

**ADVICE TO MINISTER
ESTIMATES NOTE
APRIL 22, 2015**

ISSUE: ANTI-MONEY LAUNDERING

ADVICE AND RECOMMENDED RESPONSE:

- ◆ **British Columbia has a robust anti-money laundering program with significant investments in technology, training and certification.**
- ◆ **The B.C. government takes money laundering seriously and maintains an ongoing dialogue with BC Lottery Corporation and federal and provincial law enforcement agencies.**
- ◆ **The BC Lottery Corporation (BCLC) is required to report both large-cash transactions over \$10,000, foreign exchanges over \$3,000 and all “suspicious” or unusual transactions.**
- ◆ **The Lottery Corporation reports these transactions to the Financial Transactions and Reporting Analysis Centre of Canada (FINTRAC) which creates a data trail that is used to identify patterns and gather evidence of potential money laundering.**
- ◆ **While the BC Gaming industry is committed to best practices in anti-money laundering most large cash transactions in BC occur in other sectors. Between 2010 and 2013 in B.C., 97 percent of large cash transaction reports were submitted by financial entities, while less than 2 percent were submitted by casinos (according to FINTRAC data).**
- ◆ **An information-sharing agreement with law enforcement allows the Lottery Corporation to ban patrons with known links to criminal organizations, who pose a threat to public safety, or who are involved in criminal conduct likely to generate proceeds of crime.**
- ◆ **To date, the BC Lottery Corporation has proactively barred 92 people who have known criminal ties or may be a threat to public safety arising from the Information Sharing Agreement with the RCMP.**

SECONDARY MESSAGES:

- ◆ **Government launched an Anti-Money Laundering strategy in 2011 focused on reducing the use of cash in gaming facilities.**

- ◆ **Since the introduction of the strategy there has been significant progress in the use of traceable cash alternatives at gaming facilities in B.C. In 2013/14, almost one quarter of play in B.C. gaming facilities was generated through Patron Gaming Funds accounts, debit and ATM transactions and other non-cash instruments.**
- ◆ **The Gaming Policy and Enforcement Branch's Registration unit also forms part of the overall strategy for anti-money laundering. The *Gaming Control Act* provides the mandate and authority to the Branch to control who participates in the gaming industry by requiring all companies and gaming workers that provide gaming products or services in British Columbia to register with the Branch. Registrations are granted for a period of three to five years at which time registration is reassessed and potentially renewed.**

If asked about the legal action taken by the Financial Transaction and Report Analysis Centre of Canada

- ◆ **The Lottery Corporation has filed an appeal with the Federal Court in Toronto regarding the Financial Transaction and Report Analysis Centre notice of violation arising from a 2009 review. The administrative penalty included violations related to delays in filing reports and clerical errors. The matter is now before the courts. Despite the ongoing court matter, BCLC and FINTRAC have an excellent operational working relationship. FINTRAC is regularly briefed on BCLC's automated AML project offering input on a variety of topics, which assists BCLC in ensuring a high-quality AML program.**

CURRENT STATUS:

- ◆ **In February 2014, FINTRAC expanded "Know Your Customer" monitoring requirements related to engagement and risk identification. As a result of the change, transactions thought to be related to proceeds of crime or money laundering require additional collection of data, increased monitoring, client risk analysis and further examination of client's business relationships.**
- ◆ **Last year, one quarter of play in British Columbia gaming facilities was generated through secure and traceable cash alternatives.**
- ◆ **In 2014 FINTRAC conducted an audit of BCLC's anti-money laundering program. Over 10,000 documents were reviewed. FINTRAC identified 3 minor deficiencies. There were no administrative penalties. All minor deficiencies were corrected immediately.**

KEY FACTS REGARDING THE ISSUE:

BC has had anti-money laundering policies in place since 1998. In 2000 the federal government created FINTRAC, which requires businesses that deal in large sums of cash - banks, life

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insurance companies, real estate companies and gambling facilities – to report large-cash transactions and disbursements over \$10,000, foreign exchanges over \$3,000 and all “suspicious” transactions.

Money laundering in casinos is a repeated topic of media stories and often focuses on suspicious transactions, security reports or other items obtained via Freedom of Information and Protection of Privacy requests. Coverage often makes the leap that suspicious transactions are criminal acts and police should be called or that transactions involving large amounts of cash indicate that money laundering is taking place and criminals are in casinos.

Casinos are just one of many venues dealing in currency that may be targeted by money-launderers. They are also just one of a number of industries that must report all large cash transactions and suspicious transactions to FINTRAC. Critics question why police are not called when casinos spot suspicious transactions. However, reporting entities such as casinos are key contributors to anti-money laundering efforts through the reports they provide to FINTRAC, which in turn create a data trail that is routinely shared with law enforcement.

Casinos are required to identify and report any suspicious financial transactions to BCLC which, under federal legislation, is then required to report to FINTRAC. Additionally, the *Gaming Control Act* requires casinos to immediately notify GPEB of any conduct, activity, or incident that involves the commission of an offence under a provision of the *Criminal Code of Canada* that is relevant to a lottery scheme or horse racing, or the commission of an offence under this Act.

Generally, BCLC files a suspicious transaction report if a player buys in with a large amount of small denomination bills or buys in for \$3,000 or more (CDN) and then cashes out after minimal play, or if there is any indication of potential money laundering or other unusual financial activity.

In Fiscal Year 2014/15, BCLC filed 1,735 notifications of Suspicious Transactions to FINTRAC, compared to 1,254 in Fiscal year 2013/14. This number has increased as a result of due diligence exercised on high risk players, as well as continued training within the facilities to report unusual activities.

To combat the perception that casinos are vulnerable to large-scale money laundering and other criminal activities Gaming Policy and Enforcement Branch and BCLC are developing strategies to better communicate the wide range of anti-money laundering measures that are already in place, along with new measures that will strengthen enforcement efforts.

The information gathered and reports filed to FINTRAC contribute to an overall data and intelligence trail that FINTRAC and police use to identify patterns and potential criminal activity.

Government’s AML Initiatives

Government launched an Anti-Money Laundering strategy in 2011 focused on reducing the use of cash to minimize the opportunity for money laundering to take place through gaming facilities. Improvements under this strategy include:

- Patron Gaming Fund (PGF) accounts where casino patrons may transfer money from regulated banks and credit unions, or add funds to their account via certified cheques, bank drafts, internet transfers, or verified win cheques,

- Electronic transfers of funds to PGF accounts through Canadian and U.S. chartered banks;
- Customer convenience cheques clearly marked as a verified win or as a “return of funds that are not gaming winnings”. Cheques are more secure than cash and allow players to leave a casino with a cheque up to a maximum of \$10,000;
- A “cheque hold” system for high-volume players. Players can secure play against a personal cheque from an approved bank that will not be processed until an agreed upon period of time and any winnings or remaining funds are paid back to the player by casino cheque;
- Debit withdrawals at the cash cage; and
- ATM withdrawals inside gaming facilities.

Customer Due Diligence

GPEB commissioned Malysch Associates Inc. to complete a Customer Due Diligence (CDD) study in 2014, regarding the due diligence practices carried out by financial institutions which handle large amounts of cash. GPEB is investigating options for AML compliance, CDD and regulatory intervention as part of Phase 3 of the AML strategy.

BCLC’s AML programs

BCLC and service providers are committed to addressing AML, with measures in place focused on: policies and procedures; investigations; technology; and security & surveillance.

Policies and procedures:

- BCLC Internal Audit Services conducts independent tri-weekly audits of all Unusual Transaction Reports and Large Cash Transaction Reports in order to ensure timeliness and completeness of reporting.
- Play is not anonymous, with photo ID and other personal details collected;
- If a player buys in with a large amount of cash, they receive cash back in the same denomination and any cheque issued is clearly marked as a verified win or as a “return of funds that are not gaming winnings”.
- Players are not allowed to exchange small denomination bills for large denomination bills and they cannot pass chips on the casino floor.
- Players may not pass chips on the casino floor.
- Casino chips may only be used at a single property. They cannot be redeemed at any facility other than where they were initially purchased.

Investigations:

- BCLC has an information-sharing agreement with the RCMP, which provides information to initiate proactive bans of individuals with organized crime/gang links, those identified as a threat to public safety or who are involved in criminal conduct likely to generate proceeds of crime.
- A proactive 14 day investigation and barring procedure for undesirable activity such as very large-cash buy-ins or chip swapping which provides BCLC’s investigators time to review cases and determine if a ban is appropriate. A cash ban may be imposed if there is suspicion that the player is obtaining money from a suspect source.
- Every facility-based gaming worker must complete BCLC’s anti-money laundering training with a refresher course every two years and additional management training.

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- New investigators are selected using the Justice Institute of B.C. Investigative Aptitude tool and existing staff are certified with industry-recognized gold standard training from the Association of Certified Anti-Money Laundering Specialists.
- BCLC has assembled a dedicated AML team with robust analytical capacity.

Technology

- BCLC has purchased new business intelligence software from a leading provider to financial institutions, including three of Canada's five big banks.
- The software, currently being customized, will allow for a scalable and auditable case management system (first phase of roll out expected in summer 2015) that automatically monitors patrons by name, date of birth and business relationships against a variety of global watch lists and creates and sorts alerts by risk priority. The majority of this automated work is currently being done manually by BCLC investigators.
- The software will support a 360 degree view of a customer's risk profile and will set the benchmark for other jurisdictions in North America.

Security & Surveillance

- There are multiple layers of security and surveillance to monitor activity on the gaming floor and at facility entrances, including:
 - iKiosks used to screen anyone appearing under age 25
 - License Plate Recognition for self-excluded or banned individuals
 - Gaming Security officers and surveillance personnel
- BCLC is in the planning phase for Facial Recognition technology and is currently consulting with the Information and Privacy commissioner.
 - Recent improvements (such as 3D capabilities) now make it a viable option
Estimated 92-95% detection rate
 - Enhances FINTRAC compliance capabilities by helping to track individuals who visit multiple casinos and conduct transactions just under the reporting threshold
 - Will help in the identification of self-excluded, banned and undesirable individuals

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