

Ministry of Finance

BRIEFING DOCUMENT

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

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Initiated by: Cheryl Wenezenki-Yolland
Associate Deputy Minister

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Ministry

Contact: John Mazure
Assistant Deputy Minister
Gaming Policy and Enforcement Branch

Phone Number: [REDACTED]

Email: [REDACTED]

Jim Lightbody
President and CEO
British Columbia Lottery Corporation

353271

TITLE: 2016 MNP Report on Anti-Money Laundering Practices in Gaming
Facilities

PURPOSE:

(X) FOR INFORMATION

Executive Director approval: _____

ADM approval: __jm_____

Associate DM approval: _____

DATE PREPARED: Oct 5, 2016

TITLE: 2016 MNP Report on Anti-Money Laundering Practices in Gaming Facilities

ISSUE: Report Findings / Recommendations / Next Steps

BACKGROUND:

As a part of the Province's Anti-Money Laundering strategy, the Gaming Policy and Enforcement Branch (GPEB) reviewed copies of a number of suspicious transaction reports provided to it by BCLC and service providers and concluded that approximately \$13 million in \$20 bills were accepted by River Rock Casino Resort (RRCR) during July 2015. This represented a significant increase in the number of transactions reported over the previous months. Based on this review, GPEB engaged MNP to review the current practices regarding large volumes of unsourced cash being accepted at RRCR.

MNP was engaged by GPEB to analyze current practices at RRCR with respect to source of funds, source of wealth, handling of cash, use of cash alternatives and overall Customer Due Diligence (CDD) and identify immediate near-term actions to address any gaps. The report was intended to be a snapshot in time of one gaming facility and was not intended to be a full review of BCLC's AML program.

MNP's final report, dated July 26, 2016, was based on field work completed through January 22, 2016. The report findings and recommendations were based on information obtained through:

- 23 interviews with RRCR and BCLC staff,
- observations made at RRCR and BCLC,
- a review of data from September 1, 2013 to August 31, 2015 of reportable transactions or play records provided by BCLC.

MNP provided both GPEB and BCLC the opportunity to provide feedback on a penultimate draft of the report. The report was revised to reflect feedback provided as deemed appropriate by MNP.

BCLC has concerns about the accuracy of the data used in the analysis, and thus has concerns about some of the report's findings and recommendations. MNP worked from a customized data extraction provided by BCLC. Some of the data in the extraction MNP received was corrupted. In addition to data, MNP's findings were based on interviews and observations.

BCLC and GPEB, however, have agreed to move forward to address those findings where BCLC does not have such concerns. BCLC and GPEB will work together to better understand those areas where BCLC does have concerns and develop responses accordingly and as appropriate.

DISCUSSION:

Overall, the report found BCLC and staff at the River Rock Casino Resort were generally meeting reporting requirements under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)*. The report also found that BCLC's CDD processes meet Federal regulatory requirements for standard risk patrons.

In its report, MNP observes that there was an over-reporting of non-cash deposits to and from Patron Gaming Fund accounts as Large Cash Transactions (LCT) or Casino Disbursement Reports (CDR), and that some staff at RRCR had not been reporting transactions where there were indicators of suspicion to BCLC which led to an underreporting of suspicious transactions to FinTRAC. MNP notes that both circumstances are potential instances of non-compliance with the PCMLTFA. The over-reporting issue was a long standing issue and the subject of on-going discussions between FinTRAC and BCLC. It had not been identified as an issue in any previous FinTRAC or independent AML audits however FinTRAC provided written guidance in June 2016 and corrective action has since been taken. The under-reporting issue was identified by BCLC in November of 2015, immediately reported to FinTRAC by BCLC, and corrective actions have been taken to FinTRAC's satisfaction.

One of MNP's observations is the "inherent conflicts between the mandates of GPEB and BCLC and the Service Provider." MNP noted "a cultural difference regarding unsourced cash and the potential AML activity occurring within BC casinos which undermines collaboration and the sharing of ideas and information."

MNP made 30 distinct recommendations that can be categorized into four general themes:

1. **Risk** - MNP recommended that GPEB consider implementing a policy requirement that Service Providers refuse unsourced cash deposits exceeding an established dollar limit or refuse frequent unsourced cash deposits exceeding an established threshold and time period. GPEB should also continue to work with BCLC to support cash-alternatives for Service Providers and should work with BCLC to jointly evaluate the resourcing and functioning of existing investigative units.
2. **Training** - MNP made a number of recommendations related to BCLC training and suggested its training program for service providers would benefit from enhancements to remind service providers of the indicators of suspicious transactions and reporting requirements.
3. **Enhanced Due Diligence (EDD)** - MNP recommends that BCLC review EDD processes to ensure the data and information collected provide a clear picture of the risks and profile of the patron for risk assessment and mitigation.
4. **Technology and Monitoring** - MNP emphasized the need for BCLC to appropriately resource the SAS implementation project to improve the quality of the data used for ongoing risk assessment and compliance monitoring and reporting.

MNP recommends that BCLC augment the Enhanced Due Diligence, Risk Assessment and Training components of its anti-money laundering regime to go beyond the FinTRAC guidelines.

In June 2016, FinTRAC conducted a compliance examination of all aspects of BCLC's AML program. The review found that BCLC was in full compliance with federal AML legislation with one exception: BCLC's current training program for service providers required improvement because some service provider employees were not able to clearly articulate how money laundering risks in the industry directly related to their specific job functions.

CURRENT TRENDS:

Based on data from Suspicious Transaction reports, there has been a downward trend in the dollar value of suspicious transactions in B.C. gaming facilities. There was a monthly high of suspicious currency of more than \$23 million in July 2015, which has declined to between \$4.4 million and \$11.0 million between March 2016 and September 2016.

BCLC's AML program continues to focus on:

1. Limiting the use of unsourced funds for high-risk players;
2. Increased use of player gaming fund accounts; and
3. Implementing additional cash alternative options such as international wire transfers.

NEXT STEPS:

GPEB and BCLC have established an executive working group that will carefully consider the recommendations and work on next steps

APPENDIX A: DETAILED TABLE OF RECOMMENDATIONS:

The following table includes all of MNP's recommendations, broken down by the areas identified above and the organization that would be responsible for implementation.

Responsible organization	Section	Recommendation
Risk		
GPEB	4.2 5.69	Should consider implementing a policy requirement that Service Providers refuse unsourced cash deposits exceeding an established dollar threshold or to refuse frequent unsourced cash deposits exceeding an established threshold and time period until the source of the cash can be determined and validated.
	5.6	Define its accepted level of risk for unsourced cash and then develop clear roles and responsibilities for: GPEB – Regulator, Enforcement BCLC – Manage gaming and reporting entity Service Provider – Risk identification
	5.35 5.52 5.74	At the direction of the Minister responsible for gaming, consider issuing a directive pertaining to the rejection of funds where the source of cash cannot be determined or verified at specific thresholds. Source of funds can only be verified by obtaining documentation for the withdrawal of cash from a financial institution or entity covered under the PCMLTFA. A directive from GPEB may also support BCLC in creating a policy which would mandate the Service Provider to decline a transaction when mandatory occupation data is no provided by the patron.
	4.3 5.67 5.68	The review of proposed cash alternative solutions, including credit, and the impact of these solutions should remain a priority for both GPEB and BCLC. Cash alternatives allow Service Providers to receive funds, strengthening the overall compliance regime with minimal impact on revenue generation.
BCLC	5.56	Depending on GPEB / Minister's risk tolerance for large unsourced cash transactions, revise policies

		regarding tolerance of high risk play and consequences of unacceptable high risk activity
	4.8	Consider whether its risk assessment process adequately reflects current thinking around money laundering and terrorist financing risk. The risks associated to specific facilities should be evaluated, rather than simply drawing geographic boundaries for risk.
	5.48 5.49	Rather than base a facilities risk assessment by region, risk assessments should include factors specific to the facility. Consider if the risk register reflects the current environment as it is not as granular as other jurisdictions reviewed by MNP.
	5.70	Consider developing new cash alternative programs and products that include: the ability of non-Canadian players to fund PGF accounts and repay credit if subject to cash restrictions in their home country (i.e. China), and allocating how defaults on repayment will be determined (i.e. between BCLC and service provider.
Training		
BCLC	4.5	If GPEB implements a policy regarding the refusal of large or frequent unsourced cash deposits, BCLC's procedures to address the policy should include refresher training to Service Providers pertaining to BCLC's reporting requirements of attempted transactions to ensure reports are appropriately identified.
	4.11 5.47	Facility staff should be regularly trained on the completion of the forms used for reporting, including UFT reporting.
	4.12	Anti-money laundering training programs should be evaluated for up-to-date content and effectiveness.
	4.12 5.55	Training should be provided in the primary language of the candidate, particularly for its high risk exposed employees (those working in high-limit rooms).
	4.14	The KYP framework at RRRCR is a task-driven compliance activity rather than a risk management activity. Provide further guidance as the manager and responsible entity for AML regulatory obligations to enhance and enforce appropriate KYP measures.

	5.54	Additional training for employees in the VIP area focused specifically on suspicious indicators and required actions to improve independent thinking.
Enhanced Due Diligence (EDD)		
BCLC	4.7	Enhance the CDD processes from both a risk management and revenue generation perspective with modifications and additional resources to meet EDD expectations for high risk patrons.
	4.9 5.83	Review its EDD process to ensure the data collected and information gleaned provides a clear picture of the risks and profile of the patron for risk assessment and mitigation.
	5.15	EDD measures could be more qualitative, and a formal response to specified risk ratings could be created.
	5.16	Outsourcing the EDD process for higher risk patrons should be considered to clear the current backlog.
Technology and Monitoring		
BCLC	4.10 5.24 5.28 5.29	Prioritize and appropriately resource the ongoing SAS implementation project (schedule for roll out in fall of 2016) to improve the quality of the data used for ongoing risk assessment and compliance monitoring and reporting.
	4.11	Ensure that reporting forms used by the facilities are up to date and include valuable information fields for mandatory completion for unsourced or high volume cash transactions such as source of funds, source of wealth and purpose and intended nature of relationship information.
	4.13	MNP identified instances where non-cash transactions processed to RRRC's PGFs were over-reported to FINTRAC, and instances where mandatory fields in LCTRs were left blank. Both issues are contrary to the PCMLTFA and require remediation and disclosure to FINTRAC.
	5.27	Due diligence on large volumes of slot Cash Disbursement Reports (CDR) should be monitored for suspicious activity.
	5.36 5.32	Review all of the FINTRAC reporting (LCTR/CDR) for non-cash for all facilities which offer PGF accounts should be done immediately to stop unnecessary and incorrect reports.

	5.44	Create a template for Unusual Financial Transaction (UFT) reports for service providers to use to ensure that all required information is included and to create consistency in the quality of submissions between facilities.
Service Providers	5.4	VIP Hosts have the most significant interaction and knowledge of the VIPs and ability to flag instances of receipt and use of unsourced cash for suspicious transaction reporting. Consideration should be given to cross functional reporting lines to the Director, Table Games for a consistent approach to compliance across all table game points of access susceptible to the acceptance of unsourced cash.
	5.46	Floor staff should have more active involvement in the UFT reporting process. UFT reporting is currently carried out by surveillance staff who only have limited info based on video surveillance.
Other recommendations		
GPEB	5.19	Establish a dedicated, cooperative inter-agency AML investigations unit comprised of GPEB and BCLC investigators to delineate the roles between operational and AML investigations and regulatory compliance investigations.
BCLC	5.1	Operating levels for BCLC Investigators may need to be reviewed as the current staffing levels assigned to RRRCR do not appear to be sufficient
All	4.4	Jointly evaluate the resourcing and functioning of existing investigative units. Effective multi-agency units would promote the sharing of information and resources.