

To: Bud Smith [REDACTED]
From: Jim D. Lightbody
Sent: Sat 2015-10-24 10:28:57 PM
Subject: Letter to Minister Re AML
[Min of Finance Board Chair Response 19 Oct 2015 \(draft 2\).docx](#)

::

Bud,

At our recent Board Strategy Session we agreed to draft a letter for your signature to respond to the recent letter from our Minister regarding our AML approach.

The attached letter was drafted by Rob with input from Brad, Susan, Amanda and myself. Now we'd like your input before sending to the Minister on your behalf.

We will copy myself, Cheryl and John Mazure, of course, but would like to know if you want to Cc Morey as the chair of our Risk Committee and/or Bob as audit chair. Alternatively, we could keep the Cc list shorter.

Let me know your thoughts.

Thanks,

Jim

Sent from my BlackBerry 10 smartphone on the TELUS network.

I write in response to your letter dated October 1, 2015, acknowledging the accomplishments of BCLC in regard to its anti-money laundering program and providing further direction in that respect. Your recognition of the work completed to date is very much appreciated.

You provided direction in three areas. I will address each in the order set out in your correspondence.

First, you have directed that BCLC:

Ensure that BCLC's AML compliance regime is focused on preserving the integrity and reputation of British Columbia's gaming industry in the public interest, including those actions set out in the General Manager's letter of August 7 (enclosed) and any subsequent actions or standards that may follow...

I am pleased to report that BCLC's AML Regime is designed to directly address the potential risks posed by money laundering to the gaming industry in British Columbia and in so doing works to protect the integrity and reputation of the sector in British Columbia from this risk. This has been and remains a key objective of BCLC as its' Regime has been developed and continues to be refined and evolves. In its November 2014 audit of the BCLC AML Regime, the Financial Transaction and Reports Analysis Centre of Canada (FinTRAC), the federal agency responsible for Canada's anti-money laundering laws, found no material exceptions in the design or operation of BCLC's AML regime. Moreover, FinTRAC advised BCLC that its program was viewed as a leader in the industry. Subsequent to the FinTRAC audit, GPEB also audited BCLC's: overall AML Regime in March 2015; customer accounts in July 2015; cash cage operations in early August 2015; and, suspicious transaction reporting in late August 2015. Further, this summer Ernst and Young was engaged to conduct the bi-annual independent audit of BCLC's Regime required under federal anti-money laundering laws and completed that audit in late September 2015. BCLC has not been advised of any material deficiencies arising out of the six audits completed in the last ten months on its AML Regime. Further, we are unaware of any other gaming enterprise coming under this level of oversight and scrutiny.

With respect to the actions set out in the General Manager's letter of August 7, 2015, BCLC's CEO responded to that letter supporting the actions identified and laying out the action to be taken on each. That letter was enclosed with your correspondence so I will not repeat the CEO's commitments here.

Thus, in respect of your first directive I am able to confirm that BCLC's AML Regime is aligned as you have directed and that BCLC is fully committed to working with GPEB on the activities the General Manager laid out in his letter of August 7, 2015.

Second, you directed that BCLC:

Participate in the development of a coordinated enforcement approach with the Gaming Policy and Enforcement Branch (GPEB), the RCMP and local police to mitigate the risks of criminal activities in the gaming industry...

BCLC supports and is ready to participate in any such initiative. In fact, BCLC has an existing formal Information Sharing Agreement with the RCMP which is a key aspect of BCLC's Security and AML programs. Additionally, over the last 24 months BCLC has been advocating for a coordinated enforcement approach and, at the staff level, has identified to GPEB the resources and expertise BCLC is able to bring to the effort. Further, I can advise that BCLC is already coordinating its efforts with the police and GPEB in meaningful ways; it was BCLC who, earlier this year, identified and reported intelligence on potentially large scale illegal gaming operations being conducted in the lower mainland. BCLC immediately took this intelligence and supporting information to the police and GPEB so that these criminal activities, which posed very substantial risks to public safety and the integrity of gaming, could be investigated.

With respect to your second directive, I am able to confirm that BCLC currently works in a coordinated fashion with police and GPEB on enforcement matters, and that, more importantly, BCLC is committed to and looks forward to the opportunity to expand its cooperative efforts with the police and GPEB particularly in relation to participating in a jointly managed and targeted enforcement initiative.

Third, you directed that BCLC:

Enhance customer due diligence to mitigate the risk of money laundering in British Columbia gaming facilities through the implementation of AML compliance best practices including processes for evaluating the source of wealth and source of funds prior to cash acceptance.

As I have noted above, I am pleased to pass on FinTRAC's comment that it considers BCLC's program to be among industry leaders. Having said that, BCLC believes in and pursues continuous improvement. We have invested more than \$7 million in systems that will allow BCLC to greatly enhance its AML Regime by largely eliminating manual processes and replacing them with sophisticated automated monitoring capabilities. This system is the same as that employed by many of Canada's large financial institutions in their anti-money laundering programs. The system is in its final implementation phase and will go live in the first part of 2016.

In addition to its systems upgrades, in April 2015 BCLC presented a number of other initiatives to GPEB that BCLC believes will assist in reducing cash at casinos, further anti-money laundering efforts, and combat illegal gaming. BCLC is positioned to fully develop and implement these changes and is awaiting GPEB approval. Brief descriptions of each initiative follow.

PLAYER ACCOUNT OVERDRAFT/CREDIT

Very high net worth players who play at the highest bet limits have consistently requested access to short term credit or overdraft privileges on their accounts, similar to those offered in other jurisdictions. This will allow these players access to funds to game when they cannot otherwise access their own assets in the short term. For example on week day evenings or on weekends when banks are closed.

Under the proposal players would have to be casino account holders and have undergone the thorough customer due diligence process required at the time of account opening, including inquiries in to source of wealth. In addition, an appropriate level of credit worthiness due diligence would be undertaken. Extensions of credit would only be authorized by senior casino and BCLC management levels. Controls would be put in place to ensure that any extension of credit could only be used for immediate gaming purposes and that any winnings would first be allocated to any outstanding credit balance. An upper threshold on the amount of credit to be offered would be established at the player, site, and overall organization levels.

REMOVE LIMITS ON CASINO CHEQUES TO CUSTOMERS

Casino cheques to customers that are a return of buy-in (as opposed to verified gaming win amounts) are currently limited to one cheque per week of up to \$10,000 by GPEB policy. BCLC proposes that there be no limits on cheques.

The most immediate effect of this change would be to reduce the risk of robbery and other violence to customers leaving casinos with very large sums of cash. In regard to anti-money laundering, returning unspent buy-in funds in cash, should the provenance of the cash come into question in the future, allows that wealth and the funds to remain completely anonymous and untraceable. This creates the potential for police investigations and forfeiture proceedings to be frustrated.

Issuing a cheque will create an auditable trail through the financial system which will facilitate any future money laundering investigation and the financial intelligence efforts of FinTRAC. A cheque would only be issued to and in the name of the player who had bought-in with the funds and who had gone through the customer identification process. Further, these cheques would be clearly branded on their face "not gaming winnings". With these measures in place the money cannot be laundered by claims of the wealth coming from gaming winnings. Additionally, the measure would help to reduce the amount of cash churning through the gaming sector.

ALLOW CASH DEPOSITS INTO PLAYER ACCOUNTS

Players are currently prohibited from depositing cash into their player accounts. Allowing deposits into player accounts would reduce the amount of cash taken out of and then back into a casino. In addition, allowing cash deposits into player accounts would increase BCLC's ability to collect information in regard to source of wealth and source funds. Deposits to accounts would not be permitted without the customer first going through the

customer due diligence process and would provide the opportunity to inquire in more detail at the time of deposit about source of funds. Further, this initiative would give BCLC more and better transactional data which would allow it to better assess the money laundering risk of individual players.

You have directed that BCLC evaluate the source of wealth and source of funds *prior* to cash acceptance in all instances. Currently, any customer who opens and holds a casino account must undergo BCLC's customer due diligence process. This includes the customer completing a source of wealth declaration prior to any deposit to their account. Further, BCLC conducts more extensive customer due diligence inquiries in instances where on-going monitoring of customers (which includes reviews of transaction patterns, large cash transaction reports, suspicious transaction reports, play patterns, open source information, and in some cases police information) suggests more detailed checks are warranted. These checks will often include a reconfirmation of the player's stated source of wealth as well as interviews by a trained AML specialist in regard to source of funds. Where, based on information and evidence gleaned through its on-going monitoring processes, BCLC determines a player is at a higher risk of money laundering it will ban the player from buying in with cash or chips where BCLC cannot be confident the cash or chips came from legitimate sources. In some cases, depending on individual circumstances and the information available, players will be banned from playing casino games altogether. BCLC's customer due diligence and on-going monitoring processes are in keeping with the risk based approach required by FinTRAC. GPEB has earlier stated that it too supports a risk based framework as opposed to prescriptive blanket requirements being applied to all customers irrespective of the money laundering risk profile presented by individual customers.

Gaming, like other sectors including grocery and financial services, remains cash intensive. Customers tend to prefer to game with cash. It is important to note that slot machines accept only cash or a voucher printed by a slot machine at the same casino. BCLC's analysis indicates that currently, in casinos, approximately 23% of buy-ins are completed through non-cash means and 77% are in cash.

In 2015, the total of buy-ins of all forms at BCLC casinos was approximately \$7.25 billion. Of that, approximately \$4.48 billion was slot machine buy-in and \$2.77 billion was table buy-in. Net slot win for that year was approximately \$1.15 billion and net table win was \$576 million. Table games players buying in with \$10,000 or more account for approximately \$241 million of the net table win.

Requiring every slot and table player to submit to source of wealth and source of funds evaluation prior to acceptance of the funds is likely to result in widespread business disruption and is likely to have a very substantial adverse impact on player visitation rates. Further, for typical players who visit a casino and wish to buy-in with a few hundred or few thousand dollars in currency, given the volumes of players and the limitations on data available through open sources, there is no practical process through which either a player's source of wealth or the source of funds can be verified, especially prior to the funds being accepted. Implementing a process that will require source of wealth and source of funds confirmation prior to any transaction will in all likelihood put much of the 77% of slot and table revenue that is cash based in jeopardy, the vast majority of which presents no, or extremely low, risk of money laundering.

If the requirement to confirm source of wealth and source of funds prior to each transaction were applied only to transactions of \$10,000 or more, while the volume of players would be reduced, the practical implications of confirming source of wealth and source of funds for each player prior to commencing each transaction remain. This would pose a similar disruption to business issue which could be expected to have an adverse impact on the visitation rates of this player cohort and on the approximately \$241 million in net win coming from these players annually. BCLC believes the current processes in place provide strong anti-money laundering controls over this revenue stream. Controls that will be strengthened further when its automated solution is brought on-line in 2016.

Thus, in regard to your third directive, I am able to confirm that BCLC's AML Regime incorporates source of wealth and source funds inquiries based upon risk analysis and risk assessments of customers, products, venues and geographic factors. This methodology is consistent and compliant with FinTRAC's mandated risk based approach to customer and transaction monitoring, record keeping and reporting. These AML measures will be enhanced through automation as BCLC brings its new system on-line in 2016. Having said that, because source of wealth and funds inquiries are made based upon risk factors, these inquiries do not occur in relation to every casino transaction or prior to funds being accepted in every instance. For the reasons cited, BCLC believes the risk based approach mandated by FinTRAC appropriately balances strong AML measures with consumer choices and the privacy of BCLC's customers. Given the potential for the very substantial business

disruption posed by requiring source of wealth and source of fund determinations prior to any consumer transaction occurring, BCLC would welcome an opportunity to brief you on this matter in further detail before additional action is taken.

Finally, I would like to offer some context in regard to the concern raised in your letter over the number of large cash transaction reports being completed by casinos. Cash transactions remain prevalent throughout the economy. FinTRAC reports that, in 2014, across Canada banks submitted 7,639,748 LCTs or 95% of all LCTs, provincially regulated credit unions (by Ministry of Finance in BC) submitted 262,932 LCTs or 3% of the total, and casinos submitted 74,395 LCTs or 1.0% of the total. Casinos traditionally have been a cash-based business and in BC, unlike credit unions, regulations prevented casinos from accepting any other form of payment until very recently. The number of large cash transactions at casinos is representative of our increased focus on training and systems to meet the requirements set out by FinTRAC and we are fully committed to doing our part to prevent the potential for money laundering. Notwithstanding, BCLC advocates for a collaborative and risk-based approach to implementing solutions to ensure money laundering and other risks are properly addressed without unnecessarily adversely impacting the entertainment choices and privacy of British Columbians.