
From: Mazure, John C EMNG:EX
Sent: Monday, December 2, 2013 4:58 PM
To: Vander Graaf, Larry P EMNG:EX
Subject: FW: Comments to GPEB Investigations Report on Money Laundering in BC Casinos
Attachments: SCTMoney Laundering in BC Casinos - October 2013 - with Comments.doc

Larry, i've added my comments to those provided by Bill, many of which i echo, in the attached document. The context of my comments is to ensure that all findings or conclusions are supported by evidence in the report. As such I have taken a "devil's advocate" approach to the report which results in some pointed questions and concerns raised where I think there are gaps. Have a read and then I would be pleased to discuss.

From: McCrea, Bill J EMNG:EX
Sent: Wednesday, November 13, 2013 2:53 PM
To: Mazure, John C EMNG:EX
Cc: Fair, Susan P EMNG:EX
Subject: Comments to GPEB Investigations Report on Money Laundering in BC Casinos

Hi John,

Here are my comments to the recent report from Investigations. Now it's your turn to review and add your own thoughts. Please let me know when you are ready for us to take this to the next step. Also, we can discuss your questions from the two previous reports. Thanks.

Bill

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**GAMING POLICY
AND ENFORCEMENT BRANCH
INVESTIGATION DIVISION**

REPORT OF FINDINGS

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**SUSPICIOUS CURRENCY TRANSACTIONS/MONEY LAUNDERING IN
BRITISH COLUMBIA CASINOS**
Current Status – October, 2013

The following update and information is being provided further to previous quarterly reports and ongoing updating of suspicious currency trends and statistics, relative to the flow of suspicious cash into casinos in British Columbia. The information contained in this report will again indicate that all Anti- Money Laundering measures that have been attempted or implemented since 2011 by BCLC and or the service providers have not slowed the dramatic and ongoing increase in suspicious cash coming into predominantly Lower Mainland casinos.

In the Action Plan to Review Money Laundering Measures at BC Gaming Facilities of August 22, 2011 authored by Robert Kroeker, under Recommendation #2 it was noted that *“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.”* To date, neither BCLC nor the service providers have taken any steps to *“diligently scrutinize all buy-ins for suspicious transactions”*.

In mid-2011 a GPEB Anti-Money Laundering Cross Divisional Working Group (AML X-DWG) was formed. Its strategic statement and focus was: *“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.”*

A March, 2013 GPEB Anti-Money Laundering in BC Gaming - Measuring Performance progress report went on to state the strategy objective was to *“prevent money laundering, and the perception of money laundering.”*

Commented [jm1]: This is more than a report of findings; conclusions are being drawn.

Commented [jm2]: I think we need to be careful here as there may be other reasons for the increase ie a change in reporting behavior.

Commented [jm3]: This and the following two paragraphs appear to provide the policy direction re AML. Suggest we put a header in here to be clear.

Commented [WJM4]: What is the basis of evidence for saying that BCLC or the casino service providers (CSP's) have not taken ANY steps to scrutinize buy-ins for suspicious transactions?

Statistical Overview:

To review and address important concerns and statistics the AML X-DWG continues to look at:

- 1) The number of Sec. 86 Reports on SCT's for the noted years were:

2008/09 – 103
2009/10 – 117
2010/11 – 459
2011/12 – 861
2012/13 - 1,062

2013 (first 9 months) – 840 Projected for full year - 1120

Commented [WJM5]: These are fiscal years. The actual 2012 calendar year had 1173 S.86 reports. It must be noted that there are several factors that need to be considered when we look at the increase in this reporting. This includes the potential actual increase in suspicious traffic, enhanced training and increased diligence in requiring CSP's to identify and report.

Commented [WJM6]: A calendar year over year comparison shows 2013 to have less S.86 report filings than the previous year.

- 2) Initiatives and strategies implemented to help reduce the amount of suspicious currency coming into casinos in BC and developing alternatives for bringing cash into these casinos:

Player Gaming Fund Account – 2009
Hold Cheque Policy – April, 2012
Convenience Cheque Policy – April, 2012
Debit allowed – May, 2012

Commented [WJM7]: In addition to the initiatives noted we have also approved buy-ins with cheques from other Canadian casinos, buy-ins with funds drawn on top tier U.S. bank accounts, the use of internet transfers into PGF accounts, and loading PGF accounts with certified cheques and verified win cheques.

Commented [jm8]: This info should follow the info on the previous page as they represent the responses to the policy direction and aren't stats.

- 3) Tracking of suspicious currency statistics and denominations of bills started in 2010 and provide the following statistical information:

July 01, 2010/June 30, 2011 (1 year period) - \$39,572,313 with 75% being in \$20.00 bill denomination

January 01, 2012 to December 31, 2012 (1 year period) - \$87,435,297 with 68% being in \$20.00 bills

- 4) For the present year (statistics from January 01, 2013 to September 30, 2013 (9 month period), the following SCT data has been reported:

\$71,196,398 with 67% or \$47,989,675 in \$20.00 denomination

Projecting forward to a full calendar year will equate to the following estimates for the year 2013:

\$94,928,530 with approx. 67% in \$20.00 denomination

Commented [WJM9]: This projection is just under a 9% increase over the 2012 calendar year, with virtually the same percentage of \$20 bills.

Commented [jm10]: We should put this info in a table as easier to read and see trends.

Commented [jm11]: What is the significance of \$100M other than it is a big number?

- 5) That projected total would again show an approximate 8% overall increase from 2012 and the total amount of SCT's is coming very close to 100 million dollars per year.

Approximately 75% of that total currency is being accepted predominantly at one venue, the River Rock Casino and the majority of that suspicious currency is being brought in by some 35-40 patrons.

- 6) Generally, it is some 20–25 different patrons that are the subjects of 25% to 35% of all SCT Sec. 86 reports submitted by the service providers to GPEB, depending on the particular period of review. This same group of patrons is responsible for bringing in 60-70 % of all suspicious currency being brought into casinos in the LMD.

Commented [jm12]: These are useful excerpts of the data but I think it would be useful to show in tabular form the: % and value of currency and number of patrons in SCT by facility; the % and value of \$20 denominations and number of patrons in SCT by facility. This would give a fuller picture.

There is no question that most of the large sums of cash currency coming into casinos, and especially the small denomination cash currency (\$20.00 bills), is being brought in by patrons who utilize loan sharks to obtain their currency. Over the past several years the service providers and BCLC have been vigilant in dealing with loan sharks who were operating within the casinos and who have, for the most part, been removed from the gaming floor and out of the venues. However, loan sharks are increasingly operating out of locations nearby the casinos. They continue to have associates operating as “runners” or “eyes and ears” inside the casinos, ready to contact or alert their loan shark bosses of “patron customers” who will need more money to continue play. What is now often observed is when a patron is out of money he/she and or the associate make a phone call to a loan shark. The patron leaves the facility, often driven by the associate and/or picked up by the loan shark or his associate, and then departs the facility property. The patron returns within several minutes with a new supply of suspicious currency which is brought into and accepted at the casino. This is continually repeated over and over again at the main casinos in the LMD where high stakes baccarat games are the predominant, if not main game of choice for these patrons.

Commented [WJM13]: This is a very strong, and specific, statement. Reference is made, in the last paragraph on this page, to police sources providing intelligence on this activity. That paragraph also speaks to organized crime supplying loan sharks with the proceeds of crime to supply gaming patrons. It is imperative that we be supplied with the evidence on which these statements are made, as this is key to the credibility of any position that GPEB may take.

Commented [jm14]: This is one conclusion that may follow from the stats provided above but it may not be the only one. The additional information (evidence) which when combined with the stats, leads to these conclusions needs to be provided – otherwise acceptance requires a leap of faith.

In accepting currency of \$10,000 or more into the casino, service provider personnel do complete and submit through BCLC the required Large Cash Transaction (LCT) or Suspicious Transaction Reports (STR's) as required by FINTRAC. Sec. 86 Reports on SCTs are also reported as required to GPEB Investigation Division. Many of the patrons bringing in the large sums of cash are, for the most part, known to the service providers. Checking of ID and confirming existing information on file on the subject is not regularly done. Service providers simply follow the BCLC guidelines of “know your customer”. The service provider however never asks about or questions the origin of the money that is being brought into the casino. Even though patrons will bring in \$100, 000, \$200,000 and sometimes up to \$500,000 in cash, many times most of it being in smaller denominations or combinations of \$20.00 bills and larger bills, the origin of the money is not questioned.

Commented [jm15]: As I assume this report is being provided to me as GM, I would like to see the evidence that supports this behavior. It can be for my eyes only but I need to see it before I will take action in response.

Commented [jm16]: How often? Need to substantiate this finding.

Commented [jm17]: This is a great question. The report provides one possible explanation for the source of these funds. The evidence to support this explanation, however, needs to be provided.

Regular and ongoing intelligence information from police sources have confirmed that loan sharks are obtaining suspicious currency from Organized Crime (OC) groups who are laundering their proceeds of crime through the use of loan sharks. Intelligence information and sources to police have indicated that these OC groups often discount small denomination currency given to loan sharks, who in turn can also discount suspicious small denomination currency that they provide to patrons using same in casinos. Over the past year or more the proliferation of loan sharks and/or “runners” has become more apparent and disconcerting. This is especially the case at or near various

Commented [WJM18]: Agreed. This is an issue that GPEB needs to deal with as our current Legislation, Regulation and Ministerial Directives do not require CSP's to enquire about the source of funds. That may be a next step in dealing with this issue, although it requires careful consideration by all parties involved.

Commented [WJM19]: Loan sharking is illegal. What are the Police of Jurisdiction doing about this conduct, given the apparent acknowledgement of this known activity that is against the law? Because of statements like this I believe a meeting of a cross-agency group, as described in the Kroeker report, would be important to ensure that all parties are working with the same knowledge.

LMD casinos and the business/restaurants/meeting spots in the near vicinity of these casinos.

Information and intelligence has always indicated that loan sharks and their associates are or may themselves be part of other criminal elements and groups. Over the past several months further information and intelligence gathered from various police agencies has confirmed that a number of known loan sharks and “runners” are affiliated to different OC groups. Some of these associates to OC groups have significant and serious criminal backgrounds and associations, including firearms possession. The presence of these types of individuals could present a potential safety hazard to anyone who personally interacts with them.

Conclusions:

All of the information provided simply reaffirms that an overwhelming amount of suspicious currency, most being in small denominations, continues to flood into casinos in British Columbia, especially in the LMD. As evidenced in the ongoing receipt of large numbers of Section 86 SCT reports, the amount of suspicious currency continues to rise significantly. None of the measures introduced by BCLC, the service provider, the AML X-DWG or a combination of those entities over the past 3 years have stopped or slowed that increase. There continue to be serious concerns about this suspicious currency and how the influx of that currency into our casinos adversely reflects in a significant way on the overall integrity of gaming in British Columbia.

Joe Schalk, Sr. Director
Investigations and Regional Operations
Gaming Policy and Enforcement Branch.

Forwarded: 25 October, 2013

In the past number of years this Division has collected data, prepared Reports of Findings and has given observations to the Branch and others on suspected money laundering in Casinos in BC. I am not intending to reiterate all the contents of the previous Reports of Findings but I think to look at this report in context it is fair and important to say that the “Money Laundering Alarm” was sounded a number years earlier (2008/09) by this Division. The recommendations by this Division in concert with other GPEB Divisions prior to even considering the BCLC request for PGF accounts included, but was not limited to, “the Branch to define in regulation/or a term and condition of registration specific anti-money laundering requirements” The recommendations also included what should be deemed “suspicious” and went as far as to suggest “once a transaction or attempted transaction had been deemed “suspicious” and prior to it being complete,

Commented [WJM20]: Again, what are the police doing about this? Also, what has been shared with GPEB and BCLC as any issue of safety to the public needs to be taken quite seriously. BCLC has already banned a few (between 5 and 10 I believe) individuals due to concerns about their activities. We know they will take further steps if they are given information that can be acted on.

Commented [jm21]: Same point as in JM15.

Commented [WJM22]: These are rather dramatic conclusion statements. We know that AML training has been significantly increased through 2010/2011 and that pressure has been put on CSP's to be very diligent in reporting transactions. To say that ‘none of the measures introduced ... have stopped or slowed that increase’ may be drawing the wrong conclusion. Cash managed through alternative means, to bringing it in from outside of gaming facilities, is over \$1.2 billion annually. And this is growing with the alternatives being marketed in BC casinos. We know that the ‘cash drop’ (the amount of money put into the system for gaming) is approximately \$6.2 billion annual, so the money in the S.86 reports is just over 1.5% of that. We also know that the S.86 reporting includes multiple reports of the same funds, as a player cashes out and then later buys back in with the same funds. A review would have to be done in order to determine how much this actually represents.

Commented [WJM23]: Agreed. We are charged with maintaining the integrity of gaming through the Act and our regulatory role.

Commented [jm24]: I need to see these reports if they provide the information/evidence I indicate I need to see in my above comments.

the transaction must be refused by the service provider at a commercial gaming facility and immediately reported to GPEB in accordance with Section 86 of the GCA". It was also reiterated that the guiding principle "Know your Client" risk management approach must be used by gaming service providers in order to exercise appropriate "diligence" to ensure they understand the background of the account holders (PGF) and the source of funds.

Commented [WJM25]: There is a fundamental question of what basis would a CSP refuse a transaction? The 'Proceeds of Crime ...' law (PCMLTFA) does not allow disclosure of reports being made through this Act. It is against that law. So this makes it quite difficult for the CSP to turn the buy-in away. I believe that refusal of a transaction would have to have the support of a Gaming Regulation or a Ministerial Directive. At this point we do not have such requirements in place.

As previously outlined in this Report of Findings, the "Money Laundering Measures at BC Gaming Facilities" authored in 2011 (commonly known as the Kroeker report) made a number of observations and specific recommendations. The previously quoted recommendation that 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. This recommendation clearly reiterates "Know your Client" which I believe must include knowing the source of your clients suspicious funds (Cash). It is clear that the intent of this recommendation was to scrutinize the source of the funds under the "Know your Client" umbrella. It is not sufficient protection to the integrity of gaming to know your client without specifically knowing the source of the suspicious funds (Cash) presented by the client especially when the funds are huge (50k, 100K to 500K) and the majority of the currency is \$20 dollar bills in plastic bags and/or duffle bags. This is not a new concept as it is and has been common practice in all bone fide financial institutions for many years. Recent conversations with corporate security in the banking community re-enforces that even a greater "Due Diligence" is warranted in the present world climate and is being stringently exercised by front line staff in Financial Institutions in relation to attempted large deposits of Cash. The "Due Diligence" relief to protect integrity by reasonably knowing the origin of the cash is obvious.

Commented [WJM26]: Agreed, for Know Your Customer (KYC) diligence.

Commented [WJM27]: The Kroeker report speaks to "verifying the source of the funds ... should only be made by the enforcement agencies with a mandate to conduct these types of inquiries." (p10). Will the Police of Jurisdiction become involved in verifying the legitimacy of cash?

Commented [WJM28]: More reason for holding a cross-agency meeting. Let us get the various thoughts, and facts, out on the table.

The Branch AML Strategy implemented in 2011 has the objective of persuading/forcing the Gaming industry to prevent money laundering in gaming by moving from a cash based industry as quickly as possible and scrutinizing the remaining cash for appropriate action. It was also the intent of this "removing the cash strategy" to respect or enhance our responsible gambling practices as well as maintain the health of the industry. The Investigation Division management continued to be open advisors to the AML Group and provided statistics as well as strong written recommendations while continuing to "Sound the Alarm" on the situation respecting huge cash amounts entering BC Casinos. We also continued to correlate cash volume statistics that are prepared from the Section 86 Reports on Suspicious Currency Transactions submitted by Service Providers. In concert with the AML strategy the Branch allowed a number of enhancements that allowed gamblers easier access to legitimate cash (cash machines) on the casino floor. The Policy also included easier access to funds by allowing the gambler the ability to electronically transfer funds from existing bank accounts into their casino PGF account. However, those

initiatives along with other initiatives have not reduced the volume of suspicious cash nor the number of Suspicious Currency Transactions in BC Casinos. The alarm continues to ring, even louder. It should also be noted on 16 September, 2013, that BCLC requested a "Policy Change Regarding Casino Cheque Issuance". They were requesting that casino cheques be issued to patrons that had entered with large amounts of currency, put their money at risk and then left the casino. This Division has previously disagreed with that policy change for a number of reasons on numerous occasions due to the huge risk of completing the money laundering circle. Any large cheque issuance should be only considered when it is from a completely documented "verified win" or a very minor amount for a specific reason. ADM Doug Scott has previously addressed that request but I am of the opinion it will surface again.

I feel the Branch is at an important juncture in the AML strategy with the task of ultimately assessing the strategic objective of preventing money laundering and the perception of money laundering. This Division felt it was necessary to outline the progression of this situation at this time to allow the AML working group to be as informed as much as possible on the historic and present situation.

In closing, I am of the opinion that the influx of large amounts of cash into BC Casinos has not been reduced. That "Loan Sharks" or runners are providing horrendous amounts of unexplained cash to gamblers. I believe that most of the "Loan Sharks" and runners have extensive criminal records and are associated to other criminal groups or organizations. The business of supplying suspicious currency that enters BC Casinos in huge amounts is provided by these loan sharks through other criminal associates. The service providers are appropriately complying with the legal requirement of reporting Suspicious Currency Transactions to this Division. The "Know your Client" requirement of the Service Provider at the present time is not sufficient and does not include the critical component of knowing and carrying out appropriate extensive "Due Diligence" on the origin of the source of the large amounts of suspicious cash funds. The Branch does not yet have a defined Regulation and/or Term and Condition of Registration, specific to Anti-Money Laundering which outlines appropriate regulatory "Due Diligence" and I am of the opinion to meet our overall objective of preserving the integrity and the perception of integrity of gaming that is critical.

Larry Vander Graaf, Executive Director
Investigations and Regional Operations

Commented [WJM29]: We know that the use of cash alternatives continues to grow and now represents over 20% of funds used in gaming at BC facilities. Comments have been made earlier that explain some of the increase in suspicious reporting. Also, this increase in reporting may not be direct evidence that illicit funds are being brought into BC casinos at a greater rate. No more than reducing this reporting would be evidence that this has been reduced.

Commented [WJM30]: This is a recommendation from the Kroeker report, which BCLC also believes is a correct approach to deterring money laundering risk. It is being discussed from various points of view as there are conflicting opinions about the validity of this strategy. This is not finished yet.

Commented [jm31]: I need to know the background and action taken here.

Commented [WJM32]: What can be proven? What are Police of Jurisdiction saying and doing about this?

Commented [WJM33]: In closing, I believe that it is imperative that this work proceed with disclosure of evidence and broader expert collaboration to aid our next steps. There are differing schools of thought that are being put forward with respect to the nature of the issue, the size of the challenge and solutions. My comments throughout this document speak to understanding input from the broad community and using this to build next steps, that "will prevent money laundering in gaming ... and ... respect or enhance our responsible gambling practices and the health of the industry."

Bill McCrea