

Gaming Policy and Enforcement Branch Anti-Money Laundering (AML) Briefing

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Ministry
of Finance

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The Context

Through GPEB's risk assessment process concern of money laundering, or the use of proceeds of crime to gamble, in BC gaming facilities had been identified as a top risk.

GPEB is charged with ensuring the integrity of gaming in the province. This risk threatens that integrity.

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In early 2011 a series of news reports ran on cash transactions at BC gaming facilities, with the media questioning how well gaming in BC was protected from money laundering.

The PSSG Minister ordered a review of AML strategies at BC gaming facilities. It was also to identify opportunities to strengthen the existing AML regime.

The Review found that “standard and appropriate AML strategies” were employed at BC gaming facilities. It also identified further opportunities to strengthen AML efforts.

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The Response

GPEB and BCLC embarked on a strategy to identify and prevent this potential activity.

- a phased approach was developed and communicated to the GPEB and Industry AML Working Groups

BCLC formed an industry working group to develop and implement solutions. The working group is composed of BCLC, GPEB and casino service providers (CSP's).

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The Strategy

GPEB set the following strategy in place, which has been used to frame the regulatory AML activities.

“The gaming industry will prevent money laundering in gaming by moving from a cash based industry as quickly as possible and scrutinizing the remaining cash for appropriate action. This shift will respect or enhance our responsible gambling practices and the health of the industry.”

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The Approach – A Phased Plan

GPEB and BCLC have worked to prevent this activity:

- Phase 1: Develop and implement cash alternatives, to obtain funds inside the facilities, for gaming.
- Phase 2: Operator intervention to more actively engage the use of the cash alternatives by patrons.
- Phase 3: Regulator intervention, which involves conducting a study and potential direct intervention for customer due diligence (CDD) of cash entering gaming facilities.

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Progress - Phases 1&2

- Several cash alternatives (Patron Gaming Fund, debit at cage, casino cheques, internet transfer, hold-cheque, etc.) have been developed by all parties involved, given final approval by GPEB, and implemented.
- New cash alternative innovations continue to be researched.
- In FY 2013/14 almost \$1.5 billion of gaming funds were obtained from inside gaming facilities. This represents approximately 23% of all play.
- FY 2014/15 is continuing to see increased patron use of cash alternatives. Marketing promotion has helped to introduce these to players resulting in increased use.

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The Challenges – Suspicious Transactions

- Continue to see increases in the reporting of suspicious currency transactions (SCT's) at gaming facilities, as reported to GPEB.
- Note, SCT's do not prove the existence of money laundering. Rather these are transactions that may be unusual and warrant reporting to GPEB and the Federal regulator FINTRAC.
- SCT's were \$82.4 M in 2012/13, \$118.7 M in 2013/14, and \$92.9 M as at the end of Q2 2014/15.

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The Challenges

April 2014 – CTV Vancouver – Mi-Jung Lee

“Money laundering rampant in casinos.”

Armed with confidential GPEB Investigation Reports and interviews with a former casino employee and a former RCMP officer, BC media outlets alleged money laundering is being conducted in BC casinos.

Conclusions of money laundering are being drawn from the increase in reporting of suspicious transactions (STR) – media have equated each STR filed as evidence of money laundering. This is simply a false conclusion.

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GPEB AML Strategy Phase 3

- The regulator acknowledged that we needed to have a thorough understanding of customer due diligence (CDD) standards conducted by businesses (banks, brokerage houses, money services, etc.) that deal with customer cash. This knowledge is important to inform our next steps in the AML strategy.
- A study was commissioned with a firm that has experience, and connections, in this realm. The results provided us with details of how these financial service firms deal with cash transactions.

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CDD Study Results

- The financial institutions (FI's) studied conduct source of funds due diligence with their customers when large cash transactions are presented, that are outside of the norm for the business of the customer or that present suspicious circumstances.
- The CDD is conducted by higher level trained managers. This includes interviewing customers.
- FI's will take action and sever relationships with customers that cannot adequately explain the legitimate source of cash.

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CDD Study Results

- Customers can be asked to complete source of funds declaration documents which are used to inform the integrity of the transaction.
- Investigations into the source of the funds can be completed based on the information provided through the verbal and written declaration representations.
- Actions will be taken based on the results of the investigations.

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Global Trends in CDD (representative examples)

- Through 2014 the Director of the U.S. equivalent of Canada's FINTRAC (FinCEN) has broadcast to the casino industry the message that they will have to conduct stronger CDD, including investigation of source of funds.
- Australia (AUSTRAC) has included source of wealth and funds as part of their June 2014 amended requirements in the assessment of customer risk.
- Mexico has just announced they are developing AML requirements, that will include source of funds diligence.

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GPEB Direction

- Phase 3 of the AML strategy has always provided for regulator intervention. Utilizing the results and recommendations of the CDD study, GPEB will determine how to use the information in fulfilling our role of ensuring the integrity of gaming.
- Recognizing that BCLC has put considerable effort into developing and delivering a stronger AML regime the GPEB direction will be informed by an assessment of the BCLC diligence.

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GPEB Next Steps

- In conjunction with BCLC and casino service providers, continue to support delivering existing and new cash alternative solutions through the GPEB and industry AML working groups.
- Working from Phase 3 results, and understanding of the BCLC AML regime, develop and provide direction (new regulation, directive, public interest standard, or other solution) for customer due diligence in the treatment of suspicious transactions.

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GPEB Next Steps, cont'd

- Acknowledging challenges in the prior GPEB/BCLC working relationship we are now determined to make progress through developing a broader collaborative relationship.
- The industry (BCLC/GPEB/CSP's) AML Working Group has been a positive example of working together to achieve desired results. The cash alternative solutions have been built through this group and it has operated as a forum for constructive dialogue. This model will be useful in future collaboration.

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GPEB Next Steps, cont'd

- GPEB is committed to doing a deep and thorough assessment of BCLC's anti-money laundering initiative. This will help us to understand the work that is being conducted and the results that are expected. We are interested in the actions that will be taken, based on this work, to mitigate the risk of money laundering and to reduce suspicious transactions.

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Conclusion

GPEB, BCLC and casino service providers have made progress in working toward certain solutions to deal with the risk of money laundering in BC gaming facilities. Further work continues with parties focussed on different aspects of the challenge. New approaches are being built that will ensure the continued integrity of gaming in the province.