

**COMMISSION OF INQUIRY INTO MONEY LAUNDERING IN BRITISH COLUMBIA**

**The Honourable Mr. Austin F. Cullen, Commissioner**

**AFFIDAVIT**

I, Michael Graydon, businessperson, c/o 2400 – 745 Thurlow Street, of the City of Vancouver, in the Province of British Columbia, AFFIRM THAT:

1. I was the President and CEO of the British Columbia Lottery Corporation (“BCLC”) from April 2008 to January 2014, and as such I have personal knowledge of the facts and matters to which I depose, except for those identified as being based on information and belief, which I believe to be true.
2. I make this affidavit to provide evidence to the Commission pursuant to a summons issued to me under the *Public Inquiry Act*.

**My Professional History**

3. Before joining BCLC in April 2008, I served in a number of senior leadership roles at leading Canadian food, alcoholic beverages, service, and retail companies. These roles included: Executive Vice President of Marketing and Business Development at The Keg Restaurants (May 1990 – April 1998); Executive Vice President of Marketing and Retail Brands at food retailer Sobeys (May 1998 – April 2000); Executive Vice President and General Manager at food manufacturer JD Sweid Foods (May 2000 – May 2001); and President and CEO of retail buying

company Mega Group Inc. (June 2001 – March 2008). In each of these roles, my responsibilities included setting organizational objectives, developing policies and practices to meet those objectives, overseeing large numbers of employees, ensuring compliance in a highly regulated environment, and building and maintaining a strong and supportive organizational culture.

4. I joined BCLC as President and CEO in April 2008. As I will describe below, during my approximately six-year tenure with BCLC, I led the organization through a period of significant innovation, engagement, and responsible income growth in a highly competitive and heavily regulated environment.

#### BCLC

5. Gaming in British Columbia is authorized by the *Gaming Control Act* (the "**GCA**") and is a highly regulated industry. BCLC is the Crown corporation authorized by the *GCA* to conduct and manage gaming in British Columbia on behalf of BCLC's sole shareholder, the Government of British Columbia ("**Government**").
6. BCLC is overseen by a Board of Directors (the "**Board**") that is appointed by the Lieutenant Governor in Council and accountable to Government. The Board's primary responsibility is to ensure BCLC's long-term success within the parameters set by Government. The Board is led by a Board Chair who presides over Board meetings, coordinates the Board's activities, and liaises with Government and, in particular, the Minister responsible for gaming in the province.





7. BCLC's mandate is to generate revenue for the benefit of British Columbians in a manner consistent with the legal and regulatory framework in place. This dual mandate is reflected in, for example, Government's annual "Shareholder's Letter of Expectations" to BCLC, a letter of direction that reinforces the corporation's mandate, identifies strategic priorities, and outlines performance expectations for the coming year. For example, in the 2008 letter, the Shareholder expressly directs: "... the Corporation to ... [o]ptimize the Corporation's financial performance within the gaming and social policy framework established by the Shareholder". A copy of this letter is attached as **Exhibit "A"**.
  
8. As President and CEO, I was responsible for leading and managing BCLC's operations in accordance with the parameters set by the Board and Government, providing overall leadership and vision in developing the strategy and plans necessary to realize BCLC's objectives, and ensuring strategic and annual plans were effectively implemented and the results monitored and reported to the Board and to Government. I relied on my executive leadership team to carry out BCLC's strategic plan, as established by Government and developed by the Board and myself. I worked hard to identify and cultivate individual leaders and empower them as a team, with each of them responsible for specific aspects of BCLC's business and operations, including finance, operations, security and compliance, information technology, social responsibility, and human resources.
  
9. Thus, my role focused on high-level strategy and leadership, while other members of BCLC's experienced executive leadership team managed activity within their particular spheres of responsibility at a more operational level. These individuals



reported to me regularly to ensure I had a full picture of BCLC's business and operations, and we also met regularly as a team.

10. During my time as President and CEO, BCLC consistently delivered on its dual mandate. Each year, BCLC would undertake its own budget process to forecast revenue and expenses in the coming year in order to present a budget for review and approval by BCLC's Board. This budget would then be presented to Treasury Board, which would assess the province's funding needs and confirm or revise the revenue targets for BCLC based on those needs. Throughout my tenure, BCLC consistently met those targets, subject to minor variances in two years, and reported net income of over a billion dollars annually.
11. BCLC achieved this strong financial performance responsibly. It never let the realization of Government's financial targets come at the expense of its mandate to conduct and manage gaming in a socially responsible and legally compliant manner. In fact, BCLC viewed financial performance and legal compliance as complementary objectives. BCLC's ability to attract and retain patrons, as well as maintain its social licence to operate, depended on a safe, secure, crime-free gaming environment. Accordingly, BCLC — and I personally — were fully committed to meeting, if not exceeding, federal and provincial anti-money laundering (“**AML**”) regulations, including through the development and implementation of AML-specific compliance policies and programs to strengthen and enhance the AML measures already in place. That commitment was reflected in the significant time, attention, and resources BCLC devoted to its AML program.





12. In years where BCLC achieved the performance expectations set by Government, each member of BCLC's executive leadership team would receive a personal incentive payment in recognition of their efforts. The personal incentive payment payable depended on both BCLC's achievement of its corporate targets and personal contribution. Given BCLC's mandate to generate income for the public good, from time to time, I encouraged my executive leadership team to meet the financial targets set for the corporation, as well as consider new lines of business to ensure the continued and sustained growth of our business. I also wanted to remind my team that their efforts would not be for naught, as personal incentive payments were tied to achieving corporate and personal professional goals. I did not consider these reminders to detract from either of the two complementary components of BCLC's dual mandate. To the contrary, they served both.

### **BCLC's Relationships with Key Stakeholders**

13. As President and CEO of BCLC, I was also committed to building and maintaining strong relationships with key stakeholders. These stakeholders included Government; BCLC's regulator, the Gaming Policy and Enforcement Branch ("GPEB"); police; and service providers.

### ***BCLC's Relationship with Government***

14. During my time as President and CEO, BCLC's relationship with Government was very positive. We maintained open channels of communication and worked together collaboratively and effectively to achieve our shared objective of generating revenue responsibly for the benefit of British Columbians.



15. As described above, each year, Government and BCLC would sign a “Shareholder’s Letter of Expectations” setting out Government’s expectations of BCLC for the coming year. BCLC would then develop an Annual Service Plan designed to meet those expectations and submit this plan to Government. BCLC would carry out that plan and, at the end of the annual cycle, prepare and deliver to Government an Annual Service Plan Report and financial statements reporting on BCLC’s performance. Throughout my time as President and CEO, BCLC consistently met Government’s expectations.
  
16. Communications between BCLC and Government were not confined to these annual reporting exchanges. During my tenure, BCLC’s Board had two successive Chairs — John McLernon and Bud Smith, who took over this role in August 2013 — who each met from time to time with the Minister or Deputy Minister responsible for gaming. I attended some of these meetings but not all, and there were likely meetings of which I was not aware. When I was aware of such meetings, I would discuss certain issues with the Chair so he was prepared for discussions with the Minister or Deputy Minister. I would also typically receive a post-meeting summary from the Chair. To the best of my recollection, these discussions covered all aspects of BCLC’s business and operations. Both Chairs had strong relationships with their ministerial counterparts.
  
17. In addition, I had regular one-to-one communications with the Minister responsible for gaming. During my tenure, four successive individuals held this responsibility: John van Dongen, Rich Coleman, Shirley Bond, and Michael de Jong. My relationships with these individuals were very positive. Some sought regular





briefings on a quarterly basis, while others preferred more frequent briefings through their Deputy Minister and held less formal meetings with me when required. Some called me directly when needed. Through these discussions, I kept the Ministers informed of BCLC's ongoing and planned activities and sought their advice and support when needed.

18. I also communicated regularly with the Deputy Minister during my tenure. To the best of my recollection, Lori Wanamaker and Peter Milburn successively held this role during my tenure. (There may have been one other deputy minister during this period but I can no longer recall.) During Peter Milburn's tenure, I communicated with his Associate Deputy Minister, Cheryl Wenezenki-Yolland, as Mr. Milburn had a conflict of interest related to gaming. My relationships with Ms. Wanamaker and Ms. Wenezenki-Yolland were very positive, and we spoke on a regular (typically monthly) basis. Our discussions covered all aspects of BCLC's business and operations, including AML policies and practices. As with my discussions with Ministers, I kept the Deputy Ministers informed of BCLC's ongoing and planned activities and sought their advice and support when needed.
  
19. In my discussions with Government, whether it was the Minister, Deputy Minister, or Associate Deputy Minister, Government made clear that it expected BCLC to achieve the financial targets set by Government in a manner consistent with the legal and regulatory framework in place, including by managing the risk of money laundering. We took this message to heart.



***BCLC's Relationship with GPEB***

20. GPEB is responsible for ensuring the overall integrity of gaming and horse racing in the province and has regulatory oversight of BCLC.
  
21. During my tenure, BCLC and GPEB worked in close collaboration together, particularly on AML initiatives, and I was in regular contact with the Assistant Deputy Minister ("**ADM**") who served as the General Manager of GPEB at the time. The ADM role was held successively by Derek Sturko, Douglas Scott, and John Mazure. My relationships with these individuals were very positive. Our discussions focused on high-level strategic planning, including coordination of AML initiatives. BCLC and GPEB shared a common commitment to addressing the risk of money laundering in B.C. gaming facilities.
  
22. To strengthen the relationship between the two organizations, I recall working with the ADM of GPEB to create a Joint Executive Committee, which met quarterly during my tenure. I, along with those members of my executive leadership team whose portfolio was involved in a specific matter or topic to be discussed, generally attended the meeting. Similarly, the ADM generally attended along with any GPEB personnel with responsibility over the items on the agenda. BCLC used these meetings to inform GPEB of initiatives being considered or developed, so that GPEB could provide early-stage input and guidance. AML initiatives were often developed or refined through this collaborative process.
  
23. In addition, BCLC and GPEB collaborated through AML-specific working groups. For example, in 2012, BCLC, GPEB, and other stakeholders launched an Anti-





Money Laundering/Terrorist Financing Steering Committee composed of representatives from BCLC, GPEB, service providers, RCMP, Vancouver police, and the Civil Forfeiture Office. The purpose of this committee was to provide coordination, guidance, and advice to member organizations on AML and other policies, practices, and strategies aimed at protecting the integrity of gaming in the province. I received briefings on committee meetings from BCLC's representative, the Vice President of Corporate Security and Compliance.

24. In keeping with this collaborative approach, BCLC and GPEB maintained an open and constructive working relationship. To illustrate, in March 2013, GPEB sent BCLC a draft "Anti-Money Laundering in BC Gaming – Measuring Performance Progress" report and invited comments. Both Brad Desmarais, BCLC's Vice President of Corporate Security and Compliance, and I thought that the report contained statements that did not accurately reflect the circumstances at the time, and we asked GPEB to reconsider specific statements or characterizations, and in particular to avoid using speculative language or asserting conclusions that were not based in fact. GPEB ultimately incorporated a number of BCLC's suggestions in the final report, and provided thoughtful feedback where it did not.
25. While relationships between BCLC and GPEB's respective leadership teams were very positive, relationships between BCLC and GPEB's respective security/investigatory teams were less so. Later in this affidavit, I will describe this relationship in greater detail.

***BCLC's Relationship with Police***

26. During my time as President and CEO, BCLC's security and compliance division had strong relationships with police and worked cooperatively with them when significant issues arose requiring police involvement. In fact, many of BCLC's security and compliance staff were former police officers who maintained strong connections in the policing community. BCLC's Vice President of Corporate Security and Compliance, a position held successively by Terry Towns and Brad Desmarais, both former police officers, managed BCLC's interactions and relationship with police. I had very little interaction with police.

***BCLC's Relationship with Service Providers***

27. During my time as President and CEO, BCLC maintained a number of Operational Services Agreements with registered gaming service providers for services required in the conduct, management, or operation of provincial gaming. These service providers were required to adhere to BCLC's Standards, Policies and Procedures, BCLC's principal vehicle of operational direction to service providers. In addition, they were required to register with GPEB and adhere to the regulatory standards set by GPEB.
28. BCLC's relationships with service providers were very positive. Jim Lightbody, then-Vice President of Casino and Community Gaming at BCLC, managed most of the communications between BCLC and service providers. I spoke with CEOs of service providers either once a month or once every two months. These conversations covered a range of topics, including AML efforts. These



conversations reassured me that service providers were firmly committed to supporting and implementing AML initiatives, and working with BCLC in this regard. I do not recall any instances where BCLC received pushback from service providers on these initiatives.

**BCLC's AML Policies and Practices**

29. When I joined BCLC in 2008, AML was already a key priority, and it remained so throughout my approximately six-year tenure as President and CEO.
  
30. Although I was not personally involved in the day-to-day management of AML policies and practices, I entrusted this responsibility to individuals within the organization who had significant experience in this area. In particular, BCLC's Vice President of Corporate Security and Compliance had direct responsibility for overseeing and managing BCLC's AML policies and practices. I communicated regularly with Mr. Towns and later, Mr. Desmarais to ensure that they put in place concrete action plans for all AML initiatives and had the resources and other support necessary to execute those plans. I considered my working relationship with both men to have been both positive and effective.
  
31. BCLC's AML practices and policies were also subject to regular review by independent third parties. These external reviews consistently confirmed that BCLC's AML practices and policies were consistent with regulatory requirements and that the right "tone at the top" had been set at BCLC. For example, a March 2008 review by IPSA International, a November 2009 follow-up review by IPSA International, a 2011 review by Robert Kroeker commissioned by Government



(discussed further below), and a February 2012 review by Navigant Conseil LJ Inc. each concluded that BCLC's AML policies and practices were generally sound. BCLC also worked to improve these policies and practices, including performing regular internal reviews to ensure they continued to meet regulatory standards and Government expectations.

***Elimination of \$20 Bills***

32. I do not recall when but at some point during my time at BCLC, certain individuals within GPEB's investigatory team suggested that prohibiting the use of \$20 bills in B.C. casinos would address the risk of money laundering, and urged the elimination of \$20 bills. My understanding was that these individuals were concerned that \$20 bills were the preferred denomination of persons seeking to launder money obtained through other illegal activities such as drug trafficking. To my knowledge, however, GPEB did not issue a formal directive or position on the use or prohibition of \$20 bills.
  
33. I agreed that B.C. casinos should transition away from their historical reliance on cash, but I was concerned about the negative impact of a complete and sudden elimination of \$20 bills. Globally, casinos have long been a cash-intensive environment, with most players using cash to engage in gaming. I believe that at the time BCLC was established, Government required casinos be a cash-only environment. Given the prominent role that cash continued to play over many years, \$20 bills could not be eliminated overnight without severe negative financial impact to BCLC's business. In addition, I was concerned that eliminating \$20 bills





might exacerbate, rather than alleviate, concerns around illicit activity. In particular, I was concerned that it might cause some patrons to turn to the illegal gaming market, putting them in an unsafe, unregulated environment. A carefully considered, multi-faceted transition plan away from cash that had input and cooperation from engaged industry stakeholders, including financial institutions and regulators, was required.

### ***Cash Alternatives***

34. During my tenure, BCLC investigated various ways to decrease its reliance on cash. I was very supportive of finding cash alternatives during my time with BCLC. I believed that cash alternatives would provide for better tracing of funds used in gaming, decrease the risk of illicit funds entering BCLC's gaming facilities, and enhance player safety.
  
35. One such cash alternative was the Patron Gaming Fund ("**PGF**") account, which BCLC introduced in a number of B.C. casinos as a pilot program in 2009. These accounts allowed patrons to make electronic funds transfers from a recognized banking institution to a gaming account for use at B.C. gaming facilities, subject to strict controls. As GPEB described in its August 11, 2009 "approval-in-principle" letter, a well-designed and managed PGF account can "[p]rovide a valuable service to casino patrons while managing the related large cash transaction risk" and can "[b]e an integral part of anti money laundering diligence in BC casinos" (p. 1). A copy of this letter is attached as **Exhibit "B"**. The introduction of PGF



accounts is just one example of the measures implemented during my tenure to transition away from cash.

36. In addition, in furtherance of its commitment to meeting or exceeding federal and provincial AML standards, BCLC introduced and made investments in infrastructure, such as license plate recognition equipment, to facilitate the identification and tracking of individuals engaged in suspicious or illegal conduct.

***The Kroeker Report***

37. In January 2011, the Minister of Public Safety and Solicitor General ordered a high-level review of AML strategies at B.C. gaming facilities. The resulting February 2011 report (the "**Kroeker Report**") concluded that "BCLC and its operators ... employ[] standard and appropriate anti-money laundering strategies" (p. 2), and indeed that BCLC "has a robust anti-money laundering regime in place" (p. 15 [emphasis added]). The report elaborated on this conclusion:

This review was met with an approach on the part of BCLC that was open, helpful and straightforward. Those interviewed at BCLC were clearly focused on ensuring that gaming services were delivered in a manner that protected the integrity of gaming in the province. It was evident that BCLC understands its mandate in regard to the delivery and management of gaming. Moreover, BCLC is fully aware of its responsibility to make sure gaming is delivered in a manner that is compliant with anti-money laundering requirements and that appropriately balances gaming revenue objectives with strategies to minimize the risk of criminal activity at gaming facilities.

BCLC and its operators employ standard and appropriate anti-money laundering strategies. These measures include, among other things:

- mandatory training for all staff delivering gaming services;





- policies and procedures dealing with identifying and knowing a client;
- tracking all play that falls within reporting requirements;
- segregating and verifying gaming wins from the cash-out of funds brought into a gaming facility to buy-in;
- policies prohibiting customers from exchanging small denomination bills for large denomination bills;
- restricting the movement of gaming chips between players and gaming facilities;
- issuing cheques only in relation to verified gaming wins; and,
- reporting large or suspicious cash transactions. [Page 8.]

38. The report also set out four recommendations for BCLC to enhance its AML regime:

- (a) allow cash-outs to be paid by cheque, with cheques clearly indicating that the funds are not from game winnings;
- (b) enhance training and corporate policies to ensure gaming staff do not draw conclusions about the origin of funds based solely on a patron's identification and pattern of play;
- (c) cease viewing gaming losses as evidence that the patron is not involved in money laundering; and
- (d) transition from cash transactions to electronic funds transfers.

39. Led by Mr. Towns, BCLC implemented each of these recommendations, including, where appropriate, in collaboration with GPEB and service providers.



40. After the Kroeker Report was released, and continuing throughout my tenure, the annual Shareholder's Letter of Expectations from Government included an express direction to BCLC to enhance its compliance and enforcement policies and programs relating to AML measures. Led by Mr. Towns and subsequently Mr. Desmarais, BCLC implemented these directions throughout my tenure.
41. To the best of my recollection, sometime after the Kroeker Report was released, BCLC worked with GPEB to establish a multi-stakeholder AML steering committee as well as a working group to continue to address AML issues in a collaborative and coordinated way. BCLC also allocated additional resources, including an analyst, to further strengthen BCLC's AML regime. Mr. Towns took the lead role on these initiatives, and they were expanded under Mr. Desmarais' leadership.

***Relations Between BCLC and GPEB's Respective Security/Investigatory Teams***

42. As noted above, during my time as President and CEO, BCLC and GPEB maintained strong relationships at the leadership level. Relationships at the security/investigatory level, however, were fraught at times.
43. A December 2012 – January 2013 exchange between BCLC and GPEB is illustrative. On December 27, 2012, Joe Schalk, Senior Director of Investigations and Regional Operations at GPEB, sent a letter about "Suspicious Current Transactions/Money Laundering" at B.C. casinos to Bryon Hodgkin, Director of Operational Compliance at BCLC, with a copy to Larry Vander Graaf, then-Executive Director of GPEB. A copy of this letter is attached as **Exhibit "C"**.





44. Mr. Hodgkin brought this letter to my attention. When I read it, I was both surprised and concerned for a number of reasons. First, its accusatory tone was not characteristic of the relationship of mutual respect and cooperation that BCLC and GPEB had established. Moreover, Mr. Schalk's implication that BCLC was not doing enough to address the risk of money laundering was inconsistent with BCLC's significant AML efforts, the external reviews discussed above that validated those efforts, and my own discussions with Douglas Scott, the ADM at the time, that led me to understand that GPEB considered BCLC to be taking appropriate steps to address the risk of money laundering. Second, while BCLC had been sending an increasing number of Suspicious Transaction Reports ("**STRs**") to FINTRAC in recent years, this did not necessarily indicate an increase in money laundering. A *suspicious* transaction is not necessarily an *illicit* one. The increase in STRs was attributable at least in part to regulatory changes that expanded the reporting requirement and to the provision of additional training on submitting STRs. Third, I considered it inappropriate and offensive to the Asian community for Mr. Schalk to assert, without presenting any evidence, that "Asian gamblers" using proceeds of crime supplied by "loan sharks" were responsible for most of the increase. Mr. Schalk also made a number of other assertions that appeared to be based on personal belief and not supported by facts.
45. In response to this letter, on January 7, 2013, I sent an email to Mr. Scott setting out my concerns. I then called him later that day. He stated that he was extremely disappointed by the letter and was shocked by its inaccuracies and assumptions. He did not even know why it was sent. He was very apologetic.

A handwritten signature in blue ink, appearing to be the initials 'MS' or similar, located in the bottom right corner of the page.

46. On January 18, 2013, I received a reply email from Mr. Scott. He noted that he had discussed the matter with Mr. Vander Graaf and stated: "I regret this communication from our office". He acknowledged that "the AML issue is a joint responsibility" and confirmed that "BCLC has undertaken everything that we have asked and agreed to as part of the comprehensive AML strategy" (emphasis added). A copy of this email exchange is attached as **Exhibit "D"**.
47. Mr. Schalk's letter is an example of the tension between BCLC and GPEB's respective security/investigatory teams. I believe a number of factors contributed to these tensions. First, personal conflicts between a handful of individuals created friction. I do not have a complete understanding of why or how those personal conflicts arose. Second, BCLC and GPEB security/investigatory personnel sometimes butted heads as a result of differences in each group's scope of authority. As described in the Kroeker Report (see p. 10), BCLC had authority to observe activity in B.C. gaming facilities and to report any suspicious activity to the appropriate authorities; it did not have authority to investigate or make findings on whether any particular incident involved money laundering. GPEB, by contrast, had investigatory authority. Third, GPEB investigators sometimes appeared to assume that any increase in the number of large or suspicious transactions necessarily indicated that money laundering was on the rise in casinos, while BCLC thought it advisable not to draw such conclusions without there having been an appropriate investigation into the facts by the appropriate regulatory or law enforcement agency.

A handwritten signature in blue ink, consisting of a stylized 'M' followed by a vertical line and a horizontal stroke at the bottom.



48. I worked with GPEB's successive ADMs to resolve these differences between BCLC and GPEB's respective security/investigatory teams, but they were deep-rooted, and I believe attributable, at least in part, to the GPEB investigators' desire to remain independent. These differences did not, however, materially impact each team's ability to perform their respective functions; it just meant that they did so in parallel, rather than in collaboration. From my perspective, GPEB investigators appeared to have a strong sense of independence.

**Betting Limit Increase at High-Limit Tables**

49. In mid-September 2013, BCLC submitted to GPEB a series of proposed changes to BCLC's gaming policies. One of these proposals was to incrementally increase the table bet limit (i.e., the maximum bet a player can make on a single game at a gaming table) at high-limit tables from \$90,000 to \$100,000. BCLC had been considering this proposal for several months at the suggestion of service providers who wanted to develop British Columbia as a destination for gaming tourism and believed that increasing the table betting limit at high-limit tables would help attract international players who were accustomed to higher betting limits in gaming destinations such as Las Vegas, Macau, and Singapore. After months of internal consideration and research involving a collaborative effort between BCLC's casino and finance divisions led by Mr. Lightbody, then-Vice President of Casino and Community Gaming, BCLC determined that this was a viable opportunity to pursue and could be undertaken in a safe and responsible manner, having regard to money laundering and other regulatory considerations. Accordingly, Mr. Lightbody brought forward a proposal to our Board, which was approved.



50. As a general rule, BCLC shared its proposed changes to gaming with GPEB, whether or not BCLC was legally required to do so. BCLC adopted this general practice to foster the open, cooperative relationship with GPEB I described above. Accordingly, after BCLC's Board approved the proposed increased, Mr. Lightbody sent the proposal to GPEB in mid-September 2013, but several months passed without any comments from GPEB. I was concerned by this delay, as we hoped to implement the proposed change before Chinese New Year, which was traditionally one of the busiest — if not the busiest — time of the year for casinos, so we proceeded to seek and secure ministerial approval in December 2013. I cannot recall GPEB expressing any specific views or concerns about this change after BCLC received Ministerial approval.
51. BCLC did not make the proposal to increase betting limits incrementally at high-limit tables lightly. In particular, we considered the impact that this incremental change might have on money laundering and other suspicious activity and believed that these risks could be and were already being appropriately managed, particularly because high-limit tables, generally patronized by a small group of patrons known to the service provider, were already subject to strict AML controls, and BCLC maintained those strict controls following the incremental increase.

### **My Subsequent Professional History**

52. I left BCLC in January 2014 to become President of PV Hospitality ULC (now known as Parq Vancouver ("**Parq**")). At the time, PV Hospitality ULC was a partnership between affiliates of Paragon Gaming Inc. ("**Paragon**") and 360 VOX





Corporation. Paragon operated the Edgewater Casino, which was eventually to be operated from the Parq site following its development.

53. As President, I was responsible for overseeing the development of a new world-class urban resort comprising hotel properties, a conference centre, gaming facilities, restaurants, a fitness centre, a spa, and other facilities adjacent to BC Place.
54. In my first year, my role focused on implementing a strategic business plan to finance and develop the resort and did not involve any work on gaming issues. In fact, as I was not a registered gaming worker at the time, I was careful to recuse myself from all gaming-related discussions, whether related to Edgewater's casino operations or to the design or space-planning efforts for the new gaming facility at Parq. In 2015, however, I applied and was approved by GPEB to work in the industry again, as the development of the resort was moving into a more detailed design phase and I needed to have oversight of the design and plans for the gaming facility at the resort.
55. It was only after GPEB confirmed my gaming registration that I engaged in any communications with BCLC on gaming-related matters on behalf of Parq. Attached as **Exhibit "E"** is an email chain from September 2015 between Ross Alderson (then-Director of AML and Operational Analysis at BCLC), myself, and Brad Desmarais. While it had been some time since my departure from BCLC, I had a good relationship with Mr. Desmarais; in BCLC's continuing efforts to address the risk of money laundering, I had hired Mr. Desmarais in February 2013 to serve as



BCLC's Vice President of Corporate Security and Compliance, following Mr. Towns' departure. I believed at the time that Mr. Desmarais' extensive background in policing would be an asset to BCLC, and in the year that I worked with him, he proved himself to be an excellent leader who continued to strengthen BCLC's efforts to address the risk of money laundering and other illicit activity.

56. In this email chain, I wanted to express my support on behalf of Parq for BCLC's efforts in relation to certain conditions being placed on a small number of casino patrons. I also wanted to reinforce the importance of BCLC's continuing work in finding cash alternatives since it had been my experience that restricting patrons' ability to play not only had the potential to impact a casino's revenue, but also heightened the risk of increased illegal gaming activity. At the time I sent this email, Parq was still under development, and was envisioned to be an entertainment destination for local and international tourism so we wanted to support and encourage all efforts to introduce cash alternatives to allow responsible gaming for the benefit of all parties in the gaming industry as quickly as possible, and in any case, in time for when Parq was operational.
57. I left Parq in September 2016 to become CEO of Food, Health and Consumer Products of Canada, the Toronto-based industry association for leading food, beverage and consumer products manufacturers, and service providers in Canada. I remain in this role today.
58. I am affirming this affidavit using video technology, outside the commissioner's physical presence, in accordance with the process outlined in the Supreme Court





of British Columbia's March 27, 2020 Notice to the Profession, the Public and the Media entitled "Affidavits for Use in Court Proceedings" (COVID-19 Notice No. 2).

AFFIRMED BEFORE ME at the City of )  
Vancouver, in the Province of British )  
Columbia, this 8 day of February, 2021. )

The deponent was not physically present before me because it is medically unsafe to meet him in person due to COVID-19 but was linked with me using video technology. I followed the process described in the Supreme Court of British Columbia's March 27, 2020 Notice to the Profession, the Public and the Media entitled "Affidavits for Use in Court Proceedings" (COVID-19 Notice No. 2) and complied with the Law Society of British Columbia's best practices for using videoconferencing when providing legal advice or services.

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Commissioner for Taking Affidavits for  
British Columbia

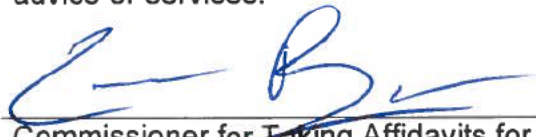
  
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**Michael Graydon**



of British Columbia's March 27, 2020 Notice to the Profession, the Public and the Media entitled "Affidavits for Use in Court Proceedings" (COVID-19 Notice No. 2).

AFFIRMED BEFORE ME at the City of )  
Vancouver, in the Province of British )  
Columbia, this 23<sup>rd</sup> day of February, 2021. )

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Commissioner for Taking Affidavits for )  
British Columbia )

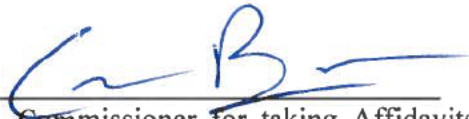
Michael Graydon

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CB



This is **Exhibit "A"** of the Affidavit of **MICHAEL GRAYDON**, sworn before me this 8th day of February, 2021.

A handwritten signature in blue ink, appearing to read 'C. Bildfell', written over a horizontal line.

A Commissioner for taking Affidavits for British Columbia

*Signed electronically over videoconference on February 8, 2021 during the COVID-19 pandemic*

CONNOR BILDFELL  
Barrister & Solicitor  
McCarthy Tétrault LLP  
SUITE 2400 - 745 THURLOW STREET  
VANCOUVER, B.C. V6E 0C5  
DIRECT 604-643-5877



The Best Place on Earth

## **SHAREHOLDER'S LETTER OF EXPECTATIONS**

**BETWEEN**

**THE MINISTER OF PUBLIC SAFETY AND SOLICITOR GENERAL  
(AS REPRESENTATIVE OF THE SHAREHOLDER,  
THE GOVERNMENT OF BRITISH COLUMBIA)**

**AND**

**THE CHAIR OF THE BRITISH COLUMBIA LOTTERY CORPORATION  
(AS REPRESENTATIVE OF THE CORPORATION)**

### **PURPOSE**

This Shareholder's Letter of Expectations between the Shareholder and the Corporation is an agreement on the respective roles and responsibilities of each, and serves as the basis of agreement between the Shareholder and the Corporation on corporate mandate including high-level performance expectations, public policy issues and strategic priorities<sup>1</sup>. It will be reviewed annually and updated as required. The Shareholder's Letter of Expectations is the basis for the development of the Corporation's Service Plans and Annual Service Plan Reports. The Letter applies to the Shareholder and the Corporation. This Letter does not create any legal or binding obligations on the part of the Shareholder or the Corporation but rather is intended to define and promote a positive and co-operative working relationship.

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<sup>1</sup> The Province of British Columbia's Crown Agency Accountability System (CAAS) ([http://www.gov.bc.ca/cas/download/shareholder's\\_expectations\\_manual\\_\(version%208\)\\_june\\_2\\_06.pdf](http://www.gov.bc.ca/cas/download/shareholder's_expectations_manual_(version%208)_june_2_06.pdf)) establishes guiding principles for the governance of Crown corporations. The CAAS also identifies roles and responsibilities for the Shareholder and Crown corporations, and provides for a Shareholder's Letter of Expectations (Letter) to be jointly developed.



## CORPORATION ACCOUNTABILITIES

Government has provided the following mandate direction to British Columbia Lottery Corporation:

Government is committed to maintaining BCLC's mandate as defined under the *Gaming Control Act* for the conduct, management and operation of most commercial gaming in the Province of BC on behalf of government. Specifically, BCLC's mandate includes the responsibility to:

- Conduct, manage and operate lottery gaming;
- Conduct, manage and operate casino gaming;
- Conduct, manage and operate commercial bingo gaming and
- Conduct, manage and operate e-gaming.

In responding to government's performance expectations and the general and specific frameworks and direction of the Shareholder, the Corporation will:

- Conduct its affairs to achieve its mandate and the performance expectations and objectives of the Shareholder, including establishing and implementing corporate strategies, policies, programs, plans and financial outcomes that are consistent with the Shareholder's general direction and consistent with principles of efficiency, effectiveness, consumer choice and customer service;
- Prepare Service Plans with clearly articulated goals, objectives, strategies and performance measures and targets, and Annual Reports that detail progress toward achieving those goals, and post both documents on its website;
- Display all annual Statement of Financial Information schedules prepared under the *Financial Information Act* in an easily accessible location on its website (some of this information is included in annual reports and does not need to be otherwise displayed);
- Conduct its operations and financial activities in a manner consistent with the legislative, regulatory and policy framework established by the Shareholder;
- Develop and implement strategies to manage risks identified in the Service Plan as well as ongoing risks;
- Comply with the Shareholder's requirements to make the public sector carbon neutral by 2010, including: accurately defining, measuring, reporting on and verifying the greenhouse gas emissions from BCLC's operations; implementing aggressive measures to reduce those emissions and reporting on these reduction measures and reduction plans; and offsetting any remaining emissions through investments in the Pacific Carbon Trust, which will invest in greenhouse gas reduction projects outside of BCLC's scope of operations;
- Encourage staff involvement in developing ideas and new solutions to meet government's climate change objectives, including energy conservation programs and fleet and traffic management initiatives, and report on results achieved;
- Provide the Shareholder with reports and other information that would enable the Shareholder to carry out its responsibilities; and
- Provide information to the Shareholder immediately if the Corporation is unable to meet the targets identified in its Service Plan.

In addition, the Shareholder directs the Corporation to take the following specific actions:

- Optimize the Corporation's financial performance within the gaming and social policy framework established by the Shareholder;
- Improve the performance of casino, bingo, lottery and e-gaming through products and approaches in response to customer and marketplace demand, consistent with the Corporation's mandate;
- Ensure the Corporation's products and services are provided in a socially responsible manner and strengthen the Corporation's activities related to its social objectives in a manner that is consistent with the Province's Responsible Gambling Strategy and the Corporation's responsibilities reflected in that Strategy;
- Implement the recommendations made by the provincial Ombudsman in May, 2007 related to the Corporation;
- Implement recommendations made by Deloitte in their independent audit of lottery operations in BC undertaken in 2007 as directed by the Shareholder;
- Notify the Shareholder of BCLC's resolution of any significant issues related to the implementation of recommendations of either the Ombudsman or Deloitte;
- Build public and key stakeholder trust/support, by continuously improving the quality of service to customers and relationships with service providers;
- Comply with the policy directives that may be issued from time to time by the Minister Responsible for the *Gaming Control Act* and with policies, directives and standards that may be issued from time to time by the regulatory agency (the Gaming Policy and Enforcement Branch) established under the *Gaming Control Act*;
- Operate the business of BCLC in an efficient and effective manner for the benefit of its customers and the Shareholder;
- Inform the Shareholder on a regular basis of any major changes occurring or likely to occur that may impact on BCLC's achievement of its Service Plan targets either negatively or positively; and
- Present a Strategic Plan for BCLC's Conduct and Management of Gaming to the Shareholder.

## SHAREHOLDER'S RESPONSIBILITIES

The Shareholder is responsible for the legislative, regulatory and public policy framework in which Crown corporations operate. In order to meet these responsibilities and support achievement of government's performance expectations, the Shareholder will:

- Establish, review, revise and communicate Crown corporations' mandates;
- Establish the overall and Crown-specific financial frameworks under which Crown corporations operate (borrowing, investment, and payment to the Shareholder);
- Issue performance management guidelines, including guidelines for service planning and annual reports (<http://www.gov.bc.ca/cas/rpts/>);
- Provide strategic input and advice to Crown corporations in the development of their Service Plans and Annual Reports;
- Provide broad policy direction and confirmation of general frameworks/principles to Crown corporations, within which the Crown corporations may establish and apply specific policies/processes;



- Advise Crown corporations of government's priorities, strategic decisions and public policy and performance objectives and expectations that may impact the Crown corporations; and
- Issue directives or orders or sponsor submissions on behalf of Crown corporations that may be required to seek decisions or policy direction by the Executive Council or its committees, in order to facilitate Crown corporations fulfilling their mandates and achieving the performance targets outlined in Crown corporations' Service Plans.

The Shareholder has developed policies for ministries and Crown corporations for Capital Asset Management (<http://www.fin.gov.bc.ca/tbs/camf.htm>) and Board remuneration policies for Crown agencies. The shareholder has also issued Best Practice Guidelines for board governance and disclosure (<http://www.fin.gov.bc.ca/ooop/brdo/corporateguidelines.pdf>). During the term of this Letter, the Shareholder may provide policy direction to the Crown agency sector, and will communicate any such direction, including implementation expectations, to Crown corporations as decisions are made.

The Shareholder will also, on a continuing basis, monitor the achievement of the goals, objectives and targets identified in Crown corporations' Service Plans.

Specific to the Corporation, the Shareholder:

- Continues the Corporation as an agent of the Shareholder under the *Gaming Control Act*, which establishes its mandate, structure, financial framework and legislated responsibilities and accountabilities;
- Preserves the right to provide broad policy direction on gaming and has empowered the Corporation to implement policies and procedures that allow it to operate in a business-like manner within the legislative and policy structure for gaming that has been established by the Shareholder;
- Has established the Gaming Policy and Enforcement Branch (GPEB) as the agency of the government responsible for the overall integrity of gaming and horseracing in the province,
- Has established GPEB to undertake policy, registration, audit, investigation and other functions to ensure that the integrity of gaming is maintained, while also ensuring that, within that regulatory and policy framework, BCLC is able to implement its mandate;
- Has directed the Corporation and GPEB to implement the Ombudsman's recommendations;
- Will expect full implementation of any recommendations made by Deloitte which the Shareholder accepts and directs GPEB and/or BCLC to implement in a manner that allows each organization to successfully deliver its respective mandate;
- Has established policy and funding mechanisms to address problem gambling and ensure gaming is provided in a responsible manner, and will provide to BCLC government's plan for responsible gaming to inform BCLC's activities in this area;
- Support the Shareholder's ActNow BC initiative by implementing practices which promote a healthier lifestyle, physical activity, and healthy food choices;
- Has established mechanisms to manage government's proceeds from gaming; and
- Confirms the role of the Minister of Finance as fiscal agent to the Corporation, providing the Corporation with access to government financing and banking services.

## **AREAS OF SHARED ACCOUNTABILITY:**

### **Communications**

It is agreed by both the Shareholder and the Corporation that, to ensure effective and efficient day-to-day communications and relationship building, officials representing both parties will be tasked with implementing the contents of this Letter and keeping the Minister Responsible and the Board of Directors informed of progress in a timely fashion.

### **Reporting**

The Shareholder and the Corporation are committed to enhanced transparency and accountability to the public. The Shareholder has put in place a public reporting structure set out in the *Budget Transparency and Accountability Act*, the *Financial Administration Act*, and the *Financial Information Act*. The Shareholder has provided the Corporation with a reporting calendar which sets out financial and performance reporting requirements (<http://www.gov.bc.ca/cas>). The Corporation agrees that it will meet these financial and performance reporting requirements. If government determines that changes to the reporting requirements are necessary, the Shareholder will communicate these to the Corporation.

It is agreed by both the Shareholder and the Corporation that there will be advance discussion and review of key strategic documents such as Service Plans, Quarterly Financial Reports and Annual Reports. These discussions will be completed sufficiently in advance of deadlines to ensure effective and timely input by the Shareholder.

In addition to these financial and performance reporting requirements, the Corporation agrees to provide information to the Shareholder related to risks and opportunities anticipated in achieving financial forecasts.


The Shareholder and the Corporation agree that, as a matter of course, each will advise the other in a timely manner of any issues that may materially impact the business of the Corporation or the interests of the Shareholder.

It is agreed that the Corporation will post the most recent signed copy of the Shareholder Letter of Expectations on its website. Crown Agencies Secretariat will also post a signed copy of the Letter on its website.

### **Review and Revision of this Letter**

The Minister of Public Safety and Solicitor General is accountable for undertaking reviews of this Letter and monitoring its implementation. The Crown Agencies Secretariat is responsible for co-ordinating the overall process for preparing Shareholder's Letters of Expectation, and may assist in undertaking reviews of this Letter and monitoring its implementation. If deemed necessary by either party, the Shareholder and the Corporation will discuss any issues and may agree to amend this letter.

  
Honourable John van Dongen  
Minister of Public Safety and Solicitor General

  
John R. McLernon  
Chair of the Board  
British Columbia Lottery Corporation

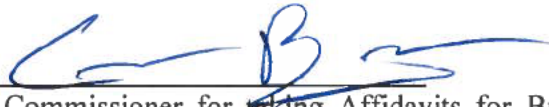
May 14, 2008  
Date

April 8 2008  
Date

- cc. Honourable Gordon Campbell  
Premier
- Jessica McDonald  
Deputy Minister to the Premier and Cabinet Secretary
- Chris Trumpy  
Deputy Minister and Secretary to Treasury Board  
Ministry of Finance
- Molly Harrington  
Assistant Deputy Minister and  
Chief Executive Officer  
Crown Agencies Secretariat
- David Morhart  
Deputy Minister  
Ministry of Public Safety and Solicitor General
- Michael Graydon  
President and Chief Executive Officer  
British Columbia Lottery Corporation
- Derek Sturko  
Assistant Deputy Minister  
Gaming Policy and Enforcement Branch



This is **Exhibit "B"** of the Affidavit of **MICHAEL GRAYDON**, sworn before me this 8th day of February, 2021.

A handwritten signature in blue ink, appearing to read 'C. Bildfell', written over a horizontal line.

A Commissioner for taking Affidavits for British Columbia

*Signed electronically over videoconference on February 8, 2021 during the COVID-19 pandemic*

CONNOR BILDFELL  
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McCarthy Tétrault LLP  
SUITE 2400 - 745 THURLOW STREET  
VANCOUVER, B.C. V6E 0C5  
DIRECT 604-643-5877

---

**From:** Fair, Susan P HSD:EX on behalf of Sturko, Derek HSD:EX  
**Sent:** Tuesday, August 11, 2009 3:08 PM  
**To:** XT:Graydon, Micheal CAsE:IN  
**Cc:** McCrea, Bill J HSD:EX  
**Subject:** Letter from Gaming

The attached letter is sent on behalf of Derek Sturko, Assistant Deputy Minister, Gaming Policy and Enforcement.



*Susan*

Susan Fair  
Executive Administrative Assistant  
Gaming Policy and Enforcement  
Ministry of Housing and Social Development

PERSONAL INFORMATION

**Know your limit, play within it.**



*Know your limit, play within it.*

August 11, 2009

Log # 153916

Mr. Michael Graydon  
President and CEO  
BC Lottery Corporation  
19760 Shellbridge Way  
Richmond BC V6X 3H1

Dear Mr. Graydon:

I am writing to confirm and formalize our August 7, 2009 discussion concerning the notion of BCLC's development of a restricted Patron Gaming Fund (PGF) account in BC casinos.

On behalf of the Province, I am pleased to provide an approval-in-principle for the concept of a restricted PGF account and a pilot project (to be jointly administered by BCLC and GPE) in a number of BC casinos to assess the viability of such accounts for permanent introduction in BC.

As discussed, the account will be limited to accepting only electronic funds transfer (EFT) deposits from bona fide financial institutions, with strict controls of funds that can be re-deposited into the account and a fully defined verified win requirement.

As part of the development of the pilot project, BCLC will draft, for discussion with and approval by GPE:

- The detailed design of the program (which must include, but is not necessarily limited to: EFT deposit and withdrawal; 'Know Your Client' diligence; managing and confirming verified wins; employee training; and, record keeping); and
- The processes and procedures to be employed by BCLC and casino service providers to ensure the secure management of these accounts.

GPE will include an audit of the pilot program in future audit plans.

It is GPE's belief that a well designed and managed PGF account can:

- Provide a valuable service to casino patrons while managing the related large cash transaction risk; and
- Be an integral part of anti money laundering diligence in BC casinos.

/2



However, as we have also discussed, GPE and BCLC will continue to work together to ensure ongoing development of management solutions for the larger money laundering risk in gaming.

Bill McCrea, Executive Director, Internal Compliance and Risk Management, will serve as GPE's lead on this work.

I look forward to receiving the draft PGF account program design for our review.


Sincerely,

A handwritten signature in black ink, appearing to read 'D Sturko', with a stylized flourish at the end.

Derek Sturko  
Assistant Deputy Minister

pc: Bill McCrea

This is **Exhibit "C"** of the Affidavit of **MICHAEL GRAYDON**, sworn before me this 8th day of February, 2021.



A Commissioner for taking Affidavits for British Columbia

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McCarthy Tétrault LLP  
SUITE 2400 - 745 THURLOW STREET  
VANCOUVER, B.C. V6E 0C5  
DIRECT 604-643-5877



CONFIDENTIAL

27 December, 2012

Bryon Hodgkin  
Director, Operational Compliance  
Corporate Security and Compliance  
British Columbia Lottery Corporation  
2940 – Virtual Way  
Vancouver, B.C. V5M 0A6

Dear Bryon:

**Re: Suspicious Currency Transactions/Money Laundering –  
British Columbia Casinos**

This memorandum is further to previous correspondence between Investigations and Regional Operations Division, Gaming Policy and Enforcement Branch and Mr. Gordon Friesen, that commenced on 24 November, 2010. It should be noted that since 2007/2008 the incidents of reported Suspicious Currency Transactions (SCT) have been increasing yearly at an alarming rate.

In late 2011, GPEB's Investigations and Regional Operations Division conducted a review of SCT reporting for the period between **1 September, 2010** and **31 August, 2011**. The following results were found:

**Total SCT files: 543**  
**Total dollar amount: \$39,572,313.74**

Top Three Venues:

**River Rock Casino: 213 files**  
**Total dollar amount: \$21,703,215.00**  
**Starlight Casino: 140 files**  
**Total dollar amount: \$13,540,757.00**  
**Grand Villa Casino: 103 files**  
**Total dollar amount: \$2,815,470.00**

- Eighty (80) different patrons bought in for over \$100,000 on at least one occasion.
- The top five patrons had suspicious currency buy-ins with a combined total of \$10,408,210.00
- The top individual patron had suspicious currency buy-ins totaling \$5,855,760.00
- The vast majority of all the suspicious currency buy-ins was in \$20 dollar denominations.

Ministry of  
Energy and Mines

Gaming Policy and  
Enforcement Branch  
Investigations and Regional  
Operations

Address:  
Lower Mainland Regional Office  
408 – 4603 Kingsway Avenue  
Burnaby BC V5H 4M4

PERSONAL INFORMATION

Web: [www.pssg.gov.bc.ca/gaming](http://www.pssg.gov.bc.ca/gaming)

BCLC0015770



It has become abundantly clear that most of these patrons are of Asian descent and are using large amounts of suspicious currency supplied by loan sharks, often operating in the vicinity of the casinos. It is known that these Asian gamblers are using suspicious currency obtained from loan sharks who we believe are obtaining the proceeds of crime from organized crime subjects or groups.

In 2011, the Minister responsible for Gaming in British Columbia commissioned Robert Kroeker to conduct a review and author a report on anti-money laundering measures in British Columbia gaming facilities. The review was also "to identify any opportunities to strengthen the existing anti-money laundering regime." The first paragraph of the Summary Review authored by Kroeker stated:

"In January 2011, a series of news reports ran on cash transactions occurring at gaming facilities in British Columbia. The media stories focused on a number of large cash transactions involving small denomination Canadian currency, typically \$20.00 bills, which occurred over the summer of 2010. In the course of these reports the media raised questions about how well gaming in the province was protected from money laundering."

Mr. Kroeker's report made several recommendations regarding suspicious currency transactions in casinos, including that British Columbia Lottery Corporation (BCLC) accept law enforcement's professional opinion that this activity is money laundering. BCLC accepted these recommendations and agreed to enhance its anti-money laundering initiatives and strategies.

A further review of SCT reports was conducted by Investigations and Regional Operations in October/November 2012. This review was for the nine (9) month period between 1 January, 2012 and 30 September, 2012. The following results were found:

**Total Money Laundering/SCT files: 794 files**

**Total dollar amount: \$63,971,727.00**

**Total dollar amount in \$20 dollar denominations: \$44,168,660.00**

This represents over 70% of all suspicious cash entering casinos.

79 different patrons had SCT buy-ins at least once with \$100,000

17 different patrons had total SCT buy-ins over \$1,000,000

The top 22 patrons had SCT buy-ins totaling: \$45,812,130.00.

This represents 71% of the total dollar amount of all SCT.

The top ten patrons' SCT buy-ins generated 285 separate Gaming Control Act (GCA) Section 86 Reports from the Service Providers and BCLC.

By comparison: the top 22 patrons who generated 285 SCT reports between them, in a nine month period in 2012, is more than the total number of SCT reports generated in 2007, 2008 and 2009 and is only ten less than 2010.

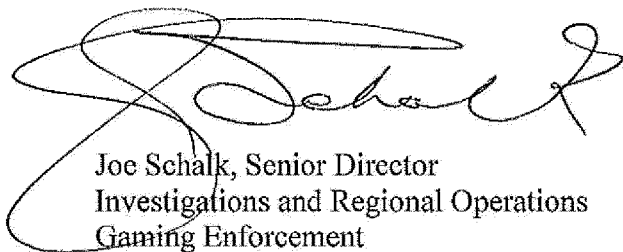
Using the previously mentioned figures from the first nine months of 2012, it is projected that the yearly totals will be:

Total Money Laundering /SCT files: 1,090 + files  
Total dollar amount: \$85,300,000.00 +  
Total dollar amounts in \$20 denominations: \$59,000,000.00 +

It has become routine for patrons to buy- in with suspicious currency totaling \$200,000, \$300,000, \$400,000 and on two occasions where \$500,000 and \$580,000 respectively were presented at the cash cage of a casino.

### Conclusions

- The number of Section 86 GCA, Suspicious Currency reports received from the Service Providers and BCLC have almost doubled every year since 2010.
- The total dollar amount of reported suspicious currency entering British Columbia casinos continues to rise exponentially, year over year.
- The twenty (\$20) dollar bill is currently used in over 70% of all Suspicious Currency Transactions.
- All large SCT buy-ins are in Canadian currency.
- Asian males are the subject of the majority of all Section 86 GCA Suspicious Currency reports generated within Lower Mainland casinos.
- BCLC initiated several enhancements to the Player Gaming Fund Account (PGFA) in April, 2012 in order to reduce the reliance on cash in British Columbia casinos.
- A GPEB Investigations and Regional Operations Division review of 2012 indicates that enhancements to the PGFA and other measures taken to date to reduce the flow of cash into casinos **have not slowed the flow of Suspicious Currency into Lower Mainland casinos.**
- The continued significant increase of Suspicious Currency being **brought into and accepted at** several casinos in the Lower Mainland is a cause of great concern to the Investigations and Regional Operations Division. We believe that this is significantly impacting the overall integrity of gaming in British Columbia.



Joe Schalk, Senior Director  
Investigations and Regional Operations  
Gaming Enforcement  
Gaming Policy and Enforcement Branch

CC: Larry P. Vander Graaf, Executive Director

This is **Exhibit "D"** of the Affidavit of **MICHAEL GRAYDON**, sworn before me this 8th day of February, 2021.

A handwritten signature in blue ink, appearing to read 'C. Bildfell', written over a horizontal line.

A Commissioner for taking Affidavits for British Columbia

*Signed electronically over videoconference on February 8, 2021 during the COVID-19 pandemic*

CONNOR BILDFELL  
Barrister & Solicitor  
McCarthy Tétrault LLP  
SUITE 2400 - 745 THURLOW STREET  
VANCOUVER, B.C. V6E 0C5  
DIRECT 604-643-5877



**To:** Michael Graydon **PERSONAL INFORMATION**  
**From:** Scott, Douglas S MEM:EX  
**Sent:** Fri 2013-01-18 12:57:40 AM  
**Subject:** RE: GPEB letter - Privileged and Confidential

Hi Mike,

Thank you for this email. As you know I have reviewed the letter that is the subject of your message. This afternoon I spoke to Larry Vander Graaf regarding your concerns as well as mine.

By way of this email, I want you to know that I regret this communication from our office. As I discussed with Larry, my greatest concern is that our correspondence on this and indeed all matters should be constructive and move issues forward. I recognize that this letter may have given your office the impression that it was accusatory in nature, and I want to assure you that GPEB recognizes that the AML issue is a joint responsibility that we must work on together to resolve. Further, I also note that BCLC has undertaken everything that we have asked and agreed to as part of the comprehensive AML strategy.

As you are likely aware, Bill McCrea is preparing a report on the efficacy of our joint AML efforts to date. I hope this will be a valuable base from which we consider the next phase of our AML response. I expect to have that report by the beginning of March. Bill will continue to be in communication with your team during its preparation.

During our discussion, Larry emphasized that correspondence such as the letter in question have gone back and forth between GPEB Investigations and BCLC Security for years. I do believe Larry did not think this letter was outside past practice, and thereby misunderstood the potential implications – including on important relationships between our organizations. No malice was intended to be sure. That said, communications of this type will stop going forward, and I look forward to expanding constructive formal and informal discussions to tackle this critical issue.

Feel free to have your office respond directly to the letter of December 27<sup>th</sup> if you wish, however, no response is required or expected.

Regards,

Doug

Douglas S. Scott  
Assistant Deputy Minister  
Gaming Policy and Enforcement Branch  
Ministry of Energy and Mines

PO Box 9311, Stn Prov Govt  
Victoria, BC  
V8W 9N1

**PERSONAL INFORMATION**

Website: [www.pssg.gov.bc.ca/gaming](http://www.pssg.gov.bc.ca/gaming)

***Know your limit, play within it.***



Please consider the environment before printing this e-mail

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**From:** Michael Graydon **PERSONAL INFORMATION**  
**Sent:** Monday, January 7, 2013 12:17 PM  
**To:** Scott, Douglas S MEM:EX  
**Subject:** GPEB letter - Privileged and Confidential

Hi Doug:

Please find attached a letter directed to Bryon Hodgkin from Joe Schalk which I was very surprised and disappointed to receive given the work we have undertaken over the past year.

Mr. Schalk has made a number of statistical comparisons and drawn conclusions from them that, in my opinion, are not only without foundation and simply erroneous, but could be perceived as inflammatory and offensive. He has also inferred that all STRs are money laundering files, which of course is not correct.

In the first paragraph on page 2, it seems obvious that certain provocative statements are personal opinion and are not supported by fact or proper analysis. To the contrary, BCLC has worked closely with numerous enforcement departments and units to ensure organized crime is not associated to BC casinos and such statements undermines both BCLC and GPEB's efforts. In my opinion, the depiction of Asians is also very risky, particularly to set out such a characterization in a permanent record which is now held in the files of two public bodies.

By way of further example, on page three he has made the statement that it has "become routine" for patrons to buy in with currency totalling \$200 to \$400 thousand and on two occasions \$500 and \$580 thousand. Although these amounts are large, given the limited number of transactions, they are not routine. In addition, all of these transactions are reviewed and reported on as per the legislation and regulations.

BCLC is required to report on all suspicious activity and clearly we are reporting via Suspicious Transaction Reports (STR's) as supported by statistics in GPEB's letter. The increase in the number of reports is not totally reflective of increased activity as it also reflects the changes to reporting requirements as well as additional training relating to reporting of STRs.

In addition, we are collecting information, including occupation, of all large cash buy ins and disbursements and reporting to Fintrac. The information collected by BCLC is also analyzed by Fintrac and passed on to enforcement agencies. We are also actively working with law enforcement to deter and ban organized crime members and activities from BC gaming facilities. In addition we are working closely with GPEB to reduce the flow of cash to gaming facilities. These efforts have resulted in total non-street cash used in casinos since April 1, 2012 in the amount of \$911,555,058.00

BCLC0015775.02

Lastly, the closing comments and assertions on page three are opinion and are not supported by fact or proper analysis.

BCLC and Service Providers make substantial efforts to provide information and assistance to GEPB and other law enforcement agencies to ensure we are compliant with legislation and are acting responsibly. I would be remiss if I did not state that we have made huge collective progress with our Service Providers on the AML front but this type of unsophisticated analysis and assertions based on opinion by GPEB Investigations and Regional Operations will only negatively impacted our efforts and GPEB's reputation. We understand and respect that you are the regulator, but a collaborative approach is both possible and beneficial in maintaining the integrity of gaming.

Sorry to start off the year on this foot but it is important to address this. Regards, Michael

---

This email is intended only for the addressee. It may contain confidential or proprietary information that cannot be disclosed without BCLC's permission. If you have received this email in error, please notify the sender immediately and delete the email.



This is **Exhibit "E"** of the Affidavit of **MICHAEL GRAYDON**, sworn before me this 8th day of February, 2021.

A handwritten signature in blue ink, appearing to read 'C. Bildfell', written over a horizontal line.

A Commissioner for taking Affidavits for British Columbia

*Signed electronically over videoconference on February 8, 2021 during the COVID-19 pandemic*

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DIRECT 604-643-5877

**To:** Michael Graydon [PERSONAL INFORMATION] Dennis Amerine [PERSONAL INFORMATION]  
**Cc:** Jim D. Lightbody [PERSONAL INFORMATION] Rob Kroeker [PERSONAL INFORMATION]  
**From:** Brad Desmarais  
**Sent:** Fri 11/09/2015 8:36:11 PM  
**Subject:** RE: BCLC Request for assistance - Casino Patrons

Michael

We couldn't agree more and we are pressing our regulator on both fronts: 1) Disruption or elimination of illegal gambling sites that are likely to draw players away from legitimate gambling venues; and 2) Approval, at least in principle, of several cash-alternative strategies BCLC is advocating which not only will likely reduce or eliminate the migration of high limit gamblers away from legitimate gambling venues, but may in fact lift revenue. The use of non-cash instruments will also substantially reduce regulatory and reputational risk to both our organizations.

We share your frustration and I can assure you we are working hard and fast on cash alternatives. BCLC takes an evidence based, principled approach to player restrictions and/or banning. We do neither lightly and are acutely aware of the revenue implications for both of us. In know this doesn't lessen the sting of a potential hit on revenue but we strongly believe this is the right course of action at this moment. I should add that our concern rests with the method of payment, not the players themselves who we have no reason to believe are criminally culpable.

Brad

### Brad Desmarais

Vice President, Casino and Community Gaming

BCLC, 2940 Virtual Way, Vancouver, B.C. V5M 0A6

Last year, more than \$1 billion generated by BCLC gambling activities went back into health care, education and community groups across B.C.

---

**From:** Michael Graydon [PERSONAL INFORMATION]  
**Sent:** Friday, September 11, 2015 12:40 PM  
**To:** Brad Desmarais  
**Cc:** Dennis Amerine  
**Subject:** Fwd: BCLC Request for assistance - Casino Patrons

Understand the need for this but we have to have other forms of transaction in place to provide the avenues of opportunity for buy in. Both shoes have to drop. I am hopeful that BCLC is making every effort to expand the mechanisms available to customers. The short term consequence of these actions is a drop in revenue and driving these players into the unregulated options for gaming. I support your efforts but we have to have better solutions. Mg

Sent from my iPhone  
 Begin forwarded message:

**From:** "Dennis Amerine" [PERSONAL INFORMATION]  
**To:** "Scott Menke" [PERSONAL INFORMATION] "Michael Graydon"  
 [PERSONAL INFORMATION] "Eric Boes" [PERSONAL INFORMATION]  
**Subject:** FW: BCLC Request for assistance - Casino Patrons

Here is the list. The EW has already received it as well.  
Dennis

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**From:** Ross Alderson [PERSONAL INFORMATION]  
**Sent:** Friday, September 11, 2015 11:49 AM  
**To:** Glen Atchison; [PERSONAL INFORMATION] Craig Longley;  
[PERSONAL INFORMATION]  
[PERSONAL INFORMATION] Dennis Amerine; Devin McCormack  
[PERSONAL INFORMATION] 'Patrick Ennis'; Shauna  
Gillespie; Erin Oliver; Cameron Conn; Cameron Conn  
**Cc:** Rob Kroeker; Brad Desmarais; Kris Gade; Bruno Gatto; Kevin Sweeney; Daryl Tottenham  
**Subject:** BCLC Request for assistance - Casino Patrons

Good morning,

Please find attached a letter regarding conditions to be placed on a small number of Casino Players.

Also attached is a list of the players involved.

The letter outlines what the conditions are and the rationale.

I appreciate this may have a significant impact to your business and is not a decision made lightly.

I apologize for not being able to convey this news in person but I wanted to assure everyone was notified at the same time and it is a time sensitive matter.

It is BCLC's desire to interview these players and we would ask for your assistance in facilitating that if possible. We encourage any player on this list to contact BCLC Consumer Services on 1-866-815-0222 or email through <http://corporate.bclc.com/customer-support.html> to schedule an interview so we can ensure we have the appropriate resources including translation services. Investigators will be available from Monday September 14, 2015.

I appreciate if you can make your operational staff aware of the conditions.

Many thanks for your cooperation.

Ross Alderson CAMS

Director, AML & Operational Analysis  
Corporate Security and Compliance Division, BCLC  
2940 Virtual Way, Vancouver, BC V5M 0A6

[PERSONAL INFORMATION]

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