

Gaming Policy and Enforcement Branch
and the British Columbia Lottery
Corporation Present:
*Exploring Common Ground,
Building Solutions*

June 4th, 2015
BCLC Office
Vancouver, BC

Compliance Division
Gaming Policy & Enforcement Branch

 **Ministry
of Finance**

Trusted financial and economic leadership for a prosperous province

Opening – Once again thank everyone and if you have forgotten by this point in time. Thank and explain RCMP presence CFSEU and Fed Policing, Intelligence as in the responsibility for these crimes are under their mandate and we seek out simply to inform of our challenges in GPEB, BCLC, government and public perception.

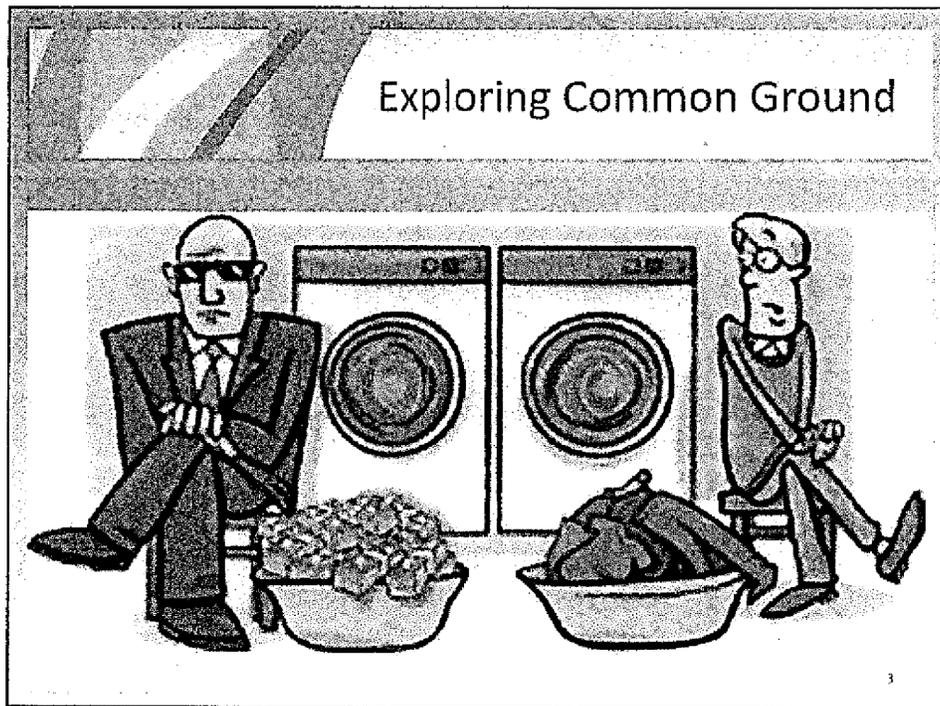
Exploring Common Ground

Background:

GPEB's risk assessment process identified a concern of increase of suspicious currency transactions (\$20 bills) in BC gaming facilities.

GPEB is charged with ensuring the overall integrity of gaming and horse racing in the province. The reputational risk of potential AML proceeds in gaming facilities threatens that integrity.

Mention process GPEB used to identify risk and voting. Explain that although we are charged with overall integrity of gaming that has to do with the applicable CC provisions as supported by Crown and Police, and the Gaming Control Act & Regulation. We are not investigating money laundering or related proceeds of crime offences. It would be risky, unsafe and we do not have the resources and training to do so. We do however track what is occurring and refer that information on to police and other organizations on a case-by-case basis. Is there room for improvement of information sharing, MOU's, absolutely!



This is Len on the right and as the cartoon depicts there is a little bit of fear about the unknown? What, if anything is going on? What is reality, what is myth, what is being misrepresented, what is being misinterpreted?

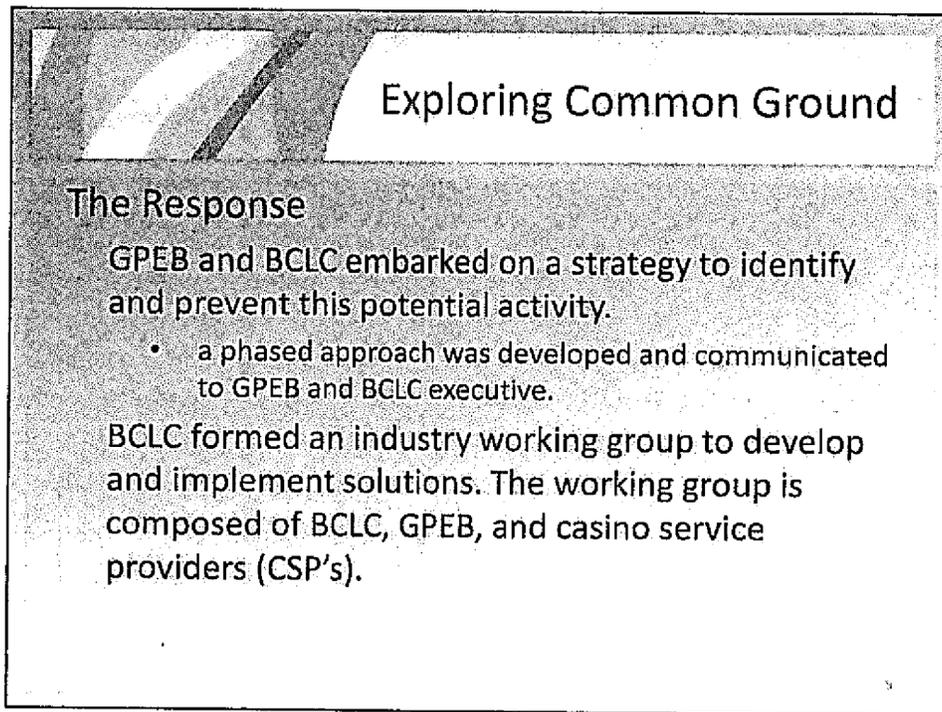
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In 2011 a series of news reports focused on cash transactions at BC gaming facilities, with the media questioning how well gaming in BC was protected from money laundering.

The PSSG Minister ordered a review of AML strategies at BC gaming facilities.

The 2011 review found that “standard and appropriate AML strategies” were employed at BC gaming facilities. It also identified further opportunities to strengthen AML efforts.

2011 was the formal start of an initiative. Prior to that GPEB was working with BCLC and monitoring trends, amounts. Explain Section 86 process.



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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 GPEB and BCLC executive.

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).

Explain strategy and strategy statement was defined by GPEB's Executive at that time. Industry has always been focused on issue and addressing it in the most efficient manner.

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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.”

Read strategy, Explain the delicate balance of enabling and constraining an industry. Overall 2.6 billion, net 1.2 – 1.4 billion what it pays for and sensitive issue of considering how directives or guidelines impact the industry. Is reasonable and more importantly is it feasible. i.e. interdiction by staff, questions about source of funds, leads to interruption of service, how do you balance all of this. However note, answer by Minister will be that it is not acceptable that one dollar of unlawful money enter BC's gaming facilities so how do we balance all of this. What are we able to add that brings value?

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The Phased Approach:

GPEB and BCLC are working to solutions by:

- 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: (The NOW) Regulator assessment, which involved conducting a study. Determination of other needs for intervention such as customer due diligence (CDD) of cash entering gaming facilities.

Strategy is a phased approach. Seek ideas, implement and assess. Have there been gaps, certainly but we meet and try to mutually resolve with our partners. i.e. Bank Drafts to PGF accounts.

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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. (As per your Backgrounder document)
- New cash alternative innovations continue to be researched.

Mention other jurisdictions have credit, is that a reality in our jurisdiction. Limited group contribute most of revenue so how do we service their needs and prevent the bad money from arriving and entering the gaming venue?

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GPEB AML Strategy Phase 3

- As the regulator we 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.

Malysh and Associates. A study is not the panacea to problem solving, it is one component but as I will stress again what are the gaps and how can we leverage others for success? We do have some challenges, NEXT SLIDE

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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.
- Challenge: 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.
- How do we counter the public and media perception?

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Explain each of these. FINTRAC reporting is required when there are on reasonable grounds to suspect that a transaction is related to a money laundering or terrorist financing offence. So how does the public interpret the difference about what is reported on reasonable grounds without them having expertise or all of the information. The dilemma is simply they believe that the money is "bad" money because it is being reported. I don't have the answer!

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The Challenges

April 2014 – CTV Vancouver – Mi-Jung Lee

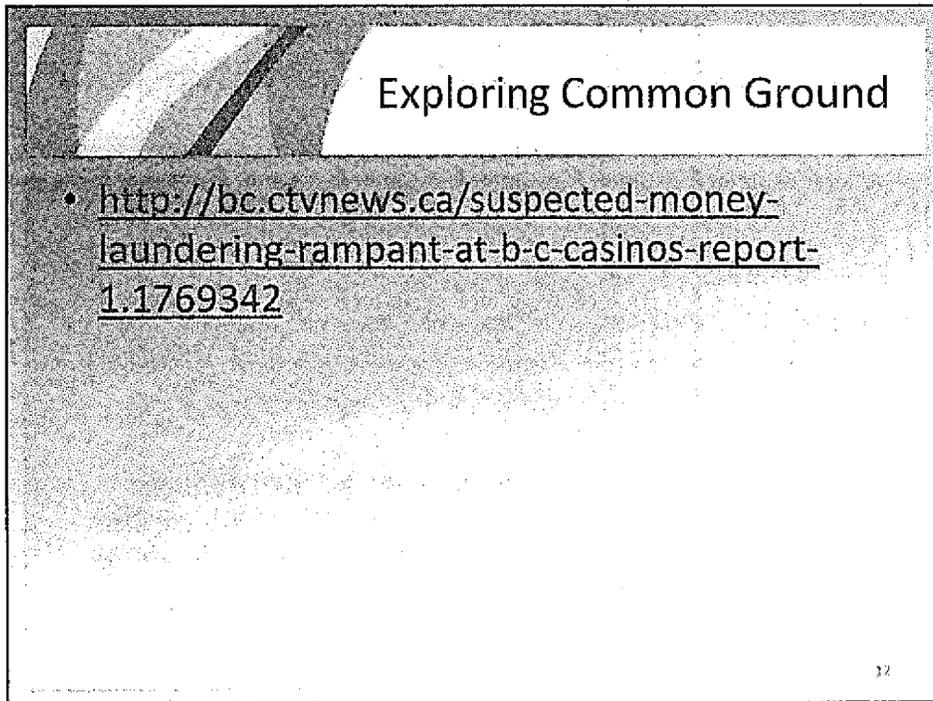
“Money laundering rampant in casinos.”

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 an ambiguous conclusion.

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Speak of this and internal media leak which did not help. Ongoing FOI requests and inquisitive mind of opposition critic.



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- <http://bc.ctvnews.ca/suspected-money-laundering-rampant-at-b-c-casinos-report-1.1769342>

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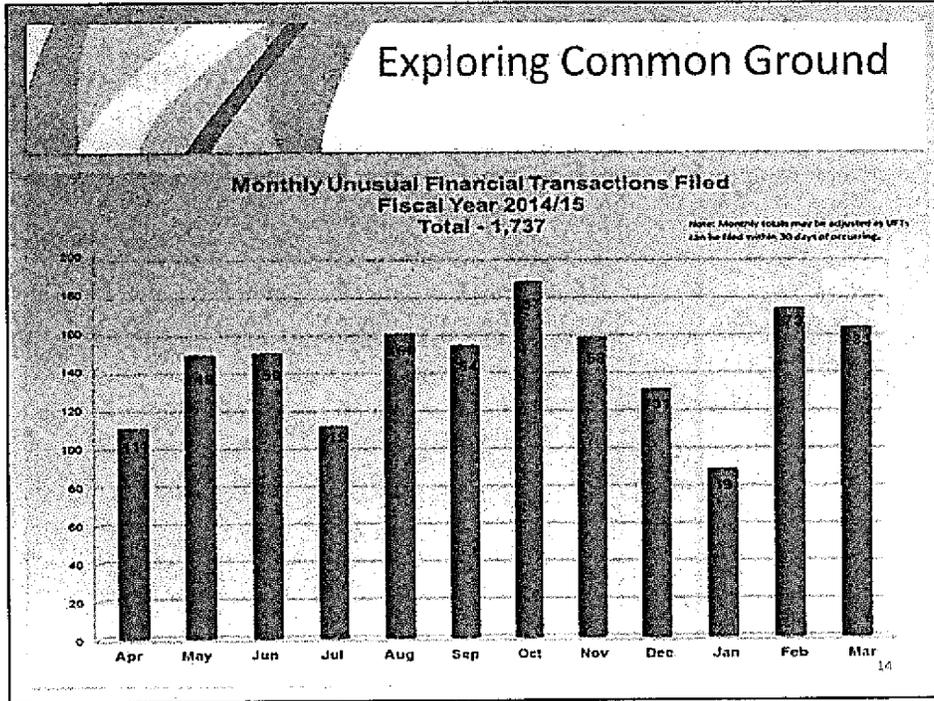
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TOTAL \$20	\$109,592,077
TOTAL \$	Fiscal 2014 / 2015 \$212,263,260
TOTAL SCT Files	1,666

SCT total reported by way of Section 86 Reports to GPEB. The number is a number. What does it really mean, represent? How much is truly a concern, how much is unnecessary reporting, how much can be reduced by providing alternatives?



More Statistics, this graph depicts the monthly amount of report filed to by service providers relating to suspicious/unusual transactions. Source BCLC

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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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Banks account for largest percentage of reporting to FINTRAC but then again banks deal with largest volume. Training is one thing but what level of interdiction should a regulator expect. Again the need for balance to maintain a healthy industry. Don't get me wrong, I have a healthy sense of what the risks are and what can occur, so I do lose sleep.

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CDD Study Results (Cont'd):

- 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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As mentioned is such a notion a reality? Does this get solved by other means? Or does it need to be examined?

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GPEB Direction (The Now):

- Phase 3 of the AML strategy has always provided for regulator intervention. Utilizing the results and recommendations of the research and reports GPEB will determine recommendations to Ministry.
- Recognizing that BCLC has put considerable effort into developing and delivering a stronger AML regime, GPEB's direction will also be informed by an assessment of the BCLC diligence.
- Development of an internal Intelligence Unit. Tactical with limitations, strategic to inform risk.

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Read each and explain



The purpose of today, capture the brilliant ideas from some of the industry's finest regulators, private industry, crown agencies and policing. Only then will I be able to conclude what might need to be enhanced and report upwards. I ask you to think about this today. If you were in the Minister's chair or to that point if you were being focused upon for solutions to this matter what would you want to do and know?

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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.

Your assistance and generosity today is most appreciated.

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Emphasis the appreciation.