

**Ministry of Finance**  
**BRIEFING DOCUMENT**

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

**Date Requested: May 17, 2016**  
**Date Required: May 31, 2016**

**Initiated by:** John Mazure  
Assistant Deputy Minister  
Gaming Policy and Enforcement Branch

**Date Prepared: XXX**

**Ministry Contact:** John Mazure  
Assistance Deputy Minister  
Gaming Policy and Enforcement Branch

**Phone Number:** [REDACTED]  
**Date Prepared: XXX**  
**Cliff # XXXXXX**

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**TITLE:** Anti-Money Laundering Strategy (Phase 3 Initiatives)

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**PURPOSE:**

(X) FOR DECISION

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Executive Director approval: \_\_\_\_\_

ADM approval: \_\_\_\_\_

Associate DM approval: \_\_\_\_\_

**DATE PREPARED:** XXXXXXX

**TITLE:** Anti-Money Laundering Strategy (Phase 3 Initiatives)

**ISSUE:**

- Specific thresholds for patrons bringing unsourced cash into gaming facilities?

**BACKGROUND:**

- The Province and the British Columbia Lottery Corporation (BCLC) are now in Phase 3 of B.C.'s Anti-Money Laundering (AML) Strategy, originally launched in 2012.
- A foundation of the AML Strategy is establishing a source of funds when patrons bring large amounts of cash into a gaming facility. Source of funds can be established by a service provider requiring a patron to provide a receipt for a cash sale, financial or transactional statements, or a withdrawal slip from a financial institution.
- In April 2016, the province announced the formation of the new Joint Illegal Gaming Investigation Team (JIGIT). The joint team is a key part of Phase 3 of the
- AML Strategy. The team's mandate is to disrupt organized crime and gang involvement in illegal gaming and prevent criminals from using B.C. gaming facilities to legalize the proceeds of crime. JIGIT is expected to be operational late June. .
- An identified risk in service providers requiring patrons to provide proof of a source of funds is that legitimate funds may be diverted to illegal gaming houses. It is anticipated that JIGIT will help to disrupt the flow of cash from legal gaming facilities by closing down illegal gaming houses.
- Phases 1 and 2 of the AML Strategy focused on the development and implementation of cash alternatives. The intent of cash alternatives is to reduce the volume of cash in gaming facilities by providing patrons with alternatives, such as the use of debit cards at casino cash cages.
- In April 2016, BCLC submitted proposals for two new cash alternatives to the general manager of the Gaming Policy and Enforcement Branch (GPEB):
  - **Delimiting of convenience cheques**<sup>1</sup> - The maximum amount for a convenience cheque is \$10,000. BCLC is proposing to remove any limit.

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<sup>1</sup> Convenience cheques are issued to casino patrons by service providers as an alternative to cash when leaving a gaming facility. If the source of funds is not a verified win, they include the wording "Return of Funds – Not Game Winnings" on the front of the cheque.

- **International Electronic Fund Transfers (EFT)<sup>2</sup>** – Service providers currently accept EFTs from Canadian and U.S. banks only. BCLC would like to expand the use of EFTs to accept transfers from international banks.
- For the general manager to approve BCLC's cash alternative proposals, he must be confident that gaming facility service providers are establishing the source of funds prior to cash acceptance. If source of funds is not established, cash alternatives may undermine the AML Strategy.
- For example, if a patron is permitted to bring unsourced cash into a gaming facility and leave the facility with a convenience cheque, the gaming facility is legitimizing the unsourced cash (i.e. cash without a paper trail) and potentially assisting in the laundering of the proceeds of crime. Removing the limit on convenience cheques only exacerbates this problem.

#### DISCUSSION:

- Over the past year, the Province has repeatedly provided BCLC with direction that service providers must establish the source of funds prior to accepting cash:
  1. **In the 2016/17 mandate letter**, the Minister of Finance directed BCLC to provide a quarterly report on implementation of the government's AML Strategy, including "implementation of anti-money laundering compliance best practices with appropriate consideration of evaluating the source of wealth and source of funds prior to cash acceptance within a risk based framework."
  2. **January 2016 letter from GPEB's GM John Mazure to BCLC's President and CEO Jim Lightbody** included the expectation that "BCLC implement AML best practices with appropriate consideration of evaluating source of wealth and source of funds prior to cash acceptance."
  3. **October 2015 letter from the Minister to BCLC Board Chair Bud Smith** directed BCLC to take the following action in response to the prevalence of large and suspicious cash transactions: "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."
  4. **August 2015 letter from John Mazure to Jim Lightbody** asking BCLC to pursue specific activities related to enhancing the AML regime, including: "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..."

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<sup>2</sup> Patrons who have set up Patron Gaming Fund (PGF) accounts with a service provider may transfer funds from Canadian and U.S. banks to the service provider's account with a Tier 1 Canadian bank. The funds are then transferred to the patron's PGF account. The bank must comply with any Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) reporting requirements.

- In a September 2016 response to the August 2015 letter, Jim Lightbody advised that “in regard to source of wealth, source of funds, and suspicious transaction reports made to FINTRAC, I can confirm that all three of these elements, amongst many other factors, are integrated into BCLC’s risk assessment and on-going monitoring of individual customers”.
- Despite repeated direction from the Province to BCLC and BCLC’s September 2016 response, separate reviews conducted in 2015/16 indicate that gaming facilities continue to accept large amounts of unsourced cash.
- MNP LLP completed a 2015/16 review that included analysis of current practices in respect of source of funds, source of wealth, handling of cash, use of cash alternatives and overall CDD in gaming facilities compared to financial institutions. MNP’s analysis included observations made at the River Rock Casino.
- During their analysis, MNP observed that source of funds and/or source of wealth information is not gathered for high risk, high volume cash players. In addition, patrons who have not been placed on a watch list can buy in with unlimited cash until flagged for an interview by BCLC.
- MNP made a number of recommendations in their report, including:
  1. GPEB and BCLC should undertake a review of large cash transactions (transactions over \$10,000) to determine if a limit can be reasonably set for unsourced cash transactions.
  2. GPEB, at the direction of the Province, should consider issuing a directive pertaining to the rejection of funds where the source of cash cannot be determined or verified at specific thresholds. This would provide specific guidance for BCLC to create policies and procedures for compliance by all service providers.
- A report by GPEB’s Compliance Division showed that eight cash facilitators (i.e. loan sharks) banned from BCLC property were responsible for providing a total of \$6.7 million (70% in 20 dollar bills) to 25 patrons over 46 separate incidents in 2015. 79% of the cash was accepted at River Rock Casino with the remainder at Starlight and Edgewater Casinos. In each incident, the service provider was aware that the cash was provided to the patron by a banned cash facilitator prior to accepting the cash.
- Although BCLC eventually prohibited 13 of the 25 patrons from using unsourced cash and this significantly reduced the cash coming from known cash facilitators, unsourced cash was only refused if a BCLC prohibition was issued to the patron. Unsourced cash was not refused, even when the service provider was aware that the cash came from a known cash facilitator.
- The above reports indicate that service providers are not establishing the source of funds prior to cash acceptance, despite the Province providing general direction to

BCLC. As a result, it may be appropriate for the Province to provide specific expectations to BCLC concerning B.C. gaming facilities refusing unsourced cash.

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# Solicitor-Client Privilege

- Directives issues by the general manager or Minister must be published on GPEB's website for at least 12 months.

## OPTIONS:

**Option 1:** GPEB's general manager issues a directive to BCLC, requiring them to set a threshold (e.g. dollar limit or number of occurrences) for accepting unsourced cash from patrons.

## Implications:

- Will result in a loss of revenue for the service provider, the Province, and host local governments, at least in the short term.
- Will support the AML Strategy by reducing unsourced cash in gaming facilities.
- Will support the approval of BCLC's new cash alternative proposals.
- BCLC may take the position that the general manager does not have the authority to issue the directive.

**Option 2:** Option 1 preceded by the Minister issuing a directive requiring that BCLC follow any directive of GPEB's general manager with respect to the AML Strategy.

## Implications:

- Will result in a loss of revenue for the service provider, the Province and host local governments, at least in the short term.
- Will support the AML Strategy by reducing unsourced cash in gaming facilities.
- Will support the approval of BCLC's new cash alternative proposals.
- Will provide clear authority for the general manager's directive concerning source of cash.

**Option 3:** Status Quo - Neither the Minister nor the general manager issue a directive to BCLC concerning thresholds for source of cash.

**Implications:**

- Integrity of gaming impacted.
- Revenue will be maintained.
- Unsourced cash will continue to be accepted in gaming facilities, undermining the AML Strategy.
- If approved, BCLC's new cash alternative proposals may further undermine the AML Strategy.

**RECOMMENDATION:**

**Option 1:** GPEB's general manager issues a directive to BCLC, requiring them to set a threshold (e.g. dollar limit or number of occurrences) for accepting unsourced cash from patrons.

**APPROVED / NOT APPROVED**

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Honourable Michael de Jong, Q.C.  
Minister of Finance

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Date