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Date: August 9, 2017

Subject: COMM-8939 BCLC Directive Impact on Cash Buy-Ins and New Money PGF Deposits

EXECUTIVE SUMMARY

In the latter part of 2015, BCLC began issuing directives to certain high risk patrons advising them they are no longer permitted to buy-in with 'unsourced' cash. Patrons that received the directive were those conducting buy-ins with substantial amounts of cash, primarily \$20s.

A two year time period was chosen for review (January 1, 2015 – December 31, 2016) and involved five gaming facilities: River Rock, Edgewater, Grand Villa, Starlight and Hard Rock Casino. The objectives of our review were to:

1. Assess if the BCLC unsourced cash directive resulted in a reduction in cash buy-ins with \$20s.
2. Determine if the directive resulted in increased new money deposits to PGF accounts.

REVIEW RESULTS

Objective #1: Assess if BCLC unsourced cash directive resulted in a reduction in cash buy-ins with \$20s.

- The BCLC unsourced cash directive had a significant impact in reducing the amount of cash buy-ins with \$20s, particularly at River Rock Casino.
 - Cash buy-ins with \$20s decreased by 53% in 2016 compared to 2015 at River Rock. The decrease notably started around directive issuance, in the second fiscal quarter of 2015.
 - For the two quarters before the directive, cash buy-ins at River Rock with \$20s ranged from \$37 to \$47 million. For the six quarters post directive, cash buy-ins with \$20s at River Rock ranged between \$13 and \$14 million each quarter.

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- Edgewater Casino, which is in close proximity to River Rock, experienced a 25% decrease in cash buy-ins with \$20s in 2016 compared to 2015. Post directive, cash buy-ins with \$20s steadily declined each quarter.
- The directive did not adversely nor materially impact cash buy-ins conducted with \$20s at Grand Villa, Starlight or Hard Rock Casino. This makes sense, from the perspective that the directive primarily targeted high limit gamblers at River Rock.

Objective # 2: Determine if the directive resulted in increased new money deposits to PGF accounts.

- When the directives started being issued to patrons, one theory was that in the short term it may lead to a reduction in the amount of gaming chips purchased; however, in the long term patrons would adjust, by sourcing their cash or transitioning to PGF accounts. Our analysis showed that the directive did result in increased new money deposits to PGF accounts.
 - For the six months before the directive, the average monthly new money deposit to PGF accounts was \$11.6 million. For the 18 months post directive, the average monthly new money deposit to PGF accounts was \$14.5 million, which represents an increase of 25%.
 - Total new money deposits to PGF accounts for the calendar year 2016 were \$186.1 million compared to \$145.4 million in 2015, which represents an annual increase of 28%.
 - River Rock was most impacted by the directive. Our analysis at River Rock showed that the correlation between the decrease in cash buy-ins with \$20s and the increase in new money deposits to PGF accounts started around the time of directive issuance.

CONCLUSION

Although fluctuations in the amount of money coming into casinos (cash and new money deposits to PGF accounts) may partly be attributed to changes in player behaviour, frequency and duration of visits; the most material procedural change over the past two years was the BCLC unsourced cash directive. The results of our analysis showed that the directive resulted in a significant reduction in cash buy-ins with \$20s which correlated with an increase in new money deposits to PGF accounts.

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INTRODUCTION

BACKGROUND

In the latter part of 2015, BCLC starting issuing directives to certain high risk patrons advising them they are no longer permitted to buy-in with 'unsourced' cash. Unsourced cash is defined as cash without a bank or ATM withdrawal slip; however, patrons under the directive may buy-in with cash they received as winnings from the same casino. Patrons that received the directive were those conducting buy-ins with substantial amounts of cash, primarily \$20s. The nature of the cash they presented often suggested the money did not come from a financial institution and may be of questionable source.

OBJECTIVE

The objectives of our review were to:

1. Assess if the BCLC unsourced cash directive resulted in a reduction in cash buy-ins with \$20s.
2. Determine if the directive resulted in increased new money deposits to PGF accounts.

SCOPE

The following five casinos were reviewed for the two year period January 1, 2015 – December 31, 2016: River Rock, Edgewater, Grand Villa, Starlight and Hard Rock Casino. Although the BCLC unsourced cash directive targeted primarily those frequenting the high limit rooms at River Rock, we expanded our scope to include the other four big lower mainland casinos to determine if they were impacted.

APPROACH

The approach consisted of the following steps:

- Analyzing GMS 'Report Drop Reconciliation' reports, which document cash buy-ins for the casino, by denomination.
- Analyzing PGF 'Trust Ledger' reports, which document PGF account transactions.
- Evaluating trends or patterns that emerged.

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REVIEW RESULTS

Objective #1: Assess if BCLC unsourced cash directive resulted in a reduction in cash buy-ins with \$20s

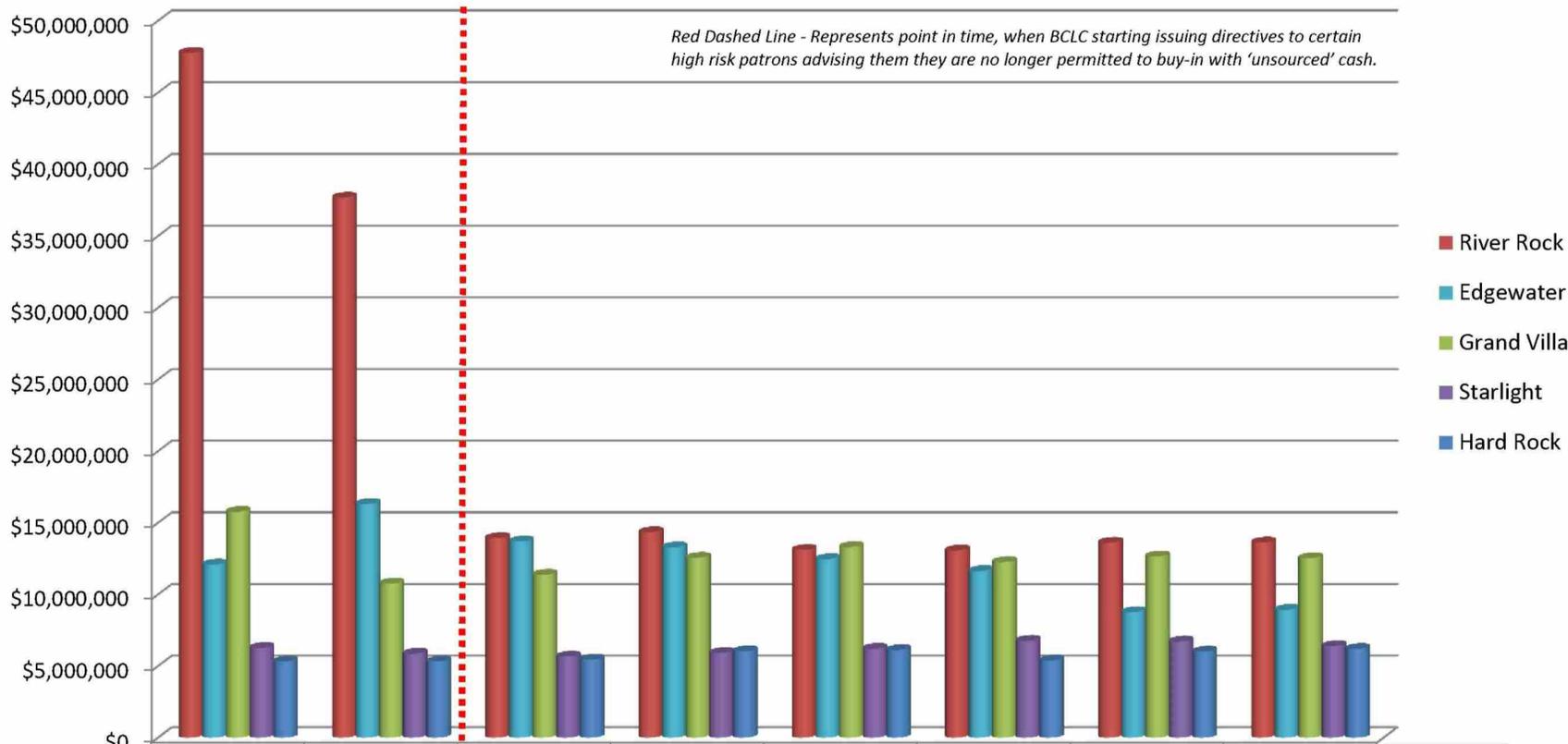
GMS 'Report Drop Reconciliation' reports document cash buy-ins for the casino, by denomination. These reports were filtered and then analyzed to show the total dollar amount of cash buy-ins with \$20s.

On the following page, Chart 1 provides a summary of cash buy-ins with \$20s, for the period January 1, 2015 – December 31, 2016, at River Rock, Edgewater, Grand Villa, Starlight and Hard Rock Casino. The chart highlights the following key points:

- The BCLC unsourced cash directive had a significant impact in reducing the amount of cash buy-ins with \$20s, particularly at River Rock Casino.
 - Cash buy-ins with \$20s decreased by 53% in 2016 compared to 2015 at River Rock. The decrease notably started around directive issuance, in the second fiscal quarter of 2015.
 - For the two quarters before the directive, cash buy-ins at River Rock with \$20s ranged from \$37 to \$47 million. For the six quarters post directive, cash buy-ins with \$20s at River Rock ranged between \$13 and \$14 million each quarter.
- Edgewater Casino, which is in close proximity to River Rock, experienced a 25% decrease in cash buy-ins with \$20s in 2016 compared to 2015. Post directive, cash buy-ins with \$20s steadily declined each quarter.
- The directive did not adversely nor materially impact cash buy-ins conducted with \$20s at Grand Villa, Starlight and Hard Rock Casino. This makes sense, from the perspective that the directive primarily targeted high limit gamblers at River Rock.

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Chart 1: Cash Buy-Ins with \$20 Bills
For the period January 1, 2015 - December 31, 2016



	Q4: Jan - Mar 2015	Q1: Apr - Jun 2015	Q2: Jul - Sep 2015	Q3: Oct - Dec 2015	Q4: Jan - Mar 2016	Q1: Apr - Jun 2016	Q2: Jul-Sep 2016	Q3: Oct - Dec 2016	Total
River Rock	\$47,769,320	\$37,671,500	\$13,932,520	\$14,348,040	\$13,102,520	\$13,075,060	\$13,614,540	\$13,627,220	\$167,140,720
Edgewater	\$12,089,140	\$16,317,980	\$13,700,780	\$13,290,900	\$12,466,100	\$11,644,860	\$8,770,640	\$8,933,260	\$97,213,660
Grand Villa	\$15,771,380	\$10,764,480	\$11,379,820	\$12,560,160	\$13,312,340	\$12,259,540	\$12,658,860	\$12,533,660	\$101,240,240
Starlight	\$6,270,680	\$5,874,460	\$5,663,720	\$5,919,200	\$6,215,420	\$6,772,820	\$6,717,920	\$6,397,260	\$49,831,480
Hard Rock	\$5,323,980	\$5,324,060	\$5,459,840	\$6,042,520	\$6,120,560	\$5,387,380	\$6,014,160	\$6,197,460	\$45,869,960

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Objective # 2: Determine if the directive resulted in increased new money deposits to PGF accounts.

When the directives started being issued to patrons, one theory was that in the short term it may lead to a reduction in the amount of gaming chips purchased; however, in the long term patrons would adjust, by sourcing their cash or transitioning to PGF accounts.

Table 1 provides a quick year over year comparison of total PGF deposits. As shown, total deposits to PGF accounts for the calendar year 2016 were \$564.3 million compared to \$353.5 million for 2015, which represents an annual increase of 59%.

Table 1: PGF Deposit Summary	2015	2016	% Change
New Money PGF Deposits	\$145,415,364	\$186,053,911	+28%
Churn	\$208,141,407	\$378,254,906	+82%
Total PGF Deposits	\$353,556,771	\$564,308,817	+59%

New Money - A patron may deposit new money into their PGF account via means of a bank draft or certified cheque from a regulated financial institution, wire transfer, electronic funds transfer (domestic and international) debit card transaction, or internet banking transfer from an authorized personal bank account. Despite various options, almost all new money deposits into PGF accounts are done with bank drafts.

Churn - A patron may deposit churn into their PGF account via means of a cheque from a Canadian casino (either verified win cheque or a 'Return of Funds' cheque), chips from funds previously withdrawn from the account and substantiated with table play or sourced to a documented table win, slot jackpot slips, and cash from a verified win issued at the same casino.

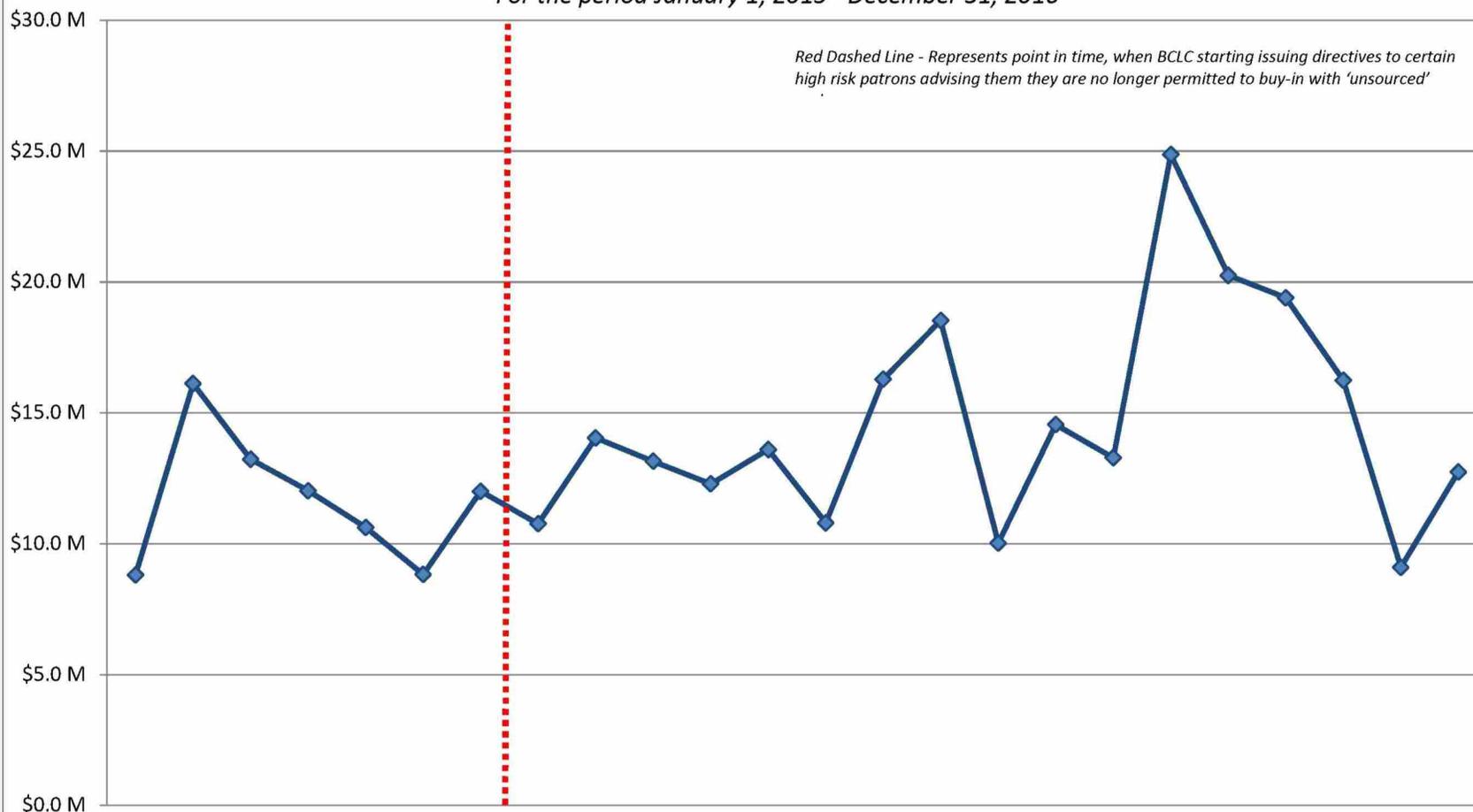
Chart 2 on the following page provides a summary of new money PGF deposits on a monthly basis for the period January 1, 2015 – December 31, 2016. The chart highlights the following key points:

- For the six months before the directive, the average monthly new money deposit to PGF accounts was \$11.6 million. For the 18 months post directive, the average monthly new money deposit to PGF accounts was \$14.5 million, which represents an increase of 25%.
- Total new money deposits to PGF accounts for the calendar year 2016 were \$186.1 million compared to \$145.4 million in 2015, which represents an annual increase of 28%.

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Chart 2: PGF New Money Deposits

For the period January 1, 2015 - December 31, 2016



	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Total
PGF New Money Deposits	\$8.8 M	\$16.1 M	\$13.2 M	\$12.0 M	\$10.6 M	\$8.8 M	\$12.0 M	\$10.8 M	\$14.0 M	\$13.1 M	\$12.3 M	\$13.6 M	\$10.8 M	\$16.3 M	\$18.5 M	\$10.0 M	\$14.6 M	\$13.3 M	\$24.9 M	\$20.3 M	\$19.4 M	\$16.2 M	\$9.1 M	\$12.7 M	\$331.5 M

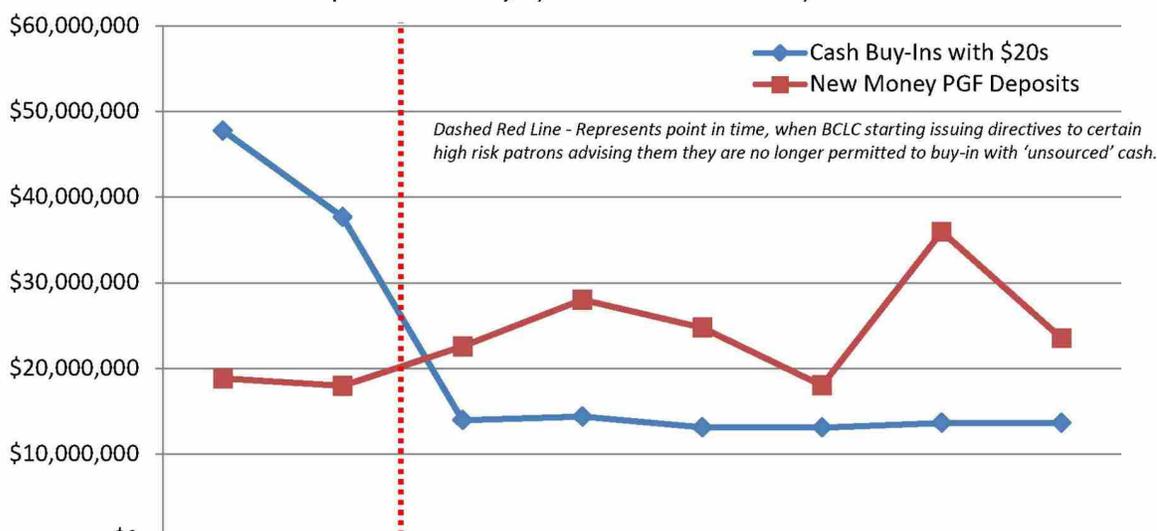
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The BCLC unsourced cash directive targeted primarily those frequenting the high limit rooms at River Rock. Consequently, River Rock was most impacted by the directive. Chart 3 compares cash buy-ins with \$20s and new money deposits to PGF accounts at River Rock. The chart highlights the following key points:

- The decrease in cash buy-ins with \$20s and increase in new money deposits to PGF accounts was most significant from July 2015 onwards when BCLC starting issuing directives to certain high risk patrons advising them they are no longer permitted to buy-in with ‘unsourced’ cash.
- Overall, cash buy-ins with \$20s at River Rock for the calendar year 2016 were \$53.4 million compared to \$113.7 million in 2015, which represents a decrease of 53%. New money deposits to PGF accounts at River Rock for the calendar year 2016 were \$102.2 million compared to \$87.3 million, which represents an increase of 17%.

Chart 3: River Rock Casino: Comparison of Cash Buy-Ins with \$20s and PGF New Money Deposits

For the period January 1, 2015 - December 31, 2016



	Q4: Jan - Mar 2015	Q1: Apr - Jun 2015	Q2: Jul - Sep 2015	Q3: Oct - Dec 2015	Q4: Jan - Mar 2016	Q1: Apr - Jun 2016	Q2: Jul - Sep 2016	Q3: Oct - Dec 2016	Total
Cash Buy-Ins with \$20s	\$47,769,320	\$37,671,500	\$13,932,520	\$14,348,040	\$13,102,520	\$13,075,060	\$13,614,540	\$13,627,220	\$167,140,720
New Money PGF Deposits	\$18,816,536	\$17,951,875	\$22,550,725	\$28,013,200	\$24,758,843	\$17,992,050	\$35,949,480	\$23,489,000	\$189,521,709

CONCLUSION

Although fluctuations in the amount of money coming into casinos (cash and new money deposits to PGF accounts) may partly be attributed to changes in player behaviour, frequency and duration of visits; the most material procedural change over the past two years was the BCLC unsourced cash directive. The results of our analysis showed that the directive resulted in a significant reduction in cash buy-ins with \$20s which correlated with an increase in new money deposits to PGF accounts.