

To: Bud Smith [REDACTED]
From: Jim D. Lightbody
Sent: Tue 2015-11-17 9:37:45 PM
Subject: Background material for tomorrow
[Briefing for MDJ for Nov 18 15.docx](#)

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Bud,

Attached are background materials for our meeting tomorrow, if needed.

Jim

Sent from my BlackBerry 10 smartphone on the TELUS network.

BCLC Briefing for Minister Michael de Jong
November 18, 2015

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- BCLC has a mature and active anti-money laundering program with significant investments in technology, training, and certification, and is the driving force behind cash alternatives.
- Over 50 Corporate Security and Compliance staff at BCLC have, or are in the process of completing the CAMS (Certified Anti Money Laundering Specialist Designation). BCLC recently provided ACAMS membership to a number of compliance personnel within GPEB.
- In November 2014 FINTRAC completed an examination of BCLC's AML practices and found BCLC's compliance regime to be in compliance with AML requirements.
- All suspicious transaction reports (STR) are submitted to Fintrac within 30 days of occurrence. The reports, which include narratives setting out circumstances, are also submitted to GPEB and Law Enforcement.
- A relatively few number of high value patrons account for significant gaming revenue to the province. These clients have a preference for cash transactions, for a number of reasons including cultural, and as a result account for a disproportionate number of STRs.
- If concerns arise around the origin of funds being used to buy-in, restrictions may be placed on the methods an individual customer is permitted to use to buy-in. For example, a customer may be restricted to using bank drafts or certified cheques.
- BCLC assesses these individuals under the Know Your Customer program to determine source of wealth, and where warranted, source of funds.
- In February 2014 Fintrac published further guidelines requiring reporting entities to enhance their Know your Customer and Enhanced Due diligence program. There was a specific focus around statutorily deemed business relationships and higher risk patrons.
- BCLC created an AML unit to respond to the increasing regulatory requirements including these new obligations.
- For every customer with which BCLC is deemed to have a "business relationship" BCLC has an obligation to and does assess each of these customers for money laundering risk and then monitor them and their transactions on an on-going basis. This is a very complex and resource intensive requirement to meet.
- BCLC is in the process of implementing a new automated solution, based on that used by three of Canada's biggest banks, to further enhance its AML program and specifically its CDD procedures. Launch is targeted for March 2016.
- BCLC initiated a project in 2011 focused on reducing the use of cash in gaming facilities.
- In 2014/15, traceable cash alternatives such as the Patron Gaming Fund (PGF) account, debit transactions, and other non-cash instruments made up one quarter of play in BC gaming facilities.

- In April 2015 BCLC requested GPEB's approval of three cash alternatives: credit to approved VVIP players, Delimiting the Convenience Cheque and offering cash to PGF under specific circumstances. BCLC has not yet received approval.

Service Provider Commission Review

- Ernst and Young (EY) and Partnerships BC (PBC) are continuing to explore whether relevant options exist for incentivizing service providers that is different from our current commission structure, which is supported by BCLC's advisor, HLT.
- EY and HLT have taken different approaches in the calculation of weighted average cost of capital (WACC) and ROI, but have arrived at substantially the same conclusion. Discussions have ensued regarding service provider motivating factors and whether other commission structures that impact length of term, market certainty, or commission rate could be adjusted to further maximize return to the province.
- EY continues to assess the Facility Development Commission (FDC) and Accelerated Facility Development Commission (AFDC) structure against the Capital Asset Management Framework, which represents an outline of best practices in capital asset management that can be leveraged by the public and private sector (although it is created by the public sector).
- There have been discussions with EY to outline the risks of financial consolidation, the appropriateness of control vs influence in service providers' capital asset management, and whether their suggestions truly address the end objective of the FDC and AFDC program (i.e. to incentivize capital investment in facilities for the purpose of growing gaming revenue).

Comprehensive Cost Containment Review

- EY has proposed Level 1 and Level 2 metrics as measures that would be considered under the updated framework. Level 1 metrics would be tracked and reported to Treasury Board, while Level 2 metrics would be maintained internally within BCLC but shared with the Ministry.
 - Level 1 metrics have been determined as Net Income and Operating Profit/Net Win (excl. depreciation and interest).

- Level 2 metrics still to be determined (intended to provide a deeper level of insight into specific operating costs such as employee costs)
- The Board has approved the Level 1 metrics and targets. The biggest change in the targets was the discussion to allow a range of targets rather than a specific target percentage.
- Following this, in discussions with the Associate Deputy Minister, it was suggested that the concept of a range, and the final approval of these metrics, would be discussed with the Minister after the final report.

Expression of Interest process for gaming facility location/relocation

- BCLC has identified market potential in Greater Victoria and issued a Expression of Interest letters to local governments in that region on October 1 with a response required by December 11, 2015.
- Local governments who received the EOI are:
 - District of Saanich – responded indicating interest
 - District of Oak Bay – responded it is not interested
 - City of Victoria – still contemplating its response
 - Township of Esquimalt – still contemplating its response
 - Esquimalt First Nation lands – no indication to BCLC
 - Songhees First Nation lands – responded indicating interest

Quebec legislation blocking illegal gambling websites

- The Government of Quebec has introduced new legislation that requires Internet service providers to block access to unlicensed online gambling sites.
- The provisions are contained in an omnibus bill implementing elements of the government's spring budget, which included a promise to establish website blocking requirements.
- The bill provides that an Internet service provider may not give access to an online gambling site whose operation is not authorized under Québec law.

- It indicates Lotto Quebec will oversee the accessibility of online gambling. It will draw up a list of unauthorized gambling sites and provide the list to the entity that regulates gambling which will then send it to internet service providers.
- According to the law an internet service provider that receives the list shall, within 30 days of receiving the list, block access to those sites.
- This legislation is unprecedented in Canada.

OLG Modernization – contracting out lottery operations

- In March 2012, the Ontario government directed OLG to undertake a modernization strategy to increase profit to the Province, create jobs and generate local economic growth. As part of the strategy OLG has opted to contract out lottery operations for the province. It will become the only jurisdiction in Canada to choose this model for lottery.
- One of the key reasons for this decision is to avoid the capital investment of replacing 10,000 outdated lottery terminals, which would cost \$1 billion.
- To date, an RFP has been issued for a private sector operator to run the day-to-day lottery business (issued September 2014)
- OLG reserves the right to ultimately not make any changes.

- Illinois, New Jersey and Indiana have all tried this model with limited success/negative impact. None have met revenue targets set by the private sector operator.
- Presently, BCLC leads the way amongst Canadian gaming jurisdictions in terms of innovation and business development. Evidence of this includes Lotto Express, PlayNow.com, and the internationally recognized GameSense program.
- The technology and infrastructure built for Lotto Express together with our eGaming platform will be leveraged into a broader replacement plan for lottery retail.
- BCLC also has a Memorandum of Understanding with OLG to facilitate Lotto Express for Ontario at our shared retailer, Loblaws, Canada's largest grocery retailer.
- The health and sustainability of our national lottery brands (Lotto 6/49, Lotto MAX, and many national Scratch & Win games) rely on the largest market, Ontario, having strong sales performance. If OLG's revenue on national brands declines, BC and the other provinces suffer.
- The jackpots will not be sustainable and the profit margins could be reduced if prize funds need to be increased. If the private operator chooses to reduce focus or investment on national brands, it is a risk to the other ILC partners.