

## **Response to Report – Dirty Money in Our Casinos by P. GERMAN – MARCH 31, 2018**

### **Submitted by Ross Alderson**

I thank you for the opportunity to review the report and provide feedback. I am more than happy to discuss and clarify any of the feedback and continue to cooperate in any way I can. Where possible I have summarized by corresponding paragraph number in report.

#### **Review**

20. I agree with the statement that criminals are not looking for cash alternatives, however I do not agree that cash alternatives was the only strategy. There were a number of other strategies employed by BCLC including the unsourced cash conditions which were imposed upon over 170 Casino patrons whose source of funds (SOF) or source of wealth (SOW) were questionable. In addition for years BCLC independently, and from 2014 via the RCMP ISA, banned several hundred individuals from casinos who were confirmed by RCMP as having criminal ties. These initiatives and many other strategies had significant impact and are their effectiveness was recognised by FinTRAC, JIGIT, GPEB as well as in various independent reports. Even GCGC mentioned in their 2015 and 2016 annual reports the impact from BCLC conditions on high limit players. Later in the document it mentions there was no "demarketing" policy, however in my view that is essentially what a casino ban is.

22. Any direction for any one individual is generally placed on the patron's iTRAK profile and therefore was able to be accessed and viewed 24/7 by GSP. Generally the amount of calls made to the AML unit by GSP's outside of business hours was found to be minimal.

361. ~~221.~~ Same as per 22.

365. FinTRAC could likely match a Casino Disbursement report (CDR) from one site to a subsequent LCT buy in at another site but in reality I suspect FinTRAC currently do very little detailed analysis of LCT's and CDR's whereas STR's are allegedly analysed in more depth and create more investigations. FinTRAC state that if the source of funds is known (which would include being disbursed from another casino) and does not involve suspicious circumstances they should not be reported as a suspicious transaction.

Lastly, there is much negativity associated with volume of STR's whether by regulators, the govt of the day, the public or the media. Many see it as concrete evidence of criminality. Therefore the 10-15% of additional unsubstantiated UTR's has negative connotations.

The current UFT process provides for a more comprehensive investigation of the total circumstances thus provides a better quality and more accurate STR, all of which amounts to better intelligence. This process is also consistent with Financial Institutions (FI) and banks whereby a teller might see something suspicious and report it internally but it is generally someone more qualified who will investigate and submit the report. However I entirely agree that part of this process could indeed be transferred to the GSP who almost entirely rely on BCLC for conducting AML compliance and customer due diligence. GSP's are not the

reporting entity and therefore currently all the risk for non compliance lay with BCLC. Perhaps Casinos should be the reporting entity and not BCLC but that's currently a moot point.

**367.** This is incorrect.

Up to April 2015 the AML unit consisted of four(4), 1 Manager, 1 specialist and 2 analysts.

In April 2015 the AML Manager position became Director AML and later in 2015 added an additional Manager Cash Alternatives so the unit became five(5).

In 2016 the Division was restructured. The AML group then consisted of 2 Managers, 2 analysts and 4 investigators with part-time admin support (8.5) The managers reported into a Director. The General Investigations group's main focus was generally not AML matters and they also reported up to the Director.

**451** I agree that for many years BCLC's definition of money laundering was inconsistent with the RCMP or CC definition (as noted per the Kroeker report) The Executive and Board Training documentation and BCLC's on line AML training course was updated through 2016 to be more consistent with the RCMP definition and include better language on identifying POC.

470

**477.** This is from information I provided. For the purpose of accuracy I wanted to clarify some detail. When the patron in question returned I was live monitoring and the player was observed in the RROR Salon essentially doing the same thing as per the day before. (refining) This time with another \$100K in \$20 bills. Therefore he had been paid out \$100K in \$100 bills the previous day and returned with another \$100K in \$20's. The shouting match occurred when I directed the Casino to stop his play and pay him back his \$20's and the Senior Casino official told me not to interfere or direct his staff. After much heated discussion the end result was we ended the play session, returned his \$20's, I interviewed the player a day or two later where upon he admitted to collecting cash as described..eg outside a local mall from 'unknown' sources he telephoned. The statement regarding interviewing more than one patron is not correct. He was the only one I interviewed at that time. A few days after my interview I moved into an interim Management role at the Vancouver Office for Lottery and online (playnow) investigations and left Casino Investigations. Also the comment by a senior BCLC official occurred in 2012. That is important for context. Everything else is an accurate reflection of my comments.

**535C, 536 and 537.** Between April 2015 and the GPEB letter of July 2016 there are numerous examples of BCLC initiated directives, emails and letters sent to GSP or procedural and/or policy changes regarding specific individuals or circumstances. These include the cash conditions list, source of wealth interviews, source of funds declarations, slot review, student and housewife project as well as all the interviews, investigations and analysis. There was also quarterly AML operational meetings with all GSP so there was plenty of dialogue and communication. This is all well documented so I don't agree with **535C "re: semantics"** or **536 "that there was no direction"** as there is sufficient available evidence in my opinion to refute this.

Regarding: "Cash drop offs" - If I recall correctly the BCLC AML Procedures or the Casino Policy and Procedures manual has language regarding the refusal of transactions. These procedures and policies are provided to the GSP to follow. Regarding specific direction around "vehicle drop off's" I would be surprised that this didn't come from BCLC by way of an email or was raised during one of the regular quarterly AML meetings with GSP's. (There may be meetings notes or minutes to substantiate.) All GSP's are refusing known "drop offs" and not just GCGC so this suggests the direction may have originated from BCLC.

! vehicle drop offs occurred for years at GCGC locations with no questions asked or refusals made. Thus I feel the GCGC direction was likely as a result of discussion between GCGC and BCLC.

~~573. As evidenced by 177 BCLC had received information regarding this theory as early as 2012. FSO confirmed this theory to BCLC (me) in July 2015.~~

~~618. BCLC received an internal legal opinion that they cannot share information in their databases with GPEB unless it pertains to a specific investigation or otherwise complies with privacy legislation, such as FIPPA. This has been a hindrance to information sharing and when I left BCLC in 2017 plans were afoot to minimise the existing access to it as BCLC knew they were in violation of privacy laws.~~

**CHAPTER 23 BCLC GOES UNDERCOVER PARTICULARLY 635.** I am disappointed in this chapter and feel strongly that this is a misrepresentation of the actual circumstances. I was involved in this project as I authorized it to take place.

BCLC conducts investigations for customer due diligence purposes. This includes source of wealth and source of funds interviews etc and by having policy around bank draft and EFT origins. When BCLC placed unsourced cash conditions on players a very small group of players attend the RRCR with cash accompanied with receipts from local MSB's. It was decided further due diligence was required. I authorized two employees to attend a handful of MSB's in Richmond to see if:

1. the businesses were real and operational
2. They gave out cash denominations consistent with what the players were telling us
3. If possible, confirm if the receipts themselves were legitimate

This was never meant to be a criminal investigation or 'complex undercover sting.' A very keen BCLC employee wrote quite a detailed report, however this was purely supposed to be a low key fact gathering investigation for customer due diligence per the POCMLTFA.

Prior to the MSB attendance I advised Paul DADWAL - OIC of JIGIT that BCLC would likely be doing some due diligence with MSB's. This conversation occurred at the Sapperton Starbucks in New Westminster (we met there several times). DADWAL made it very clear to me at that time in 2016 JIGIT were not operational and had no allocated funds, staff or vehicles because of delays in the internal administration process. MSB's were not on their radar so I believed I could help him out by gaining intel. After reviewing the MSB report I

forwarded a copy for JIGIT and for GPEB for their information. I received a thank you email from Len MEILLEUR.

On hearing that RCMP and GPEB may have been upset that we performed this investigation. I immediately telephoned Paul DADWAL and he told me over the phone that **"he had no issue with it"**

I believe it is common sense to verify a new source of funds. If BCLC had not done so and the MSB was found to be fake and the receipts themselves fake, the media and regulators would have had a field day.

Of further note in Feb 2017 BCLC AML were involved in another undercover operation conducted jointly with JIGIT and GPEB at the River Rock Casino.

During that operation over \$100K was seized by RCMP from a casino patron as criminal POC. This was based on the opinion of a RCMP POC expert. Those funds, which originated from a Canadian bank, were later returned to the player. There was no charges laid and the seizure was also rejected by the Director of the Civil Forfeiture Office who discussed the file with me. Unfortunately this file clearly demonstrated a lack of expertise by the RCMP member around points of proof for POC. While policing challenges are mentioned in other parts of the report they are certainly not highlighted to the extent that the BCLC MSB project has been singled out and I don't find that to be particularly fair or objective.

**643.** I would like to provide context here in support of this strategy.

Prior to 2014 there was limited legal requirement to know who the players were. When new "Know your customer" changes were made to the POCMLTFA in 2014 it changed things because it forced BCLC to know more of their players.

The term 'VVIP' itself indicates special treatment for these individuals because of the wealth they were bringing in. When KYC started discovering negative results on players for the first time there was proof that some of the "VVIP" players may have had nefarious backgrounds and I am not sure that KYC was universally popular.

When the first list of cash conditioned individuals was sent to the GSP in 2015 there was immediate and vocal opposition to it from the GSP. I understand Jim LIGHTBODY within an hour of the list going out received a phone call from ex-BCLC CEO Michael GRAYDON, then at Paragon. GRAYDON allegedly told LIGHTBODY "this would kill the industry." I think that a phone call coming from the ex-BCLC CEO is incredibly telling and indicative of the culture of the industry in general.

There were many popular theories by Senior Management in the industry justifying the enormous amounts of cash coming in such as.... "it was probably due to underground banking", "asians carried lots of cash and that was normal", "and that "it was up to China to curb any flight of capital laws and not BC casinos." It was also stated by many that the industries job was to "detect and report only" which under the POCMLTFA was correct.

There was still very little proof of widespread criminality which was why there was such reluctance to refuse a transaction. Yes, there was the link established in July 2015 to a small

number of players through Paul JIN and Silver International but the scale and scope as stated in 2017 by media and Law Enforcement was not known at that time, or if it was it was not shared with BCLC or GSP's and from 2015 through 2017 RCMP conveyed to me they often didn't know who were the bad guys versus the 'dupes'.

A program which included cash conditions and SOF/SOW interviews was completely new to the gambling industry in BC, and to my knowledge in Canada. Therefore in 2015 banning a small group of players from using unsourced cash was very significant.

Over time once the identities of the players with know links to JIN were established the next step was to put more and more players on the 'conditions list' because they were involved in suspicious buy ins, not because of confirmed criminal associations.

BCLC AML were able to confirm through interviews that the majority of players had no real idea where the cash was coming from. That was incredible powerful as this was shared with a number of industry executives, regulators and police and it was established that cash facilitation was far more wide spread than many believed.

Definitely GSP and BCLC executive were concerned over the loss of revenue from implementing cash conditions but I believe it is incorrect to say the BCLC strategy was solely to drive players to cash alternatives.

The personal pledge I made to RCMP senior management of FSOC and CFSEU in July 2015 was to attempt to eliminate criminal proceeds entering casinos. At a meeting I had with the GPEB Executive Director of Compliance in Victoria shortly after July 22, 2015 he shared the same goal.

**644.** I cant recall the exact circumstances around these 14 individuals however this section appears to suggest BCLC should have banned these players and provided no explanation. I don't believe that was a viable strategy. Rationale would have been asked by players, many of whom had been customers for years, and also rationale was demanded by the GSP who stood to lose financially. I think that's reasonable.

GSP's were immediately very resistant to BCLC interviewing players. They were very protective towards who they viewed as "their players." GSP's initially asked that BCLC not interview players, but rather it be the GSP's that do it in a softer approach. BCLC knew that for the GSP to buy into the new direction they needed to include them in it. The longer term strategy was always that BCLC would add players to the conditions list so frankly it really didn't matter whether they were interviewed or not by the GSP's. Sure enough it didn't take long before the GSP's distanced themselves from this process altogether, likely so they would save face with the player and deflect responsibility for any decisions on to BCLC.

BCLC, GPEB, GSP and RCMP generally COLLECTIVELY agreed that devoid of evidence of known involvement in criminality the majority of the players were likely pawns (or *dupes* as referred to in the report) so cash conditions or essentially "cash banning them" and encouraging them to use legitimate methods was the best route to go. BCLC never received feedback that a money launderer had been warned off and I understand both GPEB and RCMP appreciated any intelligence from the player interviews.

I can see how this could appear that 14 players were "being warned off" but it was a calculated decision to involve the GSP because it still provided them an opportunity to keep the player's business if in fact the player had access to legitimate funds. Encouraging players to use bank drafts and PGF play was definitely part of the overall AML strategy to eliminate dirty money.

**CHAPTER 22.** - I entirely agree that the relationship between BCLC and GPEB Compliance Divisions (and in general) is quite dysfunctional and combative. There has been quite a lot of change in senior management, including in the BCLC and GPEB Investigations and Compliance divisions so the structure and lack of clarity of roles plays its part as much as the personalities do.

I mentioned during the review the 2014 meeting that Brad Desmarais and I attended with Police Services in Victoria to discuss issues which I believe may have been the catalyst for the GPEB Executive Director and Director of Investigations being terminated and why a restructure of their compliance division took place. It should not be underestimated the background to this meeting and the GPEB porn email scandal of 2007/2008 had on how many at BCLC viewed GPEB.

I would add that in 2017 during a meeting, a Senior member of GPEB Compliance informed BCLC that he knew of specific examples of individuals bringing POC to BC Casinos however declined to identify those individuals to BCLC. So essentially a representative of the govt stated they knew of money laundering but couldn't share info with those in the same govt who had the ability to ban the individuals. I understand this was probably to protect a police investigation but I think this is a perfect example of the flaws in the current industry structure.

I stated in my interview I believe the industry needed a stronger regulator. Why did it take a recommendation in Dec 2017 from Dr. GERMAN for GPEB investigators to get more involved in casino operations when this appears to be an operational decision that could have been made by GPEB Senior Management.

**Chapter 25** The conclusion or 'comment' starting at 716 comes as no surprise. During the review I raised that I was uncomfortable that BCLC were being intentionally deceptive about SAS functionality. I recommended a demonstration of the software as part of the review. When I became Director in 2015 I learnt quickly that the initial BCLC contract essentially did not have an "out clause" and BCLC had invested heavily into the project up front and therefore felt that it had to proceed as it was promoted heavily as a fix all solution for AML.

**Final Comments:**

There needs to be accountability for allowing POC to enter BC Casinos on the magnitude to which it has been articulated in this report. I feel the copy of the report I have reviewed is reasonably accurate and objective however as noted above, while I feel there is justifiable criticism of the overall industry, there is little mention of the enormous change since 2015. That may seem self serving but by downplaying it does a disservice to those people at BCLC

and GPEB who drove and created change under extremely trying circumstances and risked much.

The STR's dollar values and numbers over the last decade show a distinct downward trend starting in 2015. The obscenely large buy ins started to dry up once cash conditions were implemented and became common practice. The casino industry in 2017 when this review started was far different from the industry in 2012 or in 2015 for that matter. I agree that too little was done for too long. I understand that the review finds fault with some of the more recent initiatives and no doubt mistakes were made however hopefully I have articulated in my feedback where the industry came from and hope that some of the more positive change can also be reflected in this report.

Thank you

Regards

Ross Alderson