PROVINCE OF BRITISH COLUMBIA

Summary Review

Anti-Money Laundering Measures at BC Gaming Facilities

February 2011

EXECUTIVE SUMMARY

In early January 2011, a series of news reports ran on cash transactions occurring at gaming facilities in British Columbia. Media stories focused on a number of large cash transactions involving small denomination Canadian currency, typically $20 bills, that occurred over the summer of 2010. In the course of these reports, media raised questions about how well gaming in the province was protected from money laundering.

Gaming in British Columbia is operated and managed by the British Columbia Lottery Corporation (BCLC). BCLC is a Crown corporation responsible for implementing and managing anti-money laundering measures at gaming facilities throughout the province. Gaming is regulated by government through the Gaming Policy and Enforcement Branch (GPEB). The branch's mandate includes oversight of BCLC's activities, including its anti-money laundering regime.

In January 2011, the Minister of Public Safety and Solicitor General ordered a review of anti-money laundering strategies employed at B.C.'s gaming facilities. The review, conducted at a high level, was intended to determine what anti-money laundering policies, practices and strategies were in place. Additionally, the review was to identify any opportunities to strengthen the existing anti-money laundering regime.

The review found that BCLC and its operators, with oversight and guidance from GPEB, employ standard and appropriate anti-money laundering strategies. Notwithstanding these measures, opportunities to further strengthen anti-money laundering efforts were identified.

The review found four specific steps BCLC could take to improve its anti-money laundering regime.

1. BCLC, in consultation with GPEB, should revise its buy-in/cash-out policy to allow for cash-outs to be paid by cheque, where cash-out cheques clearly and unequivocally indicate that the funds are not from gaming winnings.
2. BCLC should enhance training and corporate policy to help ensure gaming staff do not draw conclusions about the ultimate origin of funds based solely on the identification of a patron and his or her pattern of play. Training and business practices should result in gaming staff having a clear understanding that the duty to diligently scrutinize all buy-ins for suspicious transactions applies whether or not a patron is considered to be known to BCLC or the facility operator.
3. BCLC holds the view that gaming losses on the part of a patron provide evidence that the patron is not involved in money laundering or other related criminal activity. This interpretation of money laundering is not consistent with that of law enforcement or regulatory authorities. BCLC should better align its corporate view and staff training on what constitutes money laundering with that of enforcement agencies and the provisions of the relevant statutes.
4. Gaming is almost entirely a cash business in B.C. This presents opportunities for organized crime. Transition from cash transactions to electronic funds transfer would strengthen the anti-money laundering regime. BCLC, in consultation with GPEB, should take the steps necessary to develop electronic funds transfer systems that maximize service delivery, create marketing opportunities, and are compliant with anti-money laundering requirements.

The review identified opportunities available to GPEB to strengthen its oversight role. The following actions would move the branch further into the realm of oversight best practices.

1. Adopting the perspective that registration, audit and enforcement/investigations lie on a compliance continuum and making sure the branch structure, including reporting relationships, supports this integrated approach.

2. Developing an annual unified registration, audit and investigations plan that sets out and co-ordinates compliance objectives and priorities for each year.
3. Formally involving the police agencies of jurisdiction, including those with specific anti-money laundering and organized crime mandates, in annual enforcement objective and priority planning.
4. Establishing more formal contacts and relationships with governance and enforcement agencies and associations in jurisdictions with large, long-standing gaming industries.

The review was conducted at a high level. More detailed information on the effectiveness of the anti-money laundering regime in place may be useful in terms of improving gaming integrity going forward. To more fully and accurately assess and address the potential future risk of money laundering and associated criminal activities to gaming, the Province should consider the following initiatives.

1. Engaging an independent firm with expertise in establishing electronic funds transfer processes and procedures to assist with the creation of an electronic funds transfer system that delivers a high degree of service to patrons, is marketable, and is fully compliant with anti-money laundering standards found in the financial sector. This firm should also be utilized to assist with ensuring the structure and conduct of future anti-money laundering reviews not only measure conformity with anti-money laundering legislation and regulations, but also help BCLC and GPEB to go beyond regulatory compliance to meet financial sector best practices.
2. Creating a cross agency task force to investigate and gather intelligence on suspicious activities and transactions at B.C. gaming facilities. The task force would report out on the types and magnitude of any criminal activity it found occurring in relation to gaming facilities in B.C. This information would help guide any additional actions that may be required.

1. BACKGROUND

Gaming in B.C. is regulated under the provincial *Gaming Control Act*, introduced in 2002, and by the *Criminal Code of Canada*. GPEB is an office of government established under the *Gaming Control Act*. GPEB's mandate is to regulate and provide oversight of gaming in British Columbia. Its responsibilities include ensuring the integrity of gaming operators, staff and equipment, generally through the development of gaming policy, as well as monitoring BCLC and investigating regulatory and criminal offences connected to gaming facilities. Additionally, GPEB is accountable for managing grants derived from gaming funds and responsible gaming programs.

GPEB monitors anti-money laundering strategies and other efforts to protect gaming from organized crime, primarily through its audit and investigative functions. Registration operations at GPEB also provide preventative and protective measures.

BCLC is incorporated as a Crown corporation under the *Gaming Control Act*. On behalf of the Government of B.C., it conducts, manages and operates lotteries, casino gaming, community gaming and, more recently, electronic gaming offered over the Internet. The directors and chair of BCLC are appointed by the Lieutenant Governor in Council. The corporation's mission is to deliver a player-focused, high-quality, profitable gaming experience in a socially responsible manner. BCLC publicly commits to building and maintaining public trust through the values of integrity, social responsibility and respect.

Gaming services at casinos are delivered on behalf of BCLC by gaming operators under contract. BCLC bears the responsibility for implementing and managing anti-money laundering strategies at gaming facilities. This includes responsibility for reporting requirements under the *Gaming Control Act*, and the federal *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*.

2. EMERGING CONCERNS

In early January 2011, a series of news stories emerged about cash transactions at B.C. gaming facilities. The stories focused on a number of large cash transactions involving small denomination Canadian currency, typically $20 bills that occurred over the summer of 2010. While the stories acknowledged that BCLC was meeting all reporting requirements, questions arose in the media around the adequacy of anti-money laundering efforts and other measures intended to protect B.C. gaming facilities from criminal activity. Ultimately, the Minister responsible for gaming ordered a review of the anti-money laundering strategies employed at B.C.'s gaming facilities.

3. PURPOSE AND SCOPE OF REVIEW

The purpose of the review is to advise the Minister on specific issues related to gaming integrity in the province.

The Minister directed that a review be undertaken of the measures employed by BCLC and GPEB aimed at protecting gaming facilities from organized criminal activity. The review was conducted at a high level and was intended to determine what policies, practices and strategies were in place. Opportunities for improvement were to be identified. The scope of the review was not intended to provide an in-depth analysis of the extent to which existing policies and procedures were adhered to by BCLC or GPEB, or the robustness of GPEB's monitoring of BCLC's efforts aimed at preventing criminal activity at gaming facilities.

4. METHOD

Interviews were conducted with selected executive members and staff at BCLC. Documentation provided by BCLC germane to the review was examined. Interviews were conducted with senior government officials from GPEB, including those with overall responsibility for audit, investigations and policy. Documentation provided by GPEB was also reviewed.

A comprehensive site tour was conducted at a large gaming facility. The visit included an opportunity to discuss anti-money laundering efforts, compliance, and business impacts with two different gaming facility operators.

Senior members of the RCMP responsible for investigations involving money laundering, terrorist financing and other financial crimes were interviewed. A senior municipal police official with expertise in money laundering and organized crime investigations was consulted. Input was sought from an official from FINTRAC. An interview was conducted with an independent consultant with expertise in anti-money laundering compliance and forensic auditing in both the Canadian and international financial services sectors.

Literature on anti-money laundering strategies was reviewed as were the proceedings from a recent Canadian symposium on money laundering and the relatively recent reports prepared by the ombudsman and Deloitte & Touche LLP on the B.C. lottery system.

Recent media reports on large cash transactions at B.C. gaming facilities were collected and reviewed.

5. SUMMARY OF FINDINGS

BCLC

This review was met with an approach on the part of BCLC that was open, helpful and straightforward. Those interviewed at BCLC were clearly focused on ensuring that gaming services were delivered in a manner that protected the integrity of gaming in the province. It was evident that BCLC understands its mandate in regard to the delivery and management of gaming. Moreover, BCLC is fully aware of its responsibility to make sure gaming is delivered in a manner that is compliant with anti-money laundering requirements and that appropriately balances gaming revenue objectives with strategies to minimize the risk of criminal activity at gaming facilities.

BCLC and its operators employ standard and appropriate anti-money laundering strategies. These measures include, among other things:

- mandatory training for all staff delivering gaming services;
- policies and procedures dealing with identifying and knowing a client;
- tracking all play that falls within reporting requirements;
- segregating and verifying gaming wins from the cash-out of funds brought into a gaming facility to buy-in;
- policies prohibiting customers from exchanging small denomination bills for large denomination bills;
- restricting the movement of gaming chips between players and gaming facilities;
- issuing cheques only in relation to verified gaming wins; and,
- reporting large or suspicious cash transactions.

While BCLC has standard anti-money laundering measures in place, opportunities exist to further strengthen current efforts.

Player Buy-ins

When a player buys in with a large number of small denomination bills (usually $20 bills), BCLC advises that its practice is to pay cash-outs in the same denominations. For example, a player buying in with $10,000 in $20 bills, after playing and losing $2,000, would receive $8,000 in $20 bills when cashing out. This practice is intended to prevent placing proceeds of crime into the legitimate economy, and it effectively achieves that purpose.

A change in policy that would enable BCLC to cash out a patron with a cheque that clearly and unequivocally identifies funds as not being winnings would have two advantages over the current practice. First, when a cash-out cheque from BCLC is negotiated, it would give any subsequent investigator an audit trail to follow that is not currently available under the existing practice. Second, cheque issuance would reduce the security risks and vulnerabilities associated with clients leaving a casino with large sums of cash. Clearly marking cheques “not gaming winnings” would thwart any future attempts to claim the funds were derived from legal gaming activity.

While this policy change could potentially allow a money launderer to place funds in the legitimate economy, the subsequent audit trail and reduced risks associated with carrying large amounts of cash, would provide benefits that outweigh the potential negative aspects of allowing the placement.

Reporting Obligations

BCLC's obligation is primarily a duty to report. These reporting obligations do not extend to a duty to investigate and confirm the exact provenance of cash used to buy-in. Detailed inquiries and investigation into legitimate or illegitimate sources of cash appropriately fall to various law enforcement and regulatory authorities.

BCLC takes the position that a patron is "known" when picture identification is produced, the patron states an occupation in general terms, and the patron establishes a pattern of play at a B.C. gaming facility. Where these criteria are met, BCLC concludes that cash used by the patron to buy-in at a gaming facility is legitimate and not criminally tainted. Vigilance is warranted when assessing any large cash transaction, and is particularly important in regard to transactions involving large volumes of small denomination bills.

Drawing the conclusion that a large cash transaction involves funds from legitimate sources based only upon patron identification and playing history is not consistent with best anti-money laundering practices. Conclusions and statements as to the ultimate legitimacy of cash should only be made where there is detailed, independent information verifying the source of the funds and should only be made by the enforcement agencies with a mandate to conduct these types of inquiries. BCLC's anti-money laundering efforts could be improved by ensuring gaming staff do not draw conclusions about the ultimate origin of funds based solely on the identification of a patron and his or her pattern of play. Training and business practices should result in gaming staff having a clear understanding that the duty to diligently scrutinize all buy-ins for suspicious transactions applies whether or not a patron is "known" to BCLC or the facility operator.

Gaming Losses

BCLC views gaming losses on the part of a patron as evidence that the patron is not involved in money laundering or other related criminal activity. BCLC's rationale is that where a patron puts significant funds at risk through gaming and loses, the loss demonstrates laundering was not occurring because the patron did not achieve a financial gain or retain a significant portion of his or her initial buy-in. This view of money laundering is much narrower than the definition found in the *Criminal Code* and is not in accord with the opinion of police or regulators as to what constitutes money laundering. Moreover, this view does not recognize the inherent value, irrespective of outcome, of gaming services to a gambler. BCLC's anti-money laundering practices would be strengthened by better aligning its corporate view and staff training on what constitutes money laundering with that of enforcement agencies and the provisions of the relevant statutes.

Electronic Funds Transfer

Today, gaming is almost entirely a cash business in B.C. This presents opportunities for organized crime. Transition from cash transactions to electronic funds transfer would present the opportunity to improve both anti-money laundering efforts and patron safety. However, implementation of electronic funds transfer presents challenges for both BCLC and GPEB.

In consultation with GPEB, BCLC introduced a Patron Gaming Fund Account program in 2010, allowing players to transfer funds from a Canadian banking institution to a gaming account for play at a gaming facility. Very few players have chosen to establish accounts. Of the accounts set up, many are dormant or have never been used. BCLC believes that the combination of a cumbersome application process, overly strict account

controls, and a perceived desire for a high degree of privacy among higher-stakes gamblers has created barriers to moving to electronic funds transfer.

While electronic funds transfer presents opportunities to strengthen anti-money laundering efforts, it can also create money laundering vulnerabilities if appropriate account controls are not put in place. With the appropriate controls, electronic funds transfer provides a better level of protection than cash transactions. While account controls are necessary to protect the integrity of gaming, it is not possible to completely eliminate any chance of money laundering and associated criminal activity. The establishment of electronic funds transfer processes should be approached through a risk-based framework under which risk is effectively managed, but beyond that, as much flexibility as possible is retained to ensure the service is useful and marketable to patrons.

A reassessment of the Patron Gaming Fund Account program from a risk-based context by BCLC and GPEB may be warranted. This work would benefit from independent advice from an expert from the financial services sector, where there is extensive experience and expertise in developing electronic funds transfer processes that maximize service delivery and marketing objectives while ensuring full anti-money laundering compliance.

GPEB

Senior management at GPEB demonstrated a professional and informed approach to gaming integrity. They have a strong understanding of their roles and responsibilities as regulator, but at the same time remain attuned to the legitimate goals and interests of the industry and stakeholders. GPEB's approach to this review was open and fully co-operative. They brought forward a number of suggestions and showed a keen commitment to improving gaming integrity on a continuing basis.

A number of organizational and policy changes at GPEB have been implemented since 2007 in response to a report of the B.C. ombudsman and an audit conducted by Deloitte & Touche on the retail lottery systems. While these reports focused on lotteries, as opposed to casino operations, there were changes that benefited all of GPEB's operations and improved gaming integrity generally. Nonetheless, areas remain where further gains can be made.

There is a strong sense of investigative independence on the part of the Investigations Division within GPEB. This helps to maintain the required degree of separation between policy and enforcement functions in the branch. Having said this, the Investigations Division's perspective on independence may be overly broad. The Investigations Division exhibits some reluctance in participating in branch corporate functions, such as strategic planning and setting annual business objectives, due to concerns that participation in these activities may unduly influence its enforcement role. GPEB's oversight role, including investigations, and its ability to prevent, detect and respond to money laundering concerns may be further optimized by:

1. Adopting the perspective that registration, audit and enforcement/investigations lie on a compliance continuum and making sure the branch structure, including reporting relationships, supports this integrated approach.
2. Strengthening gaming oversight by developing an annual unified registration, audit and investigations plan that sets out and co-ordinates compliance objectives and priorities for the year.
3. Formally involving the police agencies of jurisdiction, including those with specific anti-money laundering and organized crime mandates, in annual enforcement objective and priority planning.

GPEB is a member of the Canadian Partnership for Responsible Gaming, the Canadian Association of Gaming Regulators, and the North American Horse Racing Association. GPEB's anti-money laundering efforts would benefit from and be strengthened through more extensive and formal contact with gaming regulatory, enforcement and governance bodies from other jurisdictions, especially those from outside of Canada with long-standing gaming industries. Establishing formal contacts, relationships and partnerships with governance and enforcement agencies in jurisdictions with large gaming industries would be of particular benefit in keeping informed of developing trends and best practices.

POLICE

As is the case with most areas of enforcement, multiple layers of jurisdiction and responsibility exist when it comes to the investigation and prosecution of offences at gaming facilities. Investigation of money laundering offences is primarily a federal responsibility falling to the RCMP Proceeds of Crime sections, whereas gaming operations and oversight are provincial matters. Additionally, criminal activity not directly related to money laundering is the responsibility of both GPEB and the police agency of jurisdiction where a gaming facility is located. GPEB's authority and mandate to investigate criminal offences is more limited than that of police agencies. For instance, GPEB does not have the authorities required to conduct investigations that necessitate the carrying of firearms, require surveillance to be conducted, or call for the interception of private communications. Investigations involving these requirements and techniques must be led by police agencies.

Currently there are no formal links between the GPEB Investigations Division, the RCMP Proceeds of Crime Section or police agencies of jurisdiction. However, the Investigations Division does enjoy strong informal links with police. Despite this, it will remain difficult to assure an appropriate level of response to, and investigation of,

criminal offences related to gaming, including money laundering, without a formal agreement or arrangement of some form between the province (GPEB) and the police agencies with jurisdiction. Without these changes, money laundering and other serious criminal activity suspected at gaming facilities will rarely rise sufficiently in priority to warrant police investigation.

6. Conclusions and Future Directions

Circumstances set out by BCLC in a series of Section 86 (of the *Gaming Control Act*) Reports, Large Cash Transaction Reports, and Suspicious Transaction Reports completed between May and September 2010, and reported upon in the media, have given rise to questions about cash transactions occurring at B.C. gaming facilities. This review involved a high-level look at those transactions and the anti-money laundering policies, practices, and strategies in place at B.C. gaming facilities. The review found that BCLC, in terms of policies and procedures, has a robust anti-money laundering regime in place. Further, it was determined that GPEB has the required level of anti-money laundering expertise and is capable of discharging its responsibility to provide oversight as it relates to anti-money laundering and associated criminal activities at gaming facilities. Despite the strength and adequacy of the current measures, opportunities to close gaps, further minimize vulnerabilities and strengthen anti-money laundering strategies exist, and have been identified above.

In looking to the future, additional measures, particularly in regard to electronic funds transfer, provide the potential to move BCLC and GPEB further into the realm of best practices. The following steps will contribute to strengthening and maintaining gaming integrity in the province on a continuing basis:

1. Engaging an independent firm with expertise in establishing electronic funds transfer processes and procedures to assist with the creation of an electronic funds transfer system that will provide a high level of service quality, marketability, and ease of access, while meeting anti-money laundering standards found in the financial sector. This firm should also be utilized to assist with ensuring the structure and conduct of future anti-money laundering reviews not only measure conformity with anti-money laundering legislation and regulations, but also help BCLC and GPEB to go beyond regulatory compliance to meet and maintain financial sector best practices.

2. Creating a cross-agency task force to investigate and gather intelligence on suspicious activities and transactions at B.C. gaming facilities. The task force would report out on the types and magnitude of any criminal activity it found occurring in relation to gaming facilities in B.C. This information would help to guide any additional future action.