

DRAFT v2  
September 4, 2015

**Ministry of Finance  
Gaming Policy and Enforcement Branch**

**STRATEGY DOCUMENT**

**To:** Honourable Michael de Jong, Q.C.  
Minister of Finance

**Date Requested:** August 31, 2015  
**Date Required:** September 29, 2015

**Initiated by:** Cheryl Wenezeki-Yolland, ADM  
Ministry of Finance

**Date Prepared:** September 3, 2015

**Ministry Contact:** Len Meilleur, Executive Director  
Compliance Division  
Gaming Policy & Enforcement Branch

**Phone Number:** [REDACTED]  
**Email:** [REDACTED]

**Cliff #345702**

---

**TITLE:** Gaming Policy and Enforcement Branch's Anti-Money Laundering Strategy: Phase 3

---

(X) [FOR INFORMATION]

---

DRAFT v2  
September 4, 2015

**DATE PREPARED:** August 31, 2015

**TITLE:** Gaming Policy and Enforcement Branch's Anti-Money Laundering Strategy: Phase 3

## **INTRODUCTION**

The Gaming Policy and Enforcement Branch (GPEB) has the legal mandate and consequent authority to ensure the overall integrity of gaming. Through the Branch's audit and investigative functions, GPEB monitors anti-money laundering (AML) strategies and other efforts to maintain the integrity of gaming with British Columbia. The *Gaming Control Act* requires the lottery corporation, a registrant, and licensees to immediately notify GPEB of any conduct, activity, or incident that may be contrary to the *Criminal Code of Canada*, *Gaming Control Act* or *Gaming Regulation*. This includes suspected criminal activity which is associated to the filing of suspicious transactions reports.

In early January 2011, a series of news stories emerged about cash transactions at B.C. gaming facilities. The stories focused on a number of large cash transactions involving small denomination Canadian currency, typically \$20 bills, which occurred over the summer of 2010. Ultimately, the Minister responsible for gaming ordered a review of the anti-money laundering strategies employed at B.C.'s gaming facilities.

As a result of the review, Government launched an AML strategy in 2012 focused on reducing the use of cash to minimize the opportunity for money laundering to take place through gaming facilities. The strategy included 3 phases: (1) the development and implementation of cash alternatives, (2) the promotion of cash alternatives to gaming facility patrons; and (3) regulatory guidance about potential additional measures for enhancing AML due diligence. Substantial progress has been made on phase 1 and 2 and phase 3 is currently underway. GPEB has shifted its focus to target its resources at analyzing the areas of highest risk to the integrity of gaming, such as large and suspicious currency transactions for phase 3.

Despite progress in phase 1 and 2 of the strategy, GPEB continues to be concerned about the persistence of large cash transactions in gaming facilities in the lower mainland. These transactions have continued to increase in recent years and pose a public safety threat as well as increasing the perception that money laundering is a significant problem in B.C. gaming facilities. Given the implementation of phase 3, the Branch is seeking to address these concerns through multiple approaches, including, but not limited to, a Ministerial Directive, submissions to the federal Department of Finance, working with law enforcement and FINTRAC, the potential introduction of cash alternatives such as credit for specific patrons, an assessment of current enforcement and interdiction responsibilities, and an external review of BCLC customer due diligence (CDD) practices. GPEB and BCLC will continue to work together to enhance existing policies and practices in order to strengthen the AML program and to manage risk in accordance with standards adopted by financial institutions.

The purpose of this strategy document is to describe the current anti-money laundering strategy in B.C. and show how GPEB, BCLC and the provincial gaming service providers have arrived at implementing various AML strategies to date. The document also looks to the future and identifies ongoing threats

DRAFT v2  
September 4, 2015

and identifies possible solutions to mitigate the risk of money laundering and associated activities occurring in B.C. gaming facilities.

#### **ANTI-MONEY LAUNDERING STRATEGY PHASE 1 & 2**

- In January 2011 Minister Coleman ordered a review, *Anti-Money Laundering Measures at BC Gaming Facilities*, intended to determine what AML policies, practices and strategies are in place at B.C.'s gaming facilities. The review was meant to identify any opportunities to strengthen the existing AML regime.
- The review, released in August 2011, suggested that BCLC and its operators, with oversight and guidance from GPEB, employ standardized and appropriate anti-money laundering strategies. Notwithstanding these measures, opportunities to further strengthen anti-money laundering efforts were identified.
- In 2012, GPEB and BCLC began a multi-phased AML strategy based on recommendations from the 2011 review led by an internal GPEB AML working group. The strategy focuses on moving the industry away from cash transactions as quickly as possible, and scrutinizing the remaining cash for appropriate action in an effort to isolate money laundering from legitimate gaming, enabling enhanced enforcement action.
- The AML strategy included three phases;
  - Phase 1: the development and implementation of cash alternatives;
  - Phase 2: the promotion of cash alternatives by gaming facility patrons; and
  - Phase 3: regulatory guidance about potential additional measures for enhancing AML due diligence.
- As part of Phase 1 and 2 of the strategy a number of improvements have been made including:
  - Patron gaming fund accounts allowing casino customers to transfer money from regulated banks and credit unions or add funds to their account via certified cheques, bank drafts, internet transfers, or verified win cheques;
  - The ability to electronically transfer money into patron gaming fund accounts through Canadian and U.S. chartered banks;
  - Customer convenience cheques clearly marked as verified win or as a "return of funds that are non-verified wins";
  - A "cheque hold" system for high-volume players where players can secure play against a personal cheque from an approved bank that will not be processed by a casino until an agreed upon period of time and any winnings or remaining funds are paid back to the player by casino cheque;
  - Debit withdrawals at the "cash cage" as well as ATM withdrawals inside gaming facilities;
  - Casino chips are only able to be used at a single facility and regulations exist to monitor how those chips are used;
  - Tight restrictions on the ability of patrons to exchange small bills for large currency denominations;

DRAFT v2

September 4, 2015

- Any activities on the gaming floor or elsewhere on the property that raise concerns can result in a temporary, 14-day ban while the concerns are investigated; and
- GPEB is an associate member of the BC Association of Chiefs of Police, which continues to lead to increased collaboration with law enforcement agencies on AML issues
- The focus of phase 1 and 2 was the development of cash alternatives and the promotion of their use by patrons to minimize the opportunity for the need to access cash outside of gaming facilities which may lead to money laundering or other unlawful activity. Further cash alternatives are being explored to enhance the phase 1 and 2 strategies already in place.
- Multiple independent reports and audits were conducted by both BCLC and GPEB throughout the strategy's implementation. Those reports include:
  - *Independent Review: Anti-Money Laundering and Anti-Terrorist Financing* completed by Deloitte & Touche LLP. Deloitte was engaged by GPEB to conduct an independent review and assessment of BCLC anti-money laundering and anti-terrorist financing program. The report was delivered in March 2011.
  - *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) BCLC Compliance Regime Review*. Navigant conducted this review for BCLC in February 2012.
  - *Report on the Results of Applying Agreed-Upon Procedures to BCLC's Anti-Money Laundering Compliance Program* completed by PricewaterhouseCoopers LLP (PwC). PwC was engaged to report upon procedures relating to compliance with policies and procedures, assessment of risks and training program relating to BCLC's anti-money-laundering compliance program. The report was delivered November 2013.
  - In 2014, GPEB commissioned Malysch Associates Inc. to complete a Customer Due Diligence (CDD) study, regarding the due diligence practices carried out by financial institutions which handle large amounts of cash.
- Each of these independent reports did not specifically look into the issue of unsanctioned third-party lending and financial transactions and therefore based on recent information there is a need to address this gap in GPEB's independent review of BCLC practices.

#### *Results of Phase 1 and 2 strategy initiatives*

- Between 2010 and 2013 in B.C., 97 percent of large cash transaction reports were submitted by financial entities, while less than 2% were submitted by casinos (according to FINTRAC data).
- In January 2014, an information-sharing agreement was signed with law enforcement which allows the RCMP to share information with BCLC on individuals who may be undesirable pursuant to the *Gaming Control Act* and who are known to frequent gaming facilities. To date, it is known that 71 people have been banned from gaming facilities in B.C.
- In 2014, one-quarter of play in B.C. gaming facilities was generated through secure and traceable cash alternatives.

DRAFT v2  
September 4, 2015

## FINTRAC

- In 2000 the federal government created Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), which requires businesses that deal in large sums of cash - banks, casinos, life insurance companies, real estate companies and gambling facilities – to report large-cash transactions and disbursements over \$10,000, foreign exchanges over \$3,000 and all suspicious currency transactions (SCT). Each of these transactions becomes a report called a suspicious transaction report (STR) that is sent to FINTRAC. FINTRAC then creates a data trail that is used to identify patterns and gather evidence of potential money laundering.
- FINTRAC's "Know Your Customer" program requires BCLC to collect photo identification and the name, address, occupation and source of wealth of players who complete transactions of \$10,000 or more. The Program's monitoring requirements were expanded in February 2014 to engagement and risk identification. As a result of the change, transactions thought to be related to proceeds of crime or money laundering require additional collection of data, increased monitoring, client risk analysis and further examination of client's business relationships.
- GPEB and FINTRAC staff communicate regularly to ensure BCLC and gaming service providers are meeting all reporting requirements under current legislation. Both entities are part of an intelligence group hosted by the RCMP's Criminal Intelligence Service of BC (CISBC).
- In 2011, the federal agency fined BCLC nearly \$700,000 for errors it made in more than 1,000 reports arising from a 2009 review. BCLC has challenged this decision and the case is still before the courts.
- In 2013, a FINTRAC audit found that for the three previous years, BCLC was not complying with reporting rules for multiple transactions by the same person within a 24-hour period totaling more than \$10,000.
- In 2014 FINTRAC conducted an audit of BCLC's anti-money laundering program. Over 10,000 documents were reviewed. FINTRAC identified 3 minor deficiencies. There were no administrative penalties. All minor deficiencies were corrected immediately.

## ANTI-MONEY LAUNDERING STRATEGY – PHASE 3

- Under phase 3, the internal GPEB AML working group has undertaken research and consulted with stakeholders and individuals with expertise in AML practices about options for AML compliance, Customer Due Diligence (CDD) and regulatory intervention.
- In order to add weight and urgency to phase 3 of the AML strategy, the *2015/16 BCLC Mandate Letter* from the Ministry of Finance to BCLC established as a specific strategic priority that:
  - "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

DRAFT v2  
September 4, 2015

strategies to increase the use of cash alternatives and measure and demonstrate this progress”.

- In response to the Mandate Letter, in April 2015, BCLC submitted a written proposal recommending changes to the current policy restrictions on various cash alternatives to address the safety concerns associated with high limit patrons frequently transporting large sums of cash in and out of gaming facilities changes. Three proposals were submitted for GPEB review:
  1. To allow cash deposits into PGF accounts at the initial account opening and for subsequent deposits for high-value players;
  2. To allow high-value players to receive the full amount of cash outs via convenience cheque, without a weekly cheque issuance limit; and
  3. To allow Patron Gaming Fund (PGF) account overdraft privileges, at no cost, to high-value players who meet specific criteria.
  - While GPEB has approved-in-principle BCLC’s continued work on these changes, the Branch will not fully approve these policy changes until the General Manager is satisfied that BCLC develops and implements additional CDD policies and practices which are constructed around financial and other casino industry standards. This includes robust Know Your Customer (KYC) requirements with a focus on source of wealth and funds as being integral to the overall risk assessment process as well as robust analytics of the correlation between the number of suspicious transactions filed on an individual and the need to sever a business relationship or right to refuse the cash transaction.
- On June 2, 2015, GPEB and BCLC co-hosted an anti-money laundering workshop, *Exploring Common Ground – Building Solutions*. The workshop participants included law enforcement agencies, gaming service providers, private sector, and financial institutions. The intent of the workshop was to solicit input from industry professionals on existing AML practices in place, review their effectiveness, and consider possible measures to strengthen AML diligence and address the perception the gaming facilities are vulnerable to large-scale money laundering and related criminal activities. Four recommendations were devised at the time;
  1. Enhanced client due diligence; accomplished through a Ministerial Directive (Appendix I).
  2. Additional cash alternatives; accomplished by BCLC undertaking a concerted effort to explore and develop additional cash alternatives and ways to promote use of cash alternatives by high value.
  3. Enhanced coordination and collaboration; accomplished by GPEB and BCLC working together to develop a coordinated intelligence and investigations, audit, compliance, and enforcements responsibility.
  4. Public education and awareness; accomplished by GPEB and BCLC developing coordinated information and education strategies to counter the negative public perception about increasing number of STRs and to clarify the AML framework for B.C. gaming facilities.

DRAFT v2  
September 4, 2015

- GPEB's General Manager wrote to the President and CEO of BCLC August 7, 2015 outlining expectation that GPEB has for BCLC to enhance the existing AML regime in gaming facilities as related to the 4 workshop recommendations. The letter required that BCLC increase its efforts to develop and promote the use of cash alternatives and implement enhancements to its due diligence and compliance program. Specifically, BCLC was asked to pursue 4 activities:
  1. Develop and implement additional Customer Due Diligence (CDD) policies and practices constructed around financial industry standards and robust Know Your Customer (KYC) requirements, with a focus on identifying source of wealth and funds as integral components to client risk assessment. This assessment should be based upon suspicious currency transaction occurrences.
  2. Develop and implement additional cash alternatives, focusing on furthering the transition from cash-based to electronic and other forms of transactions, and instruments, and exploring new ways to promote existing and new cash alternatives. These alternatives should form part of a broader strategy for increasing the use of cash alternatives in gaming facilities, including implementing a performance measurement framework and an evaluation plan to determine service provider participation.
  3. Work with GPEB to develop processes and approaches to clarify roles and responsibilities around AML intelligence, analysis, audit and compliance activities. This includes considering information sharing and access to systems that support the AML strategy's elements.
  4. Work with GPEB and other stakeholders such as FINTRAC to develop a BCLC public information and education strategy and action plan for government's review and approval. The plan should include coordinated messaging about anti-money laundering activities in gaming facilities, and outline the requirements, roles and responsibilities for identification, reporting, investigation and enforcement.
- BCLC will be providing a response to this letter on or before September 18, 2015.

## RECENT DEVELOPMENTS

*GPEB analysis of large cash transactions at Casinos in the Lower Mainland*

# Public Interest Immunity

- Historically, and more so within the last five years, GPEB Compliance staff have analyzed suspicious currency transaction (SCT) reports and recorded all data in a real-time tracking document. Most recently, GPEB investigation and audit staff began analyzing all information available to GPEB, specifically suspicious currency transaction (SCT) reports of amounts over \$50,000 occurring in the lower mainland gaming facilities for the month of July 2015. The conclusion from this analysis was that while gaming service providers were fulfilling their statutory FINTRAC reporting requirements, there is an unacceptable amount of suspect behaviour occurring, notably at the River Rock Casino

DRAFT v2  
September 4, 2015

Resort. The Lottery Corporation asserts that the large cash buy-ins is a cultural preference of wealthy Asian gamblers rather than a form of money laundering. **Public Interest Immunity**

**Public Interest Immunity**

**Public Interest Immunity** That access may include sourcing their funds from money lenders, known as loan sharks.

- The analysis found that for the single month of July, lower mainland casinos reported \$14,856,340.00 in suspicious transactions made in \$20 bills, and a total of \$20,729,130.00 in suspicious transactions. Of that \$20.7 million, five patrons make up for nearly half of the dollar figure (9.8M). Monthly SCT totals fluctuate throughout the year; however, July 2015 is currently the highest total of all 2015 months. From April 1, 2015 to Sept 4, 2015 (Fiscal year 15/16 up to time of drafting), \$101 million of SCTs were recorded. This is comparable to FY 14/15, where \$212 million in SCT was reported. There is currently no reason to suspect that a continuing upward trend in SCTs is subsiding.
- Below is an excerpt of three SCT reports from the GPEB analysis (*note*; the excerpt has been modified to maintain privacy):

Date of Transaction	Venue	Patron	\$20 Bills	Total \$	Synopsis
Jul. 25, 2015	River Rock	Patron X	N/A	\$770,860	Patron X arrived on several occasions over several hours and presented a number of buy-in using substantial \$20 bills.
Jul. 21, 2015	Starlight	Patron Y	\$100,000	\$600,000	At 14:10 hours patron Y arrived at the casino as the passenger in a white Toyota sedan that was driven by [name]. Patron Y bought-in for \$300,000.00 with the cash consisting of \$50.00 and \$100.00 bills. At 16:20 hours patron Y left the casino in a taxi. He returned six minutes later, by taxi with another bag of cash. He then bought-in for another \$300,000.00 with \$100,000.00 of the bills being \$20.00 bills.
Jul. 9, 2015	River Rock	Patron Z	\$400,000	\$400,000	At 2219 hrs patron Z was observed entering the casino from the Hotel with two other patrons, [name] and [name]. Patron Z carried a large black/white bag. He presented 10,000x\$20 bills for a total of \$200,000.00. At 2325 hrs patron Z and [name] returned to west tower, 7th floor room, and returned with another two bags that patron Z took to Salon cage and presented



DRAFT v2  
September 4, 2015

					10,000x\$20 bills for another total of \$200,000.00.
--	--	--	--	--	--

- The reports show that there is limited refusal of suspicious cash no matter how egregious the transaction may seem. Front line casino staff are trained to identify and file STRs but there is little evidence that transactions are being declined as a result of this assessment. There is also no indication that BCLC's customer due diligence program and direction to their service providers has succeeded in making a correlation of the number of STR's being filed to either sever the relationship or deny the cash transaction.
- Lower mainland gaming facilities experience a large population of well-funded Asian patrons who spend substantial amounts of cash while gambling. BCLC believes that these patrons deal in cash rather than cash alternatives due to superstition and cultural preferences and not money laundering. More importantly it is believed that in some cases, patrons are using cash to circumvent the flight of capital laws in their home countries. No matter what the reason, moving large sums of cash in and out of gaming facilities which is sourced from questionable means presents a significant concern to government and a public safety risk in and near the facility.
- Total casino revenue for the province in 2013/14 is \$1,371,991. Of that, revenue from lower mainland gaming facilities accounts for 78%.<sup>1</sup>
- Large and suspicious cash transaction reports are often the subject of Freedom of Information (FOI) requests and the resulting media and political scrutiny fosters sentiments that B.C. gaming facilities are vulnerable to money laundering. In FY2014/15, \$212 million was reported as SCT. Of that total, \$110 million was in twenty dollar denominations. In FY2015/16 to date (Sept 4, 2015 as of drafting), \$101 million was reported as SCT. Of that total, \$60 million was in twenty dollar denominations.

*Strategic external review of BCLC reporting of suspicious and large cash transactions*

- Given the serious nature of the information that GPEB auditors compiled from a one month period, GPEB's compliance division has recommended an immediate and thorough independent review of current gaming service provider and BCLC processes on customer due diligence specifically on source of funds and suspicious currency transactions.
- GPEB is recommending this for numerous reasons;
  - GPEB staff lack the required level of expertise required to provide adequate regulatory guidance in the areas of AML, financial standards and suspicious or unusual transactions. AML laws and processes change constantly and GPEB does not have dedicated and trained resources in this area;

<sup>1</sup> For 2013/14; taken from figures on Page 28, 2013-14 BCLC Annual Report found; <http://corporate.bclc.com/content/dam/bclc/corporate/documents/corporate-reports/BCLC-2013-14-Annual-Report.pdf>

DRAFT v2  
September 4, 2015

- A review performed by competent, objective reviewers independent of the B.C. gaming industry, will provide the perception of an unbiased review of the processes. The reviewer will also be able to provide guidance to GPEB and consequentially to BCLC on any impacts to revenues that a change in processes may cause;
- An independent review allows the government to be in front of an important issue that will likely see significant public exposure;
- Recommendations will be received to diminish the identified risks and improve overall customer due diligence; and
- Over time, these sound business practices will be accepted by patrons and enhance B.C.'s gaming reputation.

#### *Ministerial Directive to GM/BCLC*

- In line with the recommendation of the June 2, 2015 anti-money laundering workshop recommendations, GPEB is in the process of developing a Ministerial Directive that will enhance current initiatives and measures on AML. A two-part approach to the directive is being recommended.
- The first part requires a broad Ministerial directive establishing obligations that BCLC must carry out. This is followed by a detailed general manager directive on specific initiatives with a focus on establish source of funds and source of wealth.

#### *Consultation with the Department of Finance Canada*

- On July 4, 2015, the federal Department of Finance announced regulatory amendments to the Proceeds of Crime (Money Laundering) and Terrorist Financing Act. The Department of Finance consulted with a number of stakeholders; however, no gaming regulators were contacted.
- GPEB proactively contacted the federal Department of Finance to provide input on proposed regulatory amendments. Specifically, GPEB proposed amendments to require determining source of funds and source of wealth for inbound currencies in gaming facilities. GPEB and the federal Department of Finance plan to meet and discuss on or after October 19, 2015 to discuss the request in greater detail.

#### *GPEB's compliance division intelligence unit*

- GPEB's compliance division will continue their work on this issue, interacting with law enforcement and BCLC. This includes the implementation of GPEB's new intelligence unit which will collect and analyze data which will help to identify trends and prevent further incidents of suspected illegal activity from occurring. At the previously mentioned anti-money laundering workshop, *Exploring Common Ground – Building Solutions* both GPEB and BCLC agreed on an identified gap in enforcement. This gap is a lack of interdiction and enforcement presence at casinos particularly in the Lower Mainland. Approval needs to be granted from government for an assessment as to whether GPEB's role is to be increased or whether it is viable to examine the need and benefits of a

DRAFT v2

September 4, 2015

joint interdiction team with police similar to that of the Ontario Provincial Police (O.P.P.) and the Alcohol and Gaming Commission of Ontario (AGCO) in Ontario.

#### CONCLUSION & FUTURE DIRECTIONS

- The four recommendations made at the AML workshop, *Exploring Common Ground*, will continue to be pursued. However, when these recommendations were developed, GPEB was unaware of the true scope of what was occurring at lower mainland casinos and therefore additional actions should be taken to enhance the strategy.
- Above and beyond the four recommendations, GPEB has begun work on other enhancements;
  - GPEB's ADM August 7, 2015 letter requiring enhanced AML regime. GPEB intends to follow up this direction with a Ministerial Directive to further strengthen these enhancements;
  - Groundwork has begun on engaging an independent third party to conduct a review of current gaming service provider and BCLC; and
  - GPEB is participating in consultations with the federal Department of Finance to propose amendments to their regulations to require determining source of funds and source of wealth for inbound currencies in gaming facilities.
- GPEB's new intelligence unit within the compliance division will collect and analyze data which will help to identify trends and prevent further incidents of suspected illegal activity from occurring. Approval needs to be granted from government for an assessment as to whether GPEB's role is to be increased or whether it is viable to examine the need and benefits of a joint interdiction team with police similar to that of the Ontario Provincial Police (O.P.P.) and the Alcohol and Gaming Commission of Ontario (AGCO) in Ontario.