

**Ministry of Finance  
BRIEFING DOCUMENT**

<b>To:</b>	John Mazure Assistant Deputy Minister	<b>Date Requested:</b>	January 5, 2015
		<b>Date Required:</b>	February 6, 2015
<b>Initiated by:</b>	Terri Van Sleuwen	<b>Date Prepared:</b>	February 6, 2015
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**TITLE:** Minimizing Unlawful Activity in BC Gambling Industry

**PURPOSE:** To identify actions that Gaming Policy and Enforcement Branch (GPEB) may undertake to ensure that the integrity of BC's gambling industry is protected from those that would attempt to use the industry to legitimize funds and proceeds resulting from criminal activities.

**(X) DECISION REQUIRED**

**COMMENTS:**

- In 2011, GPEB and BCLC embarked on a strategy, as noted below, to identify and prevent unlawful activity, including money laundering, fraud, theft and cheat at play. A three phase approach was developed and communicated to internal and external stakeholders. Phase 1 and 2 are substantially complete, with ongoing work continuing by BCLC and gaming service providers. Phase 3 has begun with the completion of the research by Malysh & Associates and development of potential direct intervention options.
- Phase 1: Develop and implement cash alternatives, to obtain funds inside the facilities, for gaming.
  - Substantially complete, with research continuing on other cash alternatives.
- Phase 2: Operator intervention to more actively engage the use of the cash alternatives by patrons.
  - Substantially complete, with BCLC and service providers continuing efforts to encourage patrons to use available cash alternatives. GPEB reviews have shown there is some uptake of cash alternatives by patrons but they are not widely accepted by high limit players.
- Phase 3: Regulator intervention, which involves conducting a study and potential direct intervention for customer due diligence (CDD) of cash entering gaming facilities.
  - CDD research completed by Malysh & Associates on September 15, 2014.
  - Research reviewed and used to develop options contained in this note for ADM decision.

**DATE PREPARED:** February 6, 2015

**TITLE:** Minimizing Unlawful Activity in BC Gambling Industry

**ISSUE:** The variety, frequency and volume of transactions that the gaming industry, particularly casinos, engages in makes them particularly vulnerable to those that would attempt to use the industry to legitimize funds and proceeds resulting from criminal activities.

**BACKGROUND:**

- The Gaming Policy and Enforcement Branch regulates gambling in British Columbia, and is responsible for the overall integrity of gaming and horse racing.
- As an agent of the Crown, the BC Lottery Corporation conducts, manages and operates most commercial gaming in the province, including commercial casinos, lotteries, bingo halls and community gaming centres. The Corporation contracts with registered service providers to provide operational services at these facilities, in accordance with the Corporation's standards, policies and procedures.
- As part of the Corporation's continued mandate (15/16 Mandate Letter), BCLC will use information provided by law enforcement to create actions and solutions to prevent money laundering in BC gaming facilities. GPEB will develop anti-money laundering standards, to which BCLC will respond. Additionally, BCLC will identify and implement strategies to increase the use of cash alternatives and measure and demonstrate this progress (The 15/16 Mandate Letter has not been finalized as it is currently with the Minister for sign off).
- Under the FINTRAC Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA), casinos must implement a compliance regime, keep certain records and ascertain client identification. They have to report suspicious transactions and terrorist property to FINTRAC. They also have to report certain other financial transactions to FINTRAC.
- In BC, BCLC is designated as the "reporting entity" by FINTRAC and therefore is responsible for ensuring that the FINTRAC requirements are complied with in relation large cash transactions and suspicious currency transactions.
- In 2011, GPEB and BCLC embarked on a strategy to identify and prevent this potential unlawful activity in BC casinos.
- The strategy included a three phase approach was developed and communicated to internal and external stakeholders, including the general public through media releases and statements by the Minister.
- GPEB set the following strategy in place, which has been used to frame the regulatory activities to address this issue.
  - "The gaming industry will prevent money laundering in gaming by moving from a cash based industry as quickly as possible and scrutinizing the remaining cash for appropriate action. This shift will respect or enhance our responsible gambling practices and the health of the industry."

- GPEB developed an approach to support their strategy which included three phases:
  - Phase 1: Develop and implement cash alternatives, to obtain funds inside the facilities, for gaming.
  - Phase 2: Operator intervention to more actively engage the use of the cash alternatives by patrons.
  - Phase 3: Regulator intervention, which involves conducting a study and potential direct intervention for customer due diligence of cash entering gaming facilities.
- Two working groups were formed at this time, one internal to GPEB and one in which industry stakeholders participated, to solicit input and develop approaches to address Phase 1 and 2 of the strategy.
- Media coverage focusing on the increasing number of instances where large amounts of cash are being brought into BC casinos by patrons and questions regarding the legitimacy of these funds has been ongoing.

#### DISCUSSION:

- The variety, frequency and volume of transactions casinos engage in make them particularly vulnerable to unlawful activity, including money laundering, fraud and cheat at play. In particular, casinos face money laundering risks through: refining; currency exchange; and, chip purchases. Implementation of a compliance regime is required to manage the risk.
- Money laundering is a term used to describe a multitude of techniques, procedures and processes used to disguise, obscure or conceal the true ownership and origin (together with the audit trail) of money or other assets derived from criminal activity, to make it appear as though the proceeds of crime originated from a legitimate source.
- In 2011, GPEB and BCLC embarked on a strategy to identify and prevent this potential unlawful activity from BC casinos.
- The strategy was intended to complement the FINTRAC requirements, with enhancements meant to reduce the amount of cash being brought into casinos by patrons and introduce direct regulatory intervention for customer due diligence on remaining cash entering casinos.
- A three phase approach was developed in order to bring all industry parties together to tackle this issue:
  - Phase 1: Develop and implement cash alternatives, to obtain funds inside the facilities, for gaming.
    - Status: Substantially complete, with research continuing by BCLC and service providers on other cash alternatives that could be introduced to move further away from the use of cash.

- Phase 2: Operator intervention to more actively engage the use of the cash alternatives by patrons.
  - Status: Substantially complete, with BCLC and service providers continuing efforts to encourage patrons to use available cash alternatives. However, GPEB reviews have shown there is some uptake of cash alternatives by patrons but they are not widely accepted by high limit players.
- Phase 3: Regulator intervention, which involves conducting a study and potential direct intervention for customer due diligence of cash entering gaming facilities.
  - Status: CDD research completed by Malysch & Associates on September 15, 2014 and used to develop options contained in this note for ADM decision.
- Since Phase 1 and 2 are now substantially complete, although work continues by BCLC and service providers, we have moved into Phase 3.
- In Phase 3, we have completed the CDD research (Malysch & Associates report dated September 15, 2014) and development of potential direct intervention options are now being considered.
- A multi-prong approach should be considered as there may be areas where we need to be prescriptive because our tolerance for risk is less. In less risky areas, we will provide general expectations and allow industry to determine procedures.

#### OPTIONS:

The following options could be considered for introduction separately or jointly as a multi-prong approach.

- **Make changes to the *Gaming Control Act Regulation*: introduce regulations that provide high level expectations for the BC gambling industry to prevent unlawful activities at BC casinos, particularly, in relation to anti-money laundering.**
  - Suggested wording:
    - *“BCLC and service providers must develop and implement mechanisms which will reasonably identify and prevent unlawful activities at gaming sites in BC.”* and,
    - *“Anti-money laundering policies and procedures as required under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act shall be implemented and enforced by BCLC and service providers.”*
  - This change would form the public record of the commitment of Government to deter unlawful activities in BC casinos.
  - A regulation change was a recommended approach in the Malysch & Associates report dated September 15, 2014.

- **Introduce a public interest standard which would provide more specific requirements to the BC gambling industry to support the Regulation changes noted above.**
  - The GPEB standards would apply to BCLC, all gaming services providers, and all licensed horse racing service providers which operate lottery schemes at gaming facilities, including casinos, community gaming centres and online through PlayNow.
  - The GPEB standards, which would complement the FINTRAC PCMLTFA requirements, are intended to go beyond AML/TF recording and reporting purposes to ensure that BCLC and service providers do not provide a venue for unlawful activity, including money laundering. Some of the GPEB requirements would require that BCLC and service providers gather more customer information than the related PCMLTFA provisions require in order to assist GPEB in the regulation of gambling in BC.
  - Suggested wording for objectives of the public interest standard:
    - *“Objectives:*
      - *To help ensure the integrity of gambling in British Columbia.*
      - *To protect patrons, employees, assets and long-term revenue at commercial gaming premises.*
      - *To detect and deter any activity that may adversely affect patrons, employees and the fair and honest conduct of gaming at casinos, community gaming centres, commercial bingo halls and horse race tracks.”*
  - Suggestions for general public interest standard requirements:
    - Regulation: *“BCLC and service providers must develop and implement mechanisms which will reasonably identify and prevent unlawful activities at gaming sites in BC.”*
      - A culture of compliance must be developed through all levels of BCLC and service provider staff with leadership that actively supports and understands compliance efforts.
      - Periodic risk assessments shall be conducted to determine the potential for unlawful activities, including money laundering, fraud, theft and cheat at play.
      - All employees, both of BCLC and service providers, involved in the operation, supervision or monitoring of a gaming site shall remain current in techniques that may be used to identify unlawful activity at a gaming site.
      - Player and employee transactions must be appropriately monitored and suspicious transactions analyzed for possible unlawful activity.

- Suspicious behaviour, including unlawful activity, shall be reported in accordance with the GPEB Section 86 reporting requirements set out for BCLC and service providers.
- Regulation: *“Anti-money laundering policies and procedures as required under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act shall be implemented and enforced.”*
  - AML compliance officers must be qualified and experienced. They must have direct reporting to the corporation CEO and to the corporate audit committee.
  - A formal, written anti-money laundering (AML) program that includes appropriate systems and controls to ensure their compliance with FINTRAC (Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) and GPEB requirements must be implemented, maintained, reviewed and revised as necessary in response to changes in circumstances.
  - To account for changing conditions AML systems and controls must be constantly monitored, updated, maintained and repaired.
  - Rigorous “Know Your Customer” procedures must be in place to identify both sources of wealth and sources of funds.
    - As a general principle, a business relationship should only be entered into or maintained with a customer if BCLC or service provider is satisfied that the information it has gathered demonstrates that they know the customer (i.e. the customer has disclosed his or her true identity and a legitimate purpose for entering or maintaining the business relationship with BCLC and the service provider).
    - Where doubts persist, consideration should be given to not proceeding with the relationship or transaction.
    - A “Source of Funds Declaration” (to be developed) must be completed when transaction values and frequency of transactions change/elevation of client risk.
  - The AML compliance program must be tested by an independent and competent party. Copies of reports shall be made available to GPEB.
  - Copies of all reports filed with FINTRAC shall be made available to GPEB.
- Compliance will be regularly monitored by GPEB, including periodic review of compliance regimes, and appropriate enforcement action taken in instances of non-compliance.

- Suggestions for prescriptive public interest standard requirements due to GPEB's lower risk tolerance:
  - Enhanced Cash Transaction Handling Procedures:
    - Cash/out instrument must mirror the cash/in instrument, i.e.: banknote to banknote, cheque to cheque, EFT to EFT, etc.
    - No colouring up on return of player gaming funds.
    - Cash transactions (in bundles of denominations of \$20) received in excess of prescribed amount cannot be accepted.
    - No chip or cash passing allowed.
    - No cash transactions allowed in high limit rooms.
    - Mandatory use of PGF accounts for transactions in excess of prescribed amount.
    - Electronic Fund Transfers (EFT) from foreign financial institutions not permitted.
    - Establish a maximum amount of small denomination bills for casino buy-in by a single patron.
    - All table losses are considered PGF first (to prevent outside cash from being deposited into the account).
  - Enhanced Reporting Requirements to be made available to GPEB:
    - Require reporting to GPEB of locally prohibited activities such as large currency transactions, minimal gaming activity with large transactions, use of multiple credit or deposit accounts and false or conflicting IDs (Possibly revise GPEB Section 86 reporting letter).
    - Currency breakdowns to be documented for all large cash transactions.
    - Currency breakdowns in all applicable Section 86 reports;
    - Improved clear, consistent documentation for transactions deemed suspicious.
    - Documented justification is required for transactions initially deemed as suspicious but through secondary review is deemed not suspicious.
    - Large cash transactions must have additional information provided when it is not deemed as suspicious.
- Section 27(2) (d) of the *Gaming Control Act* authorizes GPEB's General Manager to establish public interest standards for the gambling industry.

- Section 34(1) (g) of the GCA Regulation requires that gaming services providers must obey all applicable public interest standards established by the general manager under section 27 (2) of the Act.
- **Introduce a public interest standard, as noted above, excluding the enhanced procedures, and a regulation change which requires that service providers, as a condition of their registration, must comply with Enhanced Cash Transaction Handling Procedures and Enhanced Reporting Requirements as established by GPEB.**
  - Establish Enhanced Cash Transaction Handling Procedures and Enhanced Reporting Requirements and provide letter to service providers.
  - Section 34(2) (vi) of the GCA Regulation requires that gaming services providers must comply with section 86 of the Act.
- **Prepare a directive to BCLC to outline GPEB participation in building a Patron Banning Strategy which may include: BCLC and service provider banning criteria; circumstances where GPEB would ban a patron; and, timeframes for bans.**
  - Section 28(1) of the Gaming Control Act authorizes GPEB's General Manager to issue directive with the approval of the minister.

#### RECOMMENDATION:

- A multi-prong approach should be considered as there are areas where we need to be prescriptive because our tolerance for risk is less and other areas where we can provide general expectations because our tolerance for risk is higher.
- Initiate a multi-prong approach which includes the following components:
  - Make changes to the *Gaming Control Act Regulation*: introduce regulations that provide high level expectations for the BC gambling industry to prevent unlawful activities at BC casinos, particularly, in relation to anti-money laundering.
  - Introduce a public interest standard, excluding the enhanced procedures, and a regulation change which requires that service providers, as a condition of their registration, must comply with Enhanced Cash Transaction Handling Procedures and Enhanced Reporting Requirements, as outlined above, as established by GPEB.
  - Prepare a directive to BCLC to outline GPEB participation in building a Patron Banning Strategy which may include: BCLC and service provider banning criteria; circumstances where GPEB would ban a patron; and, timeframes for bans.
- Solicit input from GPEB AML Working Groups and Industry Working Group during development and implementation stages.

**APPROVED / NOT APPROVED**

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John Mazure  
Assistant Deputy Minister  
Gaming Policy and Enforcement Branch

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Date: