime (Money  
Laundering) and Terrorist  
Financing Act (PCMLTFA)  
BCLC Compliance Regime Review

Montreal, Quebec, February 29, 2012

Privileged & Confidential

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**BRITISH COLUMBIA LOTTERY CORPORATION ("BCLC")**
**Proceeds of Crime (Money Laundering)  
and Terrorist Financing Act (PCMLTFA)  
BCLC Compliance Regime Review**

|                 |     |  |    |
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**APPENDIX**
**1 24 HOUR-RULE APPLICATION**




## 1.0 INTRODUCTION

### 1.1 Retainer of NCI

British Columbia Lottery Corporation (hereafter "BCLC") has retained our services in order to review its compliance regime including BCLC's e-gaming activities.

This report is about our observations and recommendations further to our review.

### 1.2 Scope of this Report & Restrictions of use

This report is not intended for general circulation or publication.

This report is based on our review of the documents available to date as described in Section 2.1 of this report. In the event that further documents or other 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.



**2.0 SCOPE OF REVIEW**

- Review every two years (review of BCLC's compliance policies and procedures, risk assessment and training program to test their effectiveness).
- Interviews with those handling transactions and with their supervisors to determine their knowledge of the legislative requirements and BCLC's policies and procedures.
- A review of the criteria and process for identifying and reporting suspicious transactions.
- A sampling of large cash transactions followed by a review of the reporting of such transactions.
- A sampling of casinos disbursements transactions followed by a review of the reporting of such transactions.
- A sampling of international electronic funds transfers (if those are reportable by the organization) followed by a review of the reporting of such transactions.
- Review Patron Gaming Funds ("PGF") Accounts and Reporting Procedures.
- A test of the record keeping system for compliance with the legislation.
- A test of the client identification procedures for compliance with the legislation.
- A review of the risk assessment.
- A review and analysis of training programs
- Testing training by conducting interviews
- Drafting recommendations, and
- Discussing and planning future considerations and direction.



**2.1 Information  
Relied Upon**

The observations and recommendations in this report are the results of our onsite review at River Rock Casino and Grand Villa Casino, our interviews with BCLC's AML staff and Service Providers' staff as well as our examination and/or analysis of related documentation including process, procedure, policy, training, functions, audit, assessment, risk management and other relevant reports.

**2.2 Methodology**

Our approach to determine our observations and recommendations was a review and analysis of BCLC's policies and procedures, risk assessment and training program, taking into consideration the PCMLTFA requirements, the Canadian Guidelines and the international guidance on these matters.

**2.3 Work performed**

We specify that this engagement included on-site reviews, testing of supporting transactional documentation and client data and interviews with BCLC and Service Providers' employees (Great Canadian Gaming Corporation and Gateway Casinos & Entertainment Limited).





**3.0 EXECUTIVE  
SUMMARY**

Our observations and recommendations are contained in the following pages. The analysis has been done for BCLC's policies and procedures, risk assessment and training program.

BCLC's AML compliance regime is very good. The organization implemented many significant changes over the last few years in order to better assess the level of compliance within its casinos. BCLC has put in place many controls that allow it to detect in a timely manner any compliance issue and to remedy it very quickly.

Furthermore, its risk assessment allows BCLC to focus its resources where most needed and to better monitor high risks situations in order to lower these risks to a level that is acceptable for the organization.

The training program is enhanced on an ongoing basis and it now ensures the organization that Service Provider employees are being trained prior to working on the gaming floor.

A few issues need to be addressed by the organization on the reporting side (over and under reporting, LCT definition) and this should be reflected as well in the ongoing training. Any identified issues should also be solved in order to allow the organization to be fully compliant with the Regulations.

BCLC dedicates a great deal of resources to its AML compliance regime and overall has a good structure in place that should help the organization prevent any major compliance issue in the future.

**3.1 Policies And  
Procedures**

British Columbia Lottery Corporation has good policies and procedures in place that all gaming locations have to adhere to. These allow the organization to be substantially compliant with all the legislative requirements. This report points out some main issues as well as some good practices BCLC has in place.



**Tax Evasion**

Although the policies and procedures in place are good, they do not mention that Tax Evasion is now a designated offence. Tax evasion became a "designated offence" on July 12, 2010. This means that, in the context of money laundering, it is just like drug trafficking, fraud and almost every other serious offence. As a consequence, laundering the proceeds of tax evasion is now a "money laundering offence", and suspicions of such laundering must now be reported to FINTRAC.

Concretely, this means that BCLC now has to report when it suspects that a transaction relates to laundering money received as a result of tax evasion. This is the same as reporting suspicions of laundering money received from selling drugs or from any another criminal activity.

**BCLC Response:**

BCLC agrees with Navigant's comments in this area. BCLC will be incorporating Tax Evasion as part of Service Provider AML training both for online and face-to-face sessions. BCLC will also create and add policy in relation to Tax Evasion to BCLC Casino Standards Policies and Procedures. The policy will outline Service Provider and BCLC responsibilities as it relates to this "designated offence" should they determine that a patron is committing this offence.

**LCT Definition**

One important matter to take into consideration is the fact that BCLC and its Service Providers use the wording "Large Cash Transaction" (LCT) in a much broader way than FINTRAC actually does. It is common for the casino industry to do so but this can mislead casino employees and management since the definition of a Large Cash Transaction does not include disbursements nor does it include foreign exchange transactions of \$3,000 and more. Furthermore, the reporting obligations could be misunderstood and Navigant's AML review has shown that BCLC is also involved in **over reporting**.



**BCLC Response:**

BCLC agrees with Navigant's comments in this area. BCLC will be updating Service Provider AML training and policy to distinguish the difference between Large Cash Transaction, Casino Disbursement Report and Foreign Exchange Transaction so that it mirrors FINTRAC guidelines definitions and wording.

**Over reporting**

Some transactions are filed with FINTRAC whereas they should not have been reported. A few reasons can explain why the organization is sending reports it shouldn't file, one of these being that BCLC's internal LCT definition differs from the LCT definition as set out in the Regulations. Another reason is linked to the first one and comes from the Patron Gaming Funds (PGF) accounts. These accounts require an initial deposit of \$10,000 or more by the patron. These deposits come from wire transfers, certified cheques or bank drafts. So they don't necessarily involve the deposit of cash. According to BCLC's policies, deposit of cash happens when a patron has cash from a verified win and wants to make an initial deposit (or a subsequent deposit) with it. Therefore, since a LCT is by definition a cash transaction, many of these deposits into PGF accounts should not be reported to FINTRAC as they are not amounts in cash received by the casinos.

Moreover, BCLC's casinos that offer PGF accounts file LCTs every time there is a large buy-in from the account holder of such accounts. In reality, the patron does not give cash when conducting a large buy-in through these accounts. A buy-in transfer slip is filled out by the Cage, then given to the floor manager or a guest services host and brought to the table where the patron intends to play. Upon reception of the transfer slip, the dealer gives chips to the patron. Once again, no cash is involved in this type of transaction and therefore no LCT should be filed. The only reportable transaction in that example **could** be a Casino Disbursement Report (CDR) since the patron withdraws \$10,000 or more from his PGF account. However, since Guideline 10A states that disbursements exclude any amounts that a casino pays out in casino chips, this transaction might not be reportable (Clarification from FINTRAC is required at this point). The only reason that this





type of transaction would be reportable is if FINTRAC considers that the buy-in transfer slip accompanying a PGF withdrawal is a Casino Disbursement, since it can be seen as a front money withdrawal.

It might appear acceptable to over-report out of an abundance of caution but this may lead FINTRAC to believe that amounts in cash circulating in BCLC's casinos are much higher than what they are in reality. Furthermore, the reality is that the legislation only allows FINTRAC to receive reports/information that is prescribed. Since it is not allowed to receive unnecessary reports, this government body may have privacy issues if it does receive these reports.

**BCLC Response:**

BCLC agrees with Navigant's comments that they may be over reporting to FINTRAC especially in the area of PGF accounts. BCLC does so out of an abundance of caution to ensure compliance with its Provincial regulator, the Gaming Policy Enforcement Branch, who sanctioned/approved the use of these accounts under very stringent guidelines.

**24 hour-rule**

The definition of the 24 hour-rule as per BCLC's policies and procedures may cause some confusion since it talks about a static 24 hour period which commences with the initial transaction. However, FINTRAC has accepted the gaming day as a means to track the transactions below \$10,000 for the purposes of the 24 hour-rule. Therefore, it is acceptable to track these transactions using the gaming day. This being said, BCLC has a system in place (i-track) that allows it to track the transactions that occur within a 24 hour period, whether they are conducted in a non-continuously running site or in a continuously running site. At this time, the i-trak system is programmed in a way that a large cash transaction report is filed to FINTRAC as soon as the \$10,000 threshold is reached. By doing so, further transactions that are below the \$10,000 threshold are left alone and not included in the LCT (unless the \$10,000 threshold is reached once again with subsequent transactions) even if they occur within the same 24 hour period. This leads to **under reporting** by BCLC. Please refer to Appendix 1 for further explanations.



*NB The above comments pertaining to the 24-hour rule also applies to the Casino Disbursements Reports.*

In summary, BCLC should review its policies and procedures, review its LCT definition and consider aligning it with the LCT definition contained in the Regulations in order to ensure its employees or Service Providers' employees understand the differences between a Large Cash Transaction and a Casino Disbursement Report.

The Policies and Procedures should explain that Large Cash Transactions involve cash transactions only whereas Casino Disbursements can be in cash, wire transfers, cheques or other methods.

BCLC Response:

Given the most recent release of the Department of Finance Consultation Paper entitled "Strengthening Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime", dated December 2011, BCLC at this time would like to defer this particular observation by Navigant until clarification of the 24-hour rule in the consultation paper prior to taking any definitive action in this area. The consultation paper is clearly intended to clarify the 24 hour rule for reporting entities.

E-Gaming

The organization has been told by the Department of Finance that online gaming is not subject to the definition of "casino" but BCLC chooses to comply with the Regulations on a voluntary basis.

One of the challenges the organization is facing is with regard to the client identification rules for non face-to-face relationships (for account opening, remit/transmit amounts of \$1,000 and more and CDR purposes). By definition, online gaming involves a non face-to-face relationship and the player's identity can only be confirmed by using an agent or a combination of methods as prescribed by the Regulations. Presently BCLC utilizes Equifax that assigns an individual to a unique identifier for that applicant. The applicant passes registration if the name, age and address are verified. The



player is then allowed to log on to PlayNow and participates in lottery and/or casino games. If the player participates in Casino games and has a reportable win, the player's bank account information is obtained, thus securing another of the methods of client identification.

If the player fails registration due to a name or address mismatch, Equifax utilizes a series of questions to verify the identity of the person. If there is an address mismatch, the player will be requested to send in verification of the address change and current address. The unique Equifax identifier is still utilized.

On the reporting side, it appears that BCLC has good processes in place to report both the Casino Disbursements Reports and the Suspicious Transactions Reports (STR).

**BCLC Response:**

BCLC has responded to a consultation invitation by the Department of Finance, proposing how online casino gaming can meet the FINTRAC non face-to-face criteria. BCLC has not yet received any feedback to this proposal and continues to voluntarily report Large Cash Transactions (LCT) and Suspicious Transactions Reports (STR) to FINTRAC.

**Good practices**

BCLC has put in place some good practices that are worth mentioning since it helps the organization ensure a high level of compliance. These good practices can also help in reducing the risks of being used by money launderers.

Asking new patrons to provide identification when they reach \$9,000 instead of waiting for LCT \$10,000 threshold prevents the organization from being in non compliance should a patron refuse to provide his identification and leave the premises.

Suspending the gaming privileges of a patron until valid identification is produced is an efficient way to prevent the organization from being non compliant. FINTRAC does not dictate that gaming privileges shall be suspended until valid identification is produced, but since





identification is required when a patron reaches the LCT status, it certainly is a **good practice** to suspend the patron's gaming privileges.

Requesting casino employees to provide specific information about **verified wins** in the "Special notes" area in a casino disbursement form (internally called a "LCTR") is a good control the organization put in place and it allows it to minimize the risks of having cheques issued for reasons other than a verified win.

The "Postpone or Delay Jackpot" allows BCLC to prevent non compliance, since a patron will not gain access to his jackpot until he provides the casino with sufficient identification. In addition, filing an incident report is a good way to track the history of transactions from patrons involved in such situations. This could lead to suspicious transactions reporting in the future.

The "Cash out splitting" policy prevents the organization from cashing out disbursements when a patron was lacking acceptable identification should this patron then try to use agents or should he try to cash out lesser amounts in order to avoid the identification requirement.

Provincial regulations prohibit the extension of credit to anyone and it is a good practice to do so.

Scanning the identification into the Media field of the Subject Profile in CRS is a good way to ensure the information is accurate and helps detecting when a piece of identification is expired or when it should be updated.

It is also a good practice to prohibit patrons from buying back the redeemed verified win cheques.

In cases where a 3<sup>rd</sup> party is involved, it is not mandatory to identify this 3<sup>rd</sup> party (unless the transaction is deemed to be suspicious), but identifying this individual is certainly a **good practice**.

**3.2 Risk  
Assessment**

Casinos in Canada should expect a much more detailed review of their risk assessment in future anti-money laundering (AML) compliance examinations conducted by FINTRAC, since this requirement has now been in effect for more than three years.

A good risk assessment will minimize or reduce potential threats and vulnerabilities to these crimes. It will also lower BCLC's reputational risk. Casinos have been on the spotlight a lot over the last few years, particularly in Canada, and since they are a cash-intensive business, they should expect regular monitoring from their regulators on this matter.

BCLC has developed a very detailed risk assessment that takes into account all mandatory criteria as per the Regulations. For this purpose, it created a group involving people from different departments within the organization. It also involved a gaming expert in order to better assess the risks related to the different gaming activities offered. Furthermore, all risks related to new gaming activities are being discussed and assessed prior to being offered to patrons, allowing the organization to implement new controls and mitigation measures as required.

It appears that BCLC's risk assessment is evolving constantly in order to reflect changes within the organization as well as gaming activities offered, including online gaming, and that appropriate controls have been put in place in order to focus resources where most needed. This allows BCLC to better monitor the high risk areas and reduce them to a level it considers acceptable.

Special attention is paid to VIP sections and high limits players. BCLC conducts a closer monitoring of these patrons since amounts of money spent by these individuals are much higher. Navigant's AML review interviews indicated that such monitoring is conducted in both River Rock and Grand Villa Casinos.



The AML review also showed that BCLC's risk assessment is certainly one of the most detailed and structured risk assessment by a reporting entity within the Canadian casino industry.

**PGF accounts**

Apart from enhancing the confidence of patrons and the overall gaming experience, one of the reasons that led to the creation of PGF accounts was to reduce the appeal of loan sharking and chip passing. Moreover, BCLC Casinos wishes to encourage its customers to only use these accounts for gambling purposes. In order to do so, BCLC created policies, procedures, and internal controls, to prevent customers from using such accounts to deposit and withdraw without gambling or minimal play. Therefore, this prevents an abuse of such accounts.

**Mitigation strategies**

Some examples of mitigation strategies put in place by BCLC are worth mentioning. These measures help in mitigating high risk areas to a level considered acceptable by the organization.

BCLC Casino investigators have identified high risk patrons for each location. Therefore, they are able to monitor these individuals more closely and to share intelligence among them. Furthermore, the organization is using a patron risk decision tree that allows it to better assess the risk level associated with patrons and to modified it as required.

BCLC has a policy in place to not allow clients to exchange 20's for 100's. Money launderers often use this technique (refining). Therefore, the same denomination bills as the ones used for the purchase of chips at table games are given back to patrons. BCLC should also ensure patrons are given small denomination bills when cashing out chips even if it cannot verify what denomination bills had been given by the patrons when they bought these chips. According to some interviews conducted at River Rock and Grand Villa Casinos, a patron will be given the denomination bills he wants when cashing out his/her chips.





**BCLC response:**

As part of Service Provider AML training employees are provided various money laundering scenarios. This assists them in the identification of suspicious finance transactions that they may encounter on the gaming floor and provides them the appropriate course of action that they should follow.

BCLC also has a policy to issue casinos cheques only for winnings. (Verified win policy). Otherwise, money launderers could easily launder money simply by buying big amounts of chips, engage in limited gaming activity and then redeem the chips and be reimbursed with a casino cheque.

BCLC monitors the issuance of cheques and finds out which clients were issued cheques most often. It also verifies if amount of cheques issued to these clients matches their wins. Moreover, BCLC tracks which gaming facility issued the highest number of casino cheques.

As mentioned earlier in this report, BCLC has a "Postpone or Delay Jackpot" policy in place that is an efficient way to prevent non compliance. This policy could also lead to further reporting of a STR. Guest refusal applies to CDRs or any other situation that triggers a client identification requirement. Therefore, if a guest refuses to provide any requested information, casino staff shall not complete the transaction.

**Suggested best practice**

Provide for program continuity despite changes at all levels of your organization, including management and employees. This has been an issue with many reporting entities in the past. Although the turnover rate of key AML personnel is apparently low, BCLC should be prepared for unexpected staff or management changes or even for an internal restructuring in order to both lower the risk of non compliance and the risk of being used for money laundering or terrorist financing purposes.

**Special measures**

BCLC has developed a policy to **keep client identification up to date** for high risk situations as well as for all other clients at least once every two years. This is a good practice that goes beyond the legislative requirement, since the Regulations mentioned that this requirement solely applies to high risks.

The organization has taken reasonable measures to conduct **ongoing monitoring** of financial transactions that pose high risks of money laundering. Appropriate risk assessment and ongoing monitoring allows BCLC to allocate resources where most needed and to file useful and improved STRs. These reasonable measures involve both manual and automated processes.

**3.3 Training**

*NB Comments made throughout the previous sections of this report should also be taken into account for training purposes, if applicable.*

BCLC has a good training program which is enhanced on an ongoing basis. It can now oversee all FINTRAC training province wide. It also has online training that can more easily be provided to all employees than classroom training, as it used to have in the past.

Navigant's AML review showed that, generally speaking, the knowledge of employees interviewed, both from BCLC's staff and Service Providers' staff, is good. However, it also pointed out that many casino employees do not know what a LCT is (they are unaware that it has to be a cash transaction). This leads them to believe that some non cash buy-ins are reportable.

Again, BCLC uses the term LCT for both the buy-ins and the cash-outs and it should consider using the Regulations wording in order to prevent some confusion. Not all buy-ins lead to a Large Cash Transaction report. Only **cash** buy-ins do. Therefore, the deposit of a certified cheque in a PGF account, for example, would not trigger LCT reporting obligations.

Under the actual business model, it appears that no EFT requirement (as per the Regulations' definition) is applicable, since all wire



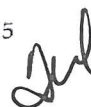
transfers or electronic funds transfers (as per BCLC definition of an EFT) go through a Canadian bank before being received in the Service Provider's own bank account. Therefore, these banks would have the onus to report EFTs to FINTRAC, as long as they have the name and address of the ultimate beneficiary (should there be some international EFTs).

It should also be added that BCLC's casinos need to keep records for every remitted or transmitted amount of 1,000\$ or more. With BCLC's actual business model, this mainly applies to PGF accounts transactions. Any such amount that is wired in or out (or transferred electronically) triggers this record keeping and client identification requirement.

BCLC has asked Service Provider staff to re-take the training every two years.

#### Recommendations

BCLC's obligation is to develop and maintain a written ongoing compliance training program for its Service Provider employees, agents or other persons authorized to act on its behalf as it pertains to AML compliance. The requirement is to have a written training program. This means that the training itself does not have to be in writing, but the training program should be in a written form. By training program, FINTRAC means the "game plan" for training purposes. Although BCLC has a written training program, it should detail it a little bit more. It already addresses the method of training (face-to-face, online) and mentions that new people should be trained prior to working on the gaming floor and dealing with clients. It should also specify when training will be provided. Furthermore, the Regulations say training should be ongoing. They do not state that training has to be given at least once every two years, but rather that the training program has to be reviewed at least once every two years. Therefore, training given to Casino staff should be ongoing and given more than once every two years. BCLC should make a decision in this regard as to how often training should be given.





Moreover, the training should include some comments on **Tax Evasion**, since it is a new designated offence that should be reported as far as money laundering is concerned.

BCLC Response:

BCLC has been and is committed to reviewing the FINTRAC training program given to CSP staff on a yearly basis. BCLC has taken the decision to deliver the training to all new staff prior to their commencement of work on the gaming floor. This is reflected in BCLC Policy. Subsequent training is required at a minimum within every two years thereafter. BCLC is committed to include the training for Tax Evasion offences as pointed out by NAVIGANT.

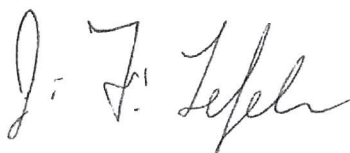
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NAVIGANT CONSEIL LJ INC.

[MONTRÉAL, QUÉBEC]



Paul Levine FCA, CA•IFA, CBV  
Managing Director



Jean-François Lefebvre, LL.B, BBA, D. Tax  
Associate Director



## 24 HOUR-RULE APPLICATION

In order to better illustrate the facts explained in the report (pertaining to under reporting), here are two examples:

- **Example #1** shows how BCLC applies the 24-hour rule.
- **Example #2** shows the application of the 24-hour rule according to FINTRAC Interpretation Notice #4 (FIN #4).

| Example 1 (as filed by BCLC)  | Example 2 (as per F.I.N. #4)   |
|---|--|
| 10 am: \$2,000 cash buy-in  | 10 am: \$2,000 cash buy-in   |
| 11 am: \$3,000 cash buy-in  | 11 am: \$3,000 cash buy-in   |
| 12 pm: \$4,000 cash buy-in  | 12 pm: \$4,000 cash buy-in   |
| 1 pm: \$2,000 cash buy-in<br>(LCT #1 filed for \$11,000)<br>(2K + 3K + 4K + 2K = \$11K) | 1 pm: \$2,000 cash buy-in<br>(LCT #1 filed for \$11,000)<br>(2K + 3K + 4K + 2K = \$11K)      |
| 2 pm: \$1,000 cash buy-in   | 2 pm: \$1,000 cash buy-in<br>(LCT #2 filed for \$10,000)<br>(3K + 4K + 2K + 1K = \$10K)      |
| 3 pm: \$2,000 cash buy-in   | 3 pm: \$2,000 cash buy-in  |
|   | 4 pm: \$2,000 cash buy-in<br>(LCT #3 filed for \$11,000)<br>(4K + 2K + 1K + 2K + 2K = \$11K) |

In **Example 1**, as per the actual i-track system, BCLC would report a LCT right after the \$2,000 buy-in at 1pm and therefore the following two buy-ins would not be included in any LCT. FINTRAC's guidance on the 24 hour-rule is detailed in FINTRAC Interpretation Notice #4. But the application of this rule, as per the explanations contained in that FIN, is very theoretical, cumbersome and challenging to comply with.

In **Example 2**, three different LCTs would be reportable as per FIN #4 (\$11,000 at 1pm, \$10,000 at 2pm and \$11,000 at 4pm). However, FINTRAC has agreed in the past to accommodate reporting entities and allowed them to report these transactions without having to start a new LCT (as shown in Example 2) every time a transaction below \$10,000 occurs.

This means that BCLC is entitled to report LCTs as shown in Example 1, but it should also include the buy-ins that occurred at 2pm and 3pm (\$1,000 & \$2,000) since the organization

Appendix 1

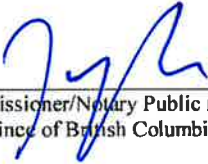
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This means that BCLC is entitled to report LCTs as shown in Example 1, but it should also include the buy-ins that occurred at 2pm and 3pm (\$1,000 & \$2,000) since the organization knows about these transactions (through i-trak). Therefore, the 24 hour-rule LCT in this case would have a total value of \$14,000 (11K + 1K + 2K).

It is worth noting that i-track would have caught these stand alone transactions (\$1,000 & \$2,000), should other transactions below \$10,000 have occurred later on within a 24 hour period and reached the LCT status again. Otherwise, these transactions would be forgotten and not reported to FINTRAC. The intent of the legislation behind this rule is to ensure that all transactions that total \$10,000 and more for which the organization is aware are filed with the government body so it can have the full picture of the amount of money that was spent by a patron within a casino location during a 24 hour period (or within multiple locations of the same organization/reporting entity).



THIS IS **EXHIBIT "10"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.



---

A Commissioner/Notary Public for the  
Province of British Columbia.





Financial Transactions and  
Reports Analysis Centre  
of Canada

Centre d'analyse des  
opérations et déclarations  
financières du Canada

1185 West Georgia Street, Suite 1120, Vancouver, British Columbia V6E 4E6  
1185, rue West Georgia, bureau 1120, Vancouver (Colombie-Britannique) V6E 4E6

January 29, 2010

Mr. Doug Morrison  
Manager, Security and Surveillance  
British Columbia Lottery Corporation  
10760 Shellbridge Way  
Richmond, British Columbia  
V6X 3H1

Dear Mr. Morrison,

**Subject: Compliance Examination Findings**

**Examination Date: November 30, 2009 – December 9, 2009**

**Period Examined: January 1, 2009 – October 15, 2009**

The purpose of this letter is to advise you of the results of our recent compliance examination to verify your compliance with the requirements under Part 1 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) and associated Regulations. This examination included on-site reviews from November 30, 2009 – December 9, 2009 of River Rock Resort and Casino, Grand Villa Casino, Starlight Casino, Great Canadian Casino – View Royal, Lake City Casino – Kelowna and Lake City Casino – Vernon.

We would like to express our appreciation for your cooperation with our compliance team during the examination process. However, as we advised you verbally on December 17, 2009, we have identified the following deficiencies that result in your organization being in non-compliance with Part 1 of the PCMLTFA at present:

**Deficiency #1: Compliance Regime - Special Measures for High Risk, Regulation s. 71.1**

Your organization has the obligation, in respect of the activities that pose high risk, to mitigate the risks identified, to take reasonable measures to keep information up to date and conduct ongoing monitoring for the purpose of detecting reportable transactions, as required by section 71.1 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Although the risk assessment document you provided to us identifies some areas of high risk, it provides no concrete mitigation measures and only speaks to potential or future enhancements to your policies and procedures, and/or client monitoring software. Moreover, in the December 4, 2009 head office interview, the compliance staff acknowledged that to date, no special measures to mitigate the identified high risk areas had been implemented.

Canada

*[Handwritten signature]*

BCLC0001533

*Doug's  
Geographical  
Breakdown*

**Deficiency #4: Reporting – Large Cash Transactions, Regulations 40(1)(a)**

Your organization has the obligation to report the receipt of an amount in cash of \$10,000 or more in the course of a single transaction, together with the information referred to in Schedule 1, as required by section 40 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Specifically, upon review of 1577 large cash transaction reports during the period of January 1, 2009 to October 15, 2009, we identified that 206 reports included incorrect transaction dates, and therefore were not submitted to FINTRAC in the prescribed form and manner.

| Location                           | FCIRs reviewed | FCIRs not in prescribed form and manner |
|------------------------------------|----------------|---|
| River Rock Resort and Casino       | 500            | 110                                     |
| Grand Villa Casino                 | 500            | 18                                      |
| Starlight Casino                   | 500            | 78                                      |
| Great Canadian Casino – View Royal | 74             | 0                                       |
| Lake City Casino – Kelowna         | 3              | 0                                       |

Moreover, upon review of 1577 large cash transaction reports during the period of January 1, 2009 to October 15, 2009, we identified 369 reports where the information on the occupation of the client lacked adequate detail, for example “self-employed” or “business owner.”

| Location                           | FCIRs reviewed | FCIRs lacking adequate details on occupation |
|------------------------------------|----------------|--|
| River Rock Resort and Casino       | 500            | 158  |
| Grand Villa Casino                 | 500            | 89   |
| Starlight Casino                   | 500            | 117  |
| Great Canadian Casino – View Royal | 74             | 5  |
| Lake City Casino – Kelowna         | 3              | 0  |

It should be noted that this deficiency was also cited during the last FINTRAC examination of BCLC conducted in October 2008.

**Deficiency #5: Reporting – Large Casino Disbursement: Reporting time line, Regulations 5(2)**

Your organization has the obligation to send to FINTRAC a large casino disbursement report within 15 days after the disbursement, as required by paragraph 5(2) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Specifically, upon review of 500 large casino disbursement reports during the period of September 28, 2009 to October 15, 2009, we identified that all 500 large casino disbursement reports sampled were reported in excess of the 15 day requirement.

I.D types driver licences  
Validation

NEW  
SOFTWARE  
introduced

Jul



**Deficiency #6: Reporting - Large Casino Disbursement: Redemption of chips/tokens/plaques, Regulations 42(1)(a)**

Your organization has the obligation to report the disbursement of \$10,000 or more in respect of the redemption of chips, tokens or plaques, together with the information set out in Schedule 8, as required by paragraph 42(1)(a) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Interview  
Software  
Issue

Specifically, upon review of 500 large casino disbursement reports during the period of September 28, 2009 to October 15, 2009, we identified that all 500 large casino disbursement reports sampled were not submitted to FINTRAC in the prescribed form and manner. As discussed, during the examination, your organization confirmed that these reports were being incorrectly submitted to FINTRAC as transactions taken place at the casino site in Williams Lake, rather than the correct casino sites across British Columbia.

Moreover, upon review of 500 large casino disbursement reports during the period of September 28, 2009 to October 15, 2009, we identified 72 reports where the information on the occupation of the client lacked adequate detail, for example "self-employed" or "business owner."

New provisions of the PCMLTFA and Regulations came into force on September 28, 2009. The following deficiencies are being cited under the provisions which were in force prior to September 28, 2009 and at the time the deficiency occurred.

**Deficiency #7: Record Keeping - Large Cash Disbursement Records: Redemption of chips, tokens or plaques, Regulations 42(1)(a)**

Your organization has the obligation to keep a large cash disbursement record in respect of the redemption of chips, tokens or plaques in cash of \$10,000 or more, as required by paragraph 42(1)(a) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Specifically, upon review of 2005 large cash disbursement records during the period of January 1, 2009 to September 27, 2009, we identified 155 records where the information on the occupation of the client lacked adequate detail, for example "self-employed" or "business owner."

| Location                           | FCMR reviewed | FCMRs lacking adequate detail on occupation |
|------------------------------------|---------------|---|
| River Rock Resort and Casino       | 500           | 34  |
| Grand Villa Casino                 | 500           | 59  |
| Starlight Casino                   | 500           | 58  |
| Great Canadian Casino - View Royal | 280           | 0   |
| Lake City Casino - Kelowna         | 125           | 1   |
| Lake City Casino - Vernon          | 100           | 3   |

It should be noted that this deficiency was also cited during the last FINTRAC examination of BCLC conducted in October 2008.

*Jul*

Consequently we request that you provide us with an action plan identifying what steps you have taken or will be taking, to rectify these compliance issues, in writing, no later than 30 days from the date of this letter. After that time, a FINTRAC Compliance Officer may conduct a follow-up examination to verify if the steps have assisted your organization in meeting its obligations under the PCMLTFA and its Regulations.

Please note that independent of other compliance actions, deficiencies such as those cited in this letter could lead to civil or criminal penalties.

We would like to thank you in advance for your assistance and cooperation. For more information about your legislative requirements, please refer to the PCMLTFA, its associated Regulations and FINTRAC's Guidelines at [www.fintrac-canaft.gc.ca](http://www.fintrac-canaft.gc.ca)

Yours Sincerely,

**Redacted -  
Relevance**

Regional Compliance Officer

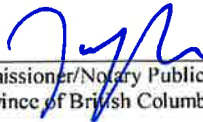
cc: Terry Towns  
Vice-President – Corporate Security & Surveillance  
British Columbia Lottery Corporation

cc: Michael Graydon  
President & CEO  
British Columbia Lottery Corporation

cc: Terri Van Sleuwen  
Executive Director – Audit and Compliance Division  
Gaming Policy and Enforcement Branch



THIS IS **EXHIBIT "11"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
\_\_\_\_\_  
A Commissioner/Notary Public for the  
Province of British Columbia.



February 24, 2010



BCLC  
10760 Shellbridge Way  
Richmond, BC V6X 3H1  
604.270.0649  
604.276.6424

Mr. Murray Dugger  
Regional Director  
Western Region  
FINTRAC  
1120-1185 West Georgia Street  
Vancouver, B.C  
V6E 4E6

Dear Mr. Dugger:

**Re: Compliance Examination Findings**

**Examination Date: November 30 – December 9, 2009**

**Period Examined: January 1 - October 15, 2009**

Further to your correspondence dated January 29, 2010 and the deficiencies identified by your investigative auditors; I will address each of these items separately in the body of this reply. BCLC wishes to thank both you and Mr. Robby Judge, FINTRAC Regional Compliance Officer, for your cooperation, comments and suggestions through this audit process.

**Deficiency #1: Compliance Regime – Special Measures for High Risk**

*Your organization has the obligation, in respect of the activities that pose high risk, to mitigate the risks identified, to take reasonable measures to keep information up to date and conduct ongoing monitoring for the purpose of detecting reportable transactions, as required by section 71.1 of the Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations (PCMLTFA).*

BCLC has had in place a number of measures to mitigate high risk activities, identify these risks and apply reasonable measures to document and monitor these high risk requirements that fall within section 71.1 PCMLTFA. These measures had been implemented well in advance of this compliance review. I believe BCLC is only missing from our risk assessment, the geographical locations aspect for our gaming locations throughout the province. I believe that in conversation with both you and Mr. Judge, I advised that this was an oversight on my part and that BCLC is currently in the process of addressing the geographical component and that this will be done shortly.

To provide an overview of BCLC Special 'High Risk' Measures, I propose to provide a synopsis of the various instruments that are currently employed to reduce these risks.



BCLC0001535

- a) As of July 2009 BCLC commenced generating, tracking and analyzing reports pertaining to all cheques issued at gaming facilities in the province. The purpose of this data collection and analysis is two fold.

A determination can be made if a gaming property is issuing more cheques than what is considered to be in the normal range. This leads to follow up with management staff at that particular site to ensure proper protocols are being followed in accordance to the verified win policy and cheque issuance.

BCLC has made policy changes to ensure that the verified win policy is enforced and that winnings at table play are verified by casino floor/management staff. Ultimately, the difference between a patron's buy-in and cash-out is the verified win. This of course is dependant upon verification again by floor/management staff signing off the patron's tracking sheet.

BCLC continues to monitor a patron's play and if a player is receiving a high volume of cheques, this is brought to the attention of the BCLC Casino Investigators. They review the entire circumstance including a tape review if necessary and then if required file a suspicious financial transaction report (SFTR) to FINTRAC if deemed necessary. We also note that if the patron has given an occupation description such as "housewife" or "unemployed" and yet are dealing with large sums of money, again that would be reviewed and if deemed suspicious, a SFTR would be submitted.

- b) BCLC Casino Investigators are dedicated to each gaming property through the province. These investigators are for the most part retired law enforcement officers or individuals that have years of experience within the gaming industry in BC. Thus, each gaming site's commitment to FINTRAC is being overseen by an experienced investigator that is trained in making FINTRAC presentations and trained in all segments of our commitment to FINTRAC reporting. Each investigator has the capacity to review all aspects of our FINTRAC reports generated by site personnel as well as making suggestions and/or changes to these reports prior to submission to FINTRAC. This includes all Large Cash Transaction reports (LCTR), Foreign Exchange reports (FER), Disbursement reports and all Suspicious Financial Transaction reports (SFTR). These same investigators oversee our reporting requirements within our ITrak province-wide internal reporting system. They also oversee and review each and every Player Gaming Fund Account to ensure FINTRAC reporting and compliance issues are identified and maintained. Basically, every investigator can review, investigate and report each and every high risk transaction. I think it important to note, that in certain 'high risk' locations, BCLC has gone as far as to increase the number of our investigators, thus providing enhanced focus on risk.
- c) On November 18, 2009 IPSA International completed a further review of BCLC Casino Gaming AML/ATF Program – Risk Assessment Update of which a copy was supplied to both FINTRAC and GPE. In their conclusions, IPSA makes mention that "BCLC AML/ATF program has made significant progress over the past year to effectively implement a Risk Based Assessment (RBA)". IPSA indicates that BCLC "resources are now better focused on where they can have the most important risk management impact. Operational priorities, for example, are appropriately based on the risk-based identification of the highest risks and the risk-based development of strategies to mitigate them."





- d) With these same Casino Investigators oversee all aspects of the FINTRAC submissions they are consistently conducting reviews, making determinations and taking reasonable steps to inform and keep agencies such as RCMP Integrated Proceeds of Crime (IPOC) unit, RCMP Gang and Integrated Intelligence unit, Canada Revenue Agency together with the Integrated Canadian Border Services and Intelligences aware of high risk individuals. Coupled with this direct flow of intelligence, each Casino investigator has routine meetings with law enforcement agencies throughout the province, thus ensuring an open dialogue is being maintained with these agencies on local and/or regional concerns.
- e) BCLC Casino Investigators are encouraged to share information amongst each other on any 'risk' patron within the gaming community so that records are updated and any/all associate intelligence is documented for all investigators to review and share.
- f) BCLC continues to meet on a quarterly basis with the Western Regional Director and Regional Compliance Officer - FINTRAC. On many of the meetings BCLC has brought forward issues or items that are being implemented and/or contemplated to ensure a smooth communication flow between BCLC and FINTRAC.

BCLC continues to meet with the Executive Director, Commercial Gaming Audit, Audit and Compliance Branch together with the Executive Director, Internal Compliance and Risk Management – Gaming Policy and Enforcement Branch thereby ensuring open communication on issues or concerns.

#### **ACTION PLAN:**

BCLC is continuing to develop a geographical locations risk matrix which will identify unique characteristics as required by FINTRAC. BCLC risk matrix and risk assessment for each of our individual properties and a general geographical overview for each property to deal with the risk will be undertaken. This action item will be completed and submitted by March 31, 2010.

**Deficiency #2: Ascertaining Identity – At time of Transaction Regulation 64(2) (b)**  
*Your organization has the obligation to ensure that the identity is ascertained at the time of the transactions, as required by paragraph 64(2) (b) of the PCMLTFA.*

*Specifically, after reviewing large cash transaction records and incident files at the six casino locations, we found 9 instances where the staff failed to ascertain the identity of the client when he or she accumulated buy-ins equal to or greater than \$10,000 within a 24 hour period.*

Without the specific LCT numbers, I cannot look at the specific instances where no identification was obtained from the patron on the LCT transaction. Thus, my response will be general in nature and not specific to the nine (9) incidents noted.

In speaking with FINTRAC Regional Compliance Officer, Mr. Robbie Judge he advised that for the Grand Villa and Starlight Casino sites where these issues ensued, Service Provider (SP) staff should have commenced an LCTR prior to reaching the threshold.





-4-

Now, should the patron refuse or not have identification then their gaming privileges should have stopped. However, it appears that these SP followed BCLC policy and our FINTRAC training direction. As such, the SP declined any further cage transactions until the patron returned with valid identification. An LCTR was created with the name left blank or partially filled in, waiting for the patron to return.

Because the patron did not return to the gaming site within the prescribed 15 day FINTRAC reporting period, these nine (9) LCTR incidents could not be resolved and filed to FINTRAC accordingly. For example, at Starlight Casino, ITrak Incident #20090023521 illustrates this point.

The patron of the buy-in reached the \$10,000.00 reporting threshold and when requested, this same patron refused to provide identification. Ultimately, this patron was refused all cash-out privileges, until he provided identification.

While BCLC believes this was appropriate action by the SP – FINTRAC identifies this issue as being a deficiency. Had the patron returned within the 15 day period and provided his/her valid government identification this would not have been a deficiency. In these nine (9) incidents, this was not the case, however.

BCLC training is consistent with FINTRAC legislation in that a patron who cannot produce identification when they reach the threshold are denied any further transactions until proper identification is produced. This issue will be brought forward to ensure proper training in this area is undertaken, in that identification must be requested prior to reaching the threshold level.

#### **ACTION PLAN:**

BCLC is currently designing further training materials to refresh our training programs. It should be noted that since 2007 – BCLC has trained 1858 Service Provider staff in 2008 and more recently 4646 Service Provider staff in 2009 – a 150% increase.

Specifically, our new training initiative will directly focus on this particular deficiency. It is anticipated, that this entire training refresh will be completed and in place on our BCLC training website by July 1, 2010.

#### **Deficiency #3: Reporting – LCT: Reporting time limit, Regs 5(2)**

*Your organization has the obligation to send a report, in respect of a transaction for which a large cash transaction record must be kept and retained, to FINTRAC within 15 days after the transaction, as required by subsection 5(2) of the PCMLTFA.*

*Specifically, upon review of the 1577 LCTR during the period of January 1st, to October 15<sup>th</sup> 2009, we identified 165 LCTR filed in excess of 15 day requirement.*

In order to properly respond to this reporting deficiency – BCLC believes that by providing a timeline of technical problems/issues may be the best method to illustrate BCLC commitment to FINTRAC reporting and meeting reporting timelines.



**Issue Timeline:**

1. 2009MAR10 – First batch of LCTR filed is rejected by FINTRAC software. Any Foreign Exchange that was combined with a Buy-in or Cash-out is rejected.
2. 2009MAR13 – FINTRAC software was not accepting any LCTR filed with multiple entries, i.e. approx. one half of LCTR filed were combined either a Buy-in or Cash-out.  
  
The other half, Buy-in with Foreign Exchange or Foreign Exchange with Cash-out. The rejection code was '995' indicated 'no indication that the 24 hour rule applies, therefore there should only be one transaction in the report'.  
  
FINTRAC Regional Compliance Officer Mr. Robby Judge advised another 30 LCTR were rejected under the '995' code. Mr. Judge advises that even though LCTR were filed on time they had been rejected and were now deemed late. FINTRAC software will no longer accept LCTR with multiple entries.
3. 2009MAR16 – Soren Fredrickson from iView Systems is notified and seeking a solution to these issues. BCLC IT FINTRAC assistant Ash Kosmadia is advised and updated and reviewing issues with iView Systems.
4. 2009MAR18 – Foreign Exchanges filed under the \$10,000 threshold rejected by FINTRAC. BCLC are now deleting all multiple transactions that were submitted and rejected and now BCLC is resubmitting single transactions only to FINTRAC.
5. 2009MAR31 – All Foreign Exchanges filed by BCLC under the \$10,000 threshold are batch rejected under FINTRAC Code '998' – 'Foreign Exchanges under the reportable threshold'.
6. 2009APR01 – Mr. Robby Judge advised that the BCLC module was not compatible with the FINTRAC module as the FINTRAC module had changed to a new reporting platform. BCLC Casino Investigators advised that we were unaware of any reporting changes. Mr. Judge advised it was on the FINTRAC website. Mr. Judge agreed to consult with Fredrickson from iView Systems in order to facilitate the instituting of a 'patch' by iView Systems to bridge the software gap. Mr. Judge delivers correspondence requesting BCLC develop a plan outlining the steps BCLC is taking to resolve these software issues. Plan developed, together with frequent telephone and email dialogue to rectify this software issue.
7. 2009APR 15 – Newly developed iView Systems software 'patch' is initiated into the system by BCLC IT and appears to resolve filing issues.
8. 2009APR21 – FINTRAC software is now rejecting all BCLC filed LCTR with buy-ins over \$10,000 combined with foreign exchanges over \$10,000.
9. 2009MAY05 – A newly developed software 'patch' implemented by iView Systems to resolve the APR21 software issue.
10. 2009MAY07 – Twenty-nine (29) LCTR remain outstanding but the software 'patch' implemented appears to be working and submitting data to FINTRAC.
11. 2009MAY14 – Another twenty-six (26) filed LCTR are batch rejected by FINTRAC software under the error Code '995' – There is no indication that the 24 hour rule applies, therefore there should only be one transaction in this report'.
12. 2009MAY15 – BCLC IT and iView Systems are advised the 'patch' has failed and were now back to deleting all foreign exchanges under the \$10,000 threshold and all cash outs. Only single buy-in transactions over the \$10,000 are filed.
13. 2009MAY16 – BCLC IT and iView Systems rectify software issues. BCLC is now able to capture all foreign exchange entries under the \$10,000 threshold and cash outs internally without further software submission issues.



BCLC did not experienced any further software problems/ issues of significance until after September 28, 2009 with the new software rollout capturing FINTRAC 'disbursements'. Therefore, it appears that 165 LCTR filed late can be directly attributed to issues that were software related. Although, initially filed and processed on time by BCLC they were subsequently rejected by FINTRAC software and became part of the reconciliation process between BCLC investigators, BCLC IT, iView Systems integration and FINTRAC IT which rendered these reports out of the 15 day FINTRAC reporting allowance.

**ACTION PLAN:**

BCLC Casino Investigators continue to monitor (on a daily basis) all of the various IT elements - BCLC IT, iView Systems and FINTRAC IT ensuring that all maintain an open communication port to review, discuss and rectify future operational reporting issues. At the time of writing this response, it appears that all reporting systems appear to be responding to each other and no issues remain.

**Deficiency #4: Reporting – Large Cash Transactions, Regs 40(1) (a)**

*Your organization has the obligation to report the receipt of an amount in cash of \$10,000 or more in the course of a single transaction, together with the information referred to in Schedule 1, as required by section 40 of the PCMLTFA.*

*Specifically, upon review of 1577 large cash transaction reports during this period of January 1, 2009 to October 15, 2009, we identified 206 reports included incorrect transaction dates and therefore were not submitted to FINTRAC in the prescribed form and manner.*

FINTRAC Audit identified 206 LCTs report out of a total of 1577 filed that contained incorrect transaction dates. These comparisons would have been between the electronic copy and the hard copy of the report retained on site by the Service Provider. Upon comparison it appears they identified discrepancies between the two. This is obviously a human error issue in transposing data from one form to another. In our LCT training we emphasize the issue of accuracy when preparing and uploading reports into the electronic system.

**ACTION PLAN:**

In order to address this 'human error' issue of transposing wrong date information - BCLC has three proposals to address this:

First, the current BCLC web-based FINTRAC training program is going to be updated and revised. Specifically, BCLC will include updated information that will provide greater emphasis on teaching service provider staff that they must be more diligent in transposing data.

Additionally, BCLC will design additional scenarios to help SP capture and transpose specific transaction information and dates.

Finally, BCLC Casino investigators will continue to communicate with casino cash staff to ensure that data is transposed correctly.

**Deficiency #5: - Large Casino Disbursement: Reporting time line, Regulations 5(2)**

*Your organization has the obligation to send to FINTRAC a large casino disbursement report within 15 days after the disbursement, as required by paragraph 5(2) of the PCMLTFA.*





-7-

*Specifically, upon review of 500 large cash disbursement reports during the period of September 28, 2009 to October 15, 2009 we identified that all 500 large casino disbursement reports sampled were reported in excess of the 15 day requirement.*

In order to meet the new disbursement reporting conditions, BCLC needed new software that captured FINTRAC previous reporting requirements coupled with obligations in relation to casino disbursements. Although, the software was tested and introduced on time and given submission approval by FINTRAC, BCLC in conjunction with iView Systems encountered two (2) software difficulties.

This first issue dealt with the "type of identification" field in the electronic FINTRAC reporting module. FINTRAC's own software rejected BCLC electronic casino disbursement submissions as it could not recognize certain "schema" related to the identification field in the BCLC's electronic reporting software. Simply put, the buy in documentation and the disbursement documentation of the FINTRAC documentation provided two different ways of spelling license (licence). iView Systems and BCLC did not realize this fact – until all BCLC submissions were continually being rejected by FINTRAC. Once the issue was identified, several IT software patches were needed to be created by iView Systems together with BCLC IT before the issue was totally addressed.

The second issue concerning late filings to FINTRAC was identified by FINTRAC. Ultimately, what occurred was that all BCLC disbursement reports were being filed incorrectly from a single location in the province - Signal Point CGC, Williams Lake, BC; rather than from the correct submitting gaming facility. The root cause was that when the casino disbursement reporting software was created by iView Systems, the software developer neglected to take into account the need to ensure that all casino disbursements submitted were in fact being attached to the proper Casino facility throughout the province. Unfortunately, the software installed locked in on Signal Point Community Gaming Center and gave the false impression that all casino disbursements were being reported from this single location. Since this was an obvious software glitch, neither BCLC nor the Casino Service Providers were aware of this reporting malfunction. Once the issue was identified by FINTRAC auditors, further software reconfigurations were required to meet our FINTRAC reporting conditions.

#### **ACTION PLAN:**

BCLC casino investigators continues to keep an open communication link with iView Systems and our BCLC IT staff to ensure that any FINTRAC error code issues that surface are reviewed and addressed quickly. Together with this aspect, BCLC IT continues to develop a communication link with FINTRAC IT technical services, attempting to foster a much more cooperative approach and relationship to better resolve issues.

#### **Deficiency #6: Reporting – Large Casino Disbursement: Redemption of chips, tokens/plaques, Regulations 42(1) (a)**

*Your organization has the obligation to report the disbursement of \$10,000 or more in respect of the redemption of chips. Tokens or plaques, together with information set out in Schedule 8, as required by paragraph 42(1) (a) of the PCMLTF Regulations.*



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*Specifically, upon review of 500 large casino disbursement reports during the period of September 28, 2009 to October 15, 2009, we identified that all 500 large casino disbursement reports sampled were not submitted to FINTRAC in the prescribed form and manner. As discussed, during the examination, your organization confirmed that these reports were being incorrectly submitted to FINTRAC as transactions taken place at the casino site in Williams Lake, rather than the correct casino sites across British Columbia.*

*Moreover, upon review of the 500 large casino disbursement reports during the period of September 28, 2009 to October 15, 2009, we identified 72 reports where the information on the occupation of the client lacked adequate detail, for example "self-employed" or business owner".*

*New provisions of the PCMLTFA and Regulations came into force on September 28, 2009. The following deficiencies are being cited under the provisions which were in force prior to September 28, 2009 and at the time the deficiency occurred.*

BCLC electronic reports were not submitted to FINTRAC in the prescribed form and manner i.e.: these reports were being incorrectly submitted to FINTRAC as transactions taken place at the community gaming center (CGC) facility in Williams Lake rather than the correct casino sites across British Columbia. This was identified as an iView Systems software issue. When the casino disbursement reporting software was created the software developer neglected to take into account the need to ensure that casino disbursements submitted were in fact being attached to the proper Casino site. In essence the software locked in on Signal Point Casino and gave the wrong impression that all casino disbursements were being reported from this location. Neither BCLC nor the Casino Service Providers would have known this was taking place until it was identified and brought to their attention by FINTRAC. This matter has since been rectified as a result of an IT software patch created by iView Systems and subsequently installed by BCLC IT.

To address the issue of vague occupations being accepted by casino staff, BCLC has two proposals to address this:

First, the current on-line FINTRAC training is going to be updated and revised. Specifically it will include updated information and scenarios to attempt to teach service provider staff that they must ask for more specific occupations from patrons. Second, as of January 2010, a weekly report is generated from our iTrak reporting system which lists all the LCTs transactions in which these specific occupations were used – "businessman", "unemployed", "self employed" and "housewife". If a particular casino or CGC property is generating any LCTs with these types of occupations entered, BCLC can follow up with the site staff to address and rectify these issues.

**ACTION PLAN:**

BCLC continues to define this aspect in our training programs and will continue to stress occupation in our new training modules currently being developed and refined. BCLC is endeavoring to limit this deficiency, however even with these mitigation processes in place, the issue of identifying occupation is limited by service provider staff. If a patron refuses to divulge further information, the only recourse that the service provider has is to record the comments made by the patron. While all attempts are being made to reduce this error rate it will always be difficult to achieve total compliance on this issue.





-9-

Finally, BCLC casino investigators continue to keep an open communication link with iView Systems and our BCLC IT staff to ensure that any FINTRAC error code issues that surface are reviewed and addressed quickly. Together with this aspect, BCLC IT continues to develop a communication link with FINTRAC IT technical services in an attempt to foster a cooperative relationship.

**Deficiency #7: Record Keeping – Large Cash Disbursement Records: Redemption of chips, tokens or plaques, Regulations 42(1) (a)**

*Your organization has the obligation to keep a large cash disbursement record in respect of the redemption of chips, tokens or plaques in cash of \$10,000 or more, as required by paragraph 42(1) (a) of the PCMLTF Regulations.*

*Specifically, upon review of 2005 large cash disbursement records during the period of January 1, 2009 to September 27, 2009, we identified 155 records where the information on the occupation of the client lacked adequate detail, for example "self-employed" or "business owner".*

In order to address the issue of vague occupations being accepted by casino staff, BCLC has two proposals to address this. First, the current on-line FINTRAC training is going to be updated and revised. Specifically it will include updated information and perhaps a few scenarios to attempt to teach service provider staff that they must ask for more specific occupations from patrons filing LCTs.

Secondly, as of January 2010, a weekly report is generated from our iTrak system which lists all the LCTs transactions in which these specific occupations were used – "businessman", "unemployed", "self employed" and "housewife". If a particular casino or CGC property is generating any LCTs with these occupations entered, again we can follow up with the site staff to address these concerns.

Even with these mitigation processes in place, the issue of identifying occupation is limited by service provider staff.

**ACTION PLAN:**

Ultimately, this is a training and delivery issue. BCLC continues to define this aspect in our training programs and will continue to stress occupation in our new training modules currently being developed.

**CONCLUSION:**

In reviewing 2009, many of the issues identified during this audit and now contained within this audit report can be addressed through enhancing our BCLC training program through 'key message deliverables'. BCLC Casino Security has already commenced in addressing our training and will impart these key messages through enhanced scenarios-type presentations and some enhanced training program changes. It is anticipated that this training initiative will be completed by early June 2010 and will subsequently be moved to the BCLC training site – learn@bclc.com in early July 2010. This will streamline all of our FINTRAC training moving forward.

BCLC has made tremendous strides in getting the message out concerning FINTRAC reporting and training to all gaming facilities in the province. Currently, for the year 2009, BCLC has been able to get our various training initiatives to capture 90 % of gaming staff province wide. This figure represents a 150% increase in trained staff over our 2008 training. In 2010, BCLC is hoping to capture and train all remaining staff.



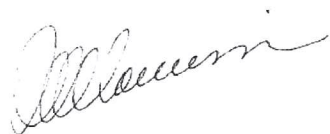


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Finally, BCLC has been faced with a number of software issues in relation to FINTRAC moving onto an XML Schema language platform in early February/March 2009. This, together with some very specific software issues, created reporting problems and problems in even identifying FINTRAC error codes so that the issue could be resolved. Even with the roll-out of BCLC new disbursement module and updated software program on September 28, 2009, much of these latest software glitches needed the combined IT expertise from iView Systems, BCLC IT and FINTRAC technical IT to dissect and resolve.

While it now appears that all of these IT issues have been resolved, BCLC Casino Investigations continue to monitor/review all electronic submissions made; to ensure we continue to meet our compliance obligations.

Sincerely,



D.D. Morrison MB, MBA, MA, BA, CPP  
Manager, Casino Security and Surveillance

cc Terri Van Sleuwen  
Executive Director – Audit and Compliance Division  
Gaming Policy & Enforcement Branch

Michael Graydon  
President and CEO, BCLC


Terry Towns  
Vice President, Corporate Security & Compliance, BCLC



THIS IS **EXHIBIT "12"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 12 DAY OF JANUARY, 2021.

  
A Commissioner Notary Public for the  
Province of British Columbia.



 Financial Transactions and  
Reports Analysis  
Centre of Canada  
Ottawa, Canada K1P 1H7

Centre d'analyse des  
opérations et déclarations  
financières du Canada

PROTECTED A

June 15, 2010

Mr. Michael Graydon  
President and CEO  
British Columbia Lottery Corporation  
10760 Shellbridge Way  
Richmond, BC  
V6X 3H1

Subject: Follow-up to Compliance Examination Findings  
Examination Date (on-site): November 30 – December 9, 2009  
Period Examined: January 1, 2009 – October 15, 2009

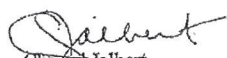
Dear Mr. Graydon,

This letter is further to the meeting held on March 16, 2010, between the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) Western Regional Office and the British Columbia Lottery Corporation (BCLC), where the details of the above-mentioned FINTRAC examination results, as cited in the Findings Letter dated January 29, 2010, were discussed.

FINTRAC advised you that deficiencies such as those cited in the Findings Letter could lead to civil penalties. Enclosed, you will find a Notice of Violation, resulting from this examination that was conducted starting in November 2009 and concluded in March 2010.

Please do not hesitate to contact Mr. Murray Dugger, Regional Director, Western Region at (604) 666-8245 should you have any questions.

Sincerely,

  
Chantal Jalbert  
Assistant Director  
Regional Operations and Compliance

Encl.

...12

Canada



BCLC0015662



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c.c.: Terry Towns, Vice-President – Corporate Security & Surveillance, BCLC  
Doug Morrison, Manager, Security and Surveillance, BCLC

Terri Van Sleuwen, Executive Director, Audit and Compliance Division, GPEB

Murray Dugger, Regional Director, Western Region, FINTRAC

Michael Donovan, Manager, Compliance Enforcement Unit, FINTRAC

A handwritten signature in black ink, appearing to be 'JML' or similar, located in the bottom right corner of the page.



Financial Transactions and  
Reports Analysis Centre  
of Canada

Centre d'analyse des opérations  
et déclarations financières  
du Canada

# NOTICE OF VIOLATION / AVIS DE PROCÈS-VERBAL

Date: June 15, 2010

|   |   |   |
|---|---|---|
| Entity Name / Nom de l'entité<br>British Columbia Lottery Corporation | RE No / No d'ED<br>[REDACTED]               | AMPs File Number / No du dossier PAP<br>AMP1011-00001 |
| Operating as / Faisant affaires sous le nom<br>BCLC                   | Address / Adresse<br>74 West Seymour Street |   |
|   | City / Ville<br>Kamloops                    |   |
|   | Province<br>British Columbia                | Postal Code / Code postal<br>V2C 1E2                  |

Pursuant to section 73.13 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, FINTRAC has determined that the above named person or entity committed the violation(s) so noted in the attached "List of Violations". FINTRAC thereby imposes the following administrative monetary penalty:

Conformément à l'article 73.13 de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes* (la Loi), CANAFE a établi que la personne ou l'entité susmentionnée a commis les violations notées à la liste de « procès-verbal ». Par conséquent, CANAFE impose la pénalité administrative pécuniaire suivante :

|   |               |  |
|---|---------------|--|
| Total Monetary Penalty<br>Pénalité administrative pécuniaire totale<br>Amount payable in Canadian funds<br>Montant à payer en dollars canadiens | \$ 695,750.00 | Due Date<br>Date d'échéance<br>2010-07-15<br>(YYYY-MM-DD / AAAA-MM-JJ) |
|---|---------------|--|

The above-named person or entity has the right to make representations regarding the violation and the penalty to the Director of FINTRAC on or before the above noted "Due Date". For instructions on making representations to the Director, please refer to the details as described on the back of this notice.

La personne ou l'entité susmentionnée a le droit de présenter des observations concernant la violation et la pénalité imposée à la directrice de CANAFE d'ici la « date d'échéance » ci-haut mentionnée. Pour des directives concernant la façon de procéder pour présenter des observations à la directrice, veuillez consulter les détails au verso de cet avis.

More information about the administrative monetary penalties regime can be found at: <http://www.fintrac.gc.ca/re-ed/fin-eng.asp>. For more information about this notice of violation, you may contact FINTRAC toll free at 1-866-346-8722.

Pour de plus amples renseignements concernant le régime des pénalités administratives pécuniaires, veuillez consulter le site <http://www.canafe-fintrac.gc.ca/re-ed/fin-fra.asp>. Pour plus d'information sur cet avis de procès-verbal, communiquez avec CANAFE sans frais au 1-866-346-8722.

JUN 15 2010

Assistant Director, Regional Operations and Compliance, FINTRAC  
Directeur adjoint, Opérations régionales et conformité, CANAFE

Date

See payment instructions on reverse of this Notice / Voir les instructions sur les paiements au verso de cet avis de procès-verbal



Financial Transactions and  
Reports Analysis Centre  
of Canada

Centre d'analyse des opérations  
et déclarations financières  
du Canada

## PAYMENT / PAIEMENT

|   |  |   |
|---|--|---|
| Name / Entity Name<br>Nom / Nom de l'entité<br>British Columbia Lottery Corporation | RE No / No d'ED<br>[REDACTED]  | AMPs File Number / No du dossier PAP<br>AMP1011-00001 |
| Amount Paid (Cdn\$)<br>Montant payé (\$CA)<br>\$ 695,750.00                         | FINTRAC / CANAFE<br>Finance Unit / Unité des finances<br>24 <sup>th</sup> floor, 234 Laurier Ave. W. / 234, av. Laurier Ouest, 24 <sup>e</sup> étage<br>Ottawa, ON K1P 1H7                                       |   |
| Due Date / Date d'échéance<br>2010-07-15<br>(YYYY-MM-DD / AAAA-MM-JJ)               | Please remit certified cheque, money order or bank draft made payable to the Receiver General for Canada.<br>Veuillez émettre le chèque, le mandat ou la traite bancaire à l'ordre du Receveur général du Canada |   |

*gud*

**NOTICE OF VIOLATION / AVIS DE PROCÈS-VERBAL**  
**Payment Instructions / Instructions de paiement**

**PAYMENT INSTRUCTIONS**

Acceptance of the violation and penalty requires payment by the "Due Date" indicated on the front of this Notice.

To effect payment, the named person or entity must fill out the attached remittance form and include payment by certified cheque, money order or draft note in the amount indicated on page one, payable to the Receiver General for Canada, and send it to the address indicated on the remittance form.

In remitting payment to FINTRAC, the named person or entity forgoes the right to appeal and to make representations to FINTRAC.

The right to make representations to the Director of FINTRAC with respect to this notice of violation must be made within 30 days after the day on which the Notice is received. If making a representation to FINTRAC, do not make payment.

Representations must be made in writing by July 15, 2010 and sent to the address below. An explanation, and any additional supporting information, should accompany the written request. In correspondence with FINTRAC, please quote the AMP File number.

Send representations to:

**FINTRAC**  
 Attention: Review and Appeals Unit Ottawa,  
 24<sup>th</sup> floor, 234 Laurier Ave. West  
 ON K1P 1H7  
 Fax: 613-943-7931

**NOTE** - If payment of the penalty or a request for a review in accordance with the Notice is not made by the "Due Date" indicated on the front of this Notice, the violation(s) will be deemed to have been committed and payment of the full amount of the penalty must be made. Unpaid penalties and interest due constitute a debt to the Crown that may be recovered as such in the Federal Court of Canada. Interest is calculated at the prescribed rate pursuant to section 9 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Administrative Monetary Penalties Regulations*, for the period beginning on the first day after the day on which the amount was required to be paid and ending on the day on which the amount is paid.

**INSTRUCTIONS DE PAIEMENT**

Si la personne ou l'entité accepte la violation et la pénalité imposée, elle doit effectuer le paiement d'ici la « date d'échéance » indiquée sur la première page de cet avis.

Pour effectuer un paiement, la personne ou l'entité doit remplir le formulaire ci-inclus et l'accompagner d'un chèque certifié, d'un mandat ou d'une traite bancaire au montant indiqué à la première page et à l'ordre du Receveur général du Canada. Elle doit ensuite faire parvenir le tout à l'adresse indiquée sur le formulaire.

En remettant le paiement à CANAFE, la personne ou l'entité désignée se désiste de son droit de présenter des observations à CANAFE et de son droit d'appel.

Toute personne ou entité souhaitant présenter des observations à la directrice de CANAFE en vertu du présent avis de violation, doit le faire dans les 30 jours suivant la réception du présent avis. Le cas échéant, ne pas envoyer de paiement.

Les observations doivent être présentées par écrit d'ici le 15 juillet 2010 et envoyées à l'adresse inscrite ci-dessous. La demande écrite doit être accompagnée d'une explication et de tout autre fait à l'appui. La lettre à CANAFE doit comprendre le numéro du dossier de la PAP.

Veuillez faire parvenir le tout à :

**CANAFE**  
 À l'attention de l'Unité de révision et des appels  
 234, av. Laurier Ouest, 24<sup>e</sup> étage  
 Ottawa (Ontario) K1P 1H7  
 Télécopieur : 613-943-7931.

**REMARQUE** - À défaut de recevoir le montant de la pénalité ou, le cas échéant, les observations d'ici la « date d'échéance », les violations seront réputées avoir été commises et le montant complet de la pénalité devra être payé. Les pénalités et les intérêts courus constituent une créance du gouvernement du Canada, dont le recouvrement peut être poursuivi à ce titre devant la Cour fédérale du Canada. Les intérêts sont calculés conformément à l'article 9 du *Règlement sur les sanctions administratives pécuniaires-recyclage des produits de la criminalité et financement des activités terroristes*, pour la période commençant le lendemain de la date d'échéance et se terminant le jour du paiement.

*guel*



**NOTICE OF VIOLATION / AVIS DE PROCÈS-VERBAL**  
**List of Violations / Liste des violations**

Pursuant to section 73.13 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, FINTRAC has determined that British Columbia Lottery Corporation, operating as BCLC was a casino as defined in the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*, at the after mentioned date(s) and committed the following violations:

Conformément à l'article 73.13 de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes*, CANAFE a établi que British Columbia Lottery Corporation faisant affaires sous le nom de BCLC était un casino, au sens du Règlement sur le recyclage des produits de la criminalité et le financement des activités terroristes, à la date /aux dates ci-après mentionnée(s) et a commis les violations suivantes:

1. Failure of a prescribed person or entity, in respect of the activities that pose high risks, to take prescribed special measures, that occurred on December 4, 2009, which is contrary to subsection 9.6(3) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and section 71.1 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Fait, pour toute personne ou entité visée, à l'égard des activités qui présentent un risque élevé, de ne pas prendre les mesures spéciales visées, et ce le 4 décembre 2009, en contravention au paragraphe 9.6(3) de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes* et de l'article 71.1 du Règlement sur le recyclage des produits de la criminalité et le financement des activités terroristes.

2. Failure of a specified person or entity to ascertain in the prescribed manner and within the prescribed period the identity of every individual with whom the person or entity conducts a transaction in respect of which a record must be kept, that occurred on 8 separate occasions during the period of April 9, 2009 to October 2, 2009, which is contrary to section 6.1 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, section 53 and paragraph 64(2)(b) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Fait, pour toute personne ou entité visée, de ne pas vérifier, de la manière et dans le délai réglementaires, l'identité de tout individu qui effectue avec elle une opération pour laquelle un relevé est exigé, et ce à 8 reprises au cours de la période du 8 avril 2009 au 2 octobre 2009, en contravention à l'article 6.1 de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes*, de l'article 53 et à l'alinéa 64(2)(b) du Règlement sur le recyclage des produits de la criminalité et le financement des activités terroristes.

3. Failure to report a large casino disbursement or a transaction for which a large cash transaction record must be kept and retained within 15 days after the disbursement or transaction, that occurred on 165 separate occasions during the period of February 6, 2009 to July 20, 2009 for large cash transactions and on 419 separate occasions during the period of October 28, 2009 to November 19, 2009 for large casino disbursements, which is contrary to subsection 9(1) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and subsection 5(2) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Ne pas faire une déclaration relative à un déboursement de casino important ou à une opération pour laquelle un relevé d'opération importante en espèces doit être tenu et conservé, dans les quinze jours suivant le déboursement ou l'opération, et ce, à 165 reprises au cours de la période du 6 février 2009 au 20 juillet 2009 concernant les opérations importantes en espèces et à 419 reprises au cours de la période du 28 octobre 2009 au 19 novembre 2009 concernant les déboursements de casino importants, en contravention au paragraphe 9(1) de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes* et au paragraphe 5(2) du Règlement sur le recyclage des produits de la criminalité et le financement des activités terroristes.

4. Failure of a casino to report the receipt of an amount in cash of \$10,000 or more in the course of a single transaction, together with the prescribed information, that occurred on 366 separate occasions during the period of February 6, 2009 to September 19, 2009, which is contrary to subsection 9(1) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, paragraph 40(1)(a) and Schedule 1 Part D10 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Fait, pour tout casino qui reçoit une somme en espèces de 10 000 \$ ou plus au cours d'une seule opération, de ne pas déclarer cette opération et de ne pas joindre à la déclaration les renseignements prévus, et ce à 366 reprises au cours de la période du 6 février 2009 au 19 septembre 2009, en contravention au paragraphe 9(1) de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes*, à l'alinéa 40(1)(a) et à l'Annexe 1 partie D10 du Règlement sur le recyclage des produits de la criminalité et le financement des activités terroristes.

5. Failure of a casino to report the disbursement of \$10,000 or more in the course of prescribed transactions, together with the prescribed information, that occurred on 72 separate occasions during the period of October 28, 2009 to November 19, 2009, which is contrary to subsection 9(1) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, paragraph 42(1)(a) and Schedule 8 Part D10 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*, as it reads since September 28, 2009.

Fait, pour tout casino, de ne pas déclarer les opérations réglementaires au cours desquelles une somme de 10 000 \$ ou plus est déboursée et de ne pas joindre à la déclaration les renseignements réglementaires, et ce à 72 reprises au cours de la période du 28 octobre 2009 au 19 novembre 2009, en contravention au paragraphe 9(1) de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes*, à l'alinéa 42(1)(a) et à l'Annexe 8 partie D10 du Règlement sur le recyclage des produits de la criminalité et le financement des activités terroristes, tel que rédigé depuis le 28 septembre 2009.



8. Failure of a casino to keep a large cash disbursement record in respect of prescribed transactions in the course of which the total amount of cash disbursed is \$10,000 or more, that occurred on 155 separate occasions during the period of January 3, 2009 to September 27, 2009, which is contrary to section 6 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, paragraphs 42(1)(a) and 42(2)(b) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*, as it read until September 27, 2009.

Fait, pour tout casino, de ne pas tenir des relevés de déboursement important en espèces relativement aux opérations réglementaires au cours desquelles une somme de 10 000 \$ ou plus est déboursée, et ce à 155 reprises au cours de la période du 3 janvier 2009 au 27 septembre 2009, en contravention à l'article 6 de la *Loi sur le recyclage des produits de la criminalité et le financement des activités terroristes* et aux alinéas 42(1)(a) et 42(2)(b) du *Règlement sur le recyclage des produits de la criminalité et le financement des activités terroristes*, tel qu'il se lisait jusqu'au 27 septembre 2009.



THIS IS **EXHIBIT "13"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
\_\_\_\_\_  
A Commissioner/Notary Public for the  
Province of British Columbia.



June 30, 2010

BY FACSIMILE (613) 943-7931



FINTRAC  
Attention: Review and Appeals Unit Ottawa  
24<sup>th</sup> Floor  
234 Laurier Avenue West  
Ottawa, Ontario K1P 1H7

Dear Sirs:

Re: Representation/British Columbia Lottery Corporation/Notice of Violation Re  
File Number AMP1011-00001

Redacted  
Federal

BCLC  
10760 Shellbridge Way  
Richmond, BC V6X 3H1

T 604.270.0649  
F 604.276.6424  
www.bclc.com

The following is our written representation sent in response to our receipt of Notice of Violation, with monetary penalty, issued June 15, 2010, by the Western Regional Office.

The British Columbia Lottery Corporation ("BCLC") confirms its complete commitment to compliance with the *Proceeds of Crime (Money-Laundering) and Terrorist Financing Act* (the "Act") and its regulations. BCLC has directed significant attention and has expended very considerable time and resources, to initiate, and adjust when issues were identified, a compliance regime intended to meet full compliance with the requirements of the Act, and to address concerns and deficiencies in its program identified by FINTRAC in its audit of BCLC's program. More detailed outlines of the steps which have been taken, follow in this representation.

BCLC requests withdrawal of the Notice of Violation, including therewith the imposition of monetary penalty; detailed reasoning for the representation and request follows. BCLC notes that the administrative penalty scheme is intended to be used as a tool for FINTRAC to ensure compliance with the Act and regulations. The use of this civil penalty regime is to encourage compliance and not for punitive ends. BCLC, as we hope is demonstrated by the representations included in this correspondence, is fully committed to compliance, and has been taking appropriate steps in each instance of identification of shortcomings with its compliance regime, to rectify and meet the identified requests of FINTRAC in the administration of the Act. BCLC is dedicated to ensuring full compliance with the Act; and was expending considerable resources and expertise to deliver compliance to the requirements of FINTRAC well prior to the issuance of the violation notice.

BCLC, using external consultants, and in the spirit of cooperation with FINTRAC, has taken corrective action where issues have been identified. It has at no time failed to give full and concerned consideration to the Act, the guidelines issued by FINTRAC, the suggested formats for appropriate compliance regimes, the audit results of



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FINTRAC examination, and the recommendations of its professionals. BCLC remains committed to improving its compliance regime, and to satisfying FINTRAC as to rectification of deficiencies. As a consequence, BCLC is of the view that Notice of Violation, and imposition of a monetary penalty, is not necessary to meet the purposes of the regulation, which is to ensure compliance. Further, BCLC is of the view that publication of a violation notice would have a contrary effect to the intention, in that it would indicate to the patrons of casinos that it is possible to avoid the necessary identification, recording and reporting, under the Act, which is a message BCLC does not wish to have made.

The public notice will detract from the very considerable efforts BCLC is making to appropriately comply. It will encourage inappropriate behaviour by the patrons of the gaming establishments which is contrary to the intention of the Act, and the compliance program which BCLC has been working strenuously to implement, and consistently to improve.

#### **Commitment to Improvement in Compliance**

BCLC has undertaken significant reviews, both internal and through a third party assessment, of its compliance regime. It has coupled the results of those reviews with the FINTRAC audit reports to identify areas of particular focus for improvement in its compliance regime. The specific steps and programs which BCLC has identified are intended to address issues noted during each of those reviews, and most specifically to select areas for improvement that are linked to the identified deficiencies noted in the FINTRAC audit. Programs have been implemented, and continue to be modified and tweaked, intended to provide measurable improvement in those areas where deficiencies have occurred. In the majority of instances many of the deficiencies have been diagnosed and appropriate steps taken to rectify the issues noted.

The specific areas in which program improvements have been, or are in the process of, being implemented include the following:

- (a) As BCLC worked with its technology provider to create an effective reporting interface with FINTRAC, a series of technology based issues arose, which resulted in the vast majority of the failures noted in the FINTRAC audit report included with the Notice of Violation of June 15, 2010. Each of these has been reviewed, the technology shortcomings diagnosed, and technology changes completed so as to result in an effective reporting interface. Our review of the reporting efficiency, subsequent to the identification of these issues, and the software rectification which was required, has indicated that timely, correctly formatted, reports have been completed between BCLC and FINTRAC since that date. While BCLC regrets the reporting issues which arose as a consequence of the interface difficulties between the two reporting systems, it did move quickly with iView Systems as each issue was identified to retain appropriate software expertise to work on rectification. During the period from March 2009 to May 2009, consistent and sequential software fixes were required, to deal with interface issues arising as a consequence of FINTRAC's software rejecting filed LCTRs. In each instance a software patch was required, and was implemented, as soon as the rejection issue was identified, and software revisions could be designed to allow the effective and timely





reporting. These steps were taken in each instance as soon as the issue was identified.

It is believed that the system, and the reporting interfaces, to the extent they can be completed by BCLC, have been done so. There remains some technology discussion that needs to be held between FINTRAC and BCLC, and we have been working towards scheduling these discussions, in order to ensure immediate and effective interface. BCLC has committed significant time and resources to the rectification of these software issues, and looks forward to being able to complete the necessary technology discussions with FINTRAC to ensure full and complete compliance. Our diagnosis of the issues identified by FINTRAC indicate that the vast majority of the audit failures identified are rectified by the correction of the reporting interface between BCLC and FINTRAC.

- (b) When BCLC undertakes periodic new product launches, BCLC has determined that in each instance an AML compliance review will be completed as to the player identification, recording and reporting required to best fit the nature of the new products, or the change in player processes. This is done prior to launch, and includes a specific review by internal legal counsel, the compliance officer, and external legal counsel. In each instance the nature of the product, the process for the delivery of the product, the requirements of the Act and issued guidelines, are all reviewed to ensure compliance on a product delivery specific basis.
- (c) BCLC has enhanced its senior management and Board level oversight and training. The top down commitment of both the Board of Directors and senior management is being published as policy for BCLC, and its service providers, and each of the members of senior management and the Board have committed to additional training to ensure their capability of providing the overall compliance oversight desirable for BCLC. Specific training sessions have been scheduled over the summer of 2010, and policy announcements of enhanced senior oversight will be released to the service providers, on a staff notification basis.
- (d) BCLC is committed to a regular review, and expansion and adjustment of its anti-money laundering policies, including its procedures and training guides, consistent with the Act, revisions to regulations and guidelines, and the recommended best practices. This is a continuing process and updating is underway at the time of this writing. BCLC specifically has been undertaking external reviews of its compliance program, to supplement the audit review of FINTRAC, and has been actively engaged with IPSA International in these reviews. The initial review by IPSA was completed in March of 2008, and a follow up review was completed in November of 2009. This was undertaken to supplement the gap analysis of the compliance regime which was completed on an internal basis in October of 2009. Conclusions of each of these reviews are that BCLC is in compliance with the requirements of FINTRAC Guideline No. 4, however, recommendations for improvement have been included in those reports. Each of the recommendations for improvement is being specifically addressed by BCLC notwithstanding the assessment that the





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implementation of the compliance regime has been appropriately performed. One of the recommendations which is being focussed on is an improvement in client identification, particularly the obtaining of occupations on a more specific basis for patrons. Staff training has been enhanced, and the requirements for compliance with anti-money laundering and anti-terrorist financing compliance standards are incorporated into the service provider staff job descriptions and performance evaluations. Another area of specific requirement is to enhance the risk based approach, this is particularly being focussed on cheque issuance practices, limiting cheque issuance significantly, and restricting it to the net amount of verified wins. Staff training is being extended to the risk based compliance program, including enhanced training on identification (supplemented by technology assistance such as license plate recognition software), for both staff that have contact with clients and the security staff present at each of the service providers' locations. This training is being done on both in person and web based training programs, and is a necessary part of the staff responsibilities.

Senior management is actively engaged in the review of the gap analysis, and IPSA recommendations, and reports are being made on a regular basis to both senior management and to the Board of Directors.

#### **Specific steps taken to improve compliance**

A number of specific steps have been taken to improve compliance, on a general basis, and BCLC remains committed to regular review, and reporting with regard to each of these steps. In each instance notification of specific requirements has been disseminated to those members of management, and the service providers and their staff, ensuring knowledge of these specific requirements, and advice of the commitment of senior management and the Board of Directors to carrying out each of the steps. The steps, active at this time, include the following:

- (a) BCLC is subject to regular process audits, the Provincial Gaming Regulator conducts these audits, and the audits include AML procedures. BCLC has expanded the internal audit instructions so as to require an annual audit engagement with the objective of reviewing the overall effectiveness of BCLC's AML procedures. This will be done against a comparison to the advice of external consultants, identified specific instances of deficiencies, FINTRAC audit requirements, among other reviews being conducted.
- (b) BCLC has appointed a compliance trends analyst, this position has been in place for some time. This position has been restructured such that AML compliance is now the priority item on her duty list. The compliance trends analyst has been fully briefed and is conversant with the requirements for AML compliance for BCLC. The compliance trends analyst will undertake periodic gap analysis of the AML compliance program.
- (c) BCLC has a robust information technology division. A position has been created as a dedicated resource to the AML compliance program. It is believed that this focus in the information technology division will assist in preventing the



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technology issues which resulted in essentially all of the identified deficiencies in the FINTRAC audit.

- (d) BCLC has a security and compliance division, this is staffed by highly trained persons, with specific expertise in AML issues. A managerial position has been created within the division which is fully dedicated to AML compliance, this will result in more focussed managerial oversight.
- (e) The retainer of external advisors and legal counsel to assist on project specific, and more general, review of the compliance processes and protocols; as noted above this is done on a project specific basis for new products or process changes, and on a regular, yearly, basis for the balance of the compliance program.
- (f) The manual materials which form the subject matter of senior management and Board of Directors oversight, and the policy directives issued to frontline personnel, are being regularly reviewed and enhanced. Policy directives are being issued to the service providers, with a requirement that the notification form part of staff training, and regular staff communication.
- (g) Enhanced director, senior officer, and personnel training is being implemented. BCLC specifically implemented a service provider staff and security level training program, which is required to be completed by all appropriate personnel. Security staff are required, as a mandatory part of their job criteria, to ensure that they have completed the appropriate anti-money laundering training programs. Staff personnel who deal with the public, receiving or disbursing funds, are also required to complete the training program prior to commencing duties on the gaming floors. The training programs have been enhanced to ensure regular delivery, and the availability of continuous updates. This is done by in-person personnel training and by online delivery.
- (h) The improved interconnectivity between the technology systems of BCLC and FINTRAC to allow timely and accurate reporting is being regularly reviewed. As any issue is identified, it is immediately referred to appropriate senior management, and technology intervention is engaged to complete any required software or hardware adjustments necessary to improve the reporting timeliness. BCLC is requesting an increased communication directly with FINTRAC technology staff to ensure that the interconnectivity issues between the technology systems, including the formatting and nature of the reporting, in electronic format, does not create further issues of the nature identified by the FINTRAC audit.
- (i) Periodic staff notice and training programs are being monitored and delivered, on any change in compliance requirements. This also includes specific response to identified shortcomings by the external consultants, external legal counsel and FINTRAC audit reviews, as well as general training.
- (j) There is a prior review of each new program and product launch, for practices and procedures, to ensure AML compliance where this is required by the Act, and by the nature of the product being delivered.





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**Specific compliance program addressing the issues outlined in the  
FINTRAC Report**

See the attached BCLC Compliance Examination Action Plan. We ask that you note that these steps were initiated and in many instances completed prior to the issuance of the violation notice, and in many cases even prior to the receipt of the FINTRAC audit results.

**Commitment to Compliance**

BCLC again expresses its commitment to full compliance with the Act, and with the specific recommendations and guidelines issued by FINTRAC in its supervision of compliance program. Specifically, BCLC is committed to the following:

- (a) A commitment to more rapid diagnosis of technology issues, particularly interconnection issues between the FINTRAC and BCLC systems in the reporting function.
- (b) An enhanced senior management and Board of Directors focus on anti-money laundering compliance with a clear top down direction as to not only the requirements for, but the commitment and intent to ensure, compliance with the Act, and the specifically enunciated AML practices and procedures of the compliance program of BCLC.
- (c) The implementation of experience based training and policies to be implemented using specific, identified issues, specific bulletins and periodic training. The program already developed and disseminated to the service providers staff is being monitored and reviewed on a continuous basis, with updates occurring as there are changes in policies and recommendations. In the presentation of the staff training, best practices are being continuously refreshed to meet FINTRAC recommendations, and industry based protocols, to ensure state of the art recommendations and training.
- (d) A commitment to improving communication between BCLC and FINTRAC, including an invitation for regular discussions on improved technology interconnectivity and new initiatives.

**Representation**

BCLC again notes the purpose of the implementation of administrative monetary penalties, is a tool for compliance rather than for punitive ends. BCLC has worked diligently, and on a timely basis, to comply with the Act, and beyond the Act to comply with recommendations made by FINTRAC, guidelines issued and best practices as identified for the industry. BCLC has at no time ignored the recommendations of its service providers, its retained expert consultants, or FINTRAC, but rather has taken each of those recommendations, focussed senior management and Board of Directors attention on the recommendations, and has proceeded with improvements in its compliance program. Its expert independent consultants have advised that the casino gaming anti-money laundering program meets the requirements of the Act, and has





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commented in the most recent review that there has been significant improvement in the details of this compliance delivery. The gap analysis which has been completed on an internal basis verifies the review finding.

BCLC regrets that technology issues arising from software changes necessary as a consequence of FINTRAC reporting requirement adjustments, created late filing issues on what would appear to be a large number of occasions. Given the volume of reporting activity necessary in a casino context, and for BCLC over a large range of service providers, the number of instances, each of which has been traced to a software issue, now rectified, does not reflect significant disregard by BCLC of its compliance requirements. Quite the opposite, BCLC has actively and, based upon external reviews, effectively, implemented a compliance regime, and has remained dedicated to the continuous review and improvement of its compliance standards with that regime. There is accordingly no requirement for the imposition of penalties, BCLC has been compliant, and is dedicated to the commitment to compliance. BCLC is dedicated to an open, transparent, reporting relationship with FINTRAC, and would invite increased discussion of compliance enhancement over time. BCLC, through its compliance officer, welcomes any recommendations to enhanced compliance. It will take each seriously, and work with its internal and external experts, in implementing appropriate adjustments to its compliance policies and regime. BCLC has elevated its compliance program to heightened awareness at the senior management and Board of Directors level, and has enhanced the training of those supervisory persons.

BCLC has been working continuously to enhance and focus its AML practices and procedures. The specific steps outlined in this representation started before the receipt of the FINTRAC audit, as did the retention of external experts to assess and make recommendations. The steps outlined in this letter, which demonstrate commitment to improving AML compliance, were started and diligently pursued well before the issuance of the violation notice.

In addition, BCLC is concerned that publication of Notice of Violation would encourage members of the gaming public to attempt to avoid the appropriate identification procedures, being given the impression that BCLC does not take an active, aggressive approach to its compliance responsibilities. This is not a desirable result for BCLC in its compliance requirements, or for FINTRAC in its role as the recipient of the required reporting. Any matter which makes it more difficult for BCLC to gather the necessary information, we note that the casino environment is a very difficult environment within which to obtain the required information, will hamper BCLC's efforts to comply, and to enhance its record of compliance.

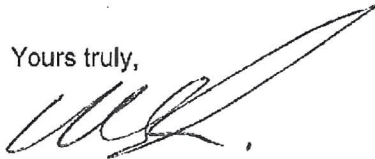
In closing, BCLC understands the need to be compliant with this legislation and is committed to taking all the steps necessary to achieve compliance. BCLC takes the AML legislation and our role within it very seriously. It is an essential part of our business and we are committed to providing the resources and technology to accomplish and maintain compliance.



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We look forward to your consideration of this representation and appeal. We are open to the provision of any further materials or information which might enhance the ability to review BCLC's compliance program, and the practicalities of its reporting compliance.

Yours truly,



Michael Graydon  
President and CEO

Enclosure – BCLC Compliance Examination Action Plan





## BCLC COMPLIANCE EXAMINATION ACTION PLAN

| FINDING/ITEM   | BCLC RESPONSE  | BCLC EMPLOYEE RESPONSIBLE                                       | STATUS  |
|--|--|---|---|
| <p>Issue #1<br/>Failure of the prescribed person or entity, in respect of the activities that pose, in itself, to take prescribed special measures, that occurred on December 4, 2009, which is contrary to subsection 9.6(3) of the Proceeds of Crime(Money Laundering) and Terrorist Financing Act and section 74.1 of the Proceeds of Crime(Money Laundering) and Terrorist Financing Regulations</p> | <p><b>Special Measures High Risk Gaming Locations</b></p> <ul style="list-style-type: none"> <li>- BCLC has identified all gaming facilities into four gaming categories (Northern, Interior, Vancouver Island and Lower Mainland)</li> <li>- BCLC has generated a geographical assessment based on these 4 categories and the associated risks on March 29, 2010</li> <li>- Within these four categories, BCLC has identified various High Risk (HR) groups based on a financial profile</li> </ul> <p><b>Special Measures HR Patrons</b></p> <ul style="list-style-type: none"> <li>- BCLC has designed a Risk matrix to specifically identify HR patrons based on a number of critical categories</li> <li>- BCLC has revised cheque issuance policy and definition of 'verified win'</li> <li>- BCLC has enhanced policy to reflect the operational need to obtain valid ID at \$9,000 level</li> <li>- BCLC has changed the policy so that large Cash Disbursements over \$10,000 will not be released by the Casino to the patron without proper ID</li> </ul> | <p>T. Towns<br/>D. Morrison<br/>G. Friesen<br/>C. Anastasio</p> | <p>Completed March 29, 2010</p> <p>Completed March 29, 2010</p> <p>Completed March 29, 2010</p> <p>Implemented June 2010 with Ongoing Monitoring</p> <p>Implemented August 2009</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> |

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## BCLC COMPLIANCE EXAMINATION ACTION PLAN

| FINDING ITEM | BCLC RESPONSE   | BCLC EMPLOYEE RESPONSIBLE                                       | STATUS  |
|--------------|---|---|---|
|              | <ul style="list-style-type: none"> <li>- Occupations/address category are being reviewed through dedicated review and generated lists to enhance address and occupation requirements</li> <li>- Compliance and Trend Analyst to conduct weekly reviews to ensure proper occupations being obtained</li> <li>- Compliance and Trend Analyst together with Corporate Security Investigators will follow-up to ensure valid ID, address and occupation compliance</li> <li>- Additional Casino site workshops to be held to address requirements surrounding ID, address and occupations</li> <li>- Corporate Security will use LPR technology to assist in tracking HR patrons attending gaming facilities</li> <li>- Corporate Security has defined criteria for investigators to categorize HR patrons through developed Risk Matrix</li> </ul> <p><b>Cheque Issuance and Verified Win</b></p> <ul style="list-style-type: none"> <li>- BCLC continues to review and strengthen policy concerning cheque issuance and the verification of gaming win</li> <li>- Cheque issuance is being reviewed by the Compliance Trend Analyst and BCLC Investigators monthly to ensure policy compliance</li> </ul> | <p>T. Towns<br/>D. Morrison<br/>G. Friesen<br/>C. Anastasio</p> | <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented August 2009 with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> |

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# **BCLC COMPLIANCE EXAMINATION ACTION PLAN**

| FINTRAC ITEM | BCLC RESPONSE  | BCLC EMPLOYEE RESPONSIBLE  | STATUS   |
|--------------|--|--|--|
|              | <ul style="list-style-type: none"> <li>Ongoing review with CSP site management to review incidents involving HR patrons.</li> <li>Corporate Security investigators continue to meet and assess incidents concerning HR patrons and issues surrounding same</li> </ul>  |  | <p>Implemented with Ongoing Monitoring</p> <p>Implemented Sept 28, 2009 with Ongoing Monitoring</p>  |
|              | <p><b>Compliance Policy and Procedure Review</b></p> <ul style="list-style-type: none"> <li>BCLC is committed to semi-annually FINTRAC PP reviews for all gaming facilities in the province by Operational Gaming Auditing</li> <li>Critical PP will be amended and modified to meet operational requirements when found deficient;</li> <li>Dedicated BCLC policy analyst will provide FINTRAC PP refreshes as directed</li> <li>All PP modifications are reviewed by both VP Corporate Security and Compliance and VP Gaming Operations prior to implementation</li> <li>Any PP modifications will be distributed to Corporate Security investigators, Operational Gaming Auditing and Casino Operations to ensure that the appropriate steps are followed for implementation</li> </ul> | <p>T. Towns</p> <p>D. Morrison</p> <p>G. Friesen</p> <p>C. Anastasio</p> | <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> |



## BCLC COMPLIANCE EXAMINATION ACTION PLAN

| FINTRAC ITEM | BCLC RESPONSE   | BCLC EMPLOYEE RESPONSIBLE                             | STATUS   |
|--------------|---|---|--|
|              | <b>Training Enhancement</b> <ul style="list-style-type: none"> <li>- Two training modules are currently functional on a web-based training application with a third module to be formatted by September 30, 2010</li> <li>- BCLC has developed a new 'Refresher' Training module for web-based training application</li> <li>- ICOM Industries will develop, format new refresher training module for web design to link with current web based training</li> <li>- BCLC has also completed a total refresh of all training materials for further training enhancements including acceptable occupation and valid identification</li> <li>- All FINTRAC web-based training will be formatted and moved to BCLC web-based training platform</li> <li>- BCLC will continue timely face to face training for HR/critical gaming areas</li> <li>- BCLC has assigned Compliance and Trend Analyst to oversee all FINTRAC training applications and to monitor all FINTRAC training province wide</li> <li>- BCLC will provide FINTRAC training sessions to Senior BCLC executives and the Board</li> </ul> | T. Towns<br>D. Morrison<br>G. Friesen<br>C. Anastasio | Two Modules Completed, Third Module to be formatted by Sept 30, 2010<br><br>Completed<br><br>September 30, 2010 for Upload<br><br>Completed and Implemented<br><br>Implementation due Sept 30, 2010<br><br>Ongoing Monitoring<br><br>Ongoing Monitoring<br><br>July 2010 |
|              |   |   |  |
|              |   |   |  |
|              |   |   |  |
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## BCLC COMPLIANCE EXAMINATION ACTION PLAN

| FINTRAC ITEM  | BCLC RESPONSE   | BCLC EMPLOYEE RESPONSIBLE                                 | STATUS   |
|---|---|---|--|
| <p><b>Issue #2</b></p> <p>Failure of a specified patron or entity to ascertain in the prescribed manner and within the prescribed period the identity of every individual with whom the person or entity conducts a transaction in respect of which a record must be kept, that occurred on 8 separate occasions during the period of April 9, 2009 to October 2, 2009 which is contrary to section 6.1 of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act, section 53 and paragraph 64(2)(b) of the Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations.</p> | <ul style="list-style-type: none"> <li>- BCLC has changed policy requirements that now require ID be requested when gaming patron reaches \$9,000 level</li> <li>- BCLC has changed the policy so that Large Cash Disbursements over \$10,000 will not be released by the Casino to the patron without proper ID</li> <li>- Policy reflects that should the patron refuse to provide valid ID that gaming privileges will be refused until patron complies</li> <li>- BCLC has redesigned training modules to reflect this policy notation and change</li> <li>- BCLC has implemented this requirement in all handout materials and face-to-face training applications</li> </ul> |   | <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p>                   |
| <p><b>Issue #3</b></p> <p>Failure to report a large casino disbursement of a transaction for which a large cash transaction record must be kept and retained within 15 days after the disbursement or transaction that occurred on 165 separate occasions during the period of February 6, 2009 to July 20, 2009 for large cash transactions and on 419 separate occasions during the period of October 28, 2009 to November 19, 2009 for large casino disbursements, which is contrary to</p>  | <ul style="list-style-type: none"> <li>- BCLC has dedicated an IT resource to overview the FINTRAC reporting system</li> <li>- BCLC has implemented a Quality Assurance process following industry best practice to ensure compliance with all FINTRAC legislative requirements</li> <li>- BCLC has instructed View Systems to also implement a Quality Assurance process following industry best practice</li> </ul>   | <p>C. Russett</p> <p>D. Francoeur</p> <p>D. Francoeur</p> | <p>Implemented with Ongoing Monitoring</p> <p>Completed and Implemented with Ongoing Monitoring</p> <p>Instruction given and being implemented</p> |



## BCLC COMPLIANCE EXAMINATION ACTION PLAN

| FINTRAC ITEM   | BCLC RESPONSE  | BCLC EMPLOYEE RESPONSIBLE                                       | STATUS  |
|--|--|---|---|
| subsection 9(1) of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and subsection 5(2) of the Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations  | <ul style="list-style-type: none"> <li>- BCLC IT has provided new hardware to interface with FINTRAC and installed automatic monitoring and restart of services communicating with FINTRAC system</li> <li>- BCLC IT will create automatic notifications for consistent data transmissions.</li> <li>- On a daily basis BCLC IT will generate an e-mail to BCLC investigators identifying number of reports processed, reports in error or waiting</li> <li>- BCLC Corporate Security investigators continue to monitor and review LCTR for data completeness</li> </ul> | <p>C. Russett</p> <p>C. Russett</p> <p>C. Russett</p>           | <p>Completed and Implemented with Ongoing Monitoring</p> <p>Implemented June 2010 with Ongoing Monitoring</p> <p>Implemented June 2010 with Ongoing Monitoring</p> <p>Implemented and Ongoing</p> |
| <p><b>Issue #2</b></p> <p>Failure of a casino to report the receipt of an amount in cash of 10,000K or more in the course of a single transaction, together with the prescribed information, that occurred on 366 separate occasions during the period of February 6, 2009 to September 19, 2009, which is contrary to subsection 9(1) of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and paragraph 40(a) and Schedule 1 Part D10 of the Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations</p> | <p><b>Clerical Errors</b></p> <ul style="list-style-type: none"> <li>- Clerical data transposition errors between the hardcopy, LCTR, Disbursement Report and electronic filing have been addressed by: <ul style="list-style-type: none"> <li>o BCLC Training Web-based modules have been refreshed to identify this issue for all gaming staff in the province</li> <li>o Additional training scenarios have been designed within these new 'refreshed' training modules to capture and address this issue going forward</li> </ul> </li> </ul>                        | <p>T. Towns<br/>D. Morrison<br/>G. Friesen<br/>C. Anastasio</p> | <p>Completed</p> <p>Completed</p>   |



| BCLC COMPLIANCE EXAMINATION ACTION PLAN |  |  |  |
|---|--|--|--|
| FINTRAC ITEM                            | BCLC RESPONSE  | BCLC EMPLOYEE RESPONSIBLE  | STATUS   |
|   | <ul style="list-style-type: none"> <li>o 'Refresher' module has been drafted and is currently being formatted to a web-based application.</li> <li>o All BCLC web-based training applications will be relocated to our Learning Management System</li> <li>o Operational Gaming Auditing conducts quarterly reviews of LCTR's and Disbursement Reports to match hardcopy to electronic filed copy</li> </ul>   |  | <p>Implementation due September 2010</p> <p>Implementation due September 2010</p> <p>Implemented with Ongoing Monitoring</p>     |
|   | <b>Occupation Errors</b>   |  |  |
|   | <ul style="list-style-type: none"> <li>- Occupations categories are being reviewed through dedicated review and generated lists</li> <li>- Compliance and Trend Analyst to conduct weekly reviews to ensure proper occupations being obtained</li> <li>- Compliance and Trend Analyst together with Corporate Security Investigators will follow-up to ensure compliance</li> <li>- Additional workshops to be held to address requirements surrounding ID, address and occupations</li> </ul> |  | <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> |
|   | <ul style="list-style-type: none"> <li>- BCLC has changed policy/requirements that now require ID be requested when gaming patron reaches \$9,000 level</li> </ul>   | <p>T. Towns</p> <p>D. Morrison</p> <p>G. Friesen</p> <p>C. Anastasio</p> | <p>Implemented with Ongoing Monitoring</p>   |
|   | <p>Issue #5</p> <p>Failure of a casino to report the disbursement of 10,000K or more in the course of prescribed transactions, together with the prescribed</p>  |  |  |

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## BCLC COMPLIANCE EXAMINATION ACTION PLAN

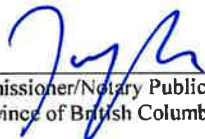
| FINDING ITEM   | BCLC RESPONSE   | BCLC EMPLOYEE RESPONSIBLE                                       | STATUS  |
|--|---|---|---|
| <p>Information that occurred on 72 separate occasions during the period of October 28, 2009 to November 19, 2009 which is contrary to subsection 9 (1) of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act, paragraph 42 (1)(a) and Schedule 8 Part 010 of the Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations, as it reads since September 28, 2009.</p> | <ul style="list-style-type: none"> <li>- BCLC has changed the policy so that Large Cash Disbursements over \$10,000 will not be released by the Casino to the patron without proper ID</li> <li>- Occupations categories are being reviewed through dedicated review and generated lists</li> <li>- Compliance and Trend Analyst to conduct weekly reviews to ensure proper occupations being obtained</li> <li>- Compliance and Trend Analyst together with Corporate Security Investigators will follow-up to ensure compliance</li> <li>- Additional workshops to be held to address requirements surrounding ID, address and occupations</li> <li>- Operational Gaming Auditing conducts quarterly reviews of LCTR's and Disbursement Reports to match hardcopy to electronic filed copy</li> </ul> | <p>T. Towns<br/>D. Morrison<br/>G. Friesen<br/>C. Anastasio</p> | <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> |
| <p>Issue #6<br/>Failure of a casino to keep a large cash disbursement record in respect of prescribed transactions in the course of which the total amount of the cash disbursed is 10,000 or more, that occurred on 155 separate occasions during the period of January 9, 2009 to September 27, 2009, which is contrary to</p>   | <ul style="list-style-type: none"> <li>- BCLC has changed policy requirements that now require ID be requested when gaming patron reaches \$9,000 level</li> <li>- BCLC has changed the policy so that Large Cash Disbursements over \$10,000 will not be released by the Casino to the patron without proper ID</li> <li>- Occupations categories are being reviewed through dedicated review and generated lists</li> </ul>   |   | <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p>  |



## BCLC COMPLIANCE EXAMINATION ACTION PLAN

| FINIRAC ITEM  | BCLC RESPONSE   | BCLC EMPLOYEE RESPONSIBLE | STATUS   |
|---|---|---------------------------|--|
| Section 6 of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act, paragraphs 42(1)(a) and 42(2)(b) of the Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations, as reads until September 27, 2009. | <ul style="list-style-type: none"><li>- Compliance and Trend Analyst to conduct weekly reviews to ensure proper occupations being obtained</li><li>- Compliance and Trend Analyst together with Corporate Security Investigators will follow-up to ensure compliance</li><li>- Additional workshops to be held to address requirements surrounding ID, address and occupations</li><li>- Operational Gaming Auditing conducts quarterly reviews of LCTR's and Disbursement Reports to match hardcopy to electronic filed copy</li></ul> |                           | <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> <p>Implemented with Ongoing Monitoring</p> |

THIS IS **EXHIBIT "14"** TO THE  
**AFFIDAVIT OF TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
\_\_\_\_\_  
A Commissioner/Notary Public for the  
Province of British Columbia.

*zul*



## INTERNAL AUDITOR'S REPORT

To the Board and the CEO of the British Columbia Lottery Corporation:



BCLC  
74 West Seymour Street  
Kamloops, BC V2C 1E2  
T 250.828.5500  
F 250.828.5631  
www.bclc.com

BCLC received a FINTRAC Notice of Violation, dated June 15, 2010, which included violations related to late or delayed large cash transaction and disbursement reports. Management indicated that certain difficulties with the submission of the reports under this category arose as a consequence of technical issues in the transmission of the data between BCLC and FINTRAC. Management noted they have committed significant time and resources to rectify these technical issues. Management has implemented key controls to: 1) detect and monitor the timely transmission of these reports and 2) resolve any issues that cause transmission errors and re-transmit reports on a timely basis.

We have audited specifically identified key controls that management has implemented. These key controls and our evaluation criteria are in the attached appendix.

### Standards and Responsibilities

We conducted our work in accordance with the International Standards for the Professional Practice of Internal Auditing established by The Institute of Internal Auditors. Those standards require that we plan and perform our audit to obtain reasonable assurance as a basis for our opinion. Our audit included examining on a test basis, evidence supporting the conformity of the identified key controls to the evaluation criteria.

BCLC management is responsible for the design, implementation and operation of the key controls. Our responsibility is to express an opinion on whether these identified key controls are appropriately designed, implemented and are operating effectively, based on our evaluation criteria.

### Conclusion

In our opinion, the identified key controls are appropriately designed and implemented and are operating effectively, based on the evaluation criteria contained in the appendix, as at the date of this audit report.

### Scope Limitations

The scope of our work was limited only to these identified key controls in the context of violation #3 identified in the FINTRAC Notice of Violation, and does not extend to any other violation in the FINTRAC Notice of Violation.



*gml*

The projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions. To address this risk, we have recommended, and management has agreed, that we review these controls on a regular basis and report the results and any exceptions, if any, to the Board and the CEO.

This report is intended for the exclusive use of BCLC in assessing BCLC's implementation of the listed controls, and is not to be relied upon for any other purpose.



Gurmit Aujla, CA-CIA  
Director Internal Audit  
July 30, 2010



**Appendix to  
INTERNAL AUDITOR'S REPORT**

**Key Controls**

Management implemented controls designed to identify any large cash transaction and disbursement reports which do not transmit between BCLC's iTrak system and FINTRAC. After identifying these un-transmitted reports, management implemented controls to resolve the corresponding technical issues and re-transmit these reports on a timely basis. Specifically we identified the following key controls:

- 1) *On a daily basis BCLC monitors transmission of reports between BCLC and FINTRAC, to determine whether the reports were accepted without error by FINTRAC, and to specifically identify those reports that have not yet been accepted by FINTRAC.*
- 2) *On a timely basis, BCLC investigates those reports that have not yet been accepted by FINTRAC and resolves the condition that resulted in the error, such that those reports are accepted without error by FINTRAC in the form and timeline as required by the Act and Regulations.*

**Evaluation Criteria**

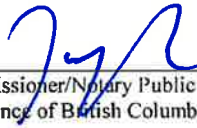
We evaluated these key controls using the following evaluation criteria:

- ❖ That each key control described above has been designed and implemented appropriately to address the identified weaknesses and deficiencies.
- ❖ That each key control described above is operating effectively such that it mitigates the identified weaknesses and deficiencies.





THIS IS **EXHIBIT "15"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 12 DAY OF JANUARY, 2021.



---

A Commissioner/Notary Public for the  
Province of British Columbia.



August 3, 2010

BY FACSIMILE (613) 943-7931



Financial Transactions and Report Analysis Centre of Canada  
Review and Appeals Unit  
234 Laurier Avenue West  
Ottawa, Ontario  
K1P 1H7

Attention: Julie Ethier, Senior Review and Appeals Officer

Dear Sirs:

Re: British Columbia Lottery Corporation / Notice of Violation Issued June 15,  
2010 / Review, Request

BCLC  
10760 Shellbridge Way  
Richmond, BC V6X 3H1

604.270.0649  
604.276.6424  
www.bclc.com

Thank you for your letter of July 2, 2010, we appreciate the confirmation of receipt of the representations made concerning the notice of violation issued to British Columbia Lottery Corporation, and note your invitation to submit additional information provided it is in writing by August 4, 2010. We also appreciate the opportunity to add some supplemental information, at least some of which has become available, or desirable, as a consequence of events subsequent to the date of our initial request for review of June 30, 2010.

British Columbia Lottery Corporation, defined as "BCLC", has continued to review, in detail, the Notice of Violation, and has both continued to take steps to address the matters noted in the Notice and has reviewed to confirm the active steps taken for compliance prior to the issuance of the Notice of Violation. This has included a review by the Internal Audit department of BCLC, a review and discussion with the BC Gaming Policy and Enforcement Branch, a meeting with the responsible provincial minister (Rich Coleman, British Columbia Minister of Housing and Social Development), and meeting with the Audit Committee and full board of the Board of Directors of BCLC. Each of these meetings reviewed the compliance status of BCLC as to AML/ATF, and specifically its compliance both before and after the issuance of the Notice of Violation with regard to the specific items listed in the Notice of Violation. We wish to draw to the attention of FINTRAC the seriousness with which compliance is taken, and note the review of compliance, in general and specific to the Notice of Violation, has been at the highest possible levels both within BCLC, and its regulatory authorities.

We wish to note to FINTRAC, that combined with those specific meetings to discuss the status of compliance, and the Notice of Violation, educational programs have been held with the Minister and selected senior staff, and the board of directors of BCLC, including the Audit Committee of BCLC, to enhance their understanding of supervisory roles and responsibilities, and the background to the compliance requirements for BCLC, as a casino, under AML/ATF requirements in Canada.



*Jul*

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BCLC continues to note that its intention to fully comply with the requirements of AML/ATF, in accordance with its comprehensive written compliance program, was in place before the issuance of the Notice of Violation, with consistently improving compliance programs being put in place over the past two years. As a consequence of its attention to compliance over the past couple of years, BCLC is particularly concerned about and has reviewed each of the specific violations listed with a view to ensuring that steps taken to ensure compliance prior to the issuance of the report continue, and are reaching successful conclusion. We provide this further report to our initial request for review because some of the investigation, and specific reviews, have been completed subsequent to the date of submission.

Initially, and potentially most importantly, a very significant number of the violations in the Notice of Violation were identified as late or delayed LCT reports and late or delayed LCDR reports. Detailed investigation undertaken has clearly indicated that the difficulties with regard to the submission of the reports under this category arose as a consequence of technical issues in the transmission of the data and which were being addressed in late 2009 and early 2010. The implementation of software through the iView system had resulted in issues integrating the three separate IT systems which were responsible for providing reporting. Although this was being corrected as each issue was identified during the period noted for the violations, and subsequent to that time, some issues required specific addressing in the spring of 2010, and were corrected during that period of time, subsequent to the reviews of February 2009 to July 20, 2009, as to the CT reports, and October 28, 2009 - November 19, 2009 as to LCDR reports but prior to the Notice of Violation. BCLC commissioned an internal audit review of the corrections in July 2010, as to the software issues which were resulting in rejected, and accordingly late when resubmitted, reports. This audit report was completed by the internal audit department, to the standards dictated by international standards for the professional practice of internal auditing established by the Institute of Internal Auditors. The conclusion reached by that report was that the corrections, and accordingly the procedures and controls that arose from those corrections, designed to reduce the deficiencies as to late or delayed reports, have been appropriately designed and implemented and are operating effectively. The report of the internal auditor, a qualified audit professional, is attached with these further materials. BCLC's internal auditor has found its IT reporting is now technically compliant.

Another area of continued review are the violations which note the obtaining of occupations on a categorization which FINTRAC has considered to be insufficiently specific. As noted in the request for review, BCLC has issued additional requirements for secondary questioning as to occupation, and has provided enhanced job occupation information through its ongoing training program. BCLC however notes that a number of practical issues have been identified in this ongoing review, and, in order to ensure full compliance with these expressed requirements, will need further assistance from FINTRAC. Specific examples, such as, a response "businessman", "retiree", or "consultant" are in the view of most responders valid, and acceptable, occupations. We note that reliable sources have identified tens of thousands specific subsets of





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occupations which are followed in Canada. Notwithstanding this BCLC is preparing, and will be issuing, a drop down menu of selections for occupations, and will require that the occupation enquiry use one of the selected options. BCLC believes this will be compliant but remains concerned because there is no guidance given in any materials which could be identified in the review process as to acceptable specificity for occupations. There is no method available to verify a claim as to occupation. As a matter of review, we believe that the issuance of the Notice of Violation with regard to the non-specific occupations, particularly, creates a concern and issue for BCLC because there is no acceptable method to verify a customer's identified occupation.

BCLC is also working closely with its gaming regulator, BC Gaming Policy and Enforcement Branch, to further enhance compliance and cooperation. BC Gaming Policy and Enforcement Branch has confirmed its complete and total commitment to overseeing, encouraging and assisting compliance on the part of BCLC with regard to AML/ATF. BC Gaming Policy and Enforcement Branch intends to undertake a proactive program of review, audit, and management assistance, with regard to compliance by BCLC, and has requested this commitment be communicated to FINTRAC.

We do not wish, in this correspondence, to burden FINTRAC with repetition of the materials and information in our previous comprehensive request for review and withdrawal of the Notice of Violation. The intention of this correspondence was to draw your attention to the steps, actions, and further commitments, which have been taken subsequent to the submission of that review. BCLC does however wish to repeat its request for withdrawal of the Notice of Violation, on the basis set out in that correspondence.

A subsequent event, which in the view of BCLC strongly points to the desirability of such a withdrawal, occurred as a consequence of a public disclosure, from sources unknown to BCLC, of the issuance of the Notice of Violation to the press. Active enquiries have been made at BCLC and it has not been possible to identify the source of the disclosure with regard to the issuance of this Notice of Violation. BCLC had been under the impression, from all of the materials available and from its review of the process, that the issuance of the Notice of Violation would remain confidential until such time as reviews were complete and the Notice of Violation became final. Damage has been caused as a consequence of the premature public disclosure of the issuance of Notice of Violation, giving rise to concerns that it will in some manner adversely influence or affect the review process. Although we have complete confidence in the integrity of FINTRAC, and the review process which has been identified, we are concerned that the public disclosure could adversely affect the request, which we believe is valid and fully supported, for the withdrawal of the Notice of Violation. We do continue to believe that withdrawal is in the best interest of all parties. BCLC stands behind its statement that it has a full and complete corporate commitment to compliance, its compliance regime has been implemented in a manner intended to meet full compliance with the legislative, and guideline, requirements, and active steps and actions were taken with regard to the matters



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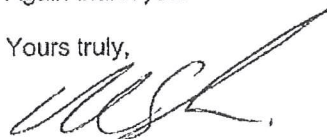
listed in the Notice of Violation before, and again subsequent, to the issuance of Notice of Violation. Given the purpose of encouraging compliance, we believe that any purpose which might have existed to the issuance of the Notice of Violation has been more than fully satisfied.

BCLC, as a reporting entity, must be compliant and maintain a public position of compliance, otherwise it will become increasingly difficult for front line personnel to be able to enforce the needed steps and actions for the appropriate opening of accounts, and obtaining of client information. In circumstances where there is a public perception that compliance is not fully respected, and the compliance policies and procedures rigidly adhered to, there will be increasing difficulty on the part of those front line personnel, trained in AML/ATF compliance but not well educated professionals, to comply. Further, it will undermine the training, and compliance requirements, which BCLC has been issuing on an increasingly frequent basis to its casino clients, and to the employees of those casino clients. It will give every appearance that compliance is not taken seriously, and will not be adequately enforced. We believe that a cooperative approach to the Notice of Violation, and the request for withdrawal, will enhance the appearance of BCLC's compliance, with its casino clients, with its employees and the employees of the casino clients, and with the public. A withdrawal of the Notice of Violation will confirm BCLC is a compliant reporting entity which works cooperatively with FINTRAC. The basis for withdrawal can, given the purpose of the administrative penalties, be stated to arise from BCLC's renewed commitment to full compliance. This is in the best interests of FINTRAC and BCLC as we continue to take steps to improve the technical details of compliance which underlies the violations noted in the Notice of Violation.

We appreciate your consideration to these further submissions. We would appreciate the opportunity to discuss a review of the implications of the public disclosure of the issuance of the Notice of Violation prematurely given the request for review. We would like to ensure that a fair and reasonable review process will be followed notwithstanding the public statements, and scrutiny, now being given to the process. We believe that a withdrawal of the Notice of Violation, in a suitably formatted manner, will create an impression of a compliant atmosphere at BCLC, and its client's casinos, and assist in furthering the compliance regime we are both anxious to have fully, and properly, functioning in the most difficult casino environments.

Again thank you.

Yours truly,



Michael Graydon  
President and CEO

Enclosure – BCLC Internal Auditor's Report





## INTERNAL AUDITOR'S REPORT

To the Board and the CEO of the British Columbia Lottery Corporation:



BCLC  
74 West Seymour Street  
Kamloops, BC V2G 1E2  
T 250.828.5500  
F 250.828.5631  
www.bclc.com

BCLC received a FINTRAC Notice of Violation, dated June 15, 2010, which included violations related to late or delayed large cash transaction and disbursement reports. Management indicated that certain difficulties with the submission of the reports under this category arose as a consequence of technical issues in the transmission of the data between BCLC and FINTRAC. Management noted they have committed significant time and resources to rectify these technical issues. Management has implemented key controls to: 1) detect and monitor the timely transmission of these reports and 2) resolve any issues that cause transmission errors and re-transmit reports on a timely basis.

We have audited specifically identified key controls that management has implemented. These key controls and our evaluation criteria are in the attached appendix.

### Standards and Responsibilities

We conducted our work in accordance with the International Standards for the Professional Practice of Internal Auditing established by The Institute of Internal Auditors. Those standards require that we plan and perform our audit to obtain reasonable assurance as a basis for our opinion. Our audit included examining on a test basis, evidence supporting the conformity of the identified key controls to the evaluation criteria.

BCLC management is responsible for the design, implementation and operation of the key controls. Our responsibility is to express an opinion on whether these identified key controls are appropriately designed, implemented and are operating effectively, based on our evaluation criteria.

### Conclusion

In our opinion, the identified key controls are appropriately designed and implemented and are operating effectively, based on the evaluation criteria contained in the appendix, as at the date of this audit report.

### Scope Limitations

The scope of our work was limited only to these identified key controls in the context of violation #3 identified in the FINTRAC Notice of Violation, and does not extend to any other violation in the FINTRAC Notice of Violation.




*Jul*



The projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions. To address this risk, we have recommended, and management has agreed, that we review these controls on a regular basis and report the results and any exceptions, if any, to the Board and the CEO.

This report is intended for the exclusive use of BCLC in assessing BCLC's implementation of the listed controls, and is not to be relied upon for any other purpose.



Gurmit Aujla, CA-CIA  
Director Internal Audit  
July 30, 2010



**Appendix to  
INTERNAL AUDITOR'S REPORT**

**Key Controls**

Management implemented controls designed to identify any large cash transaction and disbursement reports which do not transmit between BCLC's iTrak system and FINTRAC. After identifying these un-transmitted reports, management implemented controls to resolve the corresponding technical issues and re-transmit these reports on a timely basis. Specifically we identified the following key controls:

- 1) *On a daily basis BCLC monitors transmission of reports between BCLC and FINTRAC, to determine whether the reports were accepted without error by FINTRAC, and to specifically identify those reports that have not yet been accepted by FINTRAC.*
- 2) *On a timely basis, BCLC investigates those reports that have not yet been accepted by FINTRAC and resolves the condition that resulted in the error, such that those reports are accepted without error by FINTRAC in the form and timeline as required by the Act and Regulations.*

**Evaluation Criteria**

We evaluated these key controls using the following evaluation criteria:

- ❖ That each key control described above has been designed and implemented appropriately to address the identified weaknesses and deficiencies.
- ❖ That each key control described above is operating effectively such that it mitigates the identified weaknesses and deficiencies.



THIS IS **EXHIBIT "16"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
A Commissioner/Notary Public for the  
Province of British Columbia.





Court File No.: T-1801-10

**FEDERAL COURT**

BETWEEN:

BRITISH COLUMBIA LOTTERY CORPORATION

Appellant

- and -

ATTORNEY GENERAL OF CANADA

Respondent

**NOTICE OF APPEAL**

TO THE RESPONDENT:

A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU by the appellant. The relief claimed by the appellant appears on the following page.

THIS APPEAL will be heard by the Court at a time and place to be fixed by the Judicial Administrator. Unless the Court directs otherwise, the place of hearing will be as requested by the appellant. The appellant requests that this appeal be heard at the Federal Court.

IF YOU WISH TO OPPOSE THIS APPEAL, to receive notice of any step in the appeal or to be served with any documents in the appeal, you or a solicitor acting for you must prepare a notice of appearance in Form 341 prescribed by the Federal Courts Rules and serve it on the appellant's solicitor, or where the appellant is self-represented, on the appellant, WITHIN 10 DAYS of being served with this notice of appeal.

IF YOU INTEND TO SEEK A DIFFERENT DISPOSITION of the order appealed from, you must serve and file a notice of cross-appeal in Form 341 prescribed by the Federal Courts Rules instead of serving and filing a notice of appearance.

Copies of the Federal Courts Rules information concerning the local offices of the Court and other necessary information may be obtained on request to the Administrator of this Court at Ottawa (telephone 613-992-4238) or at any local office.

IF YOU FAIL TO OPPOSE THIS APPEAL, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU.

A handwritten signature in black ink, appearing to be "JUL", is located in the bottom right corner of the page.

Date October 29, 2010

Issued by

**CHARLES SKELTON  
REGISTRY OFFICER  
AGENT DU GREFFE**

(Registry Officer)

Address of  
local office:180 Queen Street West  
Suite 200  
Toronto, Ontario  
M5V 3L6TO: **ATTORNEY GENERAL OF CANADA**Department of Justice Canada  
Ontario Regional Office  
130 King Street West, Suite 3400  
Toronto, Ontario M5X 1K6

Respondent

AND TO: **FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF  
CANADA**Jeanne M. Flemming  
Director  
234 Laurier Avenue West  
24th Floor  
Ottawa, ON  
K1P 1H7

Tel:

Personal Information

Fax:



**APPEAL**

**THE APPELLANT APPEALS** to the Federal Court from the decision of the Director of the Financial Transactions and Reports Analysis Centre of Canada ("**FINTRAC**"), dated October 1, 2010 (the "**Decision**"), by which FINTRAC determined that the appellant, British Columbia Lottery Corporation ("**BCLC**"), was non-compliant with certain provisions of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (the "**Act**") and associated regulations (the "**Regulations**") and imposed a \$695,750 administrative monetary penalty (the "**AMP**") on BCLC.

**THE APPELLANT ASKS** that the appeal be allowed, that the Decision be varied, reversed or set aside, and an order made:

1. Declaring that BCLC did not commit the alleged violations or any of them, or in the alternative, that BCLC was duly diligent in its efforts to prevent the alleged violations or any of them;
2. Declaring that the assessment of the \$695,750 administrative monetary penalty was incorrect and ought to be expunged, or in the alternative, was wrong in the amount and ought to be varied;
3. Declaring that the Decision breached the duty of procedural fairness by failing to provide sufficient reasons and accordingly lacked justification, transparency and intelligibility;
4. That costs be payable to the appellant; and
5. Granting such further relief as this Honourable Court deems just.





THE GROUNDS OF APPEAL are as follows:

I. OVERVIEW

1. This appeal arises from the October 1, 2010, Decision of the Director of FINTRAC, who determined that BCLC had violated certain provisions of the *Act* and *Regulations* and issued a \$695,750 administrative monetary penalty against BCLC.

2. FINTRAC is an independent federal agency, reporting to the Minister of Finance. It is primarily responsible for enforcing the *Act* and its associated *Regulations*.

3. The appellant, BCLC, operates as a Crown corporation under the *Gaming Control Act of British Columbia (2002)*. On behalf of the Government of British Columbia, BCLC conducts, manages and operates gaming undertakings, including casinos.

4. Casinos are regulated by the *Act* and *Regulations*. Part 1 of the *Act* establishes certain record keeping, identity verification and reporting of suspicious transaction requirements for regulated persons and entities. BCLC is alleged to have violated certain provisions in Part 1 of the *Act* and related regulatory provisions.

II. The FINTRAC Audit Report and BCLC's Reply

5. FINTRAC conducted a compliance audit of BCLC between November 30 - December 9, 2009 (the "**Audit**"), the results of which were provided to BCLC in a report dated January 29, 2010 (the "**Audit Report**").



6. The Audit Report identified purported deficiencies in BCLC's compliance regime, including certain purported deficiencies in reporting requirements, identity verification and record keeping.

7. On February 24, 2010, BCLC provided a detailed response to the Audit Report, in which it addressed each of the purported deficiencies extensively.

8. In many cases BCLC refuted that the purported deficiencies had in fact occurred. A majority of the deficiencies were as a result of IT infrastructure issues, including transmission difficulties for both BCLC and FINTRAC.

9. A large proportion of the remainder of the purported deficiencies concerned a failure to report and keep records of a patron's "occupation" with sufficient specificity, notwithstanding that FINTRAC had provided only vague guidelines in that respect. FINTRAC deemed occupations such as "retiree" and "unemployed" as non-compliant.

10. With respect to all of the purported deficiencies, BCLC indicated that it had taken all reasonable care to prevent any acts of non-compliance, and provided detailed explanations of the steps it had taken to ensure that it and its agents and employees were duly diligent and compliant. Furthermore, BCLC indicated its commitment to compliance with the *Act* and *Regulations*, and set out its prospective intended action plan to resolve any outstanding compliance issues, and its willingness and desire to work cooperatively with FINTRAC to do so.



### III. The Notice of Violation and BCLC's Written Representations

11. There was no formal response from FINTRAC to the BCLC reply until June 15, 2010, when FINTRAC issued a Notice of Violation (the "**Notice**") pursuant to section 73.13 of the *Act*. The Notice alleged that BCLC had committed over a thousand violations of the *Act* and *Regulations*, and assessed an administrative monetary penalty against BCLC in the amount of \$695,750. Nearly all of the alleged violations related to technical IT infrastructure issues or to the disputed interpretation of "occupation".

12. The alleged violations set out in the Notice represent approximately two thirds of the purported deficiencies in the Audit Report. It is unclear which of the deficiencies alleged in the Audit Report later became violations alleged in the Notice. There are no particulars provided with the Notice of the alleged violations. There is no explanation of how the AMP was determined or calculated.

13. On June 30, 2010, BCLC exercised its statutory right to provide written representations to the Director of FINTRAC in response to the Notice. These representations supplemented the February 24, 2010, submission and took the position that the Notice of Violation was improperly issued, that FINTRAC ought to withdraw the Notice, and that FINTRAC ought to withdraw the AMP.

14. On August 3, 2010, BCLC made supplementary submissions after it was invited by FINTRAC to do so. These submissions reiterate a number of the issues raised in the February 24, 2010 submission and the written representations. At all times, BCLC's commitment to compliance was made clear, and the extensive measures undertaken to





ensure compliance were detailed. The combined weight of the two sets of submissions supported a due diligence defence.

15. Separate and apart from issues of compliance, BCLC raised a concern that, despite the statutory requirement prohibiting public disclosure of alleged violations, the name of the person or entity that is alleged to have committed them, and the amount of any penalty imposed until proceedings in respect of a violation are ended, the media nevertheless learned of the Notice of Violation and allegations of non-compliance against BCLC.

**IV. Reviewable Errors of Fact, Law and Jurisdiction and the Breach of the Duty of Procedural Fairness**

16. On October 1, 2010, the Director issued the Decision finding that, after a review of the Notice and its supporting documentation, as well as documentation submitted by BCLC, BCLC had committed the violations set out in the Notice and imposed the AMP.

17. In reaching this Decision, FINTRAC and the Director made numerous errors of fact, law, and/or jurisdiction, and breached the duty of procedural fairness.

18. The Director erred in fact, law and jurisdiction:

- (a) by improperly exercising her power to assess an administrative monetary penalty against BCLC;
- (b) by failing to have proper regard for relevant evidence, including BCLC's February 24, 2010 submissions to FINTRAC;



- (c) failing to properly recognize the scope of the evidence that was relevant to the matters in issue;
- (d) in the interpretation of the *Act* and *Regulations* and reaching the conclusion that BCLC had committed the violations set out in the Notice;
- (e) in failing to apply the correct test on an appeal pursuant to the *Act* and imputing a standard of absolute liability for the purported violations;
- (f) in failing to acknowledge or apply the statutory due diligence defence available to BCLC, or the reasonable care exercised by BCLC to ensure compliance;
- (g) in interpreting the AMP provisions in the *Act* and *Regulations* and failing to have regard for the statutory purpose of the administrative monetary penalty provisions, which is to encourage compliance rather than to be punitive; and
- (h) In the alternative, by failing to properly apply the required statutory criteria in determining the appropriate quantum of the monetary penalty;

19. The Director and FINTRAC breached the duty of procedural fairness by failing to provide an opportunity for full answer and defence, and by failing to provide sufficient reasons for the Decision. The Decision breached the duty of procedural fairness in that it failed to:

- (a) properly particularize the alleged violations;



- (b) properly address relevant evidence presented by BCLC in its various submissions to FINTRAC;
  - (c) address the due diligence defence of BCLC, or properly recognize that the offences were ones of strict liability rather than absolute liability;
  - (d) address the statutory purpose of the administrative monetary penalty and the proper application of the administrative monetary penalty power; and
  - (e) justify the quantum of the AMP or to apply the statutory criteria required to be considered in the assessment of an administrative monetary penalty.
20. Part 1, Part 4, and Part 4.1 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*;
21. The *Proceeds of Crime (Money Laundering) and Terrorist Financing Administrative Monetary Penalties Regulations*, SOR/2007-292.
22. The *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*, SOR/2002-184, as amended;
23. The *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*, as at September 27, 2009;
24. Rules 317, 318, 337, 338, 339, and 350 of the *Federal Court Rules*;
25. Documentation in the possession of FINTRAC which supports the due diligence defence which the Director either:





- (a) reviewed and did not give proper weight; or
- (b) failed to consider.

26. Such further and other grounds as counsel may advise and this Honourable Court may permit;

**V. Rule 317 Request**

27. The appellant requests that, pursuant to Rules 317 and 318, FINTRAC send a certified copy of all materials relevant to this appeal to the Registry and to the appellant, including but not limited to documents:

- (a) reviewed by the Director in reaching the October 1, 2010 Decision, including the "supporting documentation" referred to in the reasons;
- (b) in respect of the findings, opinions and conclusions of the FINTRAC investigators in respect of its January 29, 2010 Audit Report, including but not limited to field notes of FINTRAC Compliance Officers;
- (c) relating FINTRAC's consideration of the BCLC reply submission dated February 24, 2010;
- (d) concerning how purported deficiencies, as set out in the Audit Report, were determined to be violations for the purposes of the Notice of Violation;



- (e) relevant to industry standards in respect of large cash transactions and large cash transaction reports reporting compliance for casino undertakings;
- (f) relevant to the definition of "occupation" for the purposes of compliance with record keeping and reporting regulations, including internal FINTRAC consultations and discussions;
- (g) relevant to the definition of "transaction" for the purposes of compliance with record keeping and reporting regulations, including internal FINTRAC consultations and discussions;
- (h) in the possession of custodians including Michael Donovan, Robert Judge, Murray Dugger, Chantal Jalbert, Julie Ethier, Jeanne Flemming and any FINTRAC personnel assigned to the BCLC file relevant to the purported violations;
- (i) relevant to the assessment of administrative monetary penalties generally, including internal FINTRAC policies and/or guidelines; and
- (j) relevant to determination of the administrative monetary penalty assessed in the Notice of Violation;



28. The appellant proposes that the appeal be heard in Toronto.

October 29, 2010

*Cassels Brock & Blackwell*

**CASSELS BROCK & BLACKWELL LLP**

2100 Scotia Plaza  
40 King Street West  
Toronto, ON M5H 3C2

Arthur Hamilton LSUC #: 39474W

Tel: Personal Information

Fax: Personal Information

Jason Beitchman LSUC #: 56477O

Tel: Personal Information

Fax: Personal Information

Solicitors for the Appellant  
British Columbia Lottery Corporation

TO: **ATTORNEY GENERAL OF CANADA**

Department of Justice Canada  
Ontario Regional Office  
130 King Street West, Suite 3400  
Toronto, Ontario M5X 1K6

Respondent

AND TO: **FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA**

Jeanne M. Flemming  
Director  
234 Laurier Avenue West  
24th Floor  
Ottawa, ON  
K1P 1H7

Tel: Personal Information  
Fax: [REDACTED]

*gml*



Court File No.:

**FEDERAL COURT**

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B E T W E E N :

BRITISH COLUMBIA LOTTERY CORPORATION

Appellant

- and -

ATTORNEY GENERAL OF CANADA

Respondent

---

**NOTICE OF APPEAL**

(Filed this 29<sup>th</sup> day of October, 2010)

---

**CASSELS BROCK & BLACKWELL LLP**

2100 Scotia Plaza  
40 King Street West  
Toronto, ON M5H 3C2

Arthur Hamilton LSUC #: 39474W

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Jason Beitchman LSUC #: 56477O

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Solicitors for the Appellant  
British Columbia Lottery Corporation



THIS IS **EXHIBIT "17"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 12 DAY OF JANUARY, 2021.



---

A Commissioner/Notary Public for the  
Province of British Columbia.





*Know your limit, play within it.*

14 April, 2010

**CONFIDENTIAL**

Mr. Doug Morrison  
Manager, Casino Security and Surveillance  
British Columbia Lottery Corporation  
10760 Shellbridge Way  
Richmond, B.C. V6X 3P8

Dear Mr. Morrison:

**Re: Loan Sharking/Suspicious Currency and Chip Passing Activity in Lower Mainland Casinos**

Dealing with loan sharking and money laundering issues are two of the main priorities of the Gaming Policy and Enforcement Branch, Investigations Division. Over the past several months we 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, we 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. The patrons identified and their activities are shown as noted. The histories of each of these individuals is well documented in BCLC's own Itrac system.

**Yu ZHANG**

In October 2006, ZHANG was prohibited by BCLC for one year as a result of transferring value chips to another casino patron. Since 2008, ZHANG has been involved in seven suspicious cash transactions and chip passing incidents, including associating with a known loan shark. No sanctions have been imposed.

Ministry of  
Housing and Social  
Development

Gaming Policy and  
Enforcement Division  
Investigations and Regional  
Operations

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

Telephone:  
Facsimile:  
Web: [www.pssg.gov.bc.ca/gaming](http://www.pssg.gov.bc.ca/gaming)

**Personal  
Information**



Huanying XIAN

Since 2008 XIAN has been involved in six suspicious cash transactions and chip passing incidents. XIAN has also been involved in two incidents where she was observed associating with a known loan shark.

Public Interest Immunity

## Public Interest Immunity

No sanctions have been imposed.

Chun Yan CHEN

Since 2008 CHEN has been involved in twelve suspicious cash and chip passing incidents. On two occasions she was observed associating with known loan sharks.

Public Interest Immunity

## Public Interest Immunity

No sanctions have been imposed.

Jack QIN

Since 2009 QIN has been involved in six suspicious cash transactions and chip passing incidents. QIN was involved in one incident where the BCLC Investigator

Public Interest Immunity

## Public Interest Immunity

No sanctions have been imposed.

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 empowers BCLC to remove and forbid entry into any gaming facility of any person that is deemed to be "undesirable". We believe that any patron associating with, or engaging in loan shark activity, is by definition undesirable.

Public Interest Immunity

Public Interest Immunity

XIAN, CHEN and QIN are engaging in activities consistent with loan sharking. However, no sanctions were imposed.

In the past the service providers and BCLC have been vigilant in dealing with loan sharks operating within the casinos. They have, for the most part, been removed from the gaming floors and out of the venues. However, there are still numerous documented instances where loan sharks have adapted their tactics and are still very active within the casinos. We believe the next step in dealing with loan sharks is to target the patrons using the services of loan sharks and operating on behalf of loan sharks.

We are of the opinion that permitting any patron to engage in these types of behavior is a serious threat to the integrity of gaming and that an aggressive attitude needs to be adopted by the service providers, BCLC and GPEB to stop this undesirable behavior which is ultimately fostering the loan sharks' abilities to operate within casinos. One of the tactics available to BCLC, that we believe should be utilized, is to toughen their stance in these types of policy violations and prohibit any patron found to be engaging in undesirable behaviors' involving associating with loan sharks and particularly, engaging in loan sharking activity.

A secondary issue that has also surfaced is the volume of chip passing incidents being reported to GPEB by way of Section 86, GCA. Most of these incidents are rightfully being identified as "not suspicious", however, the same violators are appearing in these reported incidents over and over again. Despite being warned by the service provider and by BCLC personnel, they continue to openly flaunt the BCLC chip passing policy. It is obvious that these warnings are not having any influence on the offending patrons to correct their undesirable behaviors'. We are of the opinion that BCLC needs to impose meaningful sanctions on the chronic violators in an effort to stem the tide of chip passing in all gaming facilities.

Over the past number of months, these issues have been brought to the attention of the service provider staff as well as BCLC Corporate Security investigators at different sites. Very little, if any, changes in procedures have resulted. As such, this matter is now being brought to your attention with the hope that strict actions be undertaken to curtail what we believe are serious concerns.

We trust that these matters will be addressed in the near future. Should you require any further particulars on any of the persons or circumstances identified in this correspondence, please do not hesitate to contact the writer direct.

Yours truly,

Derek Dickson  
Director, Casino Investigations LMD

CC: Mr. Terry Towns, Vice President, Corporate Security and Compliance  
Larry Vander Graaf, Executive Director, Investigations and Regional Operations, Gaming Enforcement  
Joe Schalk, Sr. Director, Investigations and Regional Operations, Gaming Enforcement



THIS IS **EXHIBIT "18"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
A Commissioner/Notary Public for the  
Province of British Columbia.





**CONFIDENTIAL**

2010.05.04



BCLC  
10760 Shellbridge Way  
Richmond, BC V6X 3H1  
T 604.270.0849  
F 604.276.8424  
www.bclc.com

Mr. Derek Dickson  
Director, Casino Investigations LMD  
Ministry of Housing and Social Development,  
Gaming Policy and Enforcement Branch,  
Investigations and regional Operations,  
#408 4603 Kingsway Ave.,  
Burnaby, B.C.  
V5H 4M4

Dear Mr. Dickson

**Ré: Loan Sharking/Suspicious Currency and Chip Passing in  
Lower Mainland Casinos**

Receipt of your correspondence dated 2010APR14 is hereby acknowledged. This reply may also be considered as a follow up to our meeting at your office 2010APR19, where we discussed most of the concerns as identified in your memo, I believe, to our mutual satisfaction.

To reiterate our conversation about this on-going problem, particularly with respect to chronic violators of loan sharking incidents and chip passing, we at BCLC share your concern that this activity could be the greatest single threat to the integrity of gaming in the province. We wish to assure you that BCLC view the threat of loan sharking as serious and will take any and all action possible against those observed participating in this activity.

As per our discussions of April 19<sup>th</sup> four individuals identified in your memo as being of the most concern due to their histories of chip passing and/or association with loan sharks; Yu ZHANG is presently the subject of an ongoing RCMP Integrated Proceeds of Crime investigation. Needless to say, a significant amount of information received by the Police about ZHANG was supplied by BCLC Corporate Security. ZHANG remains on the 'Watch' category in ITrak. Huanying XIAN, Chun Yan CHEN have been provincially barred and we are presently awaiting the results of an investigation into the activities of Jack QIN that may also result in a provincial barring.



**bclc**  
OFFICIAL  
SUPPORTER

*zul*

In order to deter and prohibit any level of loan sharking operating in our casinos, BCLC continues to maintain and support an 'aggressive attitude' and philosophy. As well, BCLC maintains strategies presently in place internally as well as in our casinos that are dedicated to the detection and interdiction of loan sharking. These strategies include BCLC investigator training to ensure investigators are familiar with loan shark tactics and operating methods. An Internal Policy guide has been developed and implemented to assist investigators in conducting loan sharking investigations. It clearly details the common 'elements' of loan sharking more commonly witnessed in our casinos. BCLC investigators are trained in how to create and present suspicious financial transaction reports; which includes loan sharking, to FinTrac, GPEB and the RCMP Integrated Proceeds of Crime Section. Investigators are also tasked with ensuring any relevant intelligence obtained regarding loan sharks is shared with the RCMP. A complete 'library' of individuals operating or suspected as loan sharks in our lower mainland casinos has been created and is made readily available to all our investigators as a reference. This profile library also identifies some of the organized groups responsible for the lion's share of loan sharking in the casinos and is updated regularly. Other strategies involve the daily scrutiny of casino cheques issued to patrons for 'verified wins' only. This ensures that these cheques are issued as per BCLC Policy and not to suspected loan sharks looking to hide their incomes by virtue of casino cheques. All BCLC investigators are tasked with delivering FinTrac training to casino and CGC staff on an ongoing basis. This training is focused on the detection and reporting of any and all suspicious financial transactions taking place in the casino. The guide, detailing 'elements' of loan sharking and reporting responsibilities are presented to casino staff as part of the FinTrac training package and given as a 'hand out'. This ensures all levels of staff, from dealers, slot attendants, supervisors and management are familiar with what they should be looking for and the requirement to report. Investigators are continually stressing the importance of reporting incidents of loan sharking and chip passing during the training sessions, not only from a Policy perspective but as a federally legislated requirement.

Chip passing incidents of a 'non suspicious nature' has been given greater scrutiny. BCLC has insisted that incidents of non suspicious chip passing between patrons be investigated and reported. Patrons are warned about this activity and that to continue or to repeat doing so do so may incur sanction(s). I refer to the discussion we had in regards to chip passing and the further steps BCLC intended to take with regards to sanctions. BCLC believes this strategy will

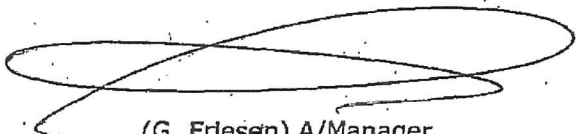


significantly reduce the over all amount of chip passing incidents presently experienced.

Another ongoing strategy is that Casino Surveillance is continually monitoring and sensitive to chip passing and potential loan shark activity taking place in their respective casino sites. Patrons identified participating in this activity are confronted by security and warned about their actions. This is documented and if required, patrons are flagged in ITrak under the 'Watched' category. All LMD casinos have access to these subject profiles and therefore all benefit from this category and are able to continue monitoring patron activity regardless of which casino they may attend. However, depending on circumstances, a patron(s) may be removed immediately from the casino pending a BCLC investigation into the incident. Subsequent to an investigation, if warranted, any patron(s) found engaging in any level of loan sharking will be provincially barred.

Please be assured that BCLC is committed to do everything it possibly can to address all incidents of loan sharking, both strategically and proactively thus ensuring the integrity of gaming within the Province.

We are also continually looking for ways to enhance our relationship with GPEB investigators in order to meet and confront these challenges more collectively and effectively.



(G. Friesen) A/Manager,  
BCLC Corporate Security and Surveillance.





THIS IS **EXHIBIT "19"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
\_\_\_\_\_  
A Commissioner/Notary Public for the  
Province of British Columbia.



The Best Place on Earth

*Know your limit, play within it.*

**Confidential**

Mr. Gordon Friesen  
Manager, Casino Security and Surveillance  
British Columbia Lottery Corporation  
10760 Shellbridge Way  
Richmond, B.C. V6X 3P8

November 24th, 2010

**Re: Money Laundering in Casinos**

Dear Gord,

Recently we have begun to see a dramatic increase in the amounts of small denomination Canadian currency used for large buy-ins by LCT patrons within Lower Mainland Casinos. Although there have been numerous similar suspicious currency transactions, one particular LCT patrons play over a 4 week period at the Starlight Casino illustrates the magnitude of this situation. This Division, the Branch, and the RCMP are very concerned about the potential money laundering by Sha in BC casinos.

10-08-31

Li Lin Sha Buys in with \$200,000 in Canadian currency, \$198,000 of which is in \$20 denominations.

10-09-01

Sha buys in with \$100,000 in Canadian currency, \$94,000 of which is in \$20 denominations.

10-09-01

Sha buys in with \$190,000 in Canadian currency, all in \$20 denominations.

10-09-01

Sha buys in with \$200,000 in Canadian currency, all in \$20 denominations.

10-09-02

Sha buys in with \$100,000 in Canadian currency, all in \$20 denominations.

10-09-03

Sha buys in for \$150,000 in Canadian currency, all in \$20 denominations.

10-09-03

Sha buys in for \$250,020 in Canadian currency, \$227,020 which is in \$20 denominations.

10-09-04

Sha buys in for \$100,000 in Canadian currency, all in \$20 denominations.

10-09-06

Sha buys in for \$200,000 in Canadian currency, the denominations are not known.

10-09-08

Sha buys in for \$158,000 in Canadian currency, all in \$20 denominations.

10-09-09

Sha buys in for \$200,000 in Canadian currency, all in \$20 denominations.

10-09-10

Sha buys in for \$100,000 in Canadian currency, all in \$20 denominations

10-09-11

Sha buys in for \$200,000 in Canadian currency, all in \$20 denominations

10-09-13

Sha buys in for \$43,000 in Canadian currency, \$40,000 was in \$20 denominations.

10-09-14

Sha buys in for \$150,000 in Canadian currency, all in \$20 denominations.

10-09-16

Sha buys in for \$150,000 in Canadian currency, \$62,000 was in \$20 denominations.

10-09-20

Sha produces and looses \$280,000 in chips. He leaves the casino and returns to buy in 24 minutes later for \$60,000 in Canadian currency, all in \$100 denominations.

10-09-21

Sha looses \$260,000 in chips and \$70,000 in Canadian currency, denominations are not known. Sha was met by a vehicle in front of the casino and takes an object from the trunk and returns to the casino. Sha buys in for an additional \$325,000 in chips, which he eventually looses.

10-09-25

Sha buys in for \$200,020 in Canadian currency, all in \$20 denominations.

10-09-26

Sha buys in for \$150,000 in Canadian currency, all in \$20 denominations.

10-09-29

Sha buys in for \$140,000 in Canadian currency, \$138,900 of which was in \$20 denominations.

The total buy-ins for Sha during this period are \$3,111,040, of which \$2,657,940 are in \$20 denomination. This total does not include any buy-ins he had with value chips. Not included in these total are Sha's buy-ins for his play at the Starlight Casino in August, which totaled \$808,000 in Canadian currency, all in \$20 denominations. That would bring his two month total buy-ins consisting of \$20 denominations to \$3,465,940.

As previously noted, Sha is not an isolated case and we have seen numerous similar large buy-ins with small denominations at numerous casino venues in the province. It typically involves well known LCT patrons that play baccarat and arrive with cash as a buy-in. Two questions that arise from this example; Why are these \$20 denominations not being taken to a banking facility by Sha? Why isn't Sha using the PGF account or being forced by the service provider and BCLC to use the PGF account?

Senior Director Joe Schalk and the writer met recently with the Officer In Charge, RCMP Integrated Proceeds of Crime Unit (IPOC), and they are well aware of this issue and are seriously concerned that the casinos are being used as a method to launder large sums of money for organized crime groups. They are of the opinion that this is, without doubt, large scale money laundering.

Public Interest Immunity

Public Interest Immunity

They are also meeting the requirements of GPEB in relation to Section 86 (real or suspected criminal activity) of the Gaming Control Act, as well

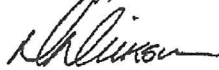


as advising IPOC of these suspicious cash transactions. However, although identifying the suspicious nature of these transactions & Public Interest Immunity

Public Interest Immunity, the service providers continue to take these large amounts of \$20 denominations in duffle bags, paper bags, etc. to be used for gambling in the casinos. BCLC is responsible for the conduct and managing of casino gaming in British Columbia through standard operating procedures and we believe, at a minimum, as a good corporate citizen you should re-assess your corporate responsibility in allowing these large amounts of \$20 denominations to enter the casino gaming environment. A restriction of allowing a maximum of \$10,000 in \$20 denominations could remedy the situation.

The conduct and manage mandate of BCLC has a direct correlation to maintaining the integrity of gaming in the province. We believe that BCLC needs to seek solutions to the obvious, increasing, and continuous money laundering threat that is occurring, particularly involving the flood of small denomination currency, within BC casinos.

Sincerely,



Derek Dickson  
Director, Casino Investigations, LMD  
Gaming Policy and Enforcement Branch  
Gaming Enforcement  
Ministry of Public Safety and Solicitor General

CC: Derek Sturko, Assistant Deputy Minister and General Manager  
Terry Towns, Vice President, Corporate Security and Compliance  
Larry Vander Graaf, Executive Director, Investigations and Regional Operations, Gaming Enforcement  
Joe Schalk, Senior Director, Investigations and Regional Director LMD, Gaming Enforcement



THIS IS EXHIBIT "20" TO THE  
AFFIDAVIT OF TERRY TOWNS  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.



A Commissioner/Notary Public for the  
Province of British Columbia.



December 24, 2010

Mr. Derek Dickson  
Director Casino Investigations, LMD  
Gaming Policy and Enforcement branch  
Gaming Enforcement  
Ministry of Public Safety and Solicitor General



2940 Virtual Way  
Vancouver, BC V5M 0A6  
T 604.215.0649  
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bclc.com

Re: Money Laundering in British Columbia Casinos

Dear Derek,

This letter is in response to your correspondence dated November 24, 2010 wherein you expressed a concern in relation to "a dramatic increase in the amount of small denomination Canadian currency used for large buy-ins by LCT patrons with Lower Mainland Casinos." You further state that although there have been numerous similar suspicious currency transactions one particular LCT patron by the name of Li Lin SHA illustrates the magnitude of the situation. BCLC further recognizes that GPEB as well as the RCMP are very concerned about the potential money laundering by Mr. SHA in British Columbia casinos.

BCLC Corporate Security is very sensitive to potential money laundering risk in all of our gaming establishments. As such BCLC has instituted a rigorous anti-money laundering strategy in an effort to mitigate money laundering risk in all of our BC gaming facilities. This strategy includes but is not limited to enhanced BCLC Policy and Procedures, comprehensive anti-money laundering training for service provider employees and strict adherence to Fintrac reporting guidelines as they relate to the Proceeds of Crime [Money Laundering] Terrorist Financing Act.



We have taken the opportunity to review your correspondence, specifically all of the cash transactions you provided to us that were conducted by Mr. SHA between August 31, 2010 and September 29, 2010. You have listed the total buy-ins for Mr. SHA during this period as being \$3,111,040. \$2,657,940 were in \$20.00 Canadian denominations with an additional amount of \$808,000 in \$20 denominations that SHA played at the Starlight Casino in August of this year were not included in this total.

To properly respond to your concerns, BCLC Corporate Security conducted a thorough investigation in relation to Mr. SHA's gaming play between the dates of August 31, 2010 and September 29, 2010 in an effort to determine Mr. SHA's cash win/loss position.

Our investigation included a review of Mr. SHA's large cash transaction reports as well as Starlight Casino's internal procedural variance reports [IPVR]. As such we were able to determine the following as it relates to Mr. SHA's gaming play during the previously mentioned time frame;

Total Buy-ins - \$3,681,320

Total Net loss - \$3,338,740

During this period Mr. SHA received one verified win cheque in the amount of \$270,000 on September 7, 2010 which he subsequently brought back into the Casino and used to buy-in for table game play the next day.

Our investigation further revealed that we have no record of Mr. SHA playing in any BC gaming facility during the month of August except for August 31, 2010. We were also not able to find record of "additional buy-ins" of \$808,000 in \$20.00 Canadian currency denominations that Mr. SHA conducted at the Starlight Casino during the month of August.

You also query why SHA has not taken the \$20.00 bills to a banking facility.

As you are well aware, gambling 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. Our records reveal that Mr. SHA has provided his occupation as "Owner of Coal Company/Commercial Real Estate".

**bclc**  
playing it right

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bclc.com



He is very well known to BCLC and our Service Provider partners and has documented large cash transactions that date back to July 2006. BCLC cannot answer as to why Mr. SHA chooses not to take these \$20.00 denomination currency bills to a banking facility. The \$20.00 bill is the most widely utilized form of currency in Canada.



You then query why SHA is not forced by the Service Provider and BCLC to use the PGF account.

Patron Gaming Funds Accounts were first introduced approximately a year ago as a pilot project subsequent to GPEB scrutiny and approval. The purpose behind the patron gaming fund account is to provide our patrons a viable customer service that gives them the option of depositing funds into a Casino account. The PGF account allow for deposit and withdrawal of funds based on adherence to strict BCLC Policies and Procedures that have been sanctioned by GPEB. Participation in the PGF Account program is purely voluntary. The decision of whether or not to utilize this option rests solely with the patron.

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bclc.com

Mr. SHA is aware of this option but to this point preferred not to utilize a PGF account for reasons only known to him. BCLC is not in a position to force Mr. SHA into utilizing a PGF account.

As part of our anti-money laundering strategy, BCLC recognizes and ensures that large cash transactions as previously outlined in your correspondence are reported in a timely manner as per Fintrac guidelines and Federal legislation. BCLC further ensures that Section 86 reports are submitted to GPEB and that copies of our suspicious financial reports are forwarded to both GPEB as well as the RCMP Integrated Proceeds of Crime Unit for whatever action they choose to take from a Policing perspective.

It is our opinion that based on SHA's history of play; his betting strategy; the fact he has requested only one verified cheque during the dates in question; his win/loss ratio, and the fact his occupation states he owns a coal mine and commercial real estate firm, he does not meet the criteria that would indicate he is actively laundering money in British Columbia casinos.

A handwritten signature in dark ink, appearing to be 'JUL' or similar, is located at the bottom right of the page.

The other recommendation posed by you would be to restrict the amount of \$20.00 denomination bills allowed by a patron to bring into a Casino at \$10,000. Due to fact gaming in the province is cash based this restriction is unrealistic given the circumstances.



BCLC intends to remain vigilant and sensitive to potential money laundering in our Casinos. Anti-money laundering programs and patron risk management protocols are continually reviewed and refreshed. This is an ongoing process dedicated to identify, action and report to the authorities any and all incidents of suspected money laundering. BCLC enjoys a close relationship to the RCMP Proceeds of Crime Unit and files reports of suspected money laundering to them on a continuous basis.

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F 604.225.6424  
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BCLC is all too aware of its responsibilities in maintaining the integrity of gaming in the province and will remain vigilant to any level of criminality revealing itself in our Casinos.

Sincerely,

John Karlovcec

Assistant Manager

Casino Security and Surveillance

BCLC Corporate Security and Compliance

CC:

Derek Sturko, Assistant Deputy Minister and General Manager

Terry Towns, Vice president, Corporate Security and Compliance

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

Joe Schalk, Senior Director, Investigations and Regional Director, Gaming  
Enforcement



THIS IS **EXHIBIT "21"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS **22** DAY OF JANUARY, 2021.



---

A Commissioner Notary Public for the  
Province of British Columbia.





The Best Place on Earth

*Know your limit, play within it.*

28 February, 2011

Mr. Gordon Friesen  
Manager, Casino Security and Surveillance  
BCLC Corporate Security and Compliance  
British Columbia Lottery Corporation

**Re: Money Laundering in British Columbia Casinos**

Dear Gordon:

Further to the letter from Derek Dickson of 24 November, 2010 and the response from John Karlovcec dated 24 December, 2010 please be advised as follows.

Our correspondence made reference to the Li Lin SHIA case not being an isolated case and that there were then, and continue to be, an alarming increase in similar large buy-ins with small denominations by a significantly large number of patrons at various casino venues in the Province. The number of files generated by required reporting from these venues, and what could only be considered staggering quantities of cash, predominately in \$20.00 currencies, is a huge integrity of gaming issue and must be addressed. We believe it is unacceptable to simply say "that due to the fact that gaming in the province is cash based this restriction (of limiting the amount of \$20.00 denomination bills allowed to be cashed at any Casino) is unrealistic given the circumstances." Banking establishments throughout Canada could not and would not take these amounts of small denomination bills and we do not believe Casinos should either, for the same reasons Banks will not – because these large amounts of small denomination currencies are suspicious, likely the proceeds of crime and very likely being used in the facilitation of, if not the direct laundering of those proceeds of crime. In a significant number of specific cases, the Police believe the laundering of proceeds of crime is taking place. Experts in money laundering matters in the Police community have said the same thing publicly and privately to GPEB and BCLC personnel. It must again be pointed out that even BCLC Security personnel OFTEN comment on a variety of Suspicious Currency reported issues in the venues, often making reference to the seriousness of the suspicions surrounding the passing of currency and denominations being used and also often times, even commenting on the association of that currency to known Loan Sharking activity as the source of that currency for the patron passing it at the venue. The author of the response letter, John Karlovcec, himself has been the writer of a number of those ITRAC based comments.

Ministry of  
Public Safety and  
Solicitor General

Gaming Policy and  
Enforcement Branch  
Investigations and Regional  
Operations

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

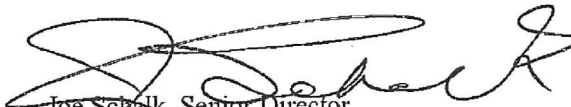
Telephone: (604) 680-0245  
Facsimile: (604) 680-2030  
Web: [www.pssg.gov.bc.ca/gaming](http://www.pssg.gov.bc.ca/gaming)

BCLC has repeated for many years that they have/are instituting a "rigorous anti-money laundering strategy in an effort to mitigate money laundering risk." However, just over the past 10 months, reported incidents of Suspicious Currency Transactions and Money Laundering have more than tripled over the previous year. We believe those statistics underline the seriousness of the issue we are dealing with. These strategies appear to have been ineffective to date.

The Player Gaming Fund account (PGF account) was brought in over a year ago at the strong behest of BCLC. The stated reasons for having a PGF account were to afford "the patron the convenience and security of not having to carry large sums of cash into or out of the casino." Two other main reasons given were; "providing a facility for patrons to manage their own cash (and by so doing) this program has a potential to reduce loan sharking at BC casinos" and "deposit money into the PGF account, the risk of money laundering is dramatically reduced." You have stated that the PGF account is purely voluntary and the decision to utilize this option rests solely with the patron. Stopping the flow of large quantities of small denomination (\$20.00 bills) into the Casino would indirectly force a non-criminal, high limit patron to use either a certified financial institution bank draft direct or indirectly to the casino through the PGF account, to insure the integrity of funds used in gaming venues is preserved. You also state that the subject Sha, under the question as to his occupation, "states he owns a coal mine and commercial real estate firm." There could or may be a significant difference between what a person "states" and what is real. Again, one of the principles embedded in the PGF account was similar to what Canadian Financial Institutions hold to; that being the rule of Know Your Customer. Financial Institutions do not simply go by way of what a person "states".

Large quantities of \$20.00 bill denominations will continue to be and are at present properly reported to the various authorities as "Suspicious Currency", both by the service provider and BCLC. Patrons using these large quantities of \$20.00 currency buy-ins may not in some, certainly not all cases, be directly involved with or themselves be criminals. Regardless of whether they win or lose all of the money they buy in with, we believe, in many cases, patrons are at very least FACILITATING the transfer of and/or the laundering of proceeds of crime. Those proceeds may have started out 2 or 3 persons or groups removed from the patron using these instruments to play in the casino. Regardless, money is being laundered. The end user, the patron, MUST STILL pay back all of the monies he/she receives in order to facilitate his buy-in with \$20.00 bills and for the person on the initial start of the facilitation process, the money is being laundered for him/her, through the use of the gaming venue.

If the flow of large quantities of small denomination cash is not stopped at the casino cash cage with those monies being refused, the integrity of gaming will continue to be jeopardized. This threat will increase into the future if something is not done. The dramatic increase in the reports as noted and the most recent media reports on these issues, underline the significance of this concern. Again, we ask that BCLC work to explore available options to find a solution to this significant threat that is constant and increasing in rapidity and volume.


  
Joe Schalk, Senior Director  
Investigations and Regional Operations  
Gaming Enforcement



CC: Sue Birge, Acting Assistant Deputy Minister and General Manager  
Terry Towns, Vice President, Corporate Security and Intelligence  
Larry Vander Graaf, Executive Director, Investigations and Regional Operations, Gaming  
Enforcement  
Derek Dickson, Director of Casino Investigations, Gaming Enforcement  
John Karlovcec, Assistant Manager, Casino Security and Surveillance, Corporate Security  
and Compliance

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THIS IS **EXHIBIT "22"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
\_\_\_\_\_  
A Commissioner/Notary Public for the  
Province of British Columbia.



**Van Sleuwen, Terri HSD:EX**

---

**From:** Terry Towns Personal Information  
**Sent:** December 9, 2008 10:34 AM  
**To:** Van Sleuwen, Terri HSD:EX; Vander Graaf, Larry P HSD:EX; Sturko, Derek HSD:EX  
**Cc:** XT:Graydon, Micheal CASE:IN; Darryl Schiewe; Doug Morrison  
**Subject:** FW: Patron Gaming Funds Accounts - draft policy for review

**Attachments:** DRAFT for CSP Review - Cage - PGF Accounts with Terry's EFT revision.doc



DRAFT for CSP  
Review - Cage - ...

Good Morning

Please find attached draft policy on Patron Gaming Fund Accounts. These are accounts held by the Casino of a patrons own funds, which the patron can draw from when they are in the facility. Both Lotto Quebec and OLG (Rama, Fallsvie and Windsor) have used these accounts for several years. They are non interest bearing and no fees are charged by the Casino. The accounts can be opened with minimum deposit of \$10,000.00.

I would like to point out some of the policy issues:

**Policy Point 1:**

The policy includes Electronic Fund Transfers in from a Canadian financial institution ONLY.

**Rationale:**

- Foreign banks do not do the same due diligence as Canadian institutions with the Proceeds of Crime and Money Laundering Act. If money is Electronic Funds Transferred to a Canadian bank, BCLC and FINTRAC can be assured the source of funds has been declared.

**Policy Point 2:**

No Electronic Fund Transfers will be allowed outbound from the Casino.

**Rationale:**

- BCLC nor the financial institutions can differentiate between a "verified win" and a return of a player's deposit through Electronic Fund Transfers. The differentiation is necessary to prevent an unscrupulous patron from claiming funds transferred into their bank accounts were "wins" from a Casino, as opposed to simply the return of the money the player had deposited with the Casino in the first instance. This step is necessary to prevent patrons from opening and closing accounts and claiming wins at the Casino thus "laundering" those funds.
- The cheques given back to a player by the Casino will clearly differentiate between "verified wins" and return of deposit to the player.
- BCLC believes this will be a major enhancement to the policy to allow cheques to patrons leaving the facility, both from a safety standpoint and to prevent money laundering.





We would appreciate your input into this draft policy and would be happy to meet with you for a discussion.

Thanks

Terry

This email is intended only for the addressee. It may contain confidential or proprietary information that cannot be disclosed without BCLC's permission. If you have received this email in error, please notify the sender immediately and delete the email.

A handwritten signature in black ink, appearing to be 'JUL' or similar, located at the bottom right of the page.

THIS IS EXHIBIT "23" TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

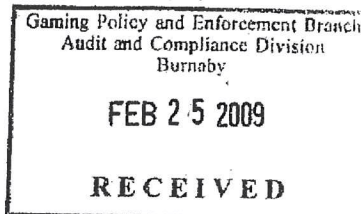


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A Commissioner/Notary Public for the  
Province of British Columbia.



TERRE



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

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 RRCR.

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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www.bclc.com



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- 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.

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- 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.

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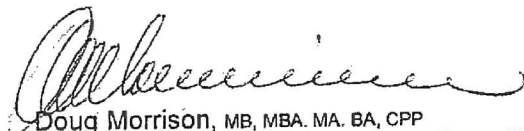
- 5 -

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,



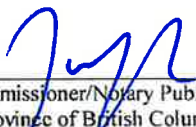
Doug Morrison, MB, MBA, MA, BA, CPP  
Manager, Corporate Security and Surveillance

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 "24"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

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A Commissioner/Notary Public for the  
Province of British Columbia.

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**From:** Fair, Susan P HSD:EX on behalf of Sturko, Derek HSD:EX  
**Sent:** Tuesday, August 11, 2009 3:08 PM  
**To:** XT:Graydon, Micheal CAsE:IN  
**Cc:** McCrea, Bill J HSD:EX  
**Subject:** Letter from Gaming

The attached letter is sent on behalf of Derek Sturko, Assistant Deputy Minister, Gaming Policy and Enforcement.



*Susan*

Susan Fair  
Executive Administrative Assistant  
Gaming Policy and Enforcement  
Ministry of Housing and Social Development

Personal  
Information

**Know your limit, play within it.**





*Know your limit, play within it.*

August 11, 2009

Log # 153916

Mr. Michael Graydon  
President and CEO  
BC Lottery Corporation  
19760 Shellbridge Way  
Richmond BC V6X 3H1

Dear Mr. Graydon:

I am writing to confirm and formalize our August 7, 2009 discussion concerning the notion of BCLC's development of a restricted Patron Gaming Fund (PGF) account in BC casinos.

On behalf of the Province, I am pleased to provide an approval-in-principle for the concept of a restricted PGF account and a pilot project (to be jointly administered by BCLC and GPE) in a number of BC casinos to assess the viability of such accounts for permanent introduction in BC.

As discussed, the account will be limited to accepting only electronic funds transfer (EFT) deposits from bona fide financial institutions, with strict controls of funds that can be re-deposited into the account and a fully defined verified win requirement.

As part of the development of the pilot project, BCLC will draft, for discussion with and approval by GPE:

- The detailed design of the program (which must include, but is not necessarily limited to: EFT deposit and withdrawal; 'Know Your Client' diligence; managing and confirming verified wins; employee training; and, record keeping); and
- The processes and procedures to be employed by BCLC and casino service providers to ensure the secure management of these accounts.

GPE will include an audit of the pilot program in future audit plans.

It is GPE's belief that a well designed and managed PGF account can:

- Provide a valuable service to casino patrons while managing the related large cash transaction risk; and
- Be an integral part of anti money laundering diligence in BC casinos.

/2

Ministry of  
Housing and Social  
Development

Gaming Policy and  
Enforcement  
Assistant Deputy Minister's  
Office

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Victoria, BC  
Web: [www.pssg.gov.bc.ca/gaming](http://www.pssg.gov.bc.ca/gaming)

However, as we have also discussed, GPE and BCLC will continue to work together to ensure ongoing development of management solutions for the larger money laundering risk in gaming.

Bill McCrea, Executive Director, Internal Compliance and Risk Management, will serve as GPE's lead on this work.

I look forward to receiving the draft PGF account program design for our review.

Sincerely,



Derck Sturko  
Assistant Deputy Minister

pc: Bill McCrea



THIS IS EXHIBIT "25" TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.



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A Commissioner/Notary Public for the  
Province of British Columbia.





August 18, 2009



BCLC  
10760 Shellbridge Way  
Richmond, BC V6X 3H1  
604.270.0649  
604.276.6424

Bill McCrea  
Executive Director  
Internal Compliance and Risk Management Division  
Gaming Policy & Enforcement  
PO Box 9310, Stn. Prov. Govt.  
V8W 9N1

Dear Bill:

Attached please find detailed draft policy on Patron Gaming Fund Accounts. Several changes have been made as a result of BCLC's discussions with GPE, Service Provider input and the discussions between Mike and Derek.

I have also attached a memo issued to all Casino Service Providers and Community Gaming Centres on August 7, 2009, clarifying a "verified win".

The proposal is for a pilot phase from September 1, 2009 until March 31, 2009 at three lower mainland facilities. The three locations are:

- Great Canadian - *River Rock Casino & Resort*
- Gateway - *Starlight Casino*
- Paragon Gaming - *Edgewater Casino*


Audits and monitoring by BCLC are noted in the policy. I understand Gateway has already conducted training sessions and Great Canadian has hired an individual from the banking industry to assist with account set-up and training for their staff. We are contacting Paragon to determine what their training process will be moving forward.

I will forward detailed process and risk assessment maps which reflect the draft policy very shortly.

BCLC will await your approval prior to contacting individual Service Provider companies to initiate the accounts.



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|---|--|--------------------------------|--|
|  <b>British Columbia<br/>Lottery Corporation</b> | <b>Casino Standards,<br/>Policies and<br/>Procedures (v.2)</b> | Effective Date                 | Section Page                                   |
|   |  | DRAFT (v.5)<br>August 17, 2009 | <b>3-8.3—8</b>                                 |
|   |  | Last Revised Date              | Authorized by<br>Vice President, Casino Gaming |
| Section: 3-8.3 Cage – Patron Gaming Funds Accounts – Draft for trial (v.5) – Sept 1, 2009 – Mar 31, 2010                          |  |                                |  |

10.3 If patron's answer is affirmative for another site:

10.3.1 Security Manager or designate shall;

10.3.1.a Advise the BCLC Security Investigator for follow up with the appropriate sites.

10.4 BCLC Operational Gaming Auditor shall, at least quarterly, conduct a review of Patron Gaming Funds Accounts, comparing list of account holders to Voluntary Self Exclusion module in CRS to ensure all voluntary self excluded patron's accounts have been closed. ✓

## 11 DISCREPANCIES

11.1 Casino Service Provider Finance department shall notify Surveillance if any negotiable instrument is;

11.1.1 Not valid;

11.1.2 Dishonoured;

11.1.3 Fraudulent; or

11.1.4 Suspicious. — FINTRAC

11.2 Surveillance shall:

11.2.1 Complete an Incident Report in CRS noting particulars;

11.2.2 Complete a section 86 report to GPEB as per General – Incident Reporting and Escalation; and,

11.2.3 Notify BCLC Casino Security Investigator of the circumstances.

11.3 An Incident Report in CRS shall be generated for any discrepancies or irregularities to the Cage – Patron Gaming Funds Accounts procedures.

## 12 PROCEDURES

12.1 The Service Provider shall propose procedures which include the following as a minimum, and are subject always to BCLC review and approval.


12.2 Account opening:

12.2.1 Cage Supervisor/Manager shall oversee all account openings;

12.2.2 Accounts shall not be opened for initial deposits of less than \$10,000;


12.2.3 Search of the Voluntary Self Excluded and Barred Patron databases in CRS shall be completed to ensure patron is eligible to open an account; ✓

12.2.3.a If patron profile is found in the database, Security shall be notified immediately.

|   |  |                                |  |
|---|--|--------------------------------|--|
|  <b>British Columbia<br/>Lottery Corporation</b> | <b>Casino Standards,<br/>Policies and<br/>Procedures (v.2)</b> | Effective Date                 | Section Page                                   |
|   |  | DRAFT (v.5)<br>August 17, 2009 | <b>3-8.3—9</b>                                 |
|   |  | Last Revised Date              | Authorized by<br>Vice President, Casino Gaming |
| Section: 3-8.3 Cage – Patron Gaming Funds Accounts – Draft for trial (v.5) – Sept 1, 2009 – Mar 31, 2010                          |  |                                |  |


- 12.2.4 Notification levels shall be followed;
- 12.2.5 PGF Account Application shall be completed and filed;
- 12.2.6 LCTR shall be completed;
- 12.2.7 Signature card shall be signed, compared to signature on identification presented, and filed for future access;
- 12.2.8 Declaration of Source of Funds shall be completed;
- 12.2.9 Patron profile card shall be completed, noting details as per ACCEPTABLE IDENTIFICATION/'KNOW YOUR CLIENT' DOCUMENTATION;
- 12.2.10 Incident Report in CRS shall be completed;
- 12.2.11 A 'Deposit to PGFA' transaction shall be completed in CMS, noting Patron's account number in the comments section;
  - 12.2.11.a 1 copy of slip shall be retained with the CMS paperwork;
  - 12.2.11.b 1 copy of slip shall be attached to the signed deposit receipt and held with the PGF Accounts paperwork.
- 12.2.12 Patron information shall be entered into the Service Provider's separate accounts system;
- 12.2.13 Receipt in triplicate shall be completed, including:
  - 12.2.13.a Date of transaction;
  - 12.2.13.b Patron name;
  - 12.2.13.c Patron account number;
  - 12.2.13.d Type of deposit (EFT, Casino Service Provider 'verified win' cheque, 'verified win' gaming chips or 'verified win' cash);
  - 12.2.13.e Total amount of deposit;
  - 12.2.13.f Patron's signature.
- 12.2.14 1 copy of the receipt shall be:
  - 12.2.14.a Given to the patron;
  - 12.2.14.b Kept with the CMS slip;
  - 12.2.14.c Kept with PGF Accounts paperwork.
- 12.3 Deposit of funds after account is open:
  - 12.3.1 Deposit notification levels and criteria to establish validity of negotiable instruments shall be followed;
  - 12.3.2 Patron shall be asked for acceptable identification;
  - 12.3.3 Patron's signature card shall be accessed and compared to signature on deposit receipt slip and identification;




|   |  |                                |  |
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| Section: 3-8.3 Cage – Patron Gaming Funds Accounts – Draft for trial (v.5) – Sept 1, 2009 – Mar 31, 2010 |
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- 12.3.4 Declaration of Source of Funds shall be completed;
- 12.3.5 Patron profile card shall be updated with appropriate current deposit information;
- 12.3.6 A 'Deposit to PGFA' transaction shall be completed in CMS, noting Patron's account number in the comments section;
- 12.3.6.a 1 copy of slip shall be retained with the CMS paperwork;
- 12.3.6.b 1 copy of slip shall be attached to the signed deposit receipt and held with the PGF Accounts paperwork.
- 12.3.7 Patron deposit information shall be entered into the Service Provider's separate accounts system;
- 12.3.8 A receipt in triplicate shall be completed containing:
- 12.3.8.a Date of transaction;
- 12.3.8.b Patron name;
- 12.3.8.c Patron account number;
- 12.3.8.d Type of deposit (EFT, 'verified win' Cheque, 'verified win' gaming chips or 'verified win' cash);
- (1) Copy of table tracking slip shall be attached to the deposit receipt slip for the PGF Accounts, and if applicable, to the LCTR, to show verification of the win for gaming chips or cash;
- 12.3.8.e Total amount of deposit;
- 12.3.8.f Patron's signature.
- 12.3.9 1 copy of the receipt shall be:
- 12.3.9.a Given to the patron;
- 12.3.9.b Kept with the CMS slip;
- 12.3.9.c Kept with PGF Accounts paperwork.
- 12.4 Withdrawal of funds:
- 12.4.1 Patron shall be asked for acceptable identification;
- 12.4.2 Patron's signature card shall be accessed and compared to signature on withdrawal receipt slip and identification;
- 12.4.3 Patron shall be asked how much they wish to withdraw;
- 12.4.3.a Patron shall be encouraged to withdraw a minimum amount of \$1000 for any transaction to optimize customer service levels at the cashier station.
- 12.4.4 PGF Accounts system shall be accessed to ensure funds are available;

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- 12.4.5 Patron profile card shall be updated with appropriate current withdrawal information;
- 12.4.6 A 'Withdraw from PGFA' transaction shall be completed in CMS, noting Patron's account number in the comments section;
  - 12.4.6.a 1 copy of slip shall be retained with the CMS paperwork;
  - 12.4.6.b 1 copy of slip shall be attached to the signed deposit receipt and held with the PGF Accounts paperwork.
- 12.4.7 Patron withdrawal information shall be entered into the Service Provider's separate accounts system;
- 12.4.8 A receipt in triplicate shall be completed containing:
  - 12.4.8.a Date of transaction;
  - 12.4.8.b Patron name;
  - 12.4.8.c Patron account number;
  - 12.4.8.d Type of withdrawal (cash, Return of Patron Gaming Funds cheque);
  - 12.4.8.e Cheque number, if applicable;
  - 12.4.8.f Total amount of withdrawal;
  - 12.4.8.g Patron's signature.
- 12.4.9 1 copy of the receipt shall be:
  - 12.4.9.a Given to the patron;
  - 12.4.9.b Kept with the CMS slip;
  - 12.4.9.c Kept with PGF Accounts paperwork.
- 12.4.10 Patron shall be paid as per PGF ACCOUNT WITHDRAWALS or General – Cash Assets – Cash and Chip Handling.
  - 12.4.10.a No electronic funds transfers (EFTs) shall be sent out from a PGF Account.
- 12.5 Account closing:
  - 12.5.1 Patron shall be asked for acceptable identification;
  - 12.5.2 Patron's signature card shall be accessed and compared to signature on withdrawal/closure receipt slip and identification;
  - 12.5.3 PGF Accounts system shall be accessed to ensure amount of funds in account;
  - 12.5.4 A 'Withdraw from PGFA' transaction shall be completed in CMS, noting Patron's account number and 'account closure' in the comments section;
    - 12.5.4.a 1 copy of slip shall be retained with the CMS paperwork;

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- 12.5.4.b 1 copy of slip shall be attached to the signed deposit receipt and held with the PGF Accounts paperwork.
  - 12.5.5 Patron withdrawal information shall be entered into the Service Provider's separate accounts system and account shall be closed;
  - 12.5.6 Patron profile card shall be updated with appropriate current closure information.
  - 12.5.7 A receipt in triplicate shall be completed containing:
    - 12.5.7.a Date of transaction;
    - 12.5.7.b Patron name;
    - 12.5.7.c Patron account number;
    - 12.5.7.d Type of withdrawal (cash, Return of Patron Gaming Funds cheque);
    - 12.5.7.e Cheque number, if applicable;
    - 12.5.7.f Total amount of withdrawal;
    - 12.5.7.g Acknowledgement of account closure;
    - 12.5.7.h Patron's signature.
  - 12.5.8 1 copy of the receipt shall be:
    - 12.5.8.a Given to the patron;
    - 12.5.8.b Kept with the CMS slip;
    - 12.5.8.c Kept with PGF Accounts paperwork.
  - 12.5.9 Patron shall be paid as per PGF ACCOUNT WITHDRAWALS or General – Cash Assets – Cash and Chip Handling:
    - 12.5.9.a No electronic funds transfers (EFTs) shall be sent out from a PGF Account.
  - 12.5.10 Signature card and patron profile card shall be marked 'Account Closed' and moved to an archive file.
- 13 BALANCING
- 13.1 Transactions in the PGF Accounts on CMS shall be compared to the values in the Service Provider's separate accounting system daily.

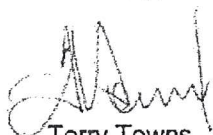




- 2 -

Thank you for your attention to this matter. If you require anything further please give me a call at 604-276-6408.

Sincerely,




Terry Towns  
Vice President  
Corporate Security & Compliance

Enclosure

cc Michael Graydon, President and CEO  
Darryl Schiewe, Vice President, Casino & Community Gaming  
Doug Morrison, Manager, Casino Security & Surveillance



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*No mention of suspicion reporting*


**Section: 3-8.3 Cage – Patron Gaming Funds Accounts – Draft for trial (v.5) – Sept 1, 2009 – Mar 31, 2010**

**ANNOTATION**

To enhance the confidence of patrons and the overall gaming experience, BCLC is prepared to allow Service Providers to offer patron gaming funds accounts wherein funds may be deposited by patrons, withdrawn for gaming, re-deposited for subsequent play or returned to the patron. The offering of patron gaming funds accounts ("PGF Accounts") is conditional upon all conditions of this policy, procedures and any amendments thereto being met and continuing to be met.


**1 MANDATORY REQUIREMENTS**

- 1.1 Service Provider may only propose the opening of PGF Accounts upon approval by the BCLC Vice President, Casino and Community Gaming or designate.
- 1.2 Implementation of the procedures shall not commence without authorization from BCLC Vice President, Casino and Community Gaming or designate.
- 1.3 Only individuals can open PGF Accounts. PGF Accounts are not available in joint names or for corporations.
- 1.4 Large Cash Transaction Record (LCTR) procedures as per Cage – Large Cash Transactions shall be followed;
  - 1.4.1 Buy In and Cash Out procedures shall be followed for Deposits and Withdrawals.
- 1.5 PGF Accounts shall be site specific;
  - 1.5.1 Each casino site shall maintain separate accounting systems for PGF Accounts specific to that site.
  - 1.5.2 Such system shall be secure and safeguard the integrity and confidentiality of the transactions as well as patron information.
- 1.6 A separate, unrelated automated accounting system must be used for maintaining and tracking PGF accounts;
  - 1.6.1 Each transaction shall also be recorded in CMS, with patron's account number in the comments;
  - 1.6.2 Automated PGF accounting system shall be balanced to entries in CMS daily;
  - 1.6.3 Account reports in full shall be available for BCLC to review. *my GPEB*
- 1.7 The Service Provider shall open a separate, non-interest-accruing bank account specifically for use for patron gaming accounts funds;
  - 1.7.1 Funds in this account are restricted for use by the patron and shall not be used as cash flow by the Service Provider; *me*

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- 1.7.2 Net differences between patron deposits and withdrawals shall be deposited to the specific bank account for patron accounts or transferred from the patron accounts bank account to the operating account on a daily basis. *z*
- 1.8 Patrons must make a minimum deposit of \$10,000 to open a PGF Account and Service Providers must complete;
- 1.8.1 Large Cash Transaction Record (LCTR) as per Cage – Large Cash Transactions;
- 1.8.2 Incident Report in CRS; and
- 1.8.3 Notations on the patron profile card of appropriate 'know your client' details; *What is this?*
- 1.8.4 Declaration of Source of Funds.
- 1.9 Service Providers cannot impose a service charge for a PGF Account.
- 1.10 Patrons can not earn interest on a PGF Account.
- 1.11 Credit shall not be extended to patrons with PGF Accounts;
- 1.11.1 Account shall be in a positive balance at all times.
- 2 NEGOTIABLE INSTRUMENTS ELIGIBLE FOR DEPOSIT
- 2.1 Acceptable negotiable instruments for deposit to accounts may be:
- 2.1.1 Electronic funds transfer (EFT) from a Canadian banking institution only;
- 2.1.2 Casino Service Provider Cheque (Verified Win Cheques Only – See CSP Cheque Issuance Memo Dated 2009AUG07. Also see Cage – Service Provider's Cheques);
- 2.1.3 Gaming chips or cash that has been verified as a table game win (Except for table game jackpot payouts, a table game 'verified win' is defined as the cash out minus the buy in).
- 2.1.3.a Copy of table tracking slip shall be attached to deposit receipt slip to verify the win.
- 2.1.4 The remainder of funds that have previously been withdrawn from a PGF Account for use in play, subject to the conditions stated in REDEPOSITING WITHDRAWALS. *o*
- 2.2 Acceptable negotiable instruments (EFTs) shall only be drawn in Canadian funds issued from a registered Canadian financial institution; *z*
- 2.3 Service Provider shall develop criteria to ensure the validity of the negotiable instrument and shall keep records on file of each transaction of this nature;



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| Section: 3-8.3 Cage – Patron Gaming Funds Accounts – Draft for trial (v.5) – Sept 1, 2009 – Mar 31, 2010 |
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- 2.3.1 BCLC Vice President or designate shall approve the criteria for use.
- 2.4 Service Provider accepts full financial responsibility for any dishonoured or fraudulent negotiable instrument;
- 2.4.1 Service Provider cannot deem or report a dishonored or fraudulent negotiable instrument as a shortage.
- 2.5 No third party negotiable instruments may be accepted.
- 2.6 No postdated negotiable instrument may be accepted.
- 2.7 No negotiable instrument issued in joint names may be accepted.
- 2.8 Patrons presenting Casino 'verified win' cheques or EFTs for deposit shall be questioned as to the source of the funds;
- 2.8.1 Cage Manager/Supervisor shall complete the Declaration of Source of Funds form with patron's explanation; and
- 2.8.2 Patron shall sign the Declaration of Source of Funds.
- 3 **NOTIFICATION LEVELS** *Purpose?*
- 3.1 As part of the PGF Account criteria, Service Providers shall follow Notification Levels established by BCLC as may be amended from time to time.
- 3.2 Notification levels when accepting negotiable instruments or withdrawals: *Refusal of cash with suspicion? And approval?*
- 3.2.1 Casino Shift Manager shall be notified when cashing any negotiable instrument up to \$50,000;
- 3.2.2 Casino Manager or designate shall be notified when cashing any negotiable instrument up to \$100,000;
- 3.2.3 Service Provider designated Site or Head Office staff shall be notified when cashing any negotiable instrument up to over \$100,000. *What happens after notification? who?*
- 4 **ACCEPTABLE IDENTIFICATION/'KNOW YOUR CLIENT' DOCUMENTATION'**
- 4.1 Sufficient/acceptable photo identification for opening a PGF Account is as for a Large Cash Transaction Record and is defined as a valid (not expired) document with a unique identifier number issued by a provincial, territorial or federal government, or valid foreign identification, if equivalent to an acceptable form of Canadian identification document;
- 4.1.1.a Identification document must be the original, not a copy.
- 4.2 The identification shall only be considered acceptable if the casino employee is convinced the identification presented accurately depicts the individual claiming its identity;


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- 4.2.1 Should a casino employee question the authenticity of the identification, additional identification shall be requested.
- 4.3 Signature cards shall be created for each account holder, comparing to signature on acceptable identification;
  - 4.3.1 Card shall be securely maintained on file for each account holder; and
  - 4.3.2 The signature for any transaction shall be compared to the signature card.
- 4.4 A patron profile card shall be created and kept with the signature card to document;
  - 4.4.1 Deposits and withdrawals from account;
  - 4.4.2 Types of negotiable instruments presented;
  - 4.4.3 Other miscellaneous information collected which may lead to further knowledge of patron activities. (eg. favorite games, win/loss and average bets, high limit play)
- 5 RECORD KEEPING/REVIEWING
  - 5.1 Records requiring completion and retention when an account is opened:
    - 5.1.1 Original PGF Account Application and Account Operating Agreements, including;
      - 5.1.1.a Name (English and other language, if applicable);
      - 5.1.1.b Date of Birth;
      - 5.1.1.c Home address;
      - 5.1.1.d Place of residence while in Canada, if a visitor;
      - 5.1.1.e Phone numbers;
      - 5.1.1.f Occupation;
      - 5.1.1.g Email address, if applicable;
      - 5.1.1.h Photocopy of photo ID used for acceptable identification.
    - 5.1.2 Signature card, containing;
      - 5.1.2.a Signature, as depicted on identification presented;
      - 5.1.2.b Patron's date of birth;
      - 5.1.2.c Information of type of document used to identify patron, its reference number and place of issue.
    - 5.1.3 Declaration of Source of Funds forms;
    - 5.1.4 Patron profile card with all applicable 'know your client' information as required in ACCEPTABLE IDENTIFICATION/KNOW YOUR CLIENT DOCUMENTATION.

*Known 'bad guy's' should be refused regardless of occupation stated.*

*yl*



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- 5.2 Receipt books shall be triplicate forms and one copy of the receipt for any transaction shall be;
- 5.2.1 Given to the patron;
  - 5.2.2 Kept with the appropriate CMS slip;
  - 5.2.3 Kept with PGF Accounts paperwork.
- 5.3 Records shall be retained as per General – Financial, Record Keeping/Reporting.
- 5.4 The Service Provider shall implement internal operational and control policies to ensure that financial records are accurate, reliable and prepared on a timely basis.
- 5.5 Service Provider shall ensure the accounts are reconciled as per General Accepted Accounting Principles by an acknowledged, approved audit or accounting firm at least annually. *Audited generally. Not appropriate. refer to GAAP. Why audit opinion is provided?*
- 5.6 Service Provider shall indemnify and hold BCLC harmless for any incidents of any kind arising from the PGF Accounts.
- 5.7 Full documentation of all records and reports shall be made available for BCLC review. *discrepancy*
- 5.7.1 BCLC Casino Site Operations Manager or designate shall review daily totals in CMS for comparison to total in Service Provider's separate accounting system;
    - 5.7.1.a In the event of discrepancy, the BCLC Security Investigator shall be notified for follow up.
  - 5.7.2 Operational Gaming Auditors shall review the Patron Gaming Funds Accounts through CMS, the Service Provider's separate accounting system and the specific bank account to ensure records are maintained accurately and completely at least quarterly;
    - 5.7.2.a In the event of discrepancy, the BCLC Security Investigator shall be notified for follow up.
  - 5.7.3 BCLC Security Investigator shall conduct a review, at least monthly, of all Patron Gaming Funds Account activity to ensure accordance with reporting requirements for suspicious financial transactions/money laundering. See Cage – Large Cash Transactions.

## 6 PGF ACCOUNT WITHDRAWALS

- 6.1 Patron wishing to withdraw funds from the PGF Account may be given:
- 6.1.1 Cash in Canadian funds only; or
  - 6.1.2 A Service Provider cheque;

*Is this appropriate considering the EFTs that can be put into a PGF acct? A series of transfers that are not reported by the bank but then add up to a LCT.*



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- 6.1.2.a PGF Account cheques shall be distinctly different and distinguishable from the cheques issued for 'verified wins';
- 6.1.2.b Cheques shall indicate on the face – 'Return of Patron Gaming Funds.'

*Letting bank re  
differentiate  
blw types of  
cage which  
is not  
approp.*

6.1.3 Cage – Large Table Buy In procedures shall be followed when patron is withdrawing funds to buy in at a table game in a high limit room.

6.2 No cheques for 'verified wins' shall be issued from the PGF Accounts;

6.2.1 Patrons choosing to deposit a verified win into a PGF Account shall be advised by the Service Providers they will not be eligible for a 'verified win' cheque when subsequently withdrawing funds from their PGF Account.

6.3 No electronic funds transfers (EFTs) shall be sent out from a PGF Account.

## 7 RE-DEPOSITING WITHDRAWALS

7.1 Patrons that have withdrawn funds for gaming from PGF Accounts may re-deposit up to the exact amount withdrawn within a 24 hour period after the withdrawal, subject to the following conditions:

*How can they possibly track?*

- 7.1.1 Patron shall have placed the funds at risk on a table game; and
- 7.1.2 Dealer Supervisor shall have tracked and substantiated the play at gaming table, including all wins and losses;
- 7.1.2.a If play cannot be substantiated, re-deposit shall not be accepted;

*what does this mean?*

- 7.1.3 If Patron's play results in a net loss, only the portion of the withdrawal remaining shall be eligible for re-deposit;
- 7.1.4 If Patron's play results in a net win, the exact withdrawal amount plus the 'verified win' may be re-deposited.

*Reporting of  
'gross' account at  
casino - reasons to  
advise of acct &  
balance in certain  
circumstances.*

## ACCOUNT CLOSURE


- 8.1 Accounts may be closed by the patron at any time;
- 8.2 Accounts may be kept open at the patron's request even if all funds are withdrawn.

*Determination of  
account if  
concerns.  
Determination of pilot if  
SP not complying.  
GPEB account closure.*

## 9 DORMANT ACCOUNTS

- 9.1 Original patron application shall advise patron of the following disposition of any funds left in an account that becomes dormant;
- 9.2 If account is inactive for three (3) months and no direction has been received from the patron, Service Provider shall contact the patron to ascertain patron's wishes;

*Jul*

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9.2.1 Service Provider shall issue a cheque designated 'Return of Patron Gaming Funds' for delivery to the patron upon patron's request.

9.3 If no direction is received from the patron, or patron cannot be contacted:

9.3.1 The account shall be closed, and;

9.3.1.a Funds in the amount of \$100 or less shall be added to the Found Money account in CMS and subsequently donated to an approved charitable recipient (see General – Cash Assets – Found Money);

9.3.1.b Funds in amounts over \$100 shall be transferred to a Service Provider Head Office account specific for holding dormant funds from patron gaming funds accounts, and held for at least seven (7) years;

9.3.1.c Final disposition of funds:

(1) Funds shall be added to the Found Money account in CMS and subsequently donated to an approved charitable recipient (see General – Cash Assets – Found Money).

## 10 VOLUNTARY SELF EXCLUSION

10.1 Patrons enrolling in the voluntary self exclusion program shall be asked if they have a Patron Gaming Fund Account;

10.2 If patron's answer is affirmative for the site:

10.2.1 Security Manager or designate shall ensure:

10.2.1.a Account balance is obtained from the Cage Manager or designate and verified by patron;

10.2.1.b Acceptable identification is delivered to the Cage Manager for comparison to signature card;

10.2.1.c 'Return of Patron Gaming Funds' cheque for the full balance is issued to the patron;

10.2.1.d Patron's Gaming Funds Account is closed.

10.2.2 Cage Manager or designate shall:

10.2.2.a Compare the signature card to signature on identification presented;

10.2.2.b Prepare a 'Return of Patron Gaming Funds' cheque for the full balance;

10.2.2.c Close the account;

10.2.2.d Note the reason for closure on the signature card and player profile.

*What about other sites?  
Patron?*

*gul*

THIS IS **EXHIBIT "26"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 12 DAY OF JANUARY, 2021.



\_\_\_\_\_  
A Commissioner/Notary Public for the  
Province of British Columbia.





**Van Sleuwen, Terri HSD:EX**

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**From:** McCrea, Bill J HSD:EX  
**Sent:** September 11, 2009 3:52 PM  
**To:** XT:Townes, Terry CASE:IN  
**Cc:** Sturko, Derek HSD:EX; Van Sleuwen, Terri HSD:EX; Pyatt, David E HSD:EX; Vander Graaf, Larry P HSD:EX; Schalk, Joe HSD:EX; Saville, Rick HSD:EX; Merchant, Ron J HSD:EX; Birge, Sue HSD:EX  
**Subject:** Patron Gaming Fund (PGF) Account Discussion  
**Attachments:** PGF Pilot Discussion from GPEB.doc

Good Afternoon Terry,

Further to our discussion today here is a document where we have captured the key discussion, questions and comments about the PGF proposal. This input has been obtained through GPEB Divisional review of the proposal. Please share our comments with your colleagues, as we continue this discussion.

We support the testing of this program with three of the large Vancouver casinos and with three separate service providers. I appreciate your language in the 'Annotation' at the start of the document, leaving no room for interpretation of BCLC's level of seriousness to make this work. This proactive approach should help us sort out any process and procedure issues and solve any problems as the pilot proceeds.

Terry, would you please work through the document and provide us with answers to the questions and concerns. I would be happy to get this from you piece by piece rather than completing the entire document before sending it back. Please call me if you want to discuss any of the questions that we have. Thank you.

Bill



PGF Pilot Discussion  
from GPEB...

---

**Bill McCrea** BES MBA FCIP  
Executive Director Internal Compliance and Risk Management  
Phone: **Personal Information**  
Mobile: **Personal Information**  
Fax: **Personal Information**  
Email: **Personal Information**

Province of British Columbia  
Ministry of Housing and Social Development  
Gaming Policy and Enforcement Branch  
Location: 3rd Floor 910 Government Street V8W 1X3  
Mailing: PO Box 9311 Stn Prov Govt Victoria BC V8W 9N1

## Discussion of the Proposal to Pilot a Patron Gaming Fund Account

The Patron Gaming Fund (PGF) account is designed to offer patrons of BC casinos the ability to deposit funds into an account, withdraw these for gaming at the facility, re-deposit for subsequent play or be returned to the patron. It is intended for patrons who typically gamble large amounts of money and provides a higher level of security for the patron in handling these large sums. Properly managed it is believed that this account will aid in anti money laundering (AML) efforts in BC casinos.

BCLC has provided a detailed proposal of policies and procedures, including process maps, for managing the PGF account pilot. This has given GPEB a good opportunity to examine the diligence that is being built into this program and to develop questions and comments. Establishing the pilot by allowing deposits of funds only through EFT from bona fide Canadian banking institutions is a strong start to manage money laundering risk and furthering the culture of AML diligence by service providers.

The chart below communicates issues that need clarification and/or resolution.

| Subject Area               | Discussion of Issues   | Resolution Discussion |
|----------------------------|--|-----------------------|
| Know Your Client diligence | <ul style="list-style-type: none"> <li>Develop policies &amp; procedures for handling suspicious client situations and refusal of EFT deposits by financial institutions.</li> <li>What copies of client identification will be retained on file, for future reference and protection of the client?</li> </ul>  |                       |
| Verified wins              | <ul style="list-style-type: none"> <li>An August 7, 2009 BCLC letter to casino service providers works to clarify "verified win" requirements. It also highlights BCLC's concern over service provider management of this key area of money management integrity in casinos. GPEB Divisions have expressed concern over verified win management in the PGF account environment. We need to understand the procedures to deal with the wins.</li> </ul> |                       |

21

Review of PGF Account Pilot

10/09/2009

|   |   |  |
|---|---|--|
| Management of flows of funds / winnings / chips, into and out of the PGF account. | <ul style="list-style-type: none"> <li>• With respect to Section 7, "Re-Depositing ..." GPEB needs to understand the detailed procedures for putting funds / wins / chips back into the PGF, to ensure the integrity of anti money laundering procedures.</li> <li>• There should be a mechanism for either BCLC or GPEB to have a PGF account closed, if the circumstances warrant it.</li> </ul>  |  |
| PGF account patron protection   | <ul style="list-style-type: none"> <li>• Patron accounts have to be protected from misuse by service providers and secured in the event of service provider financial difficulty.</li> <li>• An customer package is needed to supply patrons with information about operation of the accounts and rights &amp; responsibilities of both the customer and the service provider.</li> </ul>   |  |
| Service provider processes  | <ul style="list-style-type: none"> <li>• The pilot PGF proposal speaks to service providers developing and implementing procedures (Section 12) to manage the PGF with integrity. The list of required documentation is extensive.</li> <li>• GPEB would like to have copies of these documented procedures before the service providers put the program in place. We would also want written assurance from BCLC that they approve of the procedures.</li> </ul> |  |

10/09/2009

Review of PGF Account Pilot





|                      |   |  |
|----------------------|---|--|
| Training             | <ul style="list-style-type: none"> <li>We would like to see what modifications, if any, to training programs will be made for employees accountable to manage the PGF.</li> <li>If no changes are anticipated how does the existing training ensure risks are managed? In light of comments, contained in the January 6, 2009 IPSA report, concerning casino employee and supervisor attitude toward not seeing AML as part of their core responsibilities this is an area that we want to see be addressed.</li> </ul> |  |
| Monitoring and Audit | <ul style="list-style-type: none"> <li>The proposal documents BCLC monitoring and auditing diligence to ensure the integrity of the PGF pilot. GPEB will also develop specific auditing for this account.</li> <li>The IPSA AML Risk Management report (January 6, 2009) highlights the role of mystery shoppers in aiding building a culture of employee attention to money laundering risk management. Can mystery shoppers be utilized to test the integrity of PGF processes and procedures?</li> </ul>             |  |

10/09/2009

Review of PGF Account Pilot



THIS IS EXHIBIT "27" TO THE  
AFFIDAVIT OF TERRY TOWNS  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
A Commissioner/Notary Public for the  
Province of British Columbia.



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AND  
ENFORCEMENT  
BRANCH

## AUDIT REPORT

### Review of BCLC Player Gaming Fund Accounts Pilot Project Interim Audit Report 2009/2010 GPEB File # COMM-5224

#### 1.0 EXECUTIVE SUMMARY

An interim audit of BCLC's Patron Gaming Fund (PGF) pilot was conducted to verify compliance with the *Gaming Control Act, Regulation* and all applicable standards, policies and directives.

The purpose of the audit was to review the PGF pilot program to verify that PGF policies and procedures are being followed and to provide an overall evaluation to the Ministry Executive.

Notable exceptions include a failure by Great Canadian Gaming Corporation (GCGC) to correctly set-up the PGF bank account and procedural violations by GCGC cage staff.

#### 2.0 AUDIT OBJECTIVES

The specific objectives of this interim audit were to examine the PGF pilot program to ensure that the receipt and disbursement of player funds is properly managed by GCGC head office and individual accounts are properly administered at site level.

#### 3.0 AUDIT SCOPE

Information and data related to the program was analyzed for the period December 7, 2009 to January 25, 2010. All PGF transactions were reviewed. ""2



Gaming Policy and Enforcement Division  
Ministry of Housing & Social Development

Page 1 of 4

Discussed w/ Janis & Markson Jan Feb 2

Discussed w/ GPEB/BCLC Joint  
Ex. Meeting Jan 28/10

Jul



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#### 4.0 GENERAL INFORMATION & OBSERVATIONS

- A total of nine accounts have been opened, all opened at Great Canadian Gaming Corporation's River Rock Casino;
- PGF initial deposits range from \$10,000 to \$250,000;
- Total PGF Account balance is \$38,200 (As of January 15, 2009);
- Funds are used by high limit table players;
- Deposited funds are promptly used for gaming;
- Large dollar values are not maintained in accounts for extended periods;
- Patrons complain about the requirement to wire transfer money in to fund their PGF account;
- Overall, PGF accounts are being managed well by the River Rock cage. Accounts are reconciled accurately and required documents (LCTR's, Transfer in/out sheets) are completed;
- There have been no issues identified in the management of verified wins in relation to the PGF accounts;
- Failure by GCGC head office to follow policy.

#### 5.0 AUDIT FINDINGS & EXCEPTIONS

The details of the issues resulting from the audit procedures are discussed below:

1. A PGF account opened December 23, 2009 had the following problems:
  - a. A Large Cash Transaction Record (LCTR) was not created for the initial wire transfer deposit of \$17,000.

*Control Failure:* Preventative control failure at GCGC. Per section 1.10.1 of BCLC PGF policy LCTR's must be completed for deposits greater than \$10,000.

*Severity:* High

- b. An Incident report was not created in ITRAK for the account opening.

*Control Failure:* Preventative control failure at GCGC. Per section 1.10.2 of BCLC PGF policy an incident report in ITRAK must be completed when an account is opened.

*Severity:* Medium



ma BCLC meeting w/ GCGC tomorrow  
will discuss use of chgs w/ enforcement back to them as trs. + verified wins reconciliation

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- c. There was lack of oversight by BCLC in a timely manner. BCLC did not identify the issues until December 30, 2009. The site created the ITRAK incident file and the LCTR after the GPEB auditor advised them of these errors.

*added in extra  
review at long  
SA in Kam loop  
(Kathy Armstrong)*

**Control Failure:** Detective control failure at GCGC. Per section 5.7.3 of BCLC PGF policy BCLC Security Investigators shall conduct a review, on a daily basis, of all Patron Gaming Funds Account activity to ensure accordance with reporting requirements for suspicious financial transactions/money laundering.

**Severity:** Medium

2. GCGC HQ did not open the PGF bank account in compliance with PGF policy. Specific problems include:

- a. The account is interest bearing and \$70.69 of interest was earned in December 2009.

**Control Failure:** Preventative control failure at the bank. Per section 1.8 of BCLC PGF policy the Service Provider must open a non-interest-accruing bank account specifically for use for patron gaming accounts funds.

**Severity:** High

- b. The account is not restricted to only allowing deposits via EFT from a registered Canadian bank.

*Change in policy  
to clarify EFT  
only at setup.*

**Control Failure:** Preventative control failure at the bank. Per section 1.9 of BCLC PGF policy the initial deposit for opening of account must be either by electronic funds transfer or wire transfer from a registered Canadian banking institution.

**Severity:** High

3. Electronic funds of \$270,696.21CAD were accepted into GCGC's HSBC PGF bank account from a foreign bank (Macau) on December 11, 2009. These funds were returned to the originating bank on December 15, 2009.

**Control Failure:** Preventative control failure at the bank. Per section 1.9 of BCLC PGF policy the initial deposit for opening of account must be either by electronic funds transfer or wire transfer from a registered Canadian banking institution.

**Severity:** High



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4. A bank draft for \$30,000CAD from a domestic financial institution was deposited directly by a casino patron to GCGC's HSBC PGF bank account on January 22, 2010. These funds were used for gaming by the patron on the same day. GCGC HQ failed to recognize the deposit as a non-EFT and improperly authorized the River Rock cage to release the funds for gaming.

*Control Failure:* Preventative control failure at the bank and detective control failure at GCGC head office. Policy violation per section 1.9 of BCLC PGF policy stated above in section 2(b).

*Severity:* Medium

## **6.0 CONCLUSION**

Significant issues were identified in this interim audit. GPEB requires BCLC to provide in their response by February 15<sup>th</sup> an action plan indicating how the outstanding issues will be corrected and the date by which the issue will be addressed.

Commercial Gaming Audit  
Audit and Compliance Branch  
February 1, 2010

### **Distribution List:**


Terry Towns, Vice President – Corporate Security, BCLC  
Derek Sturko, Assistant Deputy Minister  
Terri Van Sleuwen, Executive Director, Audit and Compliance  
Larry Vander Graaf, Executive Director, Investigations and Regional Operations  
Bill McCrea, Executive Director, Internal Compliance & Risk Management



A handwritten signature in black ink, appearing to be "jul".



THIS IS **EXHIBIT "28"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS **22** DAY OF JANUARY, 2021.

  
A Commissioner/Notary Public for the  
Province of British Columbia.

2010FEB17

Terri VanSleuwen  
Executive Director  
Audit and Compliance Branch  
Gaming Policy and Enforcement

Dear Ms. Van Sleuwen

**RE: Review of BCLC Player Gaming Fund Accounts Pilot Project  
Interim Audit Report 2009/2010  
Examination Period: 2009DEC07 – 2010JAN25.**

Further to your correspondence dated 2010FEB01 and the audit findings and exceptions identified by your investigative auditors; I will address each of these items separately in the body of this reply.

**1. A PGF account opened December 23, 2009 had the following problems:**

a.

**FINTRAC PII**

**Response:** *Inquiries reveal that although the player account had been opened*

**FINTRAC**

**b. An incident report was not created in ITRAK for the account opening.**

**Response:** *River Rock Casino site management have been reminded to follow Great Canadian Inc. policy and BCLC policy with regards to preparing an ITRAK report for PGF account openings effective immediately.*

**c. There was a lack of oversight by BCLC in a timely manner. BCLC did not identify the issues until December 30, 2009. The site created the ITRAK**



incident file and the LCTR after the GPEB auditor advised them of these errors.

**Response:** *The account was opened 2009DEC23. The following day was Thursday Christmas Eve and subsequently the Christmas holiday season; Friday DEC25<sup>th</sup> Christmas Day; Saturday DEC26<sup>th</sup> Boxing Day; Sunday DEC27<sup>th</sup>; Monday DEC28<sup>th</sup> statutory holiday; with the return to shift Tuesday DEC29<sup>th</sup>. This does not appear unreasonable under the circumstances as the account came under scrutiny by investigators DEC30<sup>th</sup> 2009.*

**2. GCGC HQ did not open the PGF account in compliance with policy. Specific problems include:**

**a. The account is interest bearing and \$70.69 of interest was earned in Dec. 2009.**

**Response:** *Great Canadian Inc. has opened accounts at their head office that facilitate the management of PGF accounts. The PGF accounts were initially opened as standard bank accounts with instructions to the bank (HSBC) to charge bank fees and credit interest to GCGC main operating accounts. Subsequently instructions were given to the bank to make PGF accounts non-interest bearing. Since HSBC is not accustomed to not paying its account holders interest of the funds in their accounts, at HSBC's request GCGC drafted a letter to instruct the bank not to permit interest to be earned on any funds in the PGF accounts. This instruction letter was required since the request was not in their standard banking procedure. Interest earned in Dec. 2009 of \$70.69 was returned to the bank in January 2010 once the issue was identified. No patron received any interest as a result process nor was any patron impacted negatively in any way. Therefore this issue has been resolved.*

**b. The account is not restricted to only allowing deposits via EFT from a registered Canadian bank.**

**Response:** *GCGC has requested that the bank (HSBC) not accept deposits via wire transfer from anything other than a Canadian registered bank. The bank has indicated that again this is not standard banking procedure and it is not possible to permit only Canadian registered bank wires into the PGF account. Deposit was made into the Great Canadian Inc. HQ PGF account. GCGC internal control procedures identified the foreign wire transfer and rejected the use of these funds to the patron. The deposit was subsequently returned to the originator. No funds were dispersed to the patron.*

**3. Electronic funds of \$270,696.21 Canadian were accepted into GCGC's HSBC PGF bank account from a foreign bank (Macau) on December 11<sup>th</sup>, 2009. These funds were returned the originating bank on December 15<sup>th</sup>, 2009.**





**Response:** *As noted in the previous response 2. b., it is not standard banking procedure for HSBC to block funds initially being deposited to the account from a non-Canadian bank. GCGC internal control policies set this risk as non existent due to the rejection for use of funds to the patron as detailed in BCLC PGF policy.*

4. **A bank draft for \$30,000.00 CAD from a domestic financial institution was deposited directly by a casino patron to GCGC's HSBC PGF bank account on January 22, 2010. These funds were used for gaming by the patron on the same day. GCGC HQ failed to recognize the deposit as a non EFT and improperly authorized the River Rock cage to release the funds for gaming.**

**Response:** *GCGC has further implemented policy and procedures effective February 1, 2010 to mitigate the risk of accepting non wire funds of this nature. First and secondary reviewers at the HQ level will review the procedural checklist prior to authorizing the release of funds to the patron.*

#### **CONCLUSION:**

BCLC notes that these incidents are singular in nature, reflecting both the 'learning curve' and 'growing pains' expected with the introduction of any new project undertaken in a Casino environment. GCGC HQ staff, as well as Casino front line staff have worked diligently throughout this process in order to become compliant. Errors have been non intentional to say the least. It is important to emphasize that this whole process is new not only to Great Canadian Gaming Corporation and BCLC but to the HSBC as well. The idea of asking banks to change their traditional policies and protocols in order to satisfy requirements for what amounts to a BCLC 'pilot project' is extremely difficult and comes with a significant 'learning curve' for all participants. These issues take time and patience to resolve completely. None of these issues or errors were created or made with malicious intent but as part of a new compliance regimen.

(G. FRIESEN) Assist. Mgr.  
Security and Surveillance  
BCLC.



c.c. T. Towns, Vice President  
Corporate Security, BCLC

D. Schiewe, Vice President  
Casino and Community Gaming,  
BCLC

Larry Vander Graaf  
Executive Director Operations Division  
Gaming Policy Enforcement Branch

Bill McCrea  
Executive Director Internal Compliance  
Gaming Policy Enforcement Branch

B. Egli, Vice President  
Great Canadian Gaming Corporation

A handwritten signature in black ink, appearing to be 'gul'.

THIS IS **EXHIBIT "29"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.



---

A Commissioner/Notary Public for the  
Province of British Columbia.





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**From:** McCrea, Bill J HSD:EX  
**Sent:** Monday, June 7, 2010 4:46 PM  
**To:** XT:Towns, Terry CAsE:IN  
**Cc:** Sturko, Derek HSD:EX; XT:Graydon, Micheal CAsE:IN; Fair, Susan P HSD:EX; Johnson, Eugene HSD:EX; Van Sleuwen, Terri HSD:EX; Vander Graaf, Larry P HSD:EX; Saville, Rick HSD:EX; Birge, Sue HSD:EX; Hawkins, Samuel HSD:EX; Cowland, Ursula HSD:EX; Pyatt, David E HSD:EX; Dickson, Derek HSD:EX  
**Subject:** Patron Gaming Fund (PGF) Accounts Enhancements

Good Afternoon Terry,

Further to our recent discussions we have agreed to proceed with certain enhancements to the PGF account pilot. To begin, the pilot is being extended for another six months, which will take it to the end of this year. Also, it is being expanded to all five lower mainland casinos; thereby including River Rock Casino Resort, Boulevard Casino, Starlight Casino, Grand Villa Casino and Edgewater Casino.

Please refer to BCLC's document of requested changes/enhancements (attached). We have agreed on the following:  
Section 1.8 - The Policy will state that the PGF account must be a "Trust" account. It will continue to require the account to be non-interest bearing.

Section 1.9 - We have approved allowing initial account opening and subsequent deposits in the forms of: bank drafts, certified cheques and verified casino wins. In keeping with other fundamental policies the bank drafts and certified cheques must be from bona fide Canadian chartered banks. We will not allow use of other Canadian casino service provider cheques.

Section 1.10 - The minimum to open a PGF account will remain at \$10,000, in keeping with the initial design of the program.

Section 2.1 - We agreed that this will not be allowed. Chip tracking at the level of diligence required is too risky.

Section 2.1.1 - We agreed, based on the use of bona fide chartered Canadian banks receiving the foreign funds. BCLC insists that deposits of any funds directly to Service Provider bank accounts is not allowed. GPEB concurs.

Section 2.1.3.a - Agreed.

Section 5.1.1.f - Agreed. GPEB appreciates the BCLC compliance requirement of strong Know Your Customer diligence.

Section 6.3 - Agreed, with transfer from the PGF account to the original Canadian bank account.




Section 10.2.1.c- Agreed, with transfer back to the original Canadian bank account.

You advised that these changes will be reflected in an updated Policies and Procedures PGF Accounts Section (3-8.3) of the Casino Standards Manual. Please send me a copy of this Section when it is done. GPEB will continue to audit the PGF accounts for compliance to the policies and procedures. Please let me know if you have any questions or comments on the above.

Terry, we appreciate working with you to modify the PGF account pilot. In keeping with the measures of success that have been discussed these changes are designed to further enable the potential use of the program while continuing to constrain the risk elements of concern. I would appreciate your continuing feedback as we go forward. Thanks.

Bill



**Bill McCrea** BES MBA FCIP  
Executive Director Internal Compliance and Risk Management  
Phone: **Personal Information**  
Mobile:   
Fax:   
Email: 

Province of British Columbia  
Ministry of Housing and Social Development  
Gaming Policy and Enforcement Branch  
Location: 3rd Floor 910 Government Street V8W 1X3  
Mailing: PO Box 9311 Stn Prov Govt Victoria BC V8W 9N1



Recommended Changes/Enhancements to PGF Account  
BCLC Review

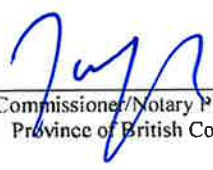
| Policy Section | Summary of Current Policy  | Proposed Change  | Reasons   | Site Making Request              |
|----------------|--|--|---|----------------------------------|
| 1.8            | Service provider shall open a separate, non-interest accruing bank account for use of PGF funds  | Policy should state PGF account must be a "Trust".   | This will ensure account is protected against service provider creditors.   | Starlight                        |
| 1.9            | Initial deposit for opening of account must either be electronic funds transfer or wire transfer from a registered Canadian Banking institution                    | Allow initial account opening & subsequent deposits by other means:<br>• bank drafts, certified cheques, verified wins (including verified slot/jackpot), other casino service provider cheques – Canada only  | Convenient for patrons, good customer service. Very confusing, restrictive & complicated for patrons, they do not understand why then can deposit wins after they open an account but cannot use wins to actually open the account.   | River Rock, Starlight, Edgewater |
| 1.10           | Patrons must make a minimum deposit of \$10,000 to open a PGF account  | Change to a smaller minimum - \$5,000 minimum is acceptable  | Draw more patrons to use these accounts   | Edgewater                        |
| 2.1            | Acceptable negotiable instruments for deposit to accounts after initial account opening - EFT, Casino service provider cheque, gaming chips or cash – verified win | Allow customers to re-deposit chips that have been taken out of the casino. Scenario: patron withdraws \$50,000, plays 5 hrs – leaves casino or goes to hotel with chips, returns within 24 hrs, wants to re-deposit. The \$50,000 play, wins & losses were tracked & verified by casino staff prior to departure – can this be re-deposited? – Yes as long as it's within 24 hr rolling period from 1 <sup>st</sup> buy in. | For this to be feasible, must ensure all play is tracked. More training required before this could be implemented.  | River Rock                       |
| 2.1.1          | Negotiable instruments eligible for subsequent deposit – EFT or wire transfer from Canadian banking institutions only  | Allow international funds transfers. Most cdn banks have their own accredited lists of banks outside of Canada with whom they area authorized & allowed to do business with or accept wire or EFT from.<br><br>Yes as long as the transfer is from bank to bank.   | <ul style="list-style-type: none"> <li>• Reach a global market</li> <li>• Convenience, offering better customer service in competitive market</li> <li>• Willing to develop additional controls to provide reasonable assurance that PGF accounts are not used for illegal activities</li> <li>• These transactions have full audit trails</li> <li>• Current process - patron must open cdn bank account, transfer funds to new account, then have cdn bank account transfer funds to PGF account – process is complicated, confusing and time consuming</li> <li>• No other VIP gaming jurisdiction has this restriction</li> </ul> | Edgewater, River Rock            |

May 11, 2010



|          |   |  |   |  |
|----------|---|--|---|--|
| 2.1.3.a  | Copy of the table tracking slip shall be attached to deposit receipt slip to verify the win               | Change to – Copy of the table tracking slip, with notes from the casino manager who verified, shall be attached to the deposit receipt slip to verify the win.   |   | BCIC Audit                             |
| 5.1.1.f  | Record Keeping - Occupation   | Must provide a specific occupation otherwise PGF account will not be opened. Vague occupations like businessman or self employed are not acceptable.   | Change required to comply with Fintrac regulations.   | BCIC Compliance                        |
| 6.3      | No EFTs or wire transfers shall be sent out from a PGF Account.   | To allow EFT's or wire transfers from PGF accounts to Canadian or foreign banks. This has been requested by customers.<br><br>Will allow EFT or wire transfer from PGF account to original cdn bank account. | A bank to bank transaction provides the lowest risk transaction. EFT or wire is the most secure form and method of Large Transactions for receipt and payment, with proven methods regarding the tracking and reporting of verified wins. A procedure will be implemented to ascertain that only verified wins and return of deposit are identified for wire or EFT withdrawals. Any other buy in for deposit or unusual circumstance will not be honoured by wire or EFT withdrawal. Due to this restriction of not allowing withdrawals by wire or EFT has limited the amount of accounts to be opened and used by VIP patrons. | Edgewater,<br>River Rock,<br>Starlight |
| 10.2.1.c | (Regarding VSE enrolments) Return of Patron Gaming Funds cheque for full balance is issued to the patron. | Rephrase to allow payment by wire or EFT – yes will allow wire or EFT to original cdn bank account   | If a VIP guest would like to Voluntary Exclude themselves, this typically would be done off casino property in a discreet manner. We should be able to close a VIP PGF account by wire or EFT return to ensure their funds get to the VIP guests bank account immediately and directly with a confirmation receipt issued by the bank in real time.   | River Rock                             |

THIS IS **EXHIBIT "30"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.



---

A Commissioner/Notary Public for the  
Province of British Columbia.



January 24, 2011

Mr. Rob Kroeker  
Ministry of Public Safety and Solicitor General  
PO Box 9234 Stn Prov Govt  
Victoria, BC V8W 9J1



Dear Mr. Kroeker:

Re: Industry Proposals

#### OVERVIEW

At a recent meeting of casino gaming executives in British Columbia, a discussion was held around further enhancements to anti-money laundering (AML) that the industry could undertake. Many of these executives have worked in other countries and regulated jurisdictions around the world such as Macau, Australia and the United States (Las Vegas and Detroit).

Although the consensus was that British Columbia has amongst the tightest and toughest AML policies in the world, the reliance on cash was problematic. BCLC has had two risk assessments completed by third party experts in which the heavy dependence on cash was identified as a high risk. Cash transactions have been the subject of the recent media focus on AML compliance. The disposal of cash is the greatest challenge facing the money launderer and a cash focused business like BC Casinos appears to the public as the ideal venue, regardless of how well the AML compliance regime is working.

In BC, the *Gaming Control Act* authorizes the gaming regulator, the Gaming Policy and Enforcement Branch (GPEB), to:

“establish public interest standards for gaming operations, including but not limited to extension of credit, advertising, types of activities allowed and policies to address problem gambling at gaming facilities.”; and

issue directives:

“prohibiting or restricting the extension of credit to participants in gaming events and governing the extension of credit”

Accordingly, the relevant standards and policies currently in place prohibit the extension of credit, acceptance of cheques and electronic fund transfers (EFT) at casinos which has forced patrons to play with cash. For elite VIP patrons, such as high limit players, the amount of cash which they must assemble is significant and particularly challenging for international VIP players. This hurdle contradicts the BC gaming strategy of offering fewer casinos of high quality, intended to attract that type of patron.

2940 Virtual Way  
Vancouver, BC V5M 0A6

604.215.0649  
604.225.6424



Mr. Rob Kroeker  
January 24, 2011  
Page 2

BCLC recommends that existing policy and standards should be revisited with up to date risk assessments to modernize acceptable casino payment methods. Some of the possible payment options are set out below. A variety of payment methods would reduce the reliance on cash with the resulting enhancements to the audit trail and anti-money laundering efforts as well as increased public confidence. The review could take into consideration other important factors including integration with responsible gambling programs as well as reduction in risks to patrons inherent in carrying large amounts of cash.

### CONTEXT

The casino industry in British Columbia generates \$1.5 billion net revenue for the Province of British Columbia. Table games represent approximately 24% of the total net win in casinos or \$360 million. To generate this net win for table games, an excess of \$1.7 billion must be accepted for buy-in at the tables (drop) with the resulting play (handle - all bets won or lost) exceeding \$13 billion.

### CHEQUES

The casino industry in British Columbia issues very few cheques in comparison to the net wins totals. Cheque issuance is a vulnerability that casinos have for a sophisticated money launderer in that money obtained by a criminal act could be converted into a casino cheque and deposited into the Canadian financial system. There is however an alternative cheque issuance procedure which could be implemented that would provide a differentiation between buy-in amounts and verified win amount. This differentiation technique would provide a clear audit trail for regulators, police and FINTRAC. It would help to reduce risk from follow-home robberies for players, provide convenience to players, reduce casino staffing levels and reduce BC Casino industry reliance on cash.

The cheque issuance could be done in two distinct categories in that cheques issued for buy-ins are clearly marked as such and cheques issued as verified wins are stamped as 'verified win'. BCLC has followed this practice on the PlayNow Internet gaming site for the past several years in that cheques for accounts that are closed are marked 'account closed' versus a win cheque. Currently in British Columbia, casino cheques are only issued for 'verified win' on table games and slot machine jackpot wins. A verified win is one in which a cheque is issued for the win above the initial buy-in. For instance, if a person bought in for \$20,000, played and subsequently cashed out for \$30,000, the verified win would be for \$10,000. The player would receive a verified win cheque for \$10,000 with the remaining funds given back to the player in cash.

Contrary to the media reports of money laundering in casinos through the conversion of cash into some other financial instrument, quite the opposite is true. Currently in British Columbia through the 17 Casinos and 15 Community Gaming Centres, an average of less than 200 cheques a month are issued. Of the 200 cheques issued, 37% of those are for table games with the rest being in slot machine jackpot wins. An average of 50 cheques a month are issued for more than \$25,000. The total cheques issued as a percent of money brought into table games represents 3% of the total value.



Mr. Rob Kroeker  
January 24, 2011  
Page 3

#### PATRON GAMING FUNDS (PGF) ACCOUNTS

In December 2009, BCLC received approval from GPEB to allow BCLC's service providers to offer PGF accounts on a pilot basis in accordance with the comprehensive policies and procedures established by BCLC and GPEB. Individual patrons can deposit funds to their accounts by way of electronic fund transfer (EFT), wire transfer, bank draft, certified cheque from a registered Canadian banking institution, or a verified win cheque from a BC casino operated by the same service provider. Withdrawals are processed through service provider cheque and EFT, each under strict conditions, as well as cash. The pilot has seen some success, although only a limited number of patrons have set up PGF accounts to date (62). AML reports are filed at the appropriate points in the PGF processes and casino service providers have complied with the policies and procedures. Although this is a pilot project, BCLC believes that the policy regarding PGF accounts is still too restrictive and inhibits players using these accounts. An example of a potential policy change would be the EFT of overseas funds through a Canadian chartered bank subsidiary i.e. RBC, directly to the casino. The current restrictions are not competitive with the world gaming market.

#### INTERNATIONAL WIRE TRANSFERS and EFT

Wire transfers and EFT, regardless of originating bank, to BC casinos are not allowed except in the limited circumstances of the PGF accounts pilot. In particular, BCLC believes that international wire transfers originating from known AML reporting entities such as Canadian chartered bank branches abroad would be an ideal alternative for VIP players and should be considered in any review of casino payment methods. The Canadian subsidiary bank operating overseas would apply the same "due diligence" standards as the Canadian parent bank. This would ensure the EFT of funds to the BC Casino would receive the same scrutiny as in the Canadian banking system. Conversely, patrons should be able to EFT verified wins out of the Casino to the bank from which it came.

#### EXTENDING CREDIT PLAY

BC casinos are not allowed to extend credit, although other casinos in Canada and in regulated jurisdictions elsewhere extend credit with restrictions. Credit could be extended after full information disclosure, in pre-set amounts or when secured via a negotiable financial instrument is first provided and held by the casino. An example would be a patron who would let the casino hold a certified cheque and play against that instrument.

#### ALTERNATIVE PAYMENT OPTIONS

Currently, BC casino patrons cannot use debit cards, one of the most common forms of payment in the Canadian economy, to purchase casino value chips. Payment processors, such as Moneris (a joint venture between BMO and RBC) have extensive rules and guidelines governing the acceptance of these methods of payment with a concentration on systems integrity and security. These alternatives should be considered in a payment method review and would no doubt be welcomed by the average Canadian player. As an aside, automated teller machines (ATM) are not allowed on the gaming floor and, in any event, the amount that can be withdrawn through an ATM is typically quite modest. Obtaining a cash advance or making a withdrawal from an ATM is not a viable alternative to the



Mr. Rob Kroeker  
January 24, 2011  
Page 4

acceptance of debit cards. Most debit cards have a maximum limit of \$10,000 cash advance or transfer per day, so this alternative would not be used extensively by our elite players.

#### SUMMARY

This is an ideal time for a review and risk assessment of available methods of payment for casino play. BCLC proposes that modernizing existing payment policies will better support the AML system as well as enhance the safety and convenience of casino patrons. Modernization and reduction of the reliance on cash would support and enhance the audit trail of financial instruments through BC Casinos and provide a better anti-money laundering program. In summary, if these policies are implemented, the number of cash transactions would decrease significantly, allowing us to better focus on the reduced number of cash transactions.

BCLC, GPEB, RCMP Integrated Proceeds of Crime and Casino representatives will meet regularly to discuss AML issues and are committed to working together.

Yours truly,



Michael Graydon  
President and CEO

cc: Mr. Terry Towns, VP Corporate Security and Compliance





THIS IS **EXHIBIT "31"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.



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A Commissioner/Notary Public for the  
Province of British Columbia.





## ANTI-MONEY LAUNDERING/TERRORIST FINANCING INTER-AGENCY COMPLIANCE STRATEGY

### STEERING COMMITTEE

#### Purpose:

To provide coordination, guidance, and advice to member organizations on anti-money laundering and other policies, practices, and strategies aimed at protecting the integrity of gaming in the province.

#### Steering Committee Membership:

ADM, Gaming Policy and Enforcement Branch (Co-chair)  
Vice-President, Corporate Security and Compliance, BCLC (Co-chair)  
Casino Service Providers – Vice Presidents, Operations  
RCMP - OIC IPOC  
Vancouver Police – OIC Major Crimes  
Civil Forfeiture Office – Executive Director

#### Steering Committee Terms of Reference:

1. Identify the primary risks to the integrity of gaming in the province with a specific focus on money laundering, terrorist financing, and associated criminal activities.
2. Direct the activities of the Anti-Money Laundering/Proceeds of Crime Working Group.
3. Identify outcome and other measures that will allow for reviews of the efficacy of anti-money laundering and other policies and procedures employed across all agencies in relation to gaming.
4. Provide evidence based guidance and advice to member agencies on anti-money laundering and other efforts designed to protect the integrity of gaming in the province.
5. The committee will meet twice per year, with additional meetings scheduled as required.
6. In addition to regular meetings, the committee will coordinate and sponsor an annual workshop on gaming integrity designed to support and enhance the expertise of practitioners within their respective organizations.

A handwritten signature in black ink, located in the bottom right corner of the page. The signature is stylized and appears to be the initials 'JUL'.

## ANTI-MONEY LAUNDERING/PROCEEDS OF CRIME WORKING GROUP

### Purpose:

Reporting to the Anti-Money Laundering Steering Committee, working group members are responsible within their organizations for the delivery of anti-money laundering policies and procedures aimed at deterring and detecting money laundering and associated criminal activities related to gaming.

### Working Group Membership:

BCLC – Director Operational Compliance (Chair)  
 BCLC – Manager Casino Security and Surveillance  
 BCLC – Manager Operational Gaming Audit  
 GPEB – Director Casino Investigations  
 RCMP - OIC IPOC Operations  
 Vancouver Police – OIC Gangs and Drugs  
 Great Canadian Gaming – Director Security/Surveillance  
 Gateway Casinos – Director Security/Surveillance  
 Paragon Gaming – Director Security/Surveillance  
 Playtime Gaming – Area Manager  
 Civil Forfeiture Office – Assistant Deputy Director

### Terms of Reference:

1. Receive direction from the Steering Committee.
2. Lead the implementation and operation of anti-money laundering and terrorist financing efforts in their respective organizations.
3. Work to coordinate anti-money laundering efforts across organizations and agencies.
4. Provide expertise and information to the Steering Committee on money laundering and other criminal activities found to be occurring in relation to gaming in the province.
5. The committee will meet twice per year, with additional meetings scheduled as required.

## EXPECTATIONS OF STEERING COMMITTEE AND WORKING GROUP MEMBERS

1. To attend meetings in person whenever possible and where it is not possible to attend personally, to send a delegate with appropriate decision making authority.
2. Where consensus is reached on a specific policy, strategy or action, to ensure any resources committed are provided.



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VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.



---

A Commissioner/Notary Public for the  
Province of British Columbia.



**To:** McCrea, Bill J HSD:EX (Bill.McCrea@gov.bc.ca)[Bill.McCrea@gov.bc.ca]  
**Cc:** Michael Graydon[MGraydon@BCLC.com]; Jim Lightbody[JLightbody@BCLC.com]; Darryl Schiewe[DSchiewe@BCLC.com]; Bryon Hodgkin[BHodgkin@BCLC.com]  
**From:** Terry Towns  
**Sent:** Thur 2011-09-01 10:06:46 PM  
**Subject:** FW: Methods to Reduce Reliance on Cash in BC Casinos  
Methods to Reduce Reliance on Cash in BC Casinos.docx

Bill here is the list of proposed changes we have talked about. We would like to meet to discuss them with you and Doug at your earliest convenience. If you have any questions please give me a call.

Thanks

Terry



BCLC0015760

## 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.

THIS IS **EXHIBIT "33"** TO THE  
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SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.



A Commissioner/Notary Public for the  
Province of British Columbia.







*Know your limit, play within it.*

October 04, 2011

Terry Towns  
Vice-President Corporate Security and Compliance  
British Columbia Lottery Corporation  
2940 Virtual Way,  
Vancouver BC V5M 0A6

re: GPEB Response to BCLC's 'Methods to Reduce Reliance on Cash in BC Casinos'

Dear Terry,

We have reviewed the document, through GPEB's Anti-Money Laundering Cross-Divisional Working Group, and have determined that the following suggestions can be worked on immediately. From the discussion below you will see that some of the 'quick wins' are fully supported. Others still have areas that are of concern. We ask that BCLC develop policies and procedures for the changes and bring these to us for review prior to implementing the enhancements at BC casinos.

The areas of change are broken out as per BCLC's proposal:

**Patron Gaming Fund Accounts (PGF)**

| No. | BCLC Proposal and GPEB Response | Discussion  |
|-----|---------------------------------|---|
| 1   | BCLC                            | 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.  |
| 1   | GPEB                            | <p>We generally support allowing PGF accounts to be opened with a wider variety of financial instruments from bona fide Canadian financial institutions. This will require service provider diligence in clearing cheques.</p> <p>Instruments that will require further discussion before implementing are:</p> <ul style="list-style-type: none"> <li>• Casino cheques, until the program of casino cash-out by cheque is developed,</li> <li>• Credit cards, due to Responsible Gambling and other policy issues.</li> </ul> <p>An enhancement proposal, discussed previously between GPEB and BCLC, is to allow PGF accounts to be opened at a lower level than the current \$10,000. We would ask BCLC to establish the opening limit for PGF accounts at a level that will encourage greater use of the program.</p> |

Ministry of  
Public Safety and  
Solicitor General

Gaming Policy and  
Enforcement Branch  
Internal Compliance and Risk  
Management

Mailing Address:  
PO BOX 9311 STN PROV GOVT  
VICTORIA BC V8W 9N1  
Telephone: **Personal Information**  
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Location:  
Third Floor, 910 Government Street  
Victoria, BC  
Web: [www.pssg.gov.bc.ca/gaming](http://www.pssg.gov.bc.ca/gaming)

BCLC0013121

| No. | BCLC Proposal and GPEB Response | Discussion  |
|-----|---------------------------------|---|
| 3   | BCLC                            | 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. |
| 3   | GPEB                            | There is some clarification needed about this proposal. Why is this being suggested and how will it help promote the PGF accounts? That said, there is enough support to ask for policies and procedures to be built for our review. Key to this proposal is that the PGF account holder must be the owner of both bank accounts. Perhaps the two accounts should be established through the initial diligence when signing up for the PGF program.   |

| No. | BCLC Proposal and GPEB Response | Discussion  |
|-----|---------------------------------|---|
| 4   | BCLC                            | Accept EFTs from other Canadian financial institutions besides Canadian banks (such as Credit Unions).  |
| 4   | GPEB                            | There is good consensus on accepting this proposal, subject to approval of the type of Canadian financial institutions. Please provide the full list of institutions that BCLC would deem to be acceptable. |

| No. | BCLC Proposal and GPEB Response | Discussion  |
|-----|---------------------------------|---|
| 6   | BCLC                            | Patrons currently have the ability to deposit into their PGF accounts any verified wins on the same day the win occurs. |
| 6   | GPEB                            | This is already in place as part of the PGF account program.  |

### Casino Cheques and Other Financial Instruments

GPEB has agreed that the buy-in/cash-out policy requires revision. We have asked BCLC to develop policies and procedures to manage the issuance of cash-out cheques for the \$5,000-\$8,000 range, including AML diligence. Please make this available to us once developed.

There are some other recommendations in this section that can be dealt with at this time.



| No. | BCLC Proposal and GPEB Response | 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   | GPEB                            | As with the PGF No. 1 suggestion there is general support for allowing casino buy-ins with a wider variety of financial instruments from bona fide Canadian financial institutions. This will require service provider diligence in clearing cheques. Instruments that will require further discussion before implementing are: <ul style="list-style-type: none"> <li>• Casino cheques, until the program of casino cash-out by cheque is developed,</li> <li>• Credit cards, due to RG and other policy issues.</li> </ul> |

The above enhancements can be developed immediately, with the goal to implement policies and procedures as soon as possible. Please provide us with policies and procedures for review.

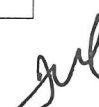
In addition to these, work can continue toward developing a couple of the other suggestions. They are:

#### Extend Credit or Provide Cash Advances

| No. | BCLC Proposal and GPEB Response | 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 credit. The casino service providers would have to determine how much credit they are willing to extend and thus be liable for. |
| 1   | GPEB                            | Note: there are three items listed under this heading. This will require research and development. Work has begun with both BCLC and GPEB researching the notion and logistics of approved gambling limits in BC casinos.   |

#### Use of Legitimate Money Transfer Companies

| No. | BCLC Proposal and GPEB Response | 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   | GPEB                            | We would like to see a report developed about how this proposal. How does it work and how will this support the anti-money laundering initiative?  |





There are other proposals that present different challenges. The notion of international funds transfers will need to be researched. Even transferring funds from international offices of major Canadian chartered banks presents the challenge of understanding their AML diligence, in relation to Canadian laws. We will need to research what the standards are and how is this accepted by agencies such as FINTRAC. As for transferring funds from foreign banks themselves this presents an even stronger challenge, as we truly do not know what AML diligence is conducted by banks regulated by laws outside of Canada. This would require a higher degree of scrutiny and will take some time to develop.

Terry, we are pleased to discuss these issues with you. Our mutual goal is to enact changes in BC casinos that encourage the use of electronic funds, thereby reducing the reliance on cash and lessening the risk of money laundering. We appreciate your efforts to this end.

Sincerely,

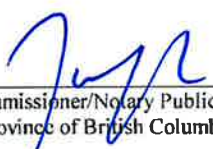
*Bill*

Bill McCrea  
Executive Director, Internal Compliance and Risk Management

cc: Douglas S. Scott  
Michael Graydon



THIS IS **EXHIBIT "34"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
\_\_\_\_\_  
A Commissioner/Notary Public for the  
Province of British Columbia.

## Corporate Security and Compliance Discussion Document

### Issue:

Reducing the use of cash in casino business processes: Customer Accounts, Expanded Buy-in Options and Use of Cheques.

### Background:

BCLC is charged with operating and managing gaming in British Columbia. Included within this mandate is responsibility for implementing and directing anti-money laundering/combating financing of terrorism (AML/CFT) programs at gaming facilities. Regulatory oversight of BCLC's AML/CFT regime is provided by the Gaming Policy and Enforcement Branch (GPEB), a provincial body, and by the federal Financial Transactions and Reports Analysis Centre (FinTRAC). Investigation of money laundering and other related criminal offences falls within the mandate of police agencies in the province.

In January 2011, in response to concerns raised in media stories about the potential for money laundering at gaming facilities, the Minister responsible for BCLC ordered a review of AML/CFT strategies employed in relation to gaming in British Columbia. That review was focused on the efforts of BCLC and GPEB. FinTRAC, being a federal responsibility, was beyond the scope of the review.

The review noted that gaming in British Columbia is almost exclusively a cash based business. This reliance on cash is driven, to a large degree, by regulated business processes. Further, the review observed that the almost exclusive reliance on cash created opportunities for organized crime and significant safety risks for patrons.

It was observed in the review, that there were appropriate and standard AML/CFT policies in place; however the opinion was offered that there were opportunities to move the AML/CFT regime further into the realm of best practices and to improve customer safety. In particular, the review noted that AML/CFT measures in the province would benefit from reducing the industry's reliance on cash. Specific recommendations were made in regard to increasing the use of casino cheques, and taking the steps necessary to provide the opportunity to move players from cash to electronic funds transfer and other forms of payment.

The recommendations provided in the review aligned with other recent audits and reviews of gaming, as well as measures BCLC had already identified and had under consideration. Research at BCLC had begun into new avenues to manage and broaden payments into and out of casinos; the purpose of these efforts being enhancement of customer safety, AML/CFT compliance, and customer service.

### Discussion:



The purpose of this document is to outline three of the proposed solutions BCLC has identified to modernize monetary procedures and policies related to:

1. the use of customer accounts at casinos (Patron Gaming Fund Accounts);
2. the methods used by customers other than cash to purchase gaming services; and,
3. the methods used by casinos other than cash to make payments to customers.

The development of the solutions presented below has been informed by industry best practices on AML/CFT strategies, guidance provided by regulatory authorities in the sector, and advice from enforcement agencies with relevant expertise. Particular attention has been given to the advice and guidance provided by the Financial Action Task Force<sup>1</sup> in *Vulnerabilities of Casinos and Gaming Sector*<sup>2</sup>, and the *Risk Based Approach Guidance for Casinos*<sup>3</sup>, as well as FINTRAC's *Money Laundering Typologies and Trends in Canadian Casinos*.<sup>4</sup>

As a starting point, the FATF in its guide for casinos recommends a risk-based approach to AML/CFT regimes and provides the following instruction:

By adopting a risk-based approach, it is possible to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified. This will allow resources to be allocated in the most efficient ways.

An effective risk-based approach will allow casinos to exercise reasonable business and professional judgment with respect to customers ..... A risk-based approach should not be designed to prohibit casinos from continuing with legitimate business or from finding innovative ways to diversify their business.

[I]t must be recognised that any reasonably applied controls, including controls implemented as a result of a reasonably designed and effectively implemented risk-based approach, will not identify and detect all instances of money laundering or terrorist financing.<sup>5</sup>

With respect to the role of casinos in helping to prevent money laundering and terrorist financing, the FATF explains:

[I]t is not the responsibility of casinos to determine the type of underlying criminal activity ..... the casino's role is to identify and report suspicious activity.<sup>6</sup>

In terms of money laundering risks, both the FATF and FinTRAC have observed that a heavy reliance on cash transactions is one of the primary money laundering vulnerabilities in the gaming sector. Therefore, initiatives designed to reduce cash transactions are an effective way to manage and mitigate this vulnerability and strengthen AML/CFT regimes.

<sup>1</sup> The Financial Action Task Force, established by the G-7 Summit held in Paris in 1989, is an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing.

<sup>2</sup> Financial Action Task Force, March 2009, <http://www.oecd.org/dataoecd/47/49/42458373.pdf>

<sup>3</sup> Financial Action Task Force, October 2008, <http://www.fatf-gafi.org/dataoecd/5/61/41584370.pdf>

<sup>4</sup> Financial Transactions and Reports Analysis Centre of Canada, November 2009, <http://www.fintrac.gc.ca/publications/typologies/2009-11-01-eng.pdf>

<sup>5</sup> Supra, n. 3 at 6.

<sup>6</sup> Supra, n. 3 at 11.

BCLC is proposing a number of initiatives that it believes will lay the foundation necessary to reduce the reliance on cash transactions at casinos in British Columbia. This work has been guided by best industry practices, guidance from regulators, and the recommendations coming from the recent review conducted in relation to BCLC's and GPEB's AML/CFT efforts. The proposals addressed in this paper are: 1) to increase the functionality of Patron Gaming Fund accounts; 2) allow customers to purchase gaming services with personal cheques, casino cheques, bank drafts, and debit card transactions; and, 3) allow casinos to issue cheques to customers for the return of buy-in funds.

### 1. Patron Gaming Fund Accounts

Customer casino accounts, referred to as Patron Gaming Fund (PGF) Accounts, were introduced in 2009. Since that time and up to September 2011, 167 accounts have been opened with 29 accounts remaining active. Extensive policies and procedures were developed to govern the opening and operation of PGF accounts including specific customer due diligence/know your customer (CDD/KYC) procedures. Under the present rules, transfers into an account may only be done by wire transfer or with a bank draft originating only from a chartered Canadian bank.

The very low take up on PGF accounts, and limited use of existing accounts, is evidence that the accounts are not currently structured in a way that is conducive to normal business functions or useful to customers. The accounts have not had the desired outcomes in relation to customer safety, reduction in the use of cash, or customer service. Anecdotal reports suggest that restricting payments into accounts to only wire transfers and bank drafts, along with the expense and difficulty related to arranging these transfers, are major barriers to PGF account use.

#### Proposed Policy Change

BCLC is proposing that its policies and procedures governing PGF accounts be revised. Material changes will include the following.

- **PGF account holders will be permitted to link their PGF accounts to up to two accounts they hold individually at Canadian regulated financial institutions (Approved Accounts).**
- **Transfers into a PGF account will be permitted from Canadian regulated financial institutions.**
- **Transfers into PGF accounts may be made by a PGF account holder via certified personal cheque, bank draft, debit card, or internet banking<sup>7</sup> drawn on a PGF account holders Approved Accounts, or by casino cheque issued for verified wins by a Canadian casino.**
- **PGF account holders will be permitted to return any amount transferred into their PGF account, or transfer any verified win amount, to their Approved Accounts.**

One of the primary money laundering concerns around any type of account offered by a reporting entity is establishing and confirming the identity of the account holder. Existing BCLC policy and procedures in relation to the opening of a PGF account are fully compliant with FATF

<sup>7</sup> Customers would set up their PGF account to receive transfers in the same way bill payments are made through internet banking.



recommendations 5, 8, 11 and 12, and FinTRAC guideline 6F on CDD/KYC. In addition, PGF account procedures meet the CDD/KYC best practices framework for banks promulgated by the Basel Committee on Banking Supervision<sup>8</sup>. These measures will remain in place under the proposal and will be reviewed as part of the proposal to ensure the procedures remain up to date.

The minimum transfer required to open a PGF account will remain at \$10,000 CDN, however subsequent transfers may be less than this amount.

These changes will greatly increase the flexibility available to customers around the use of PGF accounts to purchase casino gaming services and provide an attractive and workable option to cash. At the same time, appropriate AML/CFT countermeasures and controls will remain in place or be strengthened. Changes that decrease reliance on cash transactions improve BCLC's ability to mitigate money laundering vulnerabilities associated with cash transactions. Increases in PGF account use will not only help to reduce reliance on cash and provide superior audit trails, but as the use of electronic funds transfers increase, large cash transactions will become more of an anomaly making suspicious transaction identification easier and reporting more effective. Further, efforts to reduce the reliance on cash transactions are consistent with guidance provided by the FATF and FinTRAC.

The proposed changes have the added benefit of providing customers with a viable option to cash, which allows them to eliminate the threats to personal safety inherent in moving significant amounts of money from banks to casinos and back. The importance of addressing this public safety risk within the context of an AML/CFT regime has been acknowledged by FinTRAC:

This service [gaming accounts] not only provides a measure of convenience for the customer, but provides increased security, as customers do not have to arrive or depart the casino carrying large amounts of cash with them.<sup>9</sup>

## 2. Purchase of Gaming Services – Expanded Buy-in Options

BCLC is presently limited to allowing customers two options to purchase gaming services, referred to as buy-ins. Those options are cash and funds transferred into a PGF account. These parameters result in the sector being almost exclusively cash based and in almost all cases require customers to travel to and from casinos with cash. As noted above, the FATF has identified the reliance on cash transactions in the gaming sector as a money laundering vulnerability. Moreover, the current buy-in options give patrons little choice but to assume the risks of traveling with large amounts of cash on their person.

### Proposed Policy Change

BCLC is proposing to amend its policies and procedures governing buy-ins. The changes will include the following.

<sup>8</sup> Working Group on Cross-border Banking, *Customer due diligence for banks*, October 2001, <http://AML/CFTcft.com/files/2011/04/Basel-Customer-Due-Diligence.pdf>

<sup>9</sup> *Supra*, n. 4 at 11.





- Casino patrons will be permitted to purchase casino gaming services with certified personal cheques, bank drafts, or debit cards where the source of the funds is a Canadian regulated financial institution.
- Casino patrons will be permitted to purchase casino gaming services with a casino cheque issued for verified wins by a Canadian casino.

Policies and procedures governing CDD/KYC, large cash transaction reports, suspicious transaction reports and other aspects of the anti-money laundering regime will remain unchanged.

These changes will offer a range of buy-in options to customers reducing the reliance on cash and further mitigate money laundering risks associated with cash transactions. In addition, the use of cheques, bank drafts and debit cards provides an audit trail where none exists with cash. More importantly, these changes, in conjunction with those proposed to the PGF accounts, will give customers a variety of ways to avoid the risks that accompany travelling to a casino with cash.

### 3. Issuance of Casino Cheques

The FATF, and later FinTRAC, has identified the use of casino cheques as a potential money laundering typology risk for the casino sector.<sup>10</sup> This typology is typically described as illicit funds being used to purchase casino chips, then after minimal play, the launderer cashes out the chips and seeks a casino cheque. A casino cheque is described as creating an "air of legitimacy" that had not previously existed. It provides the launderer with the ability to claim the source of the funds as gaming winnings. This typology is seen as a potential avenue for launderers to place and layer their illicit proceeds.

Placement is commonly seen as being successful when the proceeds of crime are not only placed into the legitimate financial system, but the placement is done in a way or manner that results in the source and the holder of the funds being obscured or untraceable.<sup>11</sup>

In regard to layering, FinTRAC offers this definition:

Layering involves converting the proceeds of crime into another form and creating complex layers of financial transactions to disguise the audit trail and the source and ownership of the funds.<sup>12</sup>

Similar to placement, successful layering requires the illicit provenance and ownership of the funds to at least be obscured.

This typology identifies a serious laundering risk where casinos fail to track player wins and losses, and where casino cheques issued for legitimate winnings are not distinguished from those that are simply a return of buy-in monies. Both the FATF and FinTRAC suggest that tracking and verifying player wins along with endorsing or marking cheques as "winnings" is an effective control against this

<sup>10</sup> Supra, n. 2 at 28 and n. 4 at 8.

<sup>11</sup> T.D. Hall, *A Guide to Canadian Money Laundering Legislation*, LexisNexis 2009 at 6.

<sup>12</sup> Supra, n. 4 at 4.

typology.<sup>13</sup> Where a casino follows the practice of distinguishing cheques for winnings from those issued for return of buy-in, the unendorsed buy-in return cheque cannot be used to obscure either the source or the owner of the funds and thus defeats attempts at both placement and layering. In fact, the issuance of a cheque for a return of buy-in creates an audit trail where none had previously existed and firmly ties ownership of the funds to the customer who used the money to buy-in – a link that is much more difficult to establish with cash. Moreover, where a cheque is issued to a customer without a “verified win” endorsement, any subsequent claim that the funds originate from legitimate gambling winnings can easily be proven to be false, thus robbing the launderer of his desired air of legitimacy.

Casinos in B.C. track customer play where the customer’s buy-in is \$3000.00 or more. Tracking play creates the ability to not only verify win amounts, but also to detect buy-ins followed by minimal play. Under current policy, casinos may only issue cheques for confirmed gaming winnings and cheques must be endorsed with the phrase “verified win”. These steps place B.C. casinos within best practices as well as the procedures suggested by the FATF related to tracking gaming play and cheque issuance for winnings.

Presently casinos are not permitted to issue cheques to return buy-in amounts and may only make this type of payment in cash. This policy entrenches reliance on cash transactions in casino business processes for payments to customers, other than payments for verified winnings. In addition, the policy ensures the majority of customers have no option but to leave casinos with large amounts of cash in hand.

### Proposed Policy Change

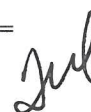
BCLC is proposing to amend its policies and procedures governing the use of cheques for the return of buy-ins. The changes will include the following.

- **Casinos will be permitted to return buy-in amounts using a casino cheque.**
- **Where casino cheques are used to return buy-in amounts, the cheques must be prominently endorsed with “Return of funds – Not Gaming Winnings”.**

The current policy of requiring all buy-ins to be returned in cash provides some protection from placement; at casinos. At the same time, this policy entrenches a heavy reliance on large volumes of cash transactions, which is a money laundering vulnerability identified by both the FATF and FinTRAC. Moreover, the policy removes the opportunity to create an audit trail which in many instances will be an even more effective anti-money laundering control. Further, requiring payment in cash creates a personal safety risk for every legitimate gaming customer leaving the casino with money in hand.

From a risk-based approach, the starting point is acknowledging that there is a risk launders may attempt to effect placement at casinos and that this placement risk is amplified by heavy reliance on

<sup>13</sup> Supra n. 4 at 8 and n. 2 at 39.





cash transactions. The proposal here is to manage both of these risks down through the issuance of marked cheques clearly identifying the source of the funds as either winnings or return of buy-in funds. This control will be effective in frustrating any attempts to falsely claim illicit proceeds are gaming winnings. Further, by confirming the identity of the customer prior to issuing a cheque, an audit trail is created preventing the ownership or source of the funds from being obscured through placement at a casino. Lastly, an increase in cheque usage will reduce the reliance on cash helping to control for the laundering vulnerabilities associated to that business practice.

Overall this policy change has the following advantages.

1. Customers will have an option to avoid the safety risks inherent in leaving a casino with large sums of cash.
2. Casinos will be able to switch from cash payments to customers to cheques, reducing the reliance on cash.
3. A clear audit trail will be created, which does not exist with cash, facilitating follow-up investigations by enforcement and other agencies where the need arises.
4. All casino cheques will be endorsed clearly identifying the funds as winnings or a return of a customer's buy-in, removing any chance for ambiguity in relation to the source and ownership of the funds. This will enhance overall AML/CFT efforts by frustrating attempts to use casinos to obscure the source or ownership of illicit funds.
5. The policy changes are consistent with and exceed the guidance provided by the FATF and FinTRAC in relation to reliance on cash and the use of casino cheques.



THIS IS **EXHIBIT "35"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.



A Commissioner Notary Public for the  
Province of British Columbia.



## IMPROVEMENTS TO BCLC'S AML REGIME/PROCESSES

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- Created an AML Committee focussing on AML risk mitigation processes. Working closely with GPEB to facilitate improvements.
- Completed a comprehensive risk assessment (by Casino geographic profile, by player and by product).
- High risk player profile documentation (*reviewed bi-annually*). Each high risk player is monitored on an ongoing basis.
- Quarterly meetings with *RCMP Integrated Proceeds of Crime*, Service Providers and GPEB to discuss AML.
- AML policies merged in response to a Deloitte recommendation.
- Updated AML policies and training to incorporate legislative changes in relation to designated offences, i.e., tax evasion, terrorist property.
- AML face-to-face training has been changed to reflect recent audit recommendations. Online training updates to follow.
- BCLC participates in Canada-wide AML "Best Practices" Committee comprised of persons responsible for AML Compliance from all Provinces.
- NAVIGANT Consulting recently completed the latest AML Compliance Regime Review will all but one recommendation implemented.

## CASINO PAYMENT PROGRAM ENHANCEMENTS

The intent of the enhancements is to lay the foundation necessary to reduce the reliance on cash transactions and enhance customer service in BC Gaming facilities.

### Summary of Program and Policy Changes

#### A. CHEQUE HOLD PROGRAM – NEW PROGRAM

- Casino patrons will be permitted to purchase casino gaming services by providing a casino service provider (CSP) with a personal cheque.
- Cheques may only be written on an account individually held by the customer (no joint accounts or business accounts) at a Canadian Schedule I or Schedule II bank, credit union, or caisse populaire.
- At the time of issuance, the customer will negotiate a future date for the settlement of the cheque with the CSP.
- Once the cheque and terms of settlement have been accepted by the CSP, the customer will be permitted play up to the value of the cheque over the agreed period of time.



- Cheques must be for an amount of \$10,000 or more and subject to Large Casino Disbursement Report.
- CSPs will be responsible for establishing cheque verification, acceptance and collection procedures that are satisfactory to BCLC.
- Cheques will be entered into Casino Reporting System (CRS) for tracking and audit purposes.
- Failure of the CSP to meet program requirements, including the submission of required reports for submission to FINTRAC, may result in CSPs participation in the program being suspended or terminated.

#### B. IMPROVEMENTS TO PATRON GAMING FUND (PGF) ACCOUNTS

- PGF account holders will be permitted to link their PGF accounts to up to two accounts they hold individually (no joint accounts) at Canadian regulated financial institutions, Schedule I or Schedule II banks. (Approved Accounts).
- Transfers into a PGF account will be permitted from Canadian regulated financial institutions.
- Deposits and transfers into PGF accounts may be made by a PGF account holder via certified personal cheque, bank draft, debit card, or internet banking transfer from PGF account holders Approved Account, or by casino cheque issued for verified wins by a Canadian casino.
- PGF account holders will be permitted to return any amount deposited or transferred into their PGF account, or transfer any verified win amount to their Approved Accounts.
- Failure to meet program requirements, including the submission of required reports for submission to FINTRAC, may result in CSPs participation in the program being suspended or terminated.

#### C. CASINO CHEQUES

- In addition to the issuance of Casino cheques for verified wins, CSPs will now be permitted to issue cheques for the return of buy-in funds up to \$5000 and the return or payment out of funds transferred into a PGF account. These are customer convenience cheques and are meant for customer safety and convenience, instead of cash.
- Return of buy-in fund cheques must be prominently marked "Return of Funds - Not Gaming Winnings" and only one cheque per week may be issued to any one customer.
- Funds paid out by cheque from PGF accounts must be prominently marked "Return of Funds - Not Gaming Winnings".
- All return of funds cheques must be CRS for audit and tracking purposes.

#### D. EXPANDED BUY-IN OPTIONS

- Casino patrons will be permitted to purchase casino gaming services with certified personal cheques, bank drafts, or debit cards where the source of the funds is a Canadian regulated financial institution.
- Debit card acceptance by CSP is intended for transactions in amounts above ATM limits and will be conducted at the Cash Cage.
- Casino patrons will be permitted to purchase casino gaming services with casino cheques issued for verified wins by a Canadian casino.

#### FUTURE ENHANCEMENTS





- Electronic FINTRAC cage reporting.
  - Pull-down menus for occupation
  - Mandatory field completions
  - Transposition error prevention, i.e. postal code, date of birth
- INTERAC e-transfer payments
- NRT machine ATM activation (NRT machines are cash payment machines on the gaming floor that customers use to pay out slot machines tickets.
- International Fund Transfers (US banks only)



THIS IS **EXHIBIT "36"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 21 DAY OF JANUARY, 2021.

  
A Commissioner/Notary Public for the  
Province of British Columbia.



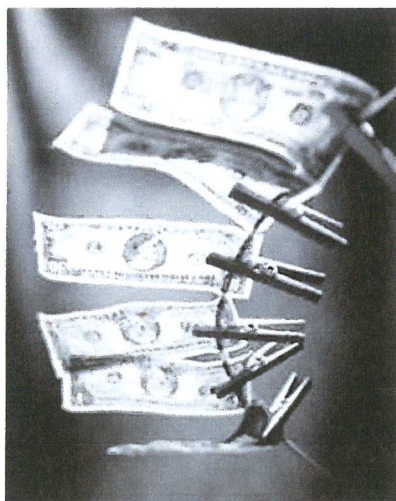
# BCLC's Anti Money Laundering Regime A Risk Based Approach





## AML at BCLC

- BCLC Compliance Program
- Policy Review
- Risk Assessment – Risk Register
- Enhanced Reporting Procedures
- LCT & STR Reporting
- ID Requirements
- Value Chip Redemption
- BCLC Staff – Roles & Responsibilities
- Reducing Reliance on Cash
- Training Enhancements/Monitoring
- System Upgrades – iTrak
- Cheque Issuance Tracking
- E-Gaming AML

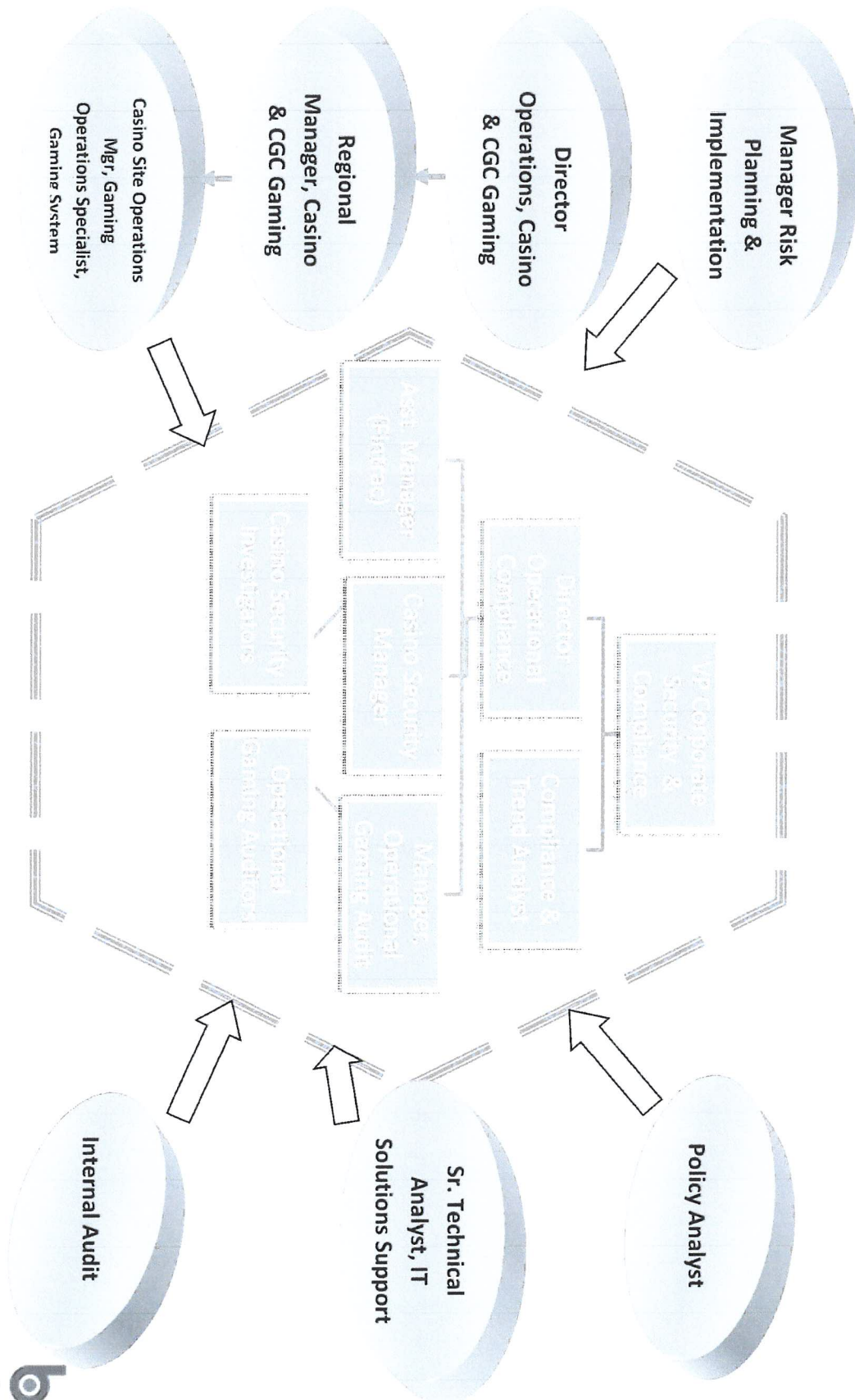


## BCLC Compliance Program

### Continuous Improvement Actions

- BCLC has developed a unified Anti-Money Laundering/Anti-Terrorist Financing framework which applies to all of its Operators. This framework provides a risk-based approach. It also includes documentation procedures to manage updates required for risk assessments, policies and training materials.
- BCLC has documented reporting lines, including key roles and responsibilities across the organization to clearly define how this program is supported by BCLC's overall operations.

# BCLC Compliance Team



*[Signature]*





## Organization Wide Compliance

- BCLC has aligned its policies and procedures to ensure consistency of Anti-Money Laundering/Anti-Terrorist Financing program and risk management across the organization. This alignment includes a schedule for regular review and updating of these policies and procedures.

## Compliance Policy & Procedure Review



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- BCLC is committed to semi-annual FINTRAC policy and procedure reviews for all gaming facilities in the province by Operational Gaming Audit.
- Critical policies and procedures will be amended and modified to meet operational requirements as needed.
- Dedicated BCLC policy analyst will provide FINTRAC Policy and Procedure updates as directed.
- All policy and procedure modifications are reviewed by both VP Corporate Security & Compliance and Director of Operational Compliance.
- Any policy and procedure modifications will be distributed to Corporate Security investigators, Operational Gaming Audit and Casino Operations to ensure that the appropriate steps are followed for implementation.
- BCLC has dedicated an IT resource to oversee the FINTRAC reporting system.
- BCLC has implemented an IT Quality Assurance process following industry best practice to comply with all FINTRAC legislative requirements.

## Enhanced Reporting Procedures



- BCLC has installed new hardware to enhance reporting to FINTRAC. BCLC has also installed monitoring services to enhance communications with FINTRAC's system.
- BCLC has created automatic notifications for consistent data transmissions.
- On a daily basis BCLC generates an e-mail to all BCLC Casino Investigators identifying number of reports processed, reports in error or waiting for response.

- **Occupation Errors**

- Occupations categories are continuously reviewed through generated lists.
- Compliance and Trend Analyst to conduct weekly reviews to verify that proper occupations are obtained.
- Compliance and Trend Analyst together with Corporate Security Investigators will follow-up on occupation compliance.



## Large Cash Transaction Reporting



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- BCLC has changed policy requirements (June 2010) that now require ID be requested when gaming patron reaches \$9000.
- BCLC has policy which requires casinos to withhold Large Cash Disbursements over \$10,000 until the patron produces acceptable government photo ID.
- BCLC Casino Investigators conduct daily reviews of all Large Cash Transaction and Disbursement Reports to compare hardcopy to electronic report.
- Operational Gaming Audit will conduct quarterly reviews of Large Cash Transaction Reports and Disbursement Reports to compare hardcopy to electronic filed copy.
- BCLC has redesigned training modules to reflect this policy notation and change.

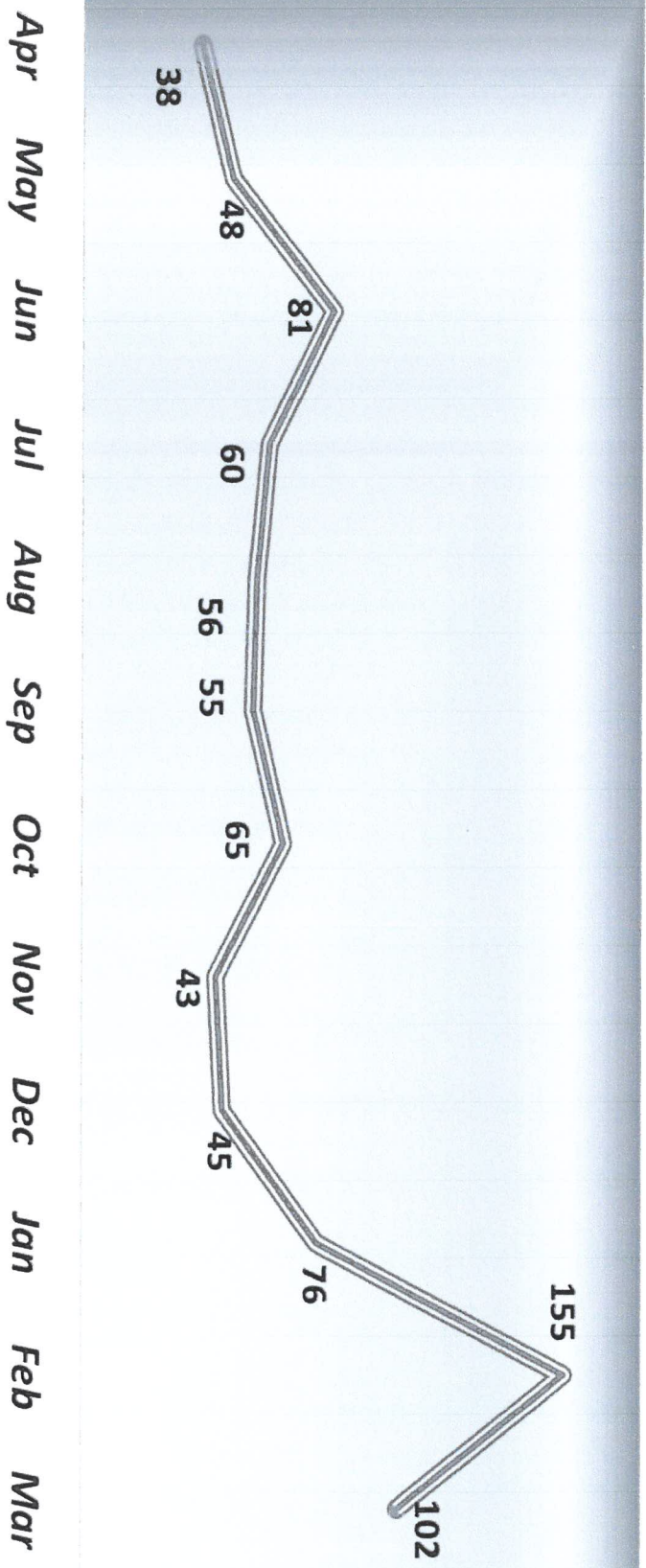
## Suspicious Transaction Reporting



- Policy is to file a Suspicious Transaction Report (STR's) for any transaction that investigation determines is a suspicious financial transaction [attempted or completed] and/or money laundering related.
- Suspicious Financial Report is filed through FINTRAC F2R portal as per FINTRAC Guidelines and within legislated requisite time frame of 30 days.
- RCMP Integrated Proceeds of Crime, local police of jurisdiction and GPEB are copied on all STR reports.



**Monthly Suspicious Financial Transactions Filed**  
**Apr 2011 to Mar 2012**  
**Total Current Fiscal Year = 824**





# Reports Submitted to FINTRAC



|      | Calendar Year<br>2010 | Calendar Year<br>2011 | % Increase |
|------|-----------------------|-----------------------|------------|
| LCTs | 57,731                | 63,242                | 10%        |
| STRs | 385                   | 674                   | 75%        |

## Cheque Issuance & Verified Wins



- Cheques are not issued except for a verified slot win or a verified table win. Specific employee must verify the win.
- Cheque issuance is being reviewed by the Compliance Trend Analyst and BCLC Investigators monthly to confirm policy compliance.
- All footage of cheques issued over \$25,000 is retained for 30 days.
- Ongoing review with Casino Service Provider site management to review incidents involving high profile patrons.
- Operational Gaming Audit conducts quarterly review of cheque issuance and verified wins to ensure verified wins and compliance to policy.
- Corporate Security Casino investigators assess incidents concerning high profile patrons and issues.

## Cheque Issuance Tracking



- Patron's receiving verification cheques (\$10,000 & over) has been tracked on a monthly basis since July 2009.
- Any cheques issued (\$25,000 & over) are reviewed by Investigators to ensure they were issued for verified wins only.
- If patron's receive a high dollar value or multiple cheques within a one month time frame – it is escalated to the BCLC Casino Investigators for review.
- If deemed necessary, investigators will report a suspicious financial transaction.



## Value Chip Redemption

- Casino chips issued from a casino facility may be redeemed only within that facility. Casino employees cannot cash gaming chips from other casinos.
- Implemented January 2011.



A handwritten signature in black ink, appearing to be 'JH'.

## BCLC Dedicated FINTRAC Resource Responsibility



BCLC has created a dedicated Manager FINTRAC position who reports through to the VP Corporate Security & Compliance.

- Oversee and ensure the BCLC AML program as communicated by VP Corporate Security is implemented at all BCLC, Casino and CGC and delivered to all the appropriate staff within the Province of BC, consistent with BCLC Policy and FINTRAC guidelines.
- Ensure that the BCLC AML program is developed and implemented in support of FINTRAC AML Policies and guidelines.



## Duties

- Provide direction and clarification to Service Provider staff and BCLC Investigators.
- Update the BCLC VP Corporate Security & Compliance and Manager Casino Security and Surveillance on any issues identified requiring attention in the previous reporting period.
- Liaise with local Policing authorities and GPEB Investigators to ensure the reporting of AML 'Suspicious Financial Transaction' incidents are consistent with BCLC Policy and guidelines.



## BCLC Dedicated FINTRAC Resource Duties



- Review the GPEB/FINTRAC Audits and in consultation with management, determine a course of action to correct/rectify any shortfall or issues identified.
- Ensure the implementation of any action plan as required.

## Daily Duties

1. Review all Large Cash Transactions created at gaming facilities. Ensure content is accurate and reported within the 15 day time limit.
2. Review all incidents created in iTrak.
  - Ensure incidents are identified in the appropriate category(s)
  - Report any incidents that are deemed 'suspicious' in nature to IPOC, GPEB and police of jurisdiction.
  - File the 'Suspicious Financial Transaction' Report to FINTRAC within the 30 day limit.

## BCLC Casino Investigator's Role in AML

### Daily Duties continued...



3. Review Patron Gaming Fund Accounts (PGF).
  - Review each existing account for activity.
  - Ensure new accounts have been completed within BCLC Policy guidelines.
  - Ensure EFTs have been reported to FINTRAC via LCT.
4. Review Notifications from the Compliance and Trend Analyst in relation to vague occupations.



# BCLC Casino Investigator's Role in AML

## Weekly Duties



- Host regular scheduled meetings with appropriate Service Provider staff.
- Monitor AML training requirements for gaming facility staff.
- Ensure Cash Cage staff are trained on:
  - PGF Accounts
  - Submitting LCT and Disbursements Reports to FINTRAC
  - Identification of patrons at \$9,000 thresholds and related policy

## BCLC Casino Investigator's Role in AML Weekly Duties continued...



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- Ensure Surveillance staff are current with the reporting of any and all transactions deemed 'suspicious'.
- Create incident files in iTrak and amend subject profiles for any individual identified as 'High Profile', as per the format established by the Compliance and Trend Analyst.

## BCLC Investigator's Role in AML



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- **Information Sharing with Police or Other Accredited Agencies:**
  - Review any and all requests for information from Police or other accredited agency. Ensure requests for information fall within the BCLC Policy criteria prior to releasing any information.
- **Police Working Group Meetings**
  - Liaise/meet regularly with local Police of jurisdiction, Integrated Proceeds of Crime, Gang Task Force.



## Risk Assessment Approach Outline



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<sup>274</sup>**BCLC approaches money laundering risk from a number of perspectives:**

- **Program** – the risk that BCLC does not have all the components of an anti-money laundering program in place and working effectively.
- **Geographical** - the risk that some gambling facilities might be at higher risk for money laundering due to geographical features.
- **Channel** - the risks associated with how BCLCs' products/services are delivered to clients.
- **Product** - the risk that some products might be more vulnerable to use in money laundering.
- **Patron** – the risk that some patrons may desire to use gaming facilities to attempt to launder money.

## Components of the Risk Assessment

375

**Program** – the risk that BCLC does not have all the components of an anti money laundering program in place and working effectively.



- Leadership
- Policies & procedures
- Training
- Risk assessment, scenario analysis and review
- New client assessment (identification and know your customer)
- Detection of potential money laundering related activity
- The accuracy and timeliness of record keeping
- Consideration of the vulnerability of forms of payment or transaction for use in money laundering
- The potential that BCLC or an operator (Service Provider) could hold property owned or controlled by or on behalf of a terrorist or terrorist group

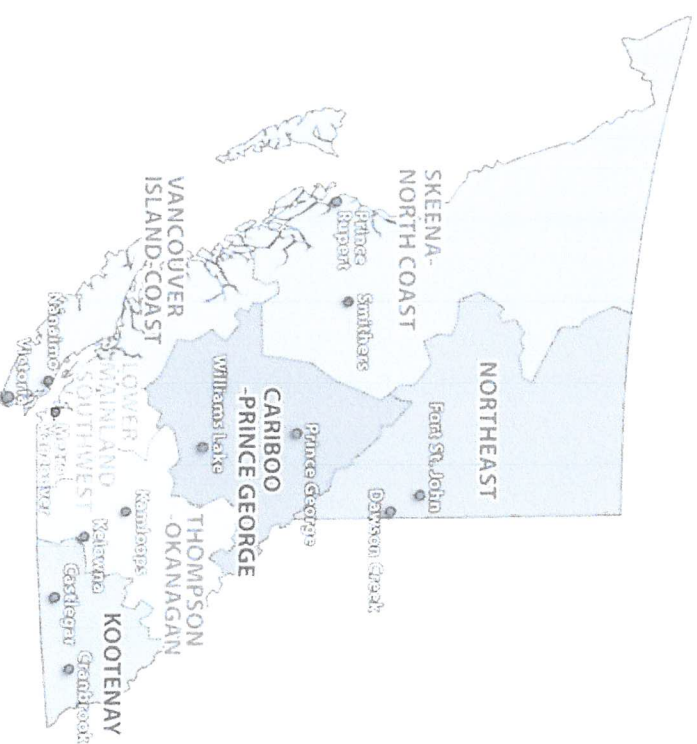
## Components of the Risk Assessment

376

**Geographical** - the risk that some gambling facilities might be at higher risk for money laundering due to geographical features.



- Interior
  - Community Gaming Centres
  - Hastings and Fraser Downs
  - Grand Villa
  - Edgewater
  - Starlight
  - Boulevard
  - River Rock
- Northern
- Vancouver Island
- Lower Mainland





# Components of the Risk Assessment

377

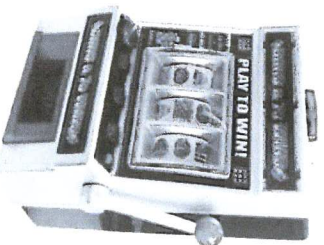
**Channel** - the risks associated with how BCLCs' products/ services are delivered to clients.



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- Gambling facilities providing bingo only
- Community Gaming Centres
- Casinos with slot machines and electronic tables only
- Casinos with slot machines and live tables games
- Casinos with slot machines, live tables games and a high limit room
- Online gaming - Lottery online sales, eCasino and ePoker

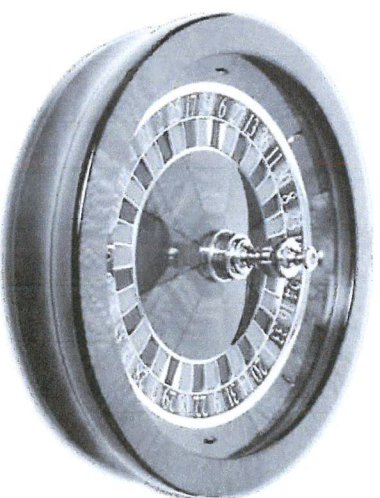
| B I N G O |    |                               |    |    |  |  |  |  |  |
|-----------|----|-------------------------------|----|----|--|--|--|--|--|
| 7         | 26 | 35                            | 51 | 73 |  |  |  |  |  |
| 14        | 23 | 44                            | 55 | 63 |  |  |  |  |  |
| 6         | 19 | <small>FREE<br/>14733</small> | 48 | 64 |  |  |  |  |  |
| 12        | 22 | 32                            | 54 | 70 |  |  |  |  |  |
| 11        | 16 | 33                            | 47 | 69 |  |  |  |  |  |



## Components of the Risk Assessment

<sup>378</sup>**Product** - the risk that some products might be more vulnerable to use in money laundering.

- Table games where hedge betting is possible (i.e. roulette, mini-bac)
- Table games which are random with no hedging possible (i.e. some poker derivatives, Wheel of Fortune etc.)
- Table games where a player can be the banker (i.e. Pai Gow Poker)
- Slots / Electronic games
- ePoker
- eCasino
- Table games where players play each other with no house stake (i.e. table poker)
- Bingo
- eBingo



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## Components of the Risk Assessment

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**Patron** – the risk that some patrons may desire to use gaming facilities to attempt to launder money.

Patrons are identified as higher risk using the following indicators:

- Buy in dollar amount over casino specific level
- Large number of low denomination bills
- Large number of significant table buy ins
- Refusing to produce ID, or shows ID that is not current/valid
- Previous history on iTrak of suspicious activity in our Casinos
- Known associate of individuals identified as suspicious
- Larger than expected volume of SP cheques for table wins
- Unusually high frequency of play
- Pattern of attending multiple gaming facilities
- Other suspicious indicators

Once flagged as high risk we track patrons in order to identify and act on any further suspicious activities.



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## High Profile Patron Tracking

- BCLC tracks high profile or high risk patrons.
- Patron list reviewed province wide every six months.
- New patrons added to the list at any time upon review/investigation by BCLC.
- High profile patrons placed in “watched” category within iTrak.
- Where possible, license plate information captured on patrons so sites are alerted when patrons on site.



## Managing AML risks

381

### Monitor & Review – Risk Register

- A core BCLC AML team was created.
- Identified and assessed each potential area of risk.
- Treatment plans were put in place.
- Treatment plans are incorporated into management plans.
- The full set of risks are presently reviewed quarterly and updated as required by BCLC AML team.

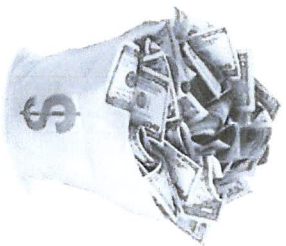


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## Reducing Reliance on Cash in Casinos

### Cheque Hold/Markers

- Casino patrons will be permitted to purchase casino gaming services with a personal cheque.
- Cheques must be for \$10,000 or more.
- CSPs will be responsible for establishing cheque verification, acceptance and collection procedures .



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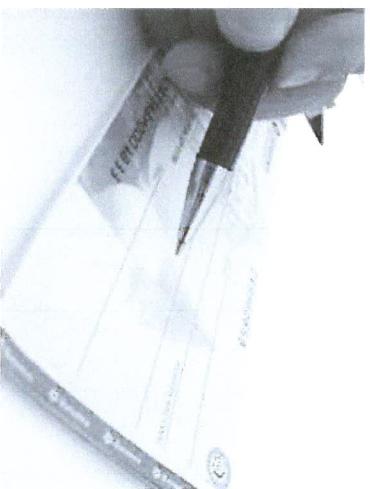
BCLC0013096.31



## Reducing Reliance on Cash in Casinos Cheque Hold/Markers



- All draws on cheques will be tracked .
- Failure to meet program requirements may result in CSPs participation in the program being suspended or terminated.



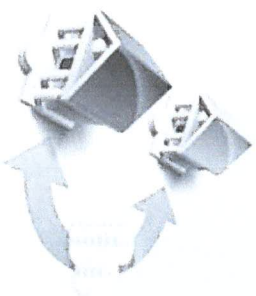
## Reducing Reliance on Cash in Casinos

### Enhancements to Patron Gaming Fund Accounts



BCLC0013096.33

- PGF account holders will be permitted to link their PGF accounts to up to two accounts they hold individually (no joint accounts) at Canadian regulated financial institutions.
- Transfers into a PGF account will be permitted from Canadian regulated financial institutions.

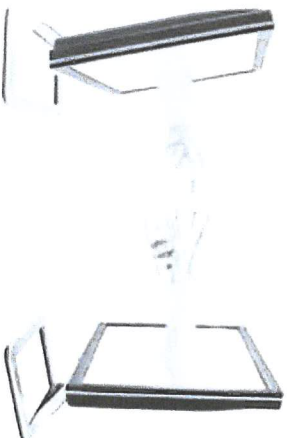




## Reducing Reliance on Cash in Casinos

### Enhancements to Patron Gaming Fund Accounts

- Transfers into PGF accounts may be made via:
  - certified personal cheque
  - bank draft
  - debit card
  - internet banking
  - casino cheque issued for verified wins by a Canadian casino







## Reducing Reliance on Cash in Casinos Casino Convenience Cheques

- CSPs will now be permitted to issue cheques for the return of buy-in funds up to \$5000.
- One cheque per player per week. Convenience cheques will be tracked.
- Return of buy-in fund cheques must be prominently marked "Return of Funds - Not Gaming Winnings" and only one cheque per week may be issued to any one customer.

## Reducing Reliance on Cash in Casinos

### Expanded Buy-In Options



- Patrons will be able to use certified personal cheques, bank drafts, or debit cards where the source of the funds is a Canadian regulated financial institution.
- Debit card use is intended for transactions in amounts above ATM limits at the cage.
- Patrons will be permitted to purchase casino gaming services with casino cheques issued for verified wins by a Canadian casino.



## AML Training – Enhancements/Monitoring

BCLC0013096.37

- New on-line AML Training course launched April 2011
- Housed at [REDACTED].
- Classroom training module updated March 2012.
- Policy changed in December 2010 to reflect the following:
  - Employees must take training prior to working on gaming floor
  - All employees must take training (exceptions: F&B & Maintenance staff)
  - Employees must renew training every two years
- Compliance to Policy changes now audited by BCLC Gaming Auditors on a quarterly basis.
- 99.9% compliance rate on training.





## iTrak System Enhancements

### AML Related

- Occupations selected from drop down list.
  - Vague occupations such as Businessman or Self Employed will no longer be available to be entered into the system
- System will automatically prompt for ID verification every 23 months
  - This will ensure most up-to-date information is captured from the patron – address, ID etc.
- Upgrade of iTrak scheduled for July 2012.
- After system upgrade, script will be used to remove the occupation of Businessman and/or Self Employed from any existing records within the system. Upon next visit, site staff will need to capture specific occupation from patron.



## iTrak System Enhancements AML Related

- iTrak Upgrade will include Electronic Cage Reporting.
- Hard Copy LCTR will now be printed from the Electronic FINTRAC Reporting Module.
- Will standardize all Hard Copy LCTR forms at all Service Providers.
- Will mitigate risk as it relates to Service Provider transposition errors when entering gaming transactions into the electronic FINTRAC Reporting module.



## E Gaming AML



BCLC0013096.40

- Policy & Procedures similar to B&M sites.
- For registration of new players, BCLC utilizes the prescribed FINTRAC “non-face to face” methods of identification.
- Players depositing from credit card go through a verification to ensure the card details match their PlayNow profile.
- All players must declare occupation for any withdrawal >\$1,000.
- All EFT's over \$1,000 are recorded.
- All game play is reviewed after a withdrawal request is made to ensure there was sufficient and legitimate play. If insufficient play, the player is refunded to their credit card or other method of payment.
- Voluntarily report CDR's and STR's through FINTRAC F2R portal.



THIS IS **EXHIBIT "37"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.



---

A Commissioner/Notary Public for the  
Province of British Columbia.





**Minutes for Casino Service Providers Working Group  
Held on October 28, 2011  
Room O5, BCLC Vancouver Office**

In attendance:

BCLC: Darryl Schiewe, Jim Lightbody, Terry Towns, Rob Kroeker, Petroula Magriotidis

Casino Service Providers: Howard Blank, Peter Goudron, Walter Soo, Dennis Amerine,  
Vic Poleschuk

Not in attendance:

Casino Service Provider: Lorenzo Creighton

Meeting commenced at 10:30 a.m.

**1. Approval of Agenda:**

The first order of business was the Agenda. Rob initiated discussion by determining if any additional items needed to be added to the proposed agenda. None were identified and therefore, it was adopted as presented.

**2. New Business:**

Rob commenced the meeting by outlining the project scope in a presented document with a list of initiatives that are being worked on as elements of the overall Casino Cash Payment Business Process Enhancements project. A review of these initiatives was completed with a discussion on project structure and general timelines for implementation. Rob advised that the VIP Marketing Initiative would only yield a discussion/scope document; as such a proposal would require more robust research and consultative efforts amongst key stakeholders for its feasibility. Rob also advised that the concept of opening a PGF account with credit has been taken off the table due to regulatory constraints at this time.

Further discussion took place regarding the proposed initiatives, specifically Patron Gaming Fund Accounts, Deferred Payment, Casino Cheques and Global Cash on casino floors and what other jurisdictions around North America are doing. It was agreed that more research and a risk assessment needs to be conducted around the financial, legal and operational implications of policy changes to these initiatives. Concern was raised around how funds would be collected if patron's deferred monetary instrument defaults and/ or how we ensure that funds being returned to a patron go back to a single, "verified" personal account from an approved Canadian financial institution?

Rob requested feedback on resource commitments and timelines, as more focused work will be needed going forward in terms of research on service provider business processes and impacts of implementation from an operational perspective. Agreed that the drafting of policy is the initial

A handwritten signature in dark ink, appearing to be 'Jul', is located in the bottom right corner of the page.

piece, but the most work will be around the training package, implementation roll out and the potential impact it may create on investigations and audit.

### 3. Follow Up Actions:

#### a. Proposed Cheque Acceptance and Clearance Process:

CSP provided input on cheque acceptance and clearance processes with agreement that there are two types of cheque acceptance; one with a direct buy-in and the other with credit with a minimum of \$1000 to process immediately. Discussion took place about potentially engaging a third party, central credit system-type company to verify patron accounts with the financial institution and guarantee the cheque for a percent of the cheque.

#### b. Single Financial Service Provider:

Rob raised the issue of the VIP marketing program and the notion of using one Canadian financial institution in regard to any consideration of international funds transfers..

Further discussion took place around whether there is an opportunity to differentiate between the North American market versus the international market as we move forward with these initiatives.

#### c. CSP charge fees for cheque cashing:

It was determined that the Casino Service Provider cannot charge patrons for cheque cashing as per the *Financial Institution Act*.

#### d. Minimum/Maximum Amounts:

CSP agreed to place the minimum threshold at \$10K to establish a PGF account and \$1000 minimum for subsequent deposits.

#### e. PGF links to more than one bank account:

Discussion took place and agreement regarding needing to put parameters around the number of accounts and setting a limit to two accounts in the sole name of an individual which is a personal account and has no sole proprietorship or business affiliation.

### 4. Take Away Action Items:

- a. Agreed that each Service Provider would do some research on patrons who have gaming accounts of \$10K and provide estimates on demand or uptake of these accounts, in order for BCLC to look at their ability and capacity to audit them. Also discussed dormant accounts and setting that limit to one year, as opposed to 3 months. CSP contact them at the year mark, but agreed it's discretionary if they wish to contact these patrons at a prior date for marketing purposes. Action: Each CSP to come back with an estimated percentage of usage and potential establishment of PGF accounts.

- b. Discussed that prior to GMS system implementation, it would be beneficial to have a standardized forms and data fields for account records. Action: Rob agreed to consult





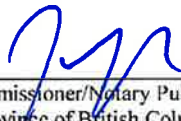
with the Operational Gaming Audit team to provide a template to the service providers with the accord that the CSP would form a working group to standardize the form.

- c. Each CSP was asked to provide detail regarding business process around using debit cards and internet banking. Specifically CSP to determine what controls are in place or can be implemented to ensure that funds only get transferred or pushed out to the same originating "verified" account. Action: CSP to determine how they would verify accounts and to consult with Canadian financial institutions on process structure.

There being no further business, the meeting adjourned at 12:00 p.m.



THIS IS **EXHIBIT "38"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 21 DAY OF JANUARY, 2021.



---

A Commissioner/Notary Public for the  
Province of British Columbia.



November 30, 2011

Doug Scott  
Assistant Deputy Minister  
Gaming Policy Enforcement Branch  
PO BOX 9311 STN GOVT  
STN PROV GOVT  
Victoria, BC V8W 9N1



Re: Casino Cash and Payment Process Enhancement Project

Dear Doug:

I am writing in response to Bill McCrea's letter of October 4, 2011. In that correspondence Mr. McCrea provided initial responses from GPEB on a series of proposals BCLC made to enhance anti-money laundering efforts at BC Casinos by reducing the industry's reliance on cash transactions. GPEB's positive assessment of the proposals was appreciated and provided the impetus for us to undertake the research and work needed to move the proposals from the conceptual stage to policy and procedure development.

In October 2011, BCLC established a Casino Cash and Payment Process Enhancement Project. The purpose of the project was to further assess our initial proposals in the context of GPEB's feedback and to move the viable options to policy and procedure development and then through to implementation.

Four business process enhancements have now been developed and will be ready for implementation in the first part of 2012. Those business process changes are: the expansion of PGF accounts, expanded buy-in options, use of casino cheques, and a deferred payment program. I have attached the draft policy and procedures in relation to each of these initiatives along with brief discussion papers outlining the proposals.

These changes will be of significant assistance to BCLC's anti-money laundering regime. In addition, the initiatives will improve customer service and, more importantly, provide customers with greater security as they will have a number of alternatives to arriving and departing gaming facilities with cash.

I look forward to meeting with you to discuss these important business process changes.

Yours truly,

Terry Towns  
Vice President, Corporate Security and Compliance

cc: Bill McCrea  
Rob Kroeker

Enclosure(s)

BCLC0011788



THIS IS **EXHIBIT "39"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.



A Commissioner/Notary Public for the  
Province of British Columbia.





*Know your limit, play within it.*

January 24, 2012

Terry Towns  
Vice-President Corporate Security and Compliance  
British Columbia Lottery Corporation  
2940 Virtual Way,  
Vancouver BC V5M 0A6

re: BCLC Casino Cash and Payment Process Enhancement Project

Dear Terry,

As you and I have discussed, and further to GPEB's October 4, 2011 letter, our Anti-Money Laundering Cross-Divisional Working Group has worked through BCLC's November 30, 2011 presentation of process enhancements for managing casino cash and payments. You have advised that you are working to develop the operational requirements for the enhancements. The four business processes are:

1. Patron Gaming Fund (PGF) Accounts.
2. Purchase of Gaming Services - Expanded Buy-In Options.
3. Issuance of Casino Cheques.
4. Deferred Settlement Program.

We support the initiatives and are reviewing the detailed Policies and Procedures. Input on the P&P's will be provided shortly. With respect to each of the four major categories we are satisfied that BCLC is developing the following solutions:

#### Patron Gaming Fund Accounts (PGF)

- PGF accounts can be linked to up to two financial institution accounts. Only individual bank accounts are to be used for PGF accounts. No third party, joint or business accounts can be used to manage PGF account money.
- Schedule 1 and Schedule 2 banks are acceptable, to be included in the broader list of allowed regulated financial institutions.
- Internet banking is an acceptable option to load a PGF account (casinos as payees from electronic banking systems).
- GPEB will remove the \$10,000 minimum requirement to open a PGF account.

#### Purchase of Gaming Services - Expanded Buy-In Options

- The use of debit cards through debit machines at the cash cage, with greater limits, is acceptable.
- Buy-in with cheques from Canadian casinos, on a first party basis, is acceptable.

Ministry of  
Public Safety and  
Solicitor General

Gaming Policy and  
Enforcement Branch  
Internal Compliance and  
Risk Management

Mailing Address:  
PO BOX 9311 STN PROV GOVT  
VICTORIA BC V8W 9N1  
Telephone: **Personal Information**  
Facsimile: **Personal Information**

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

*Jul*

Issuance of Casino Cheques

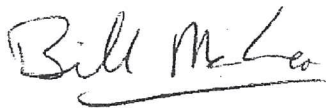
- GPEB agrees to allow the issuance of "safety cheques" at a limit of \$5,000.
- This is acceptable as a short term solution to patron safety in carrying large sums of cash away from the casino.
- Safety cheques must be recorded and monitored for patterns of potential money laundering.

Cheque Hold Payment/Marker

- This option is considered to be viable for the target patron group. We are currently reviewing the Policies and Procedures (S 3-9.5) and will provide a detailed response to the operation of this option.

Terry, in the October 4, 2011 letter we discussed other potential option solutions to reducing cash in BC gaming facilities. As you work toward policies and procedures for these could you please provide them to us for review. As stated in that letter, we are pleased to discuss these issues with you. Our mutual goal is to enact changes in BC casinos that encourage the use of electronic funds, thereby reducing the reliance on cash and diminishing the risk of money laundering. We appreciate your efforts to this end.

Sincerely,



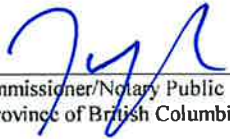
Bill McCrea  
Executive Director, Internal Compliance and Risk Management

cc: Douglas S. Scott  
Michael Graydon





THIS IS **EXHIBIT "40"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
A Commissioner/Notary Public for the  
Province of British Columbia.



January 25, 2012

Mr. Bill McCrea  
Executive Director, Internal Compliance and Risk Management  
Gaming Policy and Enforcement Branch  
PO Box 9311 Stn Prov Govt  
Victoria, BC  
V8W 9N1



Dear Bill:

Re: **Casino Cash and Payment Enhancement Project**

Thank you for your letter of January 24, 2012, providing GPEB's feedback on BCLC's Payment Enhancement Project. With the support provided in your letter for our proposals on Patron Gaming Fund Account changes, Expanded Buy-in Options, the Cheque Hold Payment/Marker program and use of Casino Cheques, we will now finalize the detailed operational procedures and move to implementation.

2540 Victoria Way  
Vancouver, BC V6B 6A6

604.275.3534  
604.275.3474

I provided copies of draft operational procedures in the package of materials sent November 30, 2011. No major changes to the draft versions are expected as we move to implementation. I will send final versions of the procedures to you in the next few weeks when the documents are complete.

In your letter you inquired about the remaining options that had been under consideration to reduce the reliance on cash in casinos. Those options are the use of credit cards, the use of money transfer companies, and international money transfers. The use of credit cards is not being pursued further due to responsible gaming considerations. The primary money transfer options are Trust Cash and Global Cash. As you are aware Global Cash is already made available at some properties off the gaming floor. No changes to this model are being considered. Meetings were held with Trust Cash. They have not yet established a business presence in Canada but may do so at some point in the future. BCLC will be looking in more detail at international funds transfers. Having said that, BCLC does not anticipate a business process that would see either BCLC or casino service providers engaging directly in international transfers. As more information becomes available on this option I will provide it to you.

Yours truly,

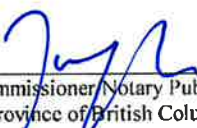
Terry Towns

Vice President, Corporate Security & Compliance

c.c. Doug Scott  
Michael Graydon  
Rob Kroeker

BCLC0011789

THIS IS **EXHIBIT "41"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
A Commissioner/Notary Public for the  
Province of British Columbia.







*Know your limit, play within it.*

August 17, 2011

Log # 470484

Mr. Michael Graydon  
President and CEO  
British Columbia Lottery Corporation  
2940 Virtual Way  
Vancouver BC V5M 0A6

Dear Mr. Graydon:


The purpose of this letter is to advise you of the Gaming Policy and Enforcement Branch's (GPEB) support for certified cheque buy-ins, and the formation of our cross-divisional anti-money laundering (AML) working group.

Since July 2010, certified cheques have been accepted for the purpose of opening and making additional deposits to Patron Gaming Fund accounts. Further to our joint meeting on July 26, 2011, I confirm GPEB supports the immediate acceptance of certified cheques from patrons to buy-in at gaming facilities. This is an appropriate measure to help reduce the cash dependency of the industry and improve patron safety.

As discussed at our July 26<sup>th</sup> meeting, addressing the recommendations in the *Summary Review: Anti-Money Laundering Measures at BC Casino Facilities* will be accomplished with additional creative measures and strategies. I know the BC Lottery Corporation (the Corporation) is working to develop several solutions to present to us. To facilitate continued improvement of the anti-money laundering regime in British Columbia, GPEB has established a cross-divisional working group, as we did prior to the launch of ePoker. The AML group looks forward to working with the Corporation to develop anti-money laundering and cash management measures that will forward our shared goal of reducing dependence on cash in British Columbia gaming facilities.

Please feel free to contact me at Personal Information should you wish to discuss these matters further.

Sincerely,



Douglas S. Scott  
Assistant Deputy Minister

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: Personal Information  
Facsimile: Personal Information

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



THIS IS **EXHIBIT "42"** TO THE  
**AFFIDAVIT OF TERRY TOWNS**  
 SWORN BEFORE ME VIA  
 VIDEOCONFERENCE WITH THE AFFIANT  
 IN MESA, ARIZONA AND THE  
 COMMISSIONER IN VANCOUVER, BC  
 THIS 22 DAY OF JANUARY, 2021.

  
 \_\_\_\_\_  
 A Commissioner/Notary Public for the  
 Province of British Columbia.





*Know your limit, play within it.*

December 7, 2012

Terry Towns  
Vice-President Corporate Security and Compliance  
British Columbia Lottery Corporation  
2940 Virtual Way,  
Vancouver BC V5M 0A6

re: Customer Convenience (Safety) Cheque Limit Increase

Dear Terry,

Further to our recent conversations we have reviewed the usage of the convenience/safety cheques since their introduction on April 1, 2012. There are now nine gaming facilities, between Casinos and Community Gaming Centres, that have issued at least one of these cheques. The upper limit is currently \$5,000 per cheque.

For the six month period of April 1 – September 30 there were 30 cheques provided to patrons for a total value of \$130,224. This is an average of 5 cheques per month at an average value of \$4,340. The past two months (October and November) had 18 cheques written for a total value of \$62,172. This averages 9 per month at an average value of \$3,454. In the eight months there have been two patrons who received more than one cheque. In both cases they have received two convenience/safety cheques and the circumstances were in compliance with the approved standards.

This program appears to be working well and we do not have concerns with the activity to date. In light of this performance GPEB is authorizing an increase in the limit of customer convenience (safety) cheques to a maximum of \$8,000 per cheque. All other policies and procedures will remain in place.

If you have any questions with respect to his authorization please let me know. Thank you for your attention to this matter

Sincerely,

Bill McCrea  
Executive Director, Quality Assurance & Risk

cc: Douglas S. Scott  
Michael Graydon

Ministry of  
Energy, Mines and  
Natural Gas

Gaming Policy and  
Enforcement Branch  
Quality Assurance & Risk  
Division

Mailing Address:  
PO BOX 9311 STN PROV GOVT  
VICTORIA BC V8W 9N1  
Telephone: **Personal**  
Facsimile: **Information**

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



THIS IS **EXHIBIT "43"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
\_\_\_\_\_  
A Commissioner/Notary Public for the  
Province of British Columbia.

## Corporate Security and Compliance

### Policy Proposal

#### Acceptance of Funds from U.S. Banks and Foreign Branches of Canadian Chartered Banks

##### **Issue:**

Reducing the use of cash in casino business processes: Customer Accounts, Expanded Buy-in Options and Use of Cheques.

##### **Background:**

In April of 2012 BCLC introduced, in consultation with the Gaming Policy and Enforcement Branch (GPEB) and Casino Service Providers (CSPs), a series of policy changes governing how customers buy-in at casinos. The policy changes allow for expanded terms of use governing Patron Gaming Fund Accounts, use of debit machines, the creation of a program that allows customers to play against a preauthorized cheque (Hold Cheque Program), and use of internet banking. In addition, a policy was introduced to allow CSPs to provide non-verified win cheques to customers who were cashing out amounts of \$5000 or less in limited circumstances.

The intent of these policy changes was to provide a number of non-cash avenues customers may use to buy-in at a casino and thereby reducing the reliance on cash transactions. A reduction in the use of cash is desired for three primary purposes: 1) to strengthen anti-money laundering controls; 2) to enhance customer service through modernizing payment options; and 3) to enhance customer safety.

It has been only a few months since the policy changes came into effect, however early indicators are encouraging. Thirty-eight new PGF accounts have been opened from April 1, 2012 to August 27, 2012. More importantly, the use of PGF accounts has increased markedly during this time, \$30,698,492 has been deposited to PGF accounts. Debit, a new service, has seen good take up by customers with a total value of \$401,460.00 in transactions being completed since April 2012. Hold Cheque has not been as encouraging and some marketing effort may be required. With respect to internet banking, meeting the policy requirement to be able to identify and verify the sender of funds has proven to be a challenge for CSPs, however it appears the CSPs have been able to develop a solution with the banking industry and this option will soon be operational.

At the time of introduction, the policy changes in regard to PGF Accounts and Hold Cheque were restricted to Canadian financial institutions. This restriction allowed BCLC, GPEB, and



CSPs to focus solely on the mechanics of the new transactions without having to be concerned about any additional international funds transfers and foreign exchange considerations.

With these new policies now firmly in place and the benefit of operational experience, BCLC is proposing the next step in efforts to reduce the reliance on cash and to modernize casino payment options.

### **Proposed Policy Change:**

BCLC is proposing that its policies and procedures governing PGF accounts and the Hold Cheque Program be revised. Material changes are set out immediately below.

#### PGF Accounts

- PGF account holders will be permitted to transfer funds from one approved account held individually in their name at a major<sup>1</sup> U.S. chartered bank.
- PGF account holders will be permitted to transfer funds from one approved account held individually in their name at a foreign branch of a Canadian chartered bank.<sup>2</sup>
- Transfers into PGF accounts from a U.S. bank or foreign branch of a Canadian chartered bank may be made by a PGF account holder via personal cheque, bank draft, electronic funds transfer, or debit card.
- After gaming, PGF account holders will be permitted to return any amount transferred from a U.S. account or a foreign branch of a Canadian chartered bank to their PGF Account, but will not be permitted to electronically transfer funds out of Canada.

#### Hold Cheque

- Customers eligible for the Hold Cheque program will be permitted to play against a cheque issued by the customer against an account held individually in their name at a major U.S. chartered bank.

The movement of funds from a U.S. bank account into a PGF account will result in a minimum of three AML screens. First, the U.S. bank originating the transaction will have to have AML policies and procedures in place that meet the U.S. *Bank Secrecy Act* and *Money Laundering Control Act*. These laws are compliant with all international FATF standards. Second, funds coming from the U.S. will actually land in a CSPs trust account held at a Canadian regulated bank – the funds will not be immediately or directly accessible to the PGF Account holder until cleared. Once cleared, the funds may then be segregated into the customer's PGF Account. The Canadian bank will have to review the incoming transaction to ensure compliance with Canada's *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* prior to accepting

<sup>1</sup> A schedule of approved banks acceptable to GPEB will be developed.

<sup>2</sup> Royal Bank, Toronto Dominion Bank, Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce.





the transaction. Third, the CSP will have to review the transaction for compliance with BCLC's AML requirements before the funds are made available to the customer.

The entire transfer process will create a clear, transparent and unequivocal audit trail. Should money laundering typologies emerge it will be possible to readily identify those transactions and make the necessary reports to the competent authorities. Moreover, these transactions will be subject to routine audit checks by both U.S. and Canadian authorities including FinTRAC and GPEB.

The movement of funds from a foreign branch of a Canadian chartered bank into a PGF account will result in a minimum of two known AML screens. First, funds coming from the foreign branch of a Canadian chartered bank will actually land in a CSP's trust account held at a Canadian regulated bank – the funds will not be immediately or directly accessible to the PGF Account holder until cleared. Once cleared, the funds may then be segregated into the customer's PGF Account. The Canadian bank will have to review the incoming transaction to ensure compliance with Canada's *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* prior to accepting the transaction. Second, the CSP will have to review the transaction for compliance with BCLC's AML requirements before the funds are made available to the customer.

In addition to the above, it is important to note that existing BCLC policy and procedures in relation to the opening of a PGF account or playing on a Hold Cheque are fully compliant with FATF recommendations 5, 8, 11 and 12, and FinTRAC guideline 6F on CDD/KYC. PGF account procedures meet the CDD/KYC best practices framework for banks promulgated by the Basel Committee on Banking Supervision<sup>3</sup>. These measures will remain in place under these proposals.

The minimum transfer required to open a PGF account will remain at \$10,000 CDN, however subsequent transfers may be less than this amount.

These changes will further increase the flexibility available to customers around the use of PGF Accounts and Hold Cheque to purchase casino gaming services and provide a workable option to cash for foreign customers. At the same time, appropriate AML countermeasures and controls will remain in place. Changes that decrease reliance on cash transactions improve BCLC's ability to mitigate money laundering vulnerabilities associated with cash transactions. Increases in PGF account use will not only help to reduce reliance on cash and provide superior audit trails, but as the use of electronic funds transfers increase, large cash transactions will become more of an anomaly making suspicious transaction identification easier and reporting more effective. Further, efforts to reduce the reliance on cash transactions are consistent with guidance provided by the FATF and FinTRAC.


Overall these policy changes have the following advantages:

<sup>3</sup> Working Group on Cross-border Banking, *Customer due diligence for banks*, October 2001, <http://amlcft.com/files/2011/04/Basel-Customer-Due-Diligence.pdf>

1. Customers will have an option to avoid the safety risks inherent in arriving at a casino with large sums of cash.
2. Casinos will be able to further reduce the reliance on cash improving AML counter measures.
3. Funds transfers will be subject to multiple screenings for money laundering typologies.
4. A clear audit trail will be created, which does not exist with cash, facilitating follow-up investigations by enforcement and other agencies where the need arises.
5. The policy changes are consistent with and exceed the guidance provided by the FATF and FinTRAC.



THIS IS **EXHIBIT "44"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
\_\_\_\_\_  
A Commissioner/Notary Public for the  
Province of British Columbia.





*Know your limit, play within it.*

December 6, 2012

Terry Towns  
Vice-President Corporate Security and Compliance  
British Columbia Lottery Corporation  
2940 Virtual Way,  
Vancouver BC V5M 0A6

re: BCLC Policy Proposal – Acceptance of Funds from U.S. Banks

Dear Terry,

The recent policy proposal, for “Acceptance of Funds from U.S. Banks and Foreign Branches of Canadian Chartered Banks”, has been reviewed and we are able to provide approval for the U.S. Bank portion of this request. Effective immediately GPEB is authorizing a change to the restriction, in the PGF Accounts and Hold Cheque Policies and Procedures, that only Canadian financial institutions may be used. This authorization allows use of U.S. bank accounts to fund these programs.

At this point would you please update the policies and procedures for these programs and provide them to me. Terry, as you and I discussed the list of acceptable U.S. banks needs to be determined. Your initial suggestion is to approve the “Top 50” U.S. banks. Please confirm that is your position, and we can go from there. Also, we would like to see separate reporting on this initiative, for the ongoing monitoring of AML initiative progress.

As stated above, this policy proposal also requested that transfers from Foreign Branches of Canadian Chartered Banks be allowed. I have advised you that this is still being investigated. Once we have completed this review I will respond to BCLC on this matter.

We hope that this current step will allow the gaming industry AML initiatives project to make further advancements. If you have any questions with respect to his authorization please let me know. Thank you for your attention to this matter

Sincerely,

Bill McCrea  
Executive Director, Quality Assurance & Risk

cc: Douglas S. Scott  
Michael Graydon

Ministry of  
Energy, Mines and  
Natural Gas

Gaming Policy and  
Enforcement Branch  
Quality Assurance & Risk  
Division

Mailing Address:  
PO BOX 9311 STN PROV GOVT  
VICTORIA BC V8W 9N1  
Telephone: [REDACTED]  
Facsimile: [REDACTED]

Location:  
Third Floor, 910 Government Street  
Victoria, BC

Web: [www.pssg.gov.bc.ca/gaming](http://www.pssg.gov.bc.ca/gaming)

BCLC0011793

THIS IS **EXHIBIT "45"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
A Commissioner/Notary Public for the  
Province of British Columbia.

*zul*



# *Casino Cash and Payment Business Process Enhancements Project*

## Steering Committee

### Terms of Reference

#### 1) PURPOSE

The purpose of the Steering Committee is to oversee the overall direction of the casino cash and payment business process enhancements project and its impact to the corporation's business processes and anti-money laundering regime. The Steering Committee will guide and monitor the work of the project and will be responsible for resource allocation to the project. Additionally, the Steering Committee will be responsible for the management of issues that cannot be resolved at the working group level.

#### 2) COMPOSITION

The Committee shall be composed of:

- Terry Towns, Chair
- Jim Lightbody
- Darryl Schiewe
- Rob Kroeker
- Susan Dolinski

#### 3) MEETINGS

- a) The Committee will meet initially to review and approve the form and content of the Project Charter and Project Plan.
- b) After the initial meeting, the Committee will meet as deemed necessary to carry out its responsibilities.
- c) The Director Strategic Projects will set the meeting agendas with input from Committee members and the Chair, Vice President Corporate Security and Compliance.

A handwritten signature in dark ink, appearing to read "jul", is located in the bottom right corner of the page.



- d) The Committee will keep regular minutes of its meetings. The VP Security and Compliance will report to the Executive Committee regularly regarding the Committee's activities and actions of material concern to BCLC.

THIS IS **EXHIBIT "46"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 12 DAY OF JANUARY, 2021.



---

A Commissioner/Notary Public for the  
Province of British Columbia.



# *Casino Cash and Payment Business Process Enhancements*

## Project Plan

Version 1.0

October 18, 2011

Prepared By: Rob Kroeker

Project Director: Rob Kroeker

Project Sponsor: Terry Towns



**bclc**  
playing it right

BCLC0000405



### *Document Information and Revision History*

**Project** Casino Cash and Payment Business Process Enhancements  
Corporate Security & Compliance  
**Title** Project Plan  
**Author** Rob Kroeker  
**Version** 1.0  
**Status** Draft  
**Filename** U:\AntiMoneyLaundering\Project Plan\_Casino Cash and  
Payment Business Process Enhancements v 1.0 13 Oct  
2011.docx

### *HISTORY*

| <b>Version</b> | <b>Date</b> | <b>Changes made by:</b> | <b>Description of Change</b> |
|----------------|-------------|-------------------------|------------------------------|
| 1.0            | Oct17/2011  | R. Kroeker              | Initial draft                |

*Last saved by <name> on <date>*

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## 1.0 Introduction

In January 2011, in response to concerns raised in media stories about the potential for money laundering at gaming facilities, the Minister responsible for BCLC ordered a review of anti-money laundering (AML) strategies employed in relation to gaming in British Columbia. BCLC is the entity responsible within the province for implementing and managing AML programs at gaming facilities. In addition, regulatory oversight of BCLC's AML regime is provided by the Gaming Policy Enforcement Branch (GPEB), a provincial body, and by the federal Financial Transactions and Reports Analysis Centre (FINTRAC). The review focused on the efforts of BCLC and GPEB. FINTRAC, being a federal responsibility, was beyond the scope of the review.

The review found that BCLC has appropriate and standard AML policies in place, however the opinion was offered that there were opportunities to move the AML regime further into the realm of best practices. The review noted that AML measures in the province would benefit from reducing the industry's reliance on cash. Specific recommendations were made in regard to increasing the use of casino cheques for the return of buy-in funds, and taking the steps necessary to provide the opportunity to move players from cash to electronic funds transfer.

The recommendations provided in the review aligned with work BCLC already had under consideration. BCLC had begun researching new avenues to manage and broaden payments into and out of casinos; the purpose of these efforts being enhancement of both AML compliance and customer service. BCLC was looking at a number of options including:

- Expanding the financial instruments and sources of electronic funds transfers that may be used to open or place money into a Patron Gaming Fund Account (PGF).
- Streamlining the administrative processes around PGFs to increase the use and marketability of the accounts.
- Allowing for greater use of casino issued cheques.
- Allowing for the extension of credit or deferred payment options.
- The use of money transfer services.

The purpose of this project is to assess the feasibility of these options and to identify, in consultation with stakeholders, what steps are open to the corporation to modernize monetary procedures and policies from AML and customer focused perspectives.

## 2.0 Anti-Money Laundering and Business Objectives

### 2.1 ANTI-MONEY LAUNDERING OBJECTIVES

The overall objective of this project is to research, evaluate, make recommendations on, and implement solutions in relation to BCLC policies, practices and strategies on monetary payment practices currently operating at gaming facilities within the province. The specific AML laundering and compliance objectives are to improve BCLC's already robust AML regime by looking for ways to remove reliance on cash, or where cash transactions remain, to ensure that BCLC continues to meet or exceed best practices for financial transactions governed by provincial and federal requirements for the casino sector.

In developing solutions, the project will be informed by industry best practices on AML strategies. Particular attention will be given to the advice and guidance provided by the Financial Action

Task Force<sup>1</sup> in *Vulnerabilities of Casinos and Gaming Sector*<sup>2</sup>, and the *Risk Based Approach Guidance for*

<sup>1</sup> The Financial Action Task Force, established by the G-7 Summit held in Paris in 1989, is an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing.

<sup>2</sup> Financial Action Task Force, March 2009, <http://www.oecd.org/dataoecd/47/49/42458373.pdf>



Casinos<sup>3</sup>, as well as FINTRAC's *Money Laundering Typologies and Trends in Canadian Casinos*.<sup>4</sup>

## 2.2 BUSINESS OBJECTIVES

The business objectives are to refine current payment practices and introduce new payment and other transaction options that are customer-centric, marketable, and administratively efficient.

The ultimate desired state is financial transaction processes that produce both customer service and compliance excellence.

## 3.0 Scope

### 3.1 IN SCOPE

The following areas are within the scope of the project:

- Anti-money laundering measures and strategies employed by BCLC and casino service providers.
- BCLC policies, procedures and guidelines as those documents relate to the objectives of the project.
- BCLC business processes and systems insofar as these functions are directly related to the objectives of the project.
- Casino service provider business processes and systems as these functions relate to the objectives of the project.
- Relationships between BCLC and stakeholders relevant to the project.

### 3.2 OUT OF SCOPE

- Any change or initiative requiring legislative change.
- Any change or initiative requiring major changes to BCLC information technology systems.
- Any change or initiative beyond the resource and budget allocation approved for the project.

## 4.0 Approach

The project will be divided into four stages. The first stage will involve the actions necessary to initiate and define the project. This will involve the completion and approval of the Project Charter and Project Plan. The second stage will involve research, the establishment of the stakeholder consultation process, and decision confirmation. The third stage will utilize the products of the research and consultations to design and build the desired policy and business process changes. The fourth and final stage will result in training and implementation.

## 5.0 Project Organization and Process

An internal steering committee will be established to oversee and direct the project. The steering committee will be chaired by the Vice President Corporate Security and Compliance and will be comprised of these additional members: Vice President Casino and Community Gaming; Vice President Casino System Implementation; Director Special Projects, Corporate Security and Compliance; and, Director Communications and Public Affairs.

The project encompasses a number of elements which will impact the corporation's anti-money laundering regime, business processes, and the business processes of casino service providers. The project will evaluate changes to, or the establishment of, the following:

<sup>3</sup> Financial Action Task Force, October 2008, <http://www.fatf-gafi.org/dataoecd/5/61/41584370.pdf>

<sup>4</sup> Financial Transactions and Reports Analysis Centre of Canada, November 2009, <http://www.fintrac.gc.ca/publications/typologies/2009-11-01-eng.pdf>

a) Patron Gaming Fund Accounts

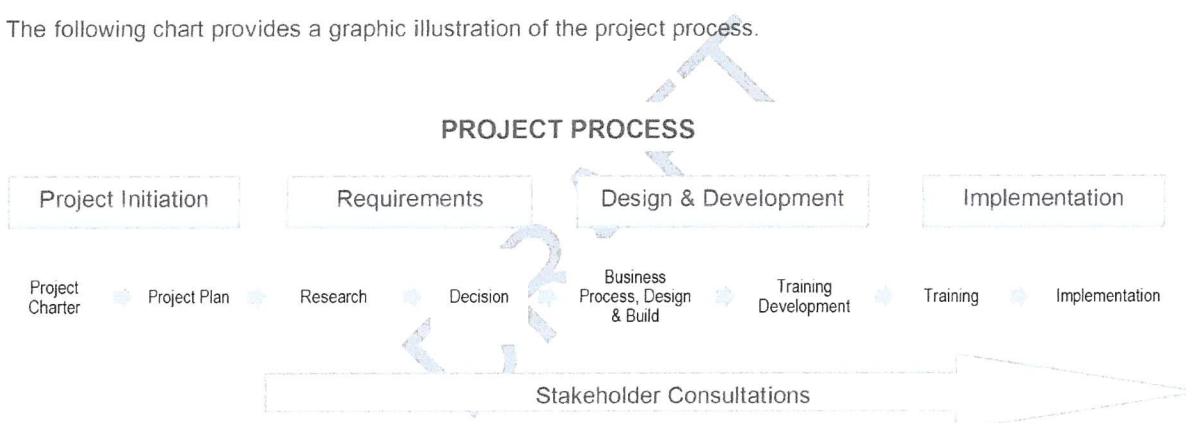
- 1. Cash-out Processes – Issuance of cheques
- 2. Deferred Payment and Credit Programs
- 3. International Funds Transfers
- 4. VIP Programs

Each element will be dealt with discretely and in a phased approach. While the elements will be advanced individually, the same process will be used to move each element from the initiation stage through to the training and implementation stage. The steps in the process will include: research and discussion documents, stakeholder consultation, identification of systems impacts, decision confirmation, business process design including development of policies and procedures; training; and, implementation.

Not all elements of the project will move forward at the same pace or with the same degree of priority. In the first phase of the project priority will be given to revisions to The Patron Gaming Fund Account, Deferred Payment and Credit, and Cash-out Processes.

The second phase of the project will focus on VIP Programs, International Funds Transfers, and increasing the limit permitted for cheques issued for cash-outs.

The following chart provides a graphic illustration of the project process.



## 5.1 RESEARCH AND DISCUSSION DOCUMENTS

Research is necessary to properly assess the feasibility of each of the changes under consideration and to ensure that the decisions taken are reasoned and well informed. Moreover, research will help to make certain that the impacts of any proposed changes to business processes, the compliance regime, service providers, and customers are well understood.

Research will involve a review of the current relevant business processes and associated AML strategies in place for each element of the project. Literature on AML best practices, particularly that specific to the gaming sector, will be reviewed. Where an initiative or business process change new to British Columbia is considered, an environmental scan will be conducted to determine if any other jurisdiction has experience with the business process to glean the impacts in that jurisdiction.

Where appropriate, research results will be consolidated and summarized in a discussion document. Discussion documents will form the basis of both internal and external stakeholder consultations and support corporate decision making.

## 5.2 STAKEHOLDER CONSULTATIONS

*gud*





A number of internal and external stakeholders will be impacted by or involved with the project. Formal internal and external stakeholder groups will be established under the project. These stakeholder groups will be the primary tools utilized by the project for communication and consultative needs.

| Internal Stakeholders           | Involvement   |
|---------------------------------|---|
| Casino & Community Gaming       | <ul style="list-style-type: none"> <li>– Participate on Project Steering Committee</li> <li>– Provide expertise and advice on casino operations and business practices.</li> <li>– Provide expertise and advice on BCLC gaming systems</li> <li>– Provide resources for work groups as required.</li> </ul> |
| Transformation & Technology     | <ul style="list-style-type: none"> <li>– Review project documents as needed.</li> <li>– Provide expertise and advice on BCLC systems as needed.</li> </ul>  |
| Public Affairs                  | <ul style="list-style-type: none"> <li>– Participate on Project Steering Committee.</li> <li>– Provide communication advice and support as needed.</li> <li>– Provide resources for work groups as required.</li> </ul>   |
| Consumer Services               | <ul style="list-style-type: none"> <li>– Review project documents as needed.</li> <li>– Provide advice and expertise in relation to potential customer support issues arising from proposed changes.</li> </ul>   |
| Casino Security & Surveillance  | <ul style="list-style-type: none"> <li>– Review project documents and provide advice as needed.</li> <li>– Provide investigator resource.</li> <li>– Lead on staff and service provider training development and delivery in partnership with Operational Gaming Audit.</li> </ul>                          |
| Operational Gaming Audit        | <ul style="list-style-type: none"> <li>– Review project documents and provide advice as needed.</li> <li>– Provide investigator resource.</li> <li>– Lead on staff and service provider training development and delivery in partnership with Casino Security &amp; Surveillance.</li> </ul>                |
| Legal Services                  | <ul style="list-style-type: none"> <li>– Review project documents and provide legal advice as required.</li> </ul>  |
| Corporate Social Responsibility | <ul style="list-style-type: none"> <li>– Review project documents.</li> <li>– Provide advice and support in relation to responsible gaming programs as needed.</li> </ul>   |

| External Stakeholders                                      | Involvement  |
|--|--|
| Ministry of Public Safety & Solicitor General              | <ul style="list-style-type: none"> <li>– Provide feedback, advice and approval on project elements.</li> </ul> |
| Financial Transactions & Reports Analysis Centre of Canada | <ul style="list-style-type: none"> <li>– May be consulted on project concepts.</li> </ul>                      |



|                          |  |
|--------------------------|--|
| Police                   | <ul style="list-style-type: none"> <li>– Provide comment and expert advice on anti-money laundering strategies.</li> <li>– Provide advice and expertise in relation to the detection and investigation of criminal offences.</li> </ul>  |
| Casino Service Providers | <ul style="list-style-type: none"> <li>– Provide resources for policy development and implementation as needed.</li> <li>– Review and provide feedback on discussion, policy and other project documentation as required.</li> <li>– Identify resources to be trained during implementation and make those resources available as required.</li> </ul> |
| Customers                | <ul style="list-style-type: none"> <li>– Provide feedback on services.</li> </ul>  |

### 5.3 SYSTEMS IMPACTS

No major information technology systems impacts are expected to result from this project work.

### 5.4 DECISION CONFIRMATION

Prior to initiating business process design and policy development work on any element of the project, a decision document on the proposed change will be circulated to the Steering Committee for review and approval.

### 5.5 BUSINESS PROCESS DESIGN

For each element approved to move to business process design, a working group will be established and will be made up of resources from the areas within the corporation involved or directly impacted by the change. Development of the new business process will be the responsibility of the working group, under the direction and leadership of the Steering Committee. The Director, Special Projects will provide day-to-day management and leadership to all working groups.

Consultation with internal and external stakeholders will continue through the business process design as needed and appropriate.

### 5.6 TRAINING

Working groups responsible for business process design will also be responsible identifying and documenting training impacts and needs associated to the change. Training needs arising from the project are expected to fall primarily to Casino Security & Surveillance, Operational Gaming Audit and service provider staff. The development of training materials and delivery will be led by Casino Security & Surveillance and Operational Gaming Audit in partnership with service providers.

### 5.7 IMPLEMENTATION

Final implementation will occur with the completion of training and the promulgation of new policies and procedures.

## 6.0 Resources

The table immediately below sets out the minimum resource requirements, internal to the corporation<sup>5</sup>, and estimated time commitment from each resource needed to deliver the project within the target timelines.

| Role                           | Name                 | Required From/To      | Percent Time Commitment |
|--------------------------------|----------------------|-----------------------|-------------------------|
| Executive Sponsor              | Terry Towns          | Oct 2011- April 2012  | 5%                      |
| Project Director               | Rob Kroeker          | Oct 2011 – April 2012 | 100%                    |
| Project Exec Admin Support     | Petroula Magriotidis | Oct 2011 – April 2012 | 35%                     |
| Operational Policy Developer   | Bonnie Armand        | Oct 2011 – Mar 2012   | 50%                     |
| Analyst/Researcher             | Cathy Anastasio      | Oct 2011 – Feb 2012   | 10%                     |
| Public Affairs Lead            | Susan Dolinski       | Nov 2011-April 2012   | 5%                      |
| Casino Investigator            | TBD                  | Nov 2011-Mar 2012     | 20%                     |
| Gaming Auditor                 | TBD                  | Nov 2011 – Mar 2012   | 20%                     |
| Casino & Community Gaming Lead | Rod Bailey           | Nov 2011-Mar2012      | 10%                     |

## 7.0 Risk Assessment

| RISK  | ASSESSMENT | RISK MANAGEMENT STRATEGY   | PERSON RESPONSIBLE                                     |
|---|------------|--|--|
| Lack of resources availability to work on the project   | Moderate   | Determine resource requirements as early as possible. Work with Steering Committee to identify internal staff leads. Use external contract resources if necessary. | Director, Strategic Projects                           |
| Lack of Stakeholder buy-in to proposed program model, changes and approach  | Moderate   | Work with stakeholders through the working committees to secure their commitment to proposed solutions.  | Director, Strategic Projects                           |
| Adverse or negative media reporting in relation to gaming in the province provoking adverse change in government direction on gaming. | Low        | Monitor media reports. Build capacity and flexibility to modify, isolate or remove any component of the Project should it become contentious.                      | Director, Strategic Projects, Director, Public Affairs |

<sup>5</sup> In addition to corporate resources, implementation of changes anticipated under the project will require the timely and adequate commitment of resources on the part of casino service providers.

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|   |          |   |                              |
|---|----------|---|------------------------------|
| Government/Regulator approval withheld on other than evidentiary basis. | Moderate | Early establishment of consultation and communication plan to foster broad based stakeholder support for Project initiatives. | Director, Strategic Projects |
|---|----------|---|------------------------------|

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## 8.0 Deliverables

| Deliverables  | Target Completion Date |
|---|------------------------|
| <b>Project Charter:</b>   |                        |
| <i>Project Charter drafted</i>  | October 24, 2011       |
| <i>Project Charter approved</i>   | October 31, 2011       |
| <b>Project Planning:</b>  |                        |
| <i>Project Plan drafted</i>   | October 24, 2011       |
| <i>Project Plan approved</i>  | October 31, 2011       |
| <b>Patron Gaming Fund Accounts (PGF):</b>   |                        |
| <i>Review creation of accounts and business process and identify actions that may be taken to reduce the administrative load for both players and service providers, while maintaining compliance best practices.</i> | October 27, 2011       |
| <i>Establish working group and draft proposed changes to BCLC policies governing PGF accounts.</i>  | November 30, 2011      |
| <i>Confirm GPEB support for new PGF policies.</i>   | December 30, 2011      |
| <i>Complete training and implement new PGF policies.</i>  | March 1, 2012          |
| <i>Research and produce options paper on international funds transfer.</i>  | March 30, 2012         |
| <b>Cheque Issuance Policy Development:</b>  |                        |
| <i>Review Buy-In / Cash-out options related to the use of cheques.</i>  | November 15, 2011      |
| <i>Establish working group and draft proposed changes to BCLC cheque issuance policies for service providers.</i>   | November 30, 2011      |
| <i>Confirm GPEB support for new cheque issuance policies.</i>   | November 30, 2011      |
| <i>Complete training and implement new cheque issuance policies</i>   | January 16, 2012       |
| <b>Provincial standards on the use of credit:</b>   |                        |
| <i>Research opportunities to establish a credit or deferred payment program for high limit players.</i>   | December 30, 2012      |
| <i>Determine deferred payment and/or credit program parameters.</i>   | January 30, 2012       |
| <i>Establish level of GPEB support for program model.</i>   | February 1, 2012       |

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|   |                   |
|---|-------------------|
| <i>Establish working group and draft proposed policies and guidelines governing service providers.</i>  | March 15, 2012    |
| <i>Confirm GPEB support for program model and draft policy.</i>   | March 30, 2012    |
| <i>Develop training and implementation plan.</i>  | March 30, 2012    |
| <b>VIP marketing program for high limit players:</b>  |                   |
| <i>Research International VIP marketing program for high limit players and produce options paper.</i>   | January 30, 2012  |
| <i>Research and produce discussion paper on the viability of using independent agents through registration and commission based fee structure..</i> | February 30, 2012 |
| <i>Research Incentive Programs for high limit VIP players and produce discussion paper.</i>   | March 31, 2012    |

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## 9.0 Plan Approval

This Project Plan has been reviewed and approved as indicated by the following signatures:

**Terry Towns**

*VP, Corporate Security and Compliance*

SIGNATURE \_\_\_\_\_

Date \_\_\_\_\_

**Jim Lightbody**

*VP, Casino and Community Gaming*

SIGNATURE \_\_\_\_\_

Date \_\_\_\_\_

**Darryl Schiewe**

*VP, Casino System Implementation*

SIGNATURE \_\_\_\_\_

Date \_\_\_\_\_

**Susan Dolinski**

*Director, Communications and Public Relations*

SIGNATURE \_\_\_\_\_

Date \_\_\_\_\_

**Rob Kroeker**

*Director, Special Projects*


SIGNATURE \_\_\_\_\_

Date \_\_\_\_\_

DRAFT



THIS IS EXHIBIT "47" TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 12 DAY OF JANUARY, 2021.

  
A Commissioner/Notary Public for the  
Province of British Columbia.



I am writing to update you on the status of this project. As you may recall the purpose of the project was to research, evaluate, and implement solutions in relation to BCLC policies, practices and strategies on payment practices. More specifically, the objective was to refine current payment practices and introduce new payment and other transaction options that are customer-centric, marketable, and administratively efficient. The ultimate desired state is financial transaction processes that produce both customer service and compliance excellence. Background work and consultations with GPEB have progressed to the point that a number of the options are going to proceed. The changes being implemented include the following:

- Casino patrons will be permitted to purchase casino gaming services by providing a CSP with a personal cheque.
- Cheques may only be written on an account individually held by the customer (no joint accounts) at a Canadian Schedule I or Schedule II bank, credit union, or caisse populaire.
- At the time of issuance, the customer will negotiate a future date for the settlement of the cheque with the CSP.
- Once the cheque and terms of settlement have been accepted by the CSP, the customer will be permitted play up to the value of the cheque over the agreed to period of time.
- Cheques must be for an amount of \$10,000 or more.
- CSPs will be responsible for establishing cheque verification, acceptance and collection procedures that are satisfactory to BCLC.

- PGF account holders will be permitted to link their PGF accounts to up to two accounts they hold individually (no joint accounts) at Canadian regulated financial institutions (Approved Accounts).
- Transfers into a PGF account will be permitted from Canadian regulated financial institutions.

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# memo



## Casino Cash and Payments Business Process Enhancements Project

- Transfers into PGF accounts may be made by a PGF account holder via certified personal cheque, bank draft, debit card, or internet banking drawn on a PGF account holders Approved Account, or by casino cheque issued for verified wins by a Canadian casino.
- PGF account holders will be permitted to return any amount transferred into their PGF account, or transfer any verified win amount to their Approved Accounts.

### 3. Expanded Buy-in Options.

- Casino patrons will be permitted to purchase casino gaming services with certified personal cheques, bank drafts, or debit cards where the source of the funds is a Canadian regulated financial institution.
- Debit card use is intended transactions in amounts above ATM limits.
- Casino patrons will be permitted to purchase casino gaming services with casino cheques issued for verified wins by a Canadian casino.

In addition to these initiatives, consideration was being given to the movement of debit machines onto the gaming floor and the movement of global cash to the cage. These changes are not being pursued further at this point.

Please do not hesitate to get in contact if you have questions about this work or would like further information.

Thanks,



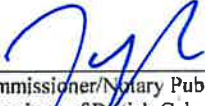
Terry

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THIS IS **EXHIBIT "48"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

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A Commissioner/Notary Public for the  
Province of British Columbia.

## Reducing Reliance on Cash

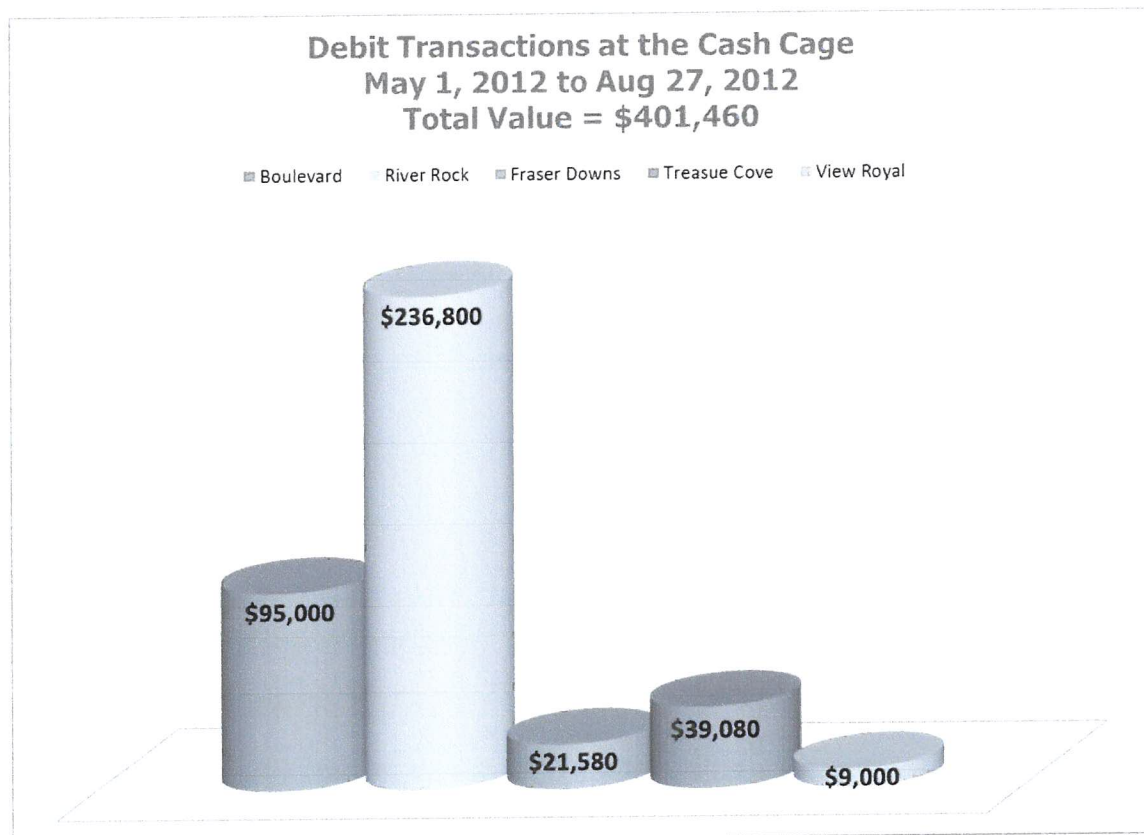
### New Payment Initiatives

#### Data from April 1, 2012 to August 27, 2012

As of April 1, 2012, BCLC introduced several new initiatives to reduce the volume of cash being utilized within casinos and offer several alternatives for patron's to take advantage of. Below is the data collected to date to analysis the success of these initiatives.

#### *Use of Debit at Cash Cage*

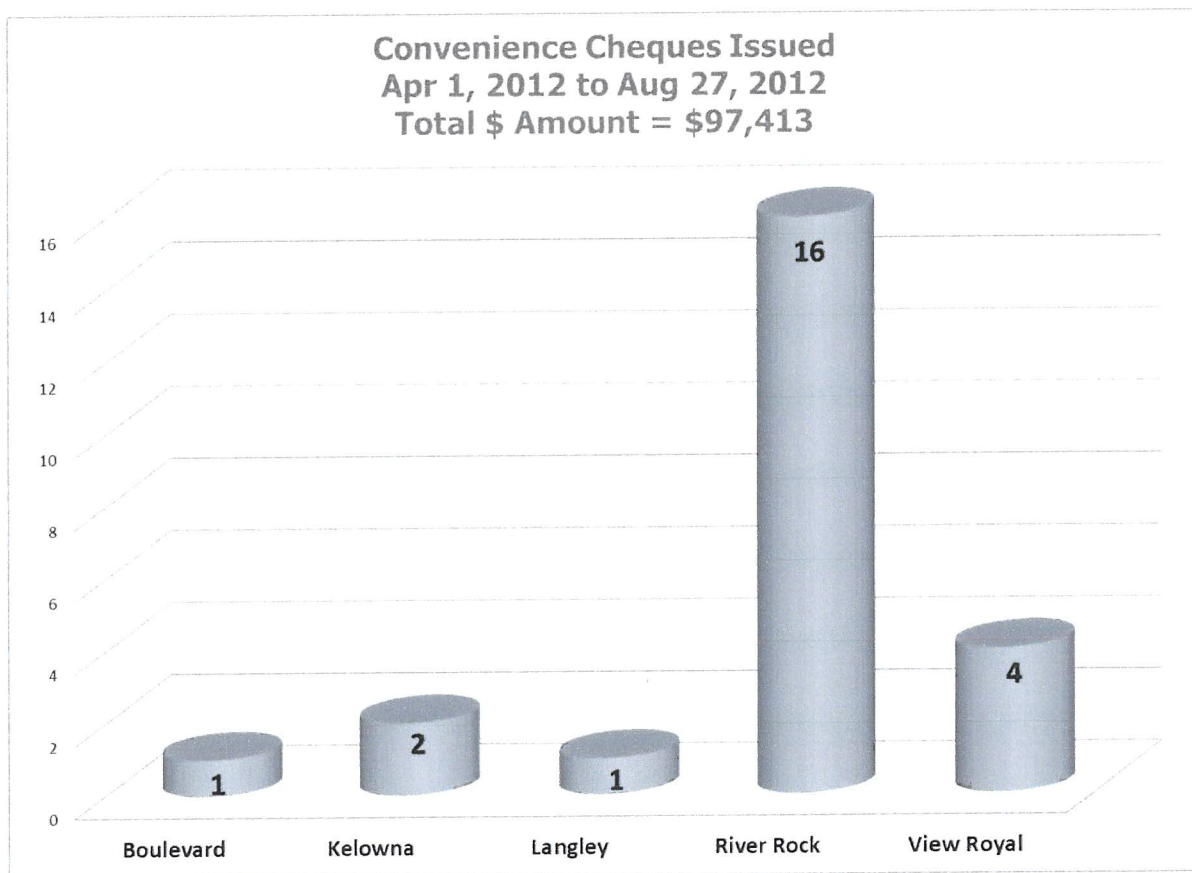
Debit card use is intended for transactions in amounts above ATM limits.



- The average dollar value of the debit withdraws is \$3,500
- Previous report total to June 25, 2012 was \$95,850
- Increase of 318%

### Convenience Cheques

Service providers are now permitted to issue cheques to patron for the return of buy-in funds up to \$5,000. These cheques are clearly marked "Return of Funds – Not Gaming Winnings". Patrons are only able to receive one cheque per week. This option also enhances the security for patrons who do not wish to exit the gaming facility with large quantities of cash.



- The first convenience Cheque in the province was issued on April 6<sup>th</sup>, 2012 at Cascades Casino for a value of \$4008.73.
- Previous report total to June 25, 2012 was \$54,173
- Increase of 80%



### ***Enhancements to Patron Gaming Fund (PGF) Accounts***

Data on PGF Accounts from April 1, 2012 to August 27, 2012

- 38 new PGF accounts opened since April 1, 2012
- \$3,404,000 used as initial deposits to open accounts
- \$8,455,850 deposited into new accounts since open
- All but two accounts are active
- Total dollars deposited in all PGF accounts - \$30,698,492
- Total dollars withdrawn in all PGF accounts - \$29,356,690
- 474 account deposit transactions reported to FINTRAC

|               | <b>River Rock</b>   |                     | <b>Grand Villa</b> |             | <b>Edgewater</b> |             | <b>Starlight</b> |             |
|---------------|---------------------|---------------------|--------------------|-------------|------------------|-------------|------------------|-------------|
|               | Deposits            | Withdrawals         | Deposits           | Withdrawals | Deposits         | Withdrawals | Deposits         | Withdrawals |
| Apr           | \$3,320,100         | \$3,480,100         | \$828,400          | \$769,600   | \$160,000        | \$160,000   | \$145,000        | \$145,000   |
| May           | \$4,218,500         | \$4,265,500         | \$755,900          | \$700,900   | \$30,000         | \$30,000    | \$20,000         | \$20,000    |
| Jun           | \$4,313,000         | \$4,519,000         | \$936,000          | \$866,000   | \$2,280,000      | \$1,980,000 | \$450,000        | \$450,000   |
| Jul           | \$5,195,002         | \$4,925,500         | \$26,000           | \$26,000    | \$32,000         | \$32,000    | \$1,373,000      | \$373,000   |
| Aug           | \$5,910,850         | \$5,944,350         | \$252,690          | \$217,690   | \$376,050        | \$376,050   | \$76,000         | \$76,000    |
| <b>Totals</b> | <b>Deposits</b>     | <b>Withdrawals</b>  |                    |             |                  |             |                  |             |
| Apr           | \$4,453,500         | \$4,554,700         |                    |             |                  |             |                  |             |
| May           | \$5,024,400         | \$5,016,400         |                    |             |                  |             |                  |             |
| Jun           | \$7,979,000         | \$7,815,000         |                    |             |                  |             |                  |             |
| Jul           | \$6,626,002         | \$5,356,500         |                    |             |                  |             |                  |             |
| Aug           | \$6,615,590         | \$6,614,090         |                    |             |                  |             |                  |             |
|               | <b>\$30,698,492</b> | <b>\$29,356,690</b> |                    |             |                  |             |                  |             |

### ***Cheque Hold/Marker***

Service Providers (SP) may accept a negotiable financial instrument such as a personal cheque which can be held for a period of time before being settled (cashed). The cheque would be accepted for the purpose of allowing the patron to use funds for gaming at the facility.

**Prior to the Casino Cheque Hold rollout the following three requirements must be met/reviewed:**

- 1- Casino staff that are directly involved in the management of the PGF Accounts & Hold Cheque program attended training sessions that were offered by BCLC.
- 2- Each Casino's policies and procedures related to the PGF & Hold Cheque, including their proposed agreements, were submitted and approved by BCLC.
- 3- Each Casino will arrange a site visit with BCLC Security and Compliance, the primary purpose being to ensure staff have the requisite knowledge and that the business practices necessary to support FinTRAC complaint PGF Account and Hold Cheque programs are in place.



The Participating Casinos that are going to include the Hold Cheque Option are listed below with approval dates.  
As of August 27, 2012 this option has yet to be utilized by any of the gaming facilities.

**Grand Villa Casino**

Hold Cheque Approved on May 24<sup>th</sup>, 2012

**Starlight Casino**

Hold Cheque Approved on May 13<sup>th</sup>, 2012

**Edgewater Casino**

Hold Cheque Approved on April 10<sup>th</sup>, 2012

**River Rock Casino**

Hold Cheque Approved on July 20<sup>th</sup>, 2012

***Summary as of Aug 27, 2012***

Total Cash Removed from Casinos since April 1, 2012

Debit at Cage = \$401,460

Convenience Cheques = \$97,413

PGF Accounts = \$30,698,492

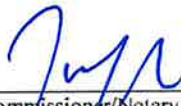
**Total = \$31,197,365**

***Comparison Between Reports***

|                    | Apr 1 - Jun 25, 2012<br>Approx. 3 months | Aug 27, 2012<br>Approx. 2 months | % Change    |
|--------------------|--|----------------------------------|-------------|
| Debit Cage         | <b>\$95,850</b>                          | <b>\$401,460</b>                 | <b>318%</b> |
| Con Cheque         | <b>\$54,173</b>                          | <b>\$97,413</b>                  | <b>80%</b>  |
| PGF New Accounts   | <b>20</b>                                | <b>18</b>                        | <b>-10%</b> |
| Total PGF Deposits | <b>\$17,025,900</b>                      | <b>\$30,698,492</b>              | <b>80%</b>  |
| Total Cash Removed | <b>\$17,175,923</b>                      | <b>\$31,197,365</b>              | <b>82%</b>  |



THIS IS **EXHIBIT "49"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.

  
\_\_\_\_\_  
A Commissioner/Notary Public for the  
Province of British Columbia.





To: Jim Lightbody [Personal Information]; Serge De Iure [Personal Information]; Bryon Hodgkin [Personal Information]; Susan Dolinski [Personal Information]; McCrea, Bill J HSD:EX [Personal Information]  
 Cc: Michael Graydon [Personal Information]  
 From: Terry Towns  
 Sent: Wed 2012-10-10 4:58:00 PM  
 Subject: FW: Second Report  
Reducing Reliance on Cash Data - Sep 30 2012.docx

Good Morning

Here is the latest report on the progress of the reduction of cash initiatives. Since April \$42.7 million has been taken out of the system. While that is a notable achievement, I believe with further implementation of the some of the initiatives we can do even more and will be raising that point with the Service Provider companies tomorrow.

Terry

**From:** Cathy Anastasio  
**Sent:** October 9, 2012 2:24 PM  
**To:** Terry Towns  
**Subject:** Second Report

Hi Terry, here is the updated report on reducing the reliance on cash in casinos. I have included all the amendments you requested. Please take a look and let me know if you want me to change anything else or include more data. I hope you will find this report satisfactory. Thanks.

Cathy Anastasio  
 Compliance & Trend Analyst  
 Corporate Security & Compliance, BCLC

74 West Seymour Street, Kamloops, B.C. V2C 1E2

[Personal Information]

[Personal Information]

BCLC Corp

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For more information, please contact the BCLC GameSense team at 250-863-8888 or [gamesense@bclc.com](mailto:gamesense@bclc.com).  
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## Reducing Reliance on Cash

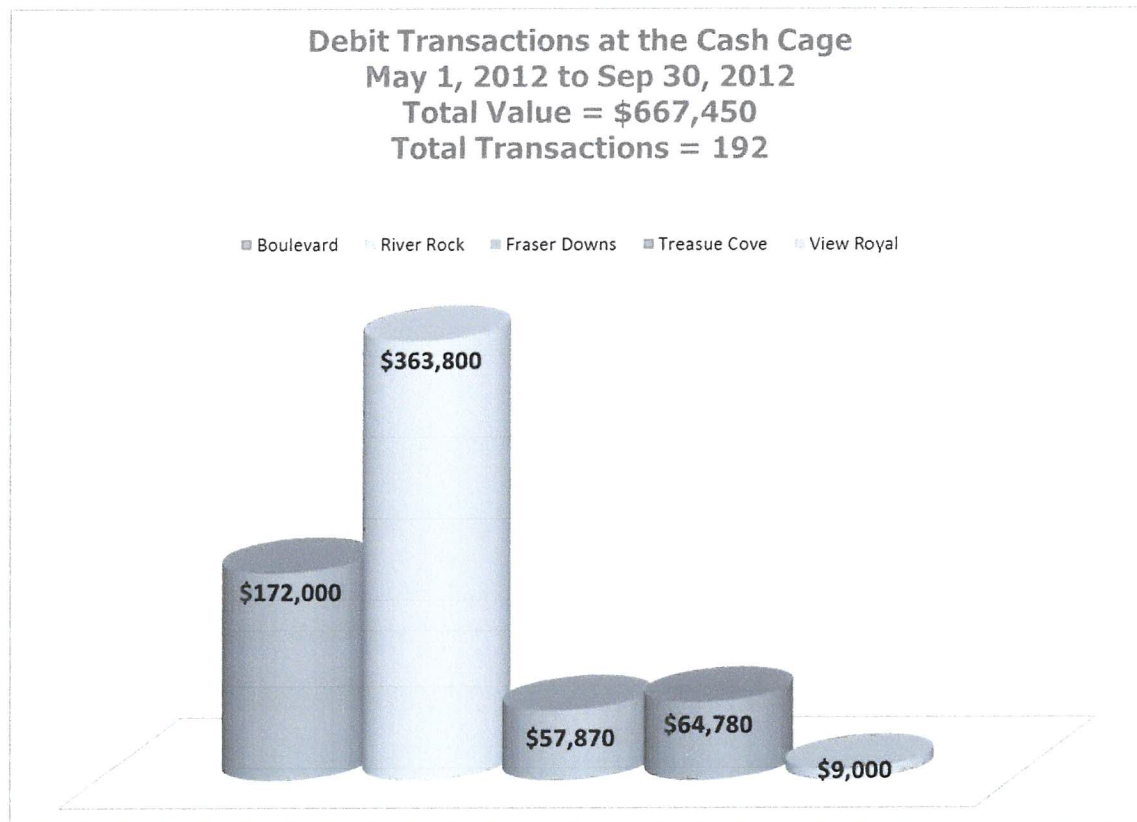
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#### *Use of Debit at Cash Cage*

Debit card use is intended for transactions in amounts above ATM limits.

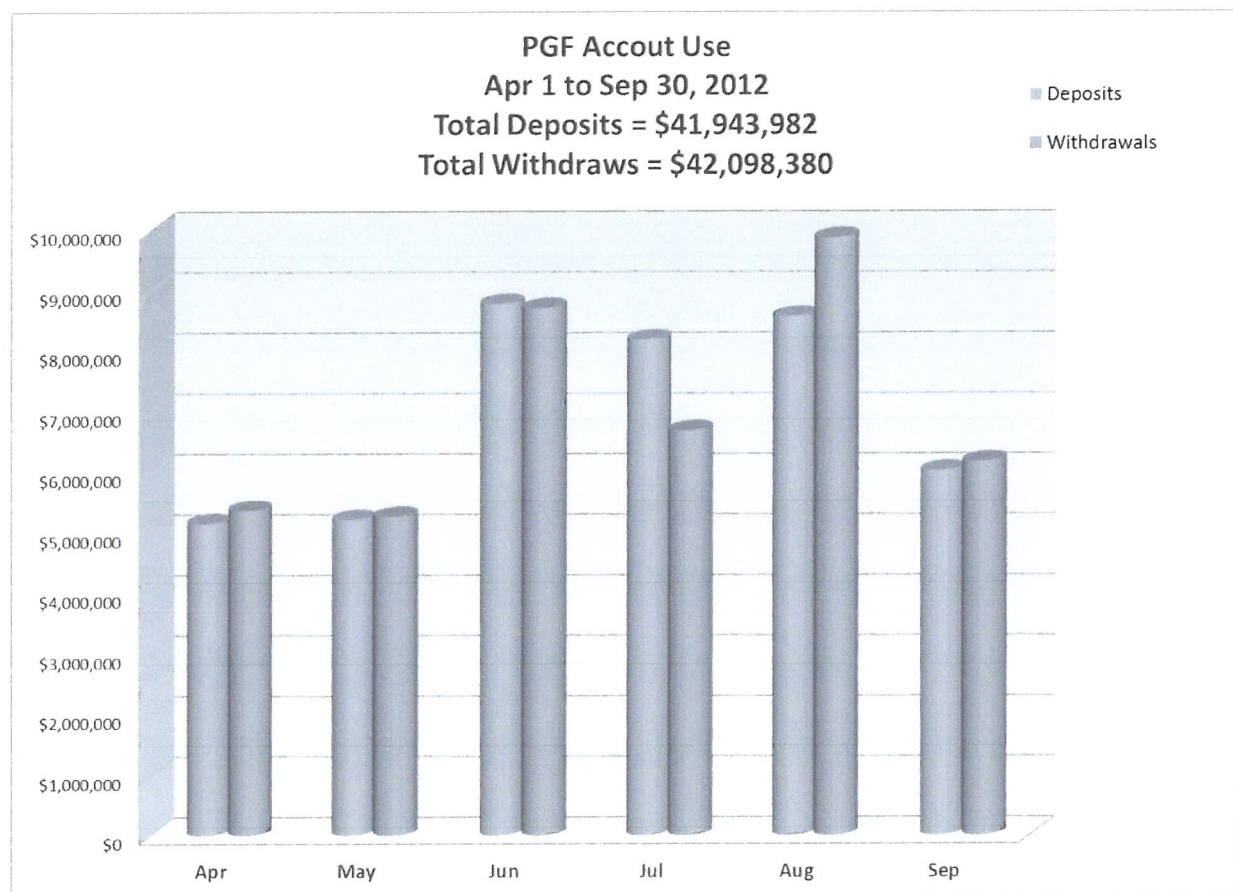


- The average dollar value of the debit withdraws is \$3,500
- First Quarter Report (Apr – Jun) total was \$135,850
- Second Quarter Report (Jul to Aug) total was \$531,600
- Increase of 290% between 1<sup>st</sup> and 2<sup>nd</sup> Quarter

### ***Patron Gaming Fund (PGF) Accounts***

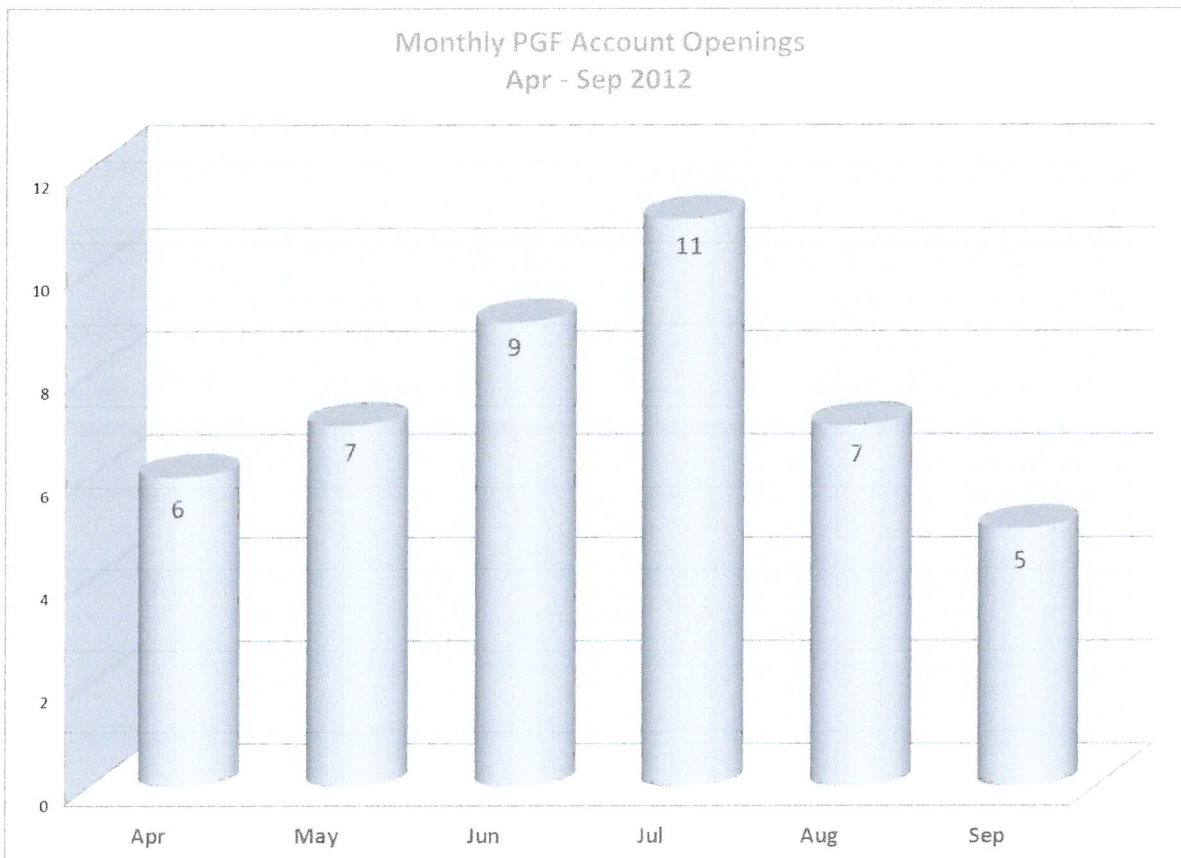
Data on PGF Accounts from April 1, 2012 to September 30, 2012

- \$3,489,300 used as initial deposits to open accounts
- \$13,742,950 deposited into new accounts since open
- All but two accounts are active
- 609 account deposit transactions reported to FINTRAC



- First Quarter Report (Apr – Jun) total was \$19,154,400 deposits
- Second Quarter Report (Jul to Aug) total was \$22,789,582 deposits
- Increase of 19% between 1<sup>st</sup> and 2<sup>nd</sup> Quarter





- First Quarter Report (Apr – Jun) – 22 new accounts
- Second Quarter Report (Jul to Aug) – 23 new accounts

### ***Internet Banking Transfers***

BCLC, in conjunction with its service providers, is exploring the option of using Internet Banking Transfers (IBTs) as another method available to assist and encourage patrons to use their PGF accounts on site. Once this process has been established, data will be collected to determine its success at removing cash from the casino environment.

Gateway Casinos was successful in establishing IBTs from these banks:

- Bank of Montreal (BMO) across Canada
- All BC Credit Unions (achieved through Central 1 Credit Union which handles this option for all BC Credit Unions).

Gateway has been in contact with HSBC bank and CIBC as well to set up the internet banking option. This is still a work in progress and a status update will be provided in the next report.

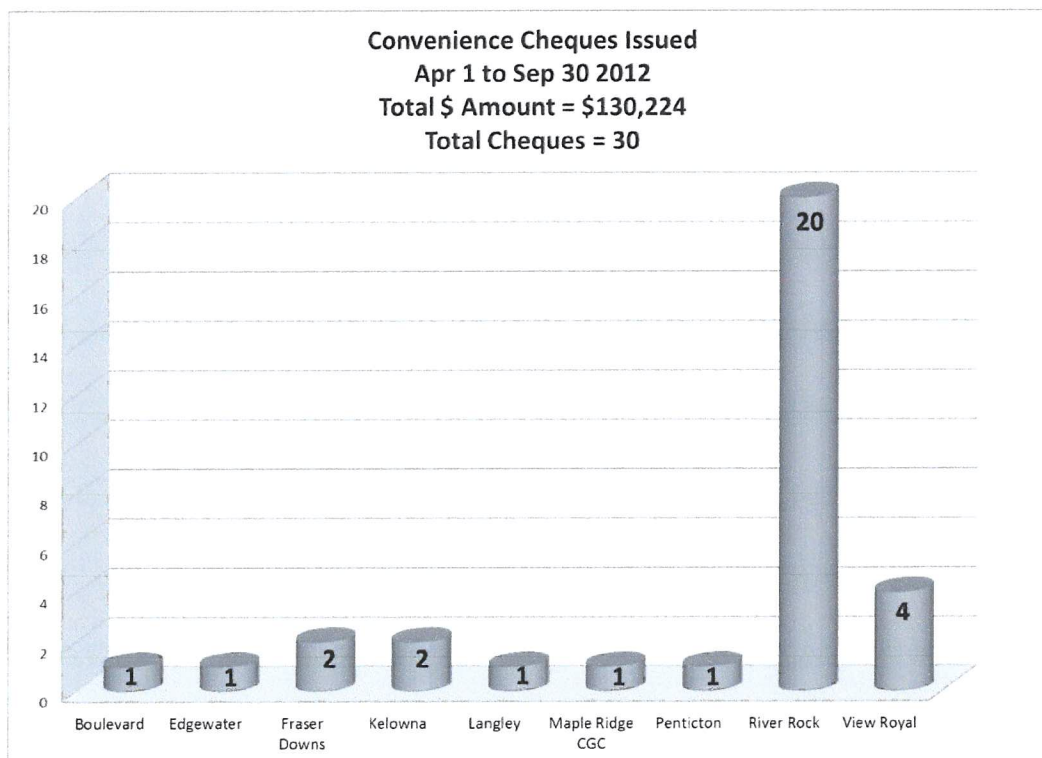
### ***Cheque Hold/Marker***

The Participating Casinos that are going to include the Hold Cheque Option are listed below with approval dates. As of September 30, 2012 this option has yet to be utilized by any of the gaming facilities.

| <b><i>Casino Property</i></b> | <b><i>Cheque Hold Approved</i></b> |
|-------------------------------|------------------------------------|
| Edgewater                     | April 10, 2012                     |
| Starlight                     | May 13, 2012                       |
| Grand Villa                   | May 24, 2012                       |
| River Rock                    | July 20, 2012                      |

### ***Convenience Cheques***

Service providers are now permitted to issue cheques to patron for the return of buy-in funds up to \$5,000. These cheques are clearly marked "Return of Funds – Not Gaming Winnings". Patrons are only able to receive one cheque per week. This option also enhances the security for patrons who do not wish to exit the gaming facility with large quantities of cash.



- First Quarter Report (Apr – Jun) total was \$54,173
- Second Quarter Report (Jul to Aug) total was \$76,051
- Increase of 40% between 1<sup>st</sup> and 2<sup>nd</sup> Quarter
- 4 new properties have issued convenience cheques since the last report

- 2 patrons have received more than one convenience cheque but it was within the policy parameters – each cheque was issued in different weeks

### ***Quarterly Comparisons***

| <b>Cashless Methods</b> | <b>1<sup>st</sup> Quarter<br/>Apr - Jun</b> | <b>2<sup>nd</sup> Quarter<br/>Jul - Sep</b> | <b>Increase</b> |
|-------------------------|---|---|-----------------|
| Debit Cage              | \$135,850                                   | \$531,600                                   | 290%            |
| Convenience Cheque      | \$54,173                                    | \$76,051                                    | 40%             |
| PGF New Accounts        | 22  | 23  | 4%              |
| Total PGF Deposits      | \$19,154,400                                | \$22,789,582                                | 19%             |
| Total Cash Removed      | \$19,344,423                                | \$23,397,233                                | 21%             |

### ***Summary as of Sep 30, 2012***

Total Cash Removed from Casinos since April 1, 2012

Debit at Cage = \$667,450

Convenience Cheques = \$130,224

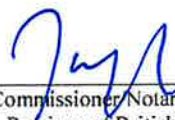
PGF Accounts = \$41,943,982

**Total = \$42,741,656**





THIS IS **EXHIBIT "50"** TO THE  
AFFIDAVIT OF **TERRY TOWNS**  
SWORN BEFORE ME VIA  
VIDEOCONFERENCE WITH THE AFFIANT  
IN MESA, ARIZONA AND THE  
COMMISSIONER IN VANCOUVER, BC  
THIS 22 DAY OF JANUARY, 2021.



\_\_\_\_\_  
A Commissioner Notary Public for the  
Province of British Columbia.



## *BCLC Anti-Money Laundering (AML) Compliance Program*

The AML compliance program at BCLC is very robust and includes protocols and procedures which are covered by the various positions listed below. Each position shares in one or more of the components of the AML compliance program. The majority of the positions are in the Corporate Security and Compliance department however there are several other positions from other various departments within BCLC which also contribute and play a significant role in the compliance program. The key roles and responsibilities of each position are listed below.

### **Vice President, Corporate Security & Compliance – (Compliance Officer):**

The VP of Corporate Security and Compliance at BCLC is the designated Compliance officer as outlined in the FINTRAC guidelines. Responsibilities include:

- Implementation of compliance regime at BCLC which includes: development and application of compliance policies and procedures; assessment and documentation of risks related to money laundering and terrorist financing and any mitigation measures to deal with those risks; provide an on-going compliance training program; every two years perform a review of current compliance policies and procedures to test their effectiveness.
- Reports, on a regular basis, to the board of directors and the senior executive at BCLC
- Delegates AML compliance duties as necessary throughout the BCLC compliance team, however retains responsibility for the implementation of the compliance regime
- Liaise with FINTRAC and Integrated Proceeds of Crime (IPOC), working groups created
- Liaise with Gaming Policy and Enforcement Branch (GPEB) on developing methods to reduce the reliance on cash within BC gaming facilities and other AML compliance issues

### **Director, Operational Compliance:**

Ensure there is compliance to AML and money processing operational policy/procedures. Oversee compliance relating to meeting regulatory requirements related to AML. Integrate AML risks reviews into regular security & compliance department meetings. Discuss money laundering risks at security meetings. Document risk discussions when considering the introduction of new games. Update the BCLC VP Corporate Security and Compliance on any issues identified requiring attention in the previous reporting period or which have been noted in any audits.

### **Casino Security Manager/Assistant Manager:**



Oversee and ensure the BCLC AML program is implemented at all BCLC, Casino and Community Gaming Centers and communicated to all the appropriate staff within the Province of B.C., consistent with BCLC Policy and Fintrac guidelines.

Ensure BCLC AML program is developed and implemented in support of Fintrac AML policies and guidelines; and is delivered to Service Provider and BCLC staff on a continuous and timely basis. Provide direction and guidance on Fintrac Policy changes or amendments to all the appropriate Casino and Community Gaming Center staff as well as the appropriate BCLC Investigator staff.

Ensure AML training is up-to-date. Work in conjunction with Compliance & Trend analyst to ensure staff training is current and within required timeframe. New hires trained prior to working on the gaming floor and training must be renewed every two years. Policies updated to reflect this.

Liaise with BCLC IT staff to ensure that all reports are filed in an appropriate and timely fashion and all software applications are functioning appropriately. Liaise with the software developer, iView Systems to identify and rectify any software issues; together with any development software enhancements. Provide direction and clarification to Service Provider staff and BCLC Investigators on any and all reporting shortfalls identified in reviews or any other related Fintrac issues.

Liaise with FINTRAC and Integrated Proceeds of Crime (IPOC); working groups have been created. Liaise with GPEB on developing methods to reduce the reliance on cash within BC gaming facilities and other AML compliance issues.

Update the BCLC VP Corporate Security and Compliance and Director, Operational Compliance on any issues identified requiring attention in the previous reporting period.

Attend regular scheduled meetings with BCLC Investigators and Service Provider Compliance personnel to deliver notice of any BCLC/Fintrac Policy or operational changes and/or discuss any other issues related to our Fintrac obligations or responsibilities.

Liaise with local Policing authorities and GPEB Investigators to ensure the reporting of AML 'Suspicious Financial Transaction' incidents are consistent with BCLC Policy and guidelines.

Liaise with BCLC internal Auditors to ensure any and all AML compliance issues identified are addressed in an appropriate, timely fashion.

Conduct a review of any and all Fintrac amendments to legislation or guidelines.

Recommend any changes to AML Policy or procedures to the VP BCLC Corporate Security and Compliance and the Manager Corporate Security and Surveillance.

Conduct a review of all Risk Management Policies and procedures, which includes both the Geographical application and the High Risk Patron application. Ensure that the risk matrix remains current and consistent with all profile criteria.



Liaise with Service Provider Compliance personnel to ensure that all staff requiring Fintrac training are being trained in a timely fashion and that the delivery methods of training material is appropriate and meets training standards.

## **BCLC Casino Security Investigators**

### **DAILY**

- 1) Review all Large Cash Transactions created at your site. Ensure they conform to the following:
  - a) Within the 15 day time limit
  - b) Content is accurate
  - c) Appropriate in content including 'notes' where required.
  - d) Fix all errors immediately
  - e) All LCTs created should be closed by site staff within 48/72 hours
  
- 2) Review all incidents created in Itrak.
  - a) Ensure incidents are identified in the appropriate category(s)
  - b) Investigate any incidents that are deemed 'suspicious' in nature.
  - c) File the 'Suspicious Financial Transaction' Report to Fintrac within the 30 day limit.
  
- 3) Review Player Accounts.
  - a) Review each existing player account for activity.
  - b) Ensure new accounts have been completed within BCLC Policy guidelines.
  - c) Ensure EFTs have been reported to Fintrac via LCT.
  - d) Ensure all deposits into accounts, i.e. verified win cheques, chips, cash, conform to BCLC Policy guidelines.
  
- 4) Review Notifications from the Compliance and Trend Analyst.
  - a) Large Cash Transaction Notices will be filed by the Compliance and Trends Analyst on a daily basis. These notifications will track any LCT that indicates a 'vague occupation'.
  - b) Monitor and amend where possible.
  - c) If any LCT cannot be amended upon notification, note in the Subject's profile that this issue must be attended to upon the patron's next visit.

### **WEEKLY**

- 1) Host regular scheduled meetings with Casino/CGC General Manager, Surveillance Manager, Security Manager and Cage Manager.
  - a) Ensure the General Manager and compliance designate are cognizant of the status of staff Fintrac training and schedule face to face training as required.
  - b) Ensure Cash Cage staff are current with their responsibilities in relation to Policy on player accounts, submitting Large Cash Transaction and Disbursements Reports to Fintrac, Identification of patrons at \$9,000 thresholds, obtaining current identification, addresses and occupations as required by Policy. Schedule workshops to include all cage staff on a regular basis.
  - c) Ensure Surveillance staff are current with the reporting of any and all transactions deemed 'suspicious'.
- 2) Create incident files in iTrak and amend subject profiles for any individual identified as 'High Profile', as per the format established by the Compliance and Trend Analyst.

#### MONTHLY

- 1) Review the list of 'verified win' cheques submitted to your site by the Compliance and Trend Analyst. Ensure issuance by site staff conforms with BCLC Policy guidelines.
- 2) Review Surveillance video footage of any table win where a discrepancy was noted in the issuance of a 'verified win' cheque for that table win.
- 3) Review and document any individual identified subsequent to the application of the 'High Risk Patron Profiling Process' and the 'Patron Risk Decision Tree' criteria, attached. Upload subject into the High Profile Matrix for your site in the iTrak subject data bank.

#### QUARTERLY

- 1) Review the LCT audits conducted by the BCLC Auditor responsible for your site, paying particular attention to any discrepancies between the hard copy LCT and the electronic version. Amend any discrepancies as noted.
- 2) Compliance Policy Procedure Review:
  - a) Identify any area of established BCLC Policy and Procedures relating to any Fintrac compliance application requiring amendment or change.
  - b) Ensure any and all Policy and Procedure amendment or change requests are sent to the Manager, Corporate Security and Surveillance and the Compliance and Trend analyst.



**Fintrac Training**

- 1) Meet with Casino and Community Gaming Center Compliance personnel on a quarterly basis to ensure Fintrac training is being delivered via the on line web based module or the 'face to face' classroom style method to the appropriate staff in a timely manner.
- 2) Ensure employee staff lists are current; new staff is identified and terminated staff are removed from the employee roster and that the BCLC Compliance and Trend Analyst is notified of amendments.
- 3) Ensure all Management and Supervisory staff are being trained as per Fintrac and BCLC Policy guidelines.
- 4) Monitor the monthly notifications from the BCLC Compliance and Trend Analyst that identify employees due for Fintrac training or whose training term has expired.
- 5) Deliver 'face to face' training as required.
- 6) Remain current on all Fintrac training material.





### Information Sharing with Police or Other Accredited Agencies:

- 1) Review any and all requests for information from Police or other accredited agency. Ensure requests for information fall within the BCLC Policy criteria prior to releasing any information.
- 2) If the request for information is received from a Peace Officer actively involved in a criminal investigation, information may be released on the strength of a 'Freedom of Information' request form and/or in the form of an email specifying the information required. This request should then be directed to a BCLC Investigator specifically assigned to administer this function, with advice to the Manager, Corporate Security. If circumstances dictate otherwise, any BCLC Investigator may facilitate a formal request, with advice to the BCLC Manager, Corporate Security.
- 3) If the request from a Police agency is for documents held by BCLC in any information system suitable for Court purposes, the Police agency will be directed to serve the BCLC Manager, Corporate Security, with a Court Order such as a Subpoena, Production Order or Search Warrant clearly outlining or describing the document(s) required.
- 4) If the request from a Police Agency is for document(s) held by a Casino or Community Gaming Centre Service Provider, such as original Large Cash Transaction Reports, suitable for Court purposes, the Police agency will directed to serve the Director of Corporate Security for the Casino or Community Gaming Centre, with a Court Order such as a Subpoena, Production Order or Search Warrant clearly outlining or describing the document(s) required. The BCLC Manager, Corporate Security will be advised of the request.

### Compliance & Trend Analyst

Data collection and analysis, identify trends, assess risk, conduct incident analysis, prepare reports in relation to AML processes. Review weekly reports generated from the iTrak system which list the number of LCTs created in which the occupation does not meet FINTRAC requirements and standards – these lists are sent to BCLC casino security investigators for follow-up with site staff. Track cheque issuance (\$10,000+) to patrons, monitor for trends which may display attempts at money laundering. Created protocols for BC casino investigators to follow in regards to identifying and monitoring high risk patrons. Tracking sheet created to monitor and report on high risk patrons. Identify and prioritize areas of non-compliance and risk for BCLC and report findings to VP Corporate Security & Compliance. Responsible for updating and maintain internal casino security AML intranet site. Monitors service provider staff in regards to the required AML training. Liaise with BCLC Gaming Auditors and BCLC Casino Investigators to ensure new hires have completed the training and that the

training is renewed every two years. Monthly AML training reports are generated and distributed to site administrators.

### **Manager Risk Planning & Implementation**

Conduct a fully detailed risk assessment, including building a new comprehensive risk register, conduct risk identification interviews and hold a risk workshop. This includes liaising with most members of the compliance team and soliciting feedback.

### **Policy Analyst**

Policies are reviewed on a constant basis and revisions are communicated to Service Providers and BCLC Staff on a quarterly schedule or, in more immediate circumstances, whenever released. Policy updates will be focused on essential updates during the GMS upgrade period. This includes AML requirements. Close relationship between compliance group and policy office to ensure that where policy changes are required, earlier notification and any background information is provided to the policy office. The Policy Analyst is responsible to monitor, update and modify any policies as they relate to AML compliance regime.

### **IT Solutions Support – Sr. Technical Analyst**

Analyst has created an email notification which is distributed every morning to all those in the casino security group as well as internal audit. This notification displays how many reports are waiting for response, as well as any reports approaching the reporting deadline, reports with errors and entries with a transaction date in the future. This daily report is generated based on iTrak data. The BCLC Casino investigators as well as the Compliance Analyst review the email notification on a daily basis and make any corrections identified in the report. Technical Analyst has the ability to login to the SecureLane software (provided by FINTRAC) to check the status of reports submitted to FINTRAC and also look for differences between iTrak and SecureLane.

The Technical Analyst will also coordinate back-up resources for periods dedicated resource is absent. Formalize the QA process for iTrak and adopt the same process as for all other BCLC gaming products. Monitor iTrak and FINTRAC server (the server responsible for creating the reports which are sent to FINTRAC) and implement solutions for problems which may arise.

### **Operational Gaming Auditors**

BCLC Operational Gaming Auditors (OGA) conduct quarterly reviews of 25% of all LCTR's (to a maximum of 50 per site) completed by the Service Provider; deficiencies are reported upon completion of the review. Auditors also conduct review of selected Subject Profiles to ensure that ID in media tab is acceptable and that it was valid at the time of the transaction(s).

The iTrak system is moving toward an electronic data input system that will eliminate the need to transcribe figures from hard copy to iTrak, this will greatly reduce the amount of errors in the LCT

processing protocols. If many errors or issues are happening at a specific site, remedial training is offered to that property by the Casino investigators.

Operational Gaming Auditors performed “mystery shop” scenarios to test the sites on their AML procedures. These “mystery shop” type audits are slated to take place once a year. OGA audit site staff to ensure they have completed the mandatory AML training.

## Internal Audit

Ongoing Monitoring – Audit Services monitors the Daily FINTRAC Report Summary that is automatically emailed each day. Audit reviews that any IT issues are dealt with quickly and that BCLC does not have any instances of late reporting that could result in violation.

Audit is seeking improvements to wrapping up an audit of IT changes made as a result of the FINTRAC Compliance Examination. There were 7 IT action items that have been audited for completeness and effectiveness. A report will be issued in the coming weeks.

Oversight of external work: Internal audit reviews other external audits such as the recent one completed by Deloitte to determine if follow ups are required to recommendations and resulting actions. Audit also monitors work that is planned to be done by Navigant and GPEB and assessing if any audit areas still need attention or if gaps exist.

Currently, meetings taking place between Corporate Security Management and Internal Audit to discuss Audit Service’s role going forward.

## On Site BCLC Casino Staff

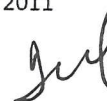
**(Casino Site Operations Manager, Gaming Operations Specialists, Gaming System Coordinators)**

As part of the formal compliance regime BCLC expects all BCLC site staff having the responsibility for oversight of Service Providers at casinos and community gaming centres to assist in the monitoring of full and proper reporting of Large Cash Transaction (LCTRs) and Suspicious Financial Transactions (STRs).

BCLC Casino Operations Managers (CSOM) are responsible to:

- Monitor that delegated BCLC staff are reviewing casino daily financial paperwork, including
  - If a circumstance becomes readily apparent during the review that a Large Cash Transaction report is required, making sure the Service Provider staff has completed the LCTR (example - slot jackpots \$10,000 and over);
- On a day to day basis, answer any questions from Service Providers or GSCs concerning reporting requirements and/or forward questions to appropriate BCLC personnel for clarification;
- Assist BCLC Casino Security Investigators and BCLC Operational Gaming Auditors in their LCTR and STR reporting and auditing duties where possible.

BCLC Gaming Systems Coordinators (GSC) and Gaming Operations Specialists (GOS) are responsible to:





- Review casino daily financial paperwork including
  - If a circumstance becomes readily apparent during the review that a Large Cash Transaction report is required, making sure the Service Provider staff has completed the LCTR (example - slot jackpots \$10,000 and over).

CSOM or designate (GSC or in CGCs - GOS) shall review any service provider cheques issued to ensure slot jackpot slips or table patron tracking slips proving 'verified win' have been appropriately attached. If verification paperwork is not available for review, escalate as appropriate. A copy of each cheque along with supporting slot jackpot or table patron tracking slips shall be filed by the CSOM or designate for subsequent review by Operational Gaming Auditors.

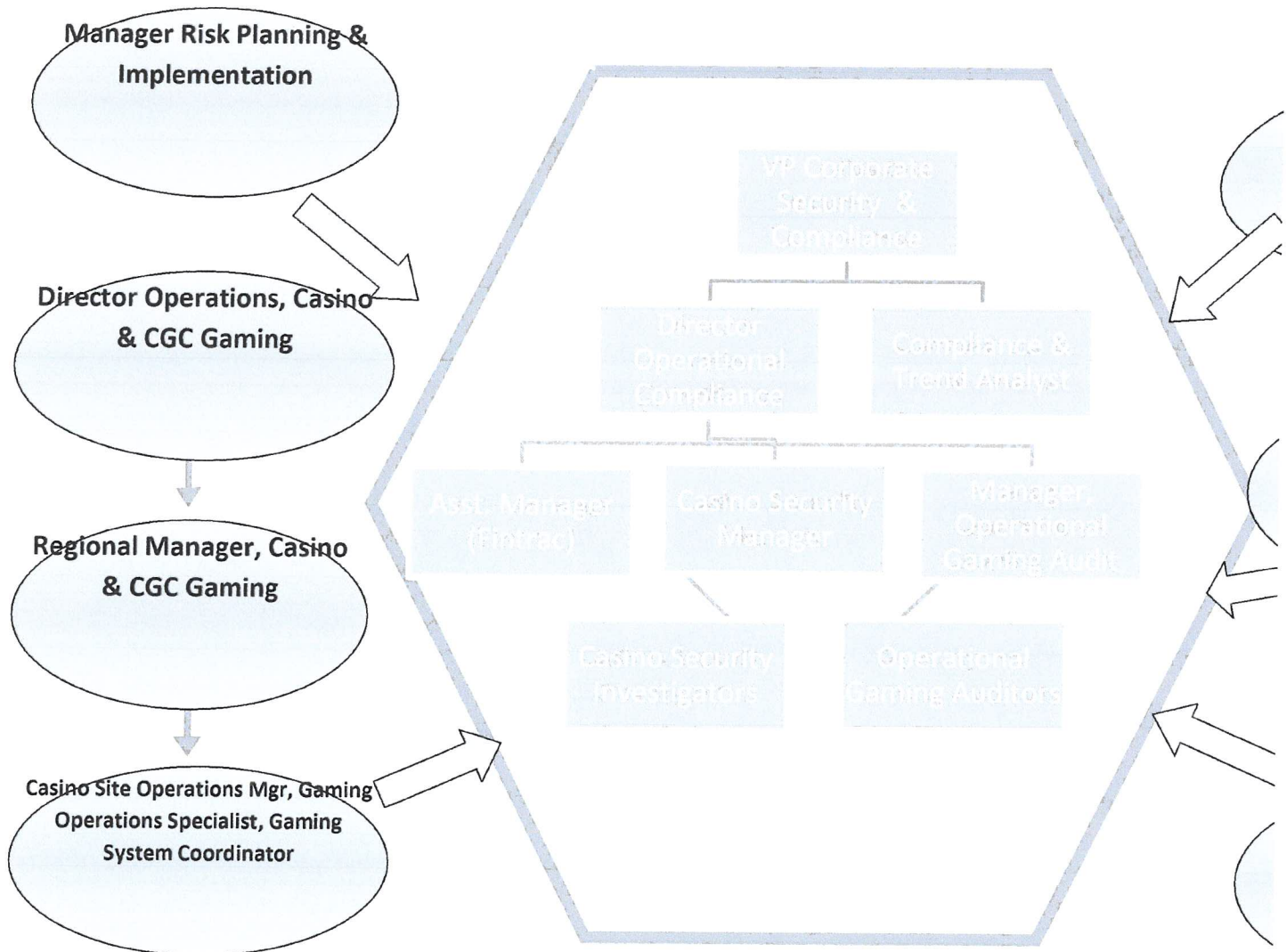


## CHANGES TO COMPLIANCE REGIME

| Item                             | Responsible                    | Last Updated         | Next Revision Due |
|----------------------------------|--------------------------------|----------------------|-------------------|
| <b>Risk Assessment</b>           | Risk Manager, Director         | Aug 2011             | Feb 2012          |
|                                  | Operational Compliance         |                      |                   |
| <b>Policies &amp; Procedures</b> | Policy Analyst                 | Sept 2011            | On-going          |
| <b>Training Material</b>         | Casino Security                | On-line – Apr        | On-going          |
|                                  | Mgr/Compliance & Trend Analyst | 2011                 |                   |
|                                  |                                | Classroom – Aug 2011 |                   |
| <b>Geographical Assessment</b>   | Casino Security Manager        | Mar 2010             | Mar 2012          |
| <b>Update Chart</b>              | Compliance & Trend Analyst     | Sep 2011             | Feb 2012          |

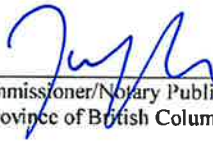


# BCLC Compliance 1





THIS IS **EXHIBIT "51"** TO THE  
**AFFIDAVIT OF TERRY TOWNS**  
 SWORN BEFORE ME VIA  
 VIDEOCONFERENCE WITH THE AFFIANT  
 IN MESA, ARIZONA AND THE  
 COMMISSIONER IN VANCOUVER, BC  
 THIS 22 DAY OF JANUARY, 2021.



A Commissioner/Notary Public for the  
 Province of British Columbia.



May 21, 2008

To: All Community Gaming Centre Service Providers  
All Casino Service Providers

From: Terry Towns - Director, Corporate Security

Subject: **SERVICE PROVIDER CHEQUES – VERIFIED WINS**

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I want to remind you of British Columbia Lottery Corporation's policy on the issuance of Service Provider Cheques. In place since July 1<sup>st</sup> 2003, the policy indicates that cheques can **only be issued for verified wins**. It has come to our attention that some Service Providers are issuing Service Provider Cheques to individuals who produce IVS tickets to the Cash Cage. You are reminded to follow the training received on the issuance of cheques for **verified** slot and table game wins.

"Verified Win" means that the casino employee has determined that the gaming chips / IVS tickets were acquired as a result of a "win" on a table game or a slot machine. A slot machine win must be verified by doing a last game recall or a jackpot notification through CMS. A table game win is verified through the tracking of a player's activity and must be verified by the Pit Boss / Supervisor. **If the Service Provider cannot verify the win a Cheque will not be issued** for either a table game player or a slot player.

The Cash Cage will not issue a Service Provider Cheque unless they are satisfied the "win" is attested to and "verified" by a Pit Boss / Supervisor or a slot attendant / Supervisor.

Sincerely,



Terry Towns  
Director, Corporate Security

