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19 January 2017

Money Laundering and Proceeds of Crime in BC Casinos

Current Intelligence Report - CIR 17-002

Gaming Policy and Enforcement Branch

- Refs:**
- A. GPEB CIR 002-16 Transnational Organized Crime (TNOC) Nexus to BC Gaming Industry
 - B. GPEB CIR 001-17 Anti-Money Laundering (AML) and Chip Passing Trend Analysis
 - C. GPEB CIR 007-16 AML and Chip Passing Trend Analysis
 - D. GPEB CIR 006-16 AML Trend Analysis
 - E. GPEB Intelligence Unit, Primary Intelligence Requirements (PIRs)
 - F. Currency Seizures Briefing, Dave Gray, E-Division RCMP Federal and Serious Organized Crime - Financial Integrity 29 Dec 16 (Appendix 1-3)

Introduction

(U) This product has been created by GPEB Intelligence in response to indications and warnings and is provided as situational awareness of current and ongoing money laundering and proceeds of crime trends. The report has been written for stakeholders that include the Ministry of Finance OADM, ADM, and Executive Directors.

*** A more complete version of this report will be shared with our Law Enforcement (LE) partners and will include biographic information and additional details.*

Background

(UFOUO) The activity involving unsourced cash has decreased over the last 18 months. However, the patrons providing this unsourced cash have pivoted activity towards using Player Gaming Fund (PGF) accounts. Many of these patrons are reported by LE as associated to TNOC and Asian Organized Crime (AOC). The appearance of a decrease in buy-ins with unsourced cash is negated by an increase in profits and increase in PGF account use.

(U) The root cause of this decrease in unsourced cash buy-ins is likely due to the following factors:

1. Federal, Provincial and Municipal police attention/investigations;
2. GPEB's Intelligence reports have created awareness of TNOC and AOC activity in BC casinos; and
3. BCLC policy changes that guided patrons with frequent unsourced cash buy-ins to PGF use.

(U) Increased awareness of the fentanyl epidemic in the Lower Mainland (LMD) has prompted LE to identify public safety concerns with regards to the deadly narcotic being present on cash and to those that may come in contact with the narcotic through touch¹. This is especially dangerous where the service provider employees working with cash at casinos have the potential to come in contact with the toxic drug. RCMP advise that casino

¹ 'Too toxic to touch': Police struggle to deal with fentanyl, <http://www.cbc.ca/news/canada/british-columbia/bc-police-say-fentanyl-a-game-changer-struggle-to-stop-overdoses-on-the-street-1.3762446>

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staff that handle cash should take these concerns very seriously as Large Cash Transactions (LCT) with bundled cash are often associated to drug related proceeds of crime. With the emergence of a 100 times more potent version of fentanyl, known as carfentanyl², revisiting safety protocols from a work safe perspective might be a prudent step for BC casinos.

** GPEB will follow-up with Work Safe BC on Canadian Occupational Safety standards to identify recent updates regarding the fentanyl epidemic.

Current Situation

(U) The decrease in unsourced cash buy-ins gives the impression, from an accounting perspective, that there has been a reduction of illicit cash entering BC casinos. Unfortunately, the effort to determine source of funds at the cash cage and/or table is assessed as inadequate. This is evidenced by the spike in unsourced cash buy-ins that occurred over the holiday season. (Ref B)

(U) PGF accounts are perceived as transferring the responsibility of verifying the legitimacy of unsourced cash onto financial institutions, includes money service businesses and banks. While appearing to be a more secure method of accepting questionable funds this action has not mitigated the fact that patrons with historical Suspicious Transaction Reports (STRs), for bringing in unsourced cash or chip passing and who are associated to AOC entities, are now permitted to have bank drafts deposited without any STR tracking mechanism. This was identified as double reporting by FINTRAC who explained that the banks would likely have already sent an STR. This system of tracking is very important for Law Enforcement (LE) as the STR created at the casino allows an investigator to trace back the bank draft from a casino to a financial institution.

PII - Ongoing Investigation

² Carfentanil or carfentanyl is an analog of the synthetic opioid analgesic fentanyl. It is 10,000 times more potent than morphine, making it among the most potent commercially used opioids.

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(UFOUO). It is assessed that unsourced cash buy-ins will continue throughout the Chinese New Year with the increase in gaming activity by the Chinese community. This increase in activity will provide TNOC and AOC entities greater opportunity to take advantage of the current protocols used to identify the origin of cash buy-ins in excess of CAD\$10,000. It is further assessed that PGF accounts will continue to be utilized by patrons with known associations to AOC and a history of STRs as well as unsourced cash buy-ins.

Description of Funds in Typical Suspicious Cash Transaction:

- Cash is secured with two elastic bands and bundles are not uniformly stacked as when prepared by a financial institution. And/or the bills are of various condition.
- Suspicious cash buy-ins frequently involves \$20.00 bill(s).
- Cash count is often inaccurate. {ie: \$20.00 more or less than stated amount}.
- The cash bundle frequently contains counterfeit bill(s).
- Cash is brought into the casino in a plastic bag or reusable carry bag.
- The cash is sometimes observed to be delivered to the floor or passed to patrons in the washrooms.



Recent examples of suspicious cash transactions occurring at the River Rock Casino:

PII - Ongoing Investigation

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PII - Ongoing Investigation

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PII - Ongoing Investigation

Conclusion

Coordination between LE and GPEB has led to the consensus that proceeds of crime³ are being used in BC casinos⁴.

One example of this is where an individual with no employment and who LE identifies as making a living through criminal activity enters a casino and is permitted to buy-in with hundreds of thousands of dollars in bundled up \$20 bills that he brought to the casino in a hockey bag. Under the eyes of the law, that money is the proceeds of crime. The source of the funds does not pass the test of legitimacy. The means of transportation are not in accordance with a reasonable person and the cash is bundled in a way that does not match up with a financial institution. IE elastic bands are never used. No security is used to transport the money, the bulk of carrying that amount of money would not be issued by a bank and would take days to prepare. The nature of the exchange of the money is also indicative of proceeds of crime. IE A phone call is made and the cash is delivered to the casino parking lot at an hour where no financial institution is open. With these factors in mind LE and GPEB are confident that proceeds of crime are being used in BC casinos on a regular basis.

Methods of remittance include, but are not limited to, leveraging the proceeds of crime into another method of payment such as real estate, vehicles or a service. An example of this leverage could be a lien on real estate in exchange for a monetary instrument(s) such as cash or bank drafts⁵. LE reporting indicates that illegal money service businesses charge less for smaller denominations and more for larger denominations and alternative instruments, such as bank drafts.



Several factors impact the ability of GPEB to investigate threats to the integrity of gaming. The most important factor is the ability to receive timely information on suspicious activity. Improved training on how to determine source of wealth, origin of monies being gambled with, and the interpretation of historical STR data. Additional

³ What constitutes proceeds of crime for LE purposes is identified in Appendix 1, 2 and 3 of this report.

⁴ <http://www.cbc.ca/news/business/how-dirty-money-gets-clean-1.986203>

⁵ Bank drafts do not provide the name of the account holder which makes it impossible for a casino to verify that the patron depositing the bank draft is using monies from their own bank account.

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training on ethical business practices in-line with those of the Financial Action Task Force⁶ (FATF) may enhance the corporate culture and assist in understanding the nature of how proceed of crime are being used by patrons in BC casinos. This training has the potential to reduce illicit activity in BC casinos and limit the reputational risk to the integrity of gaming in BC.

GPEB has had numerous conversations with BCLC over concerns regarding proceeds of crime being used in BC casinos and yet the threat persists. As such, it is assessed that the potential threat identified by LE and GPEB Intelligence of money laundering, bribery, extortion, loan sharking and fraud to the Integrity of Gaming remains HIGH.



Analyst Note: The potential for indirect and direct violence cannot be understated, given the volume of cash and associations of patrons being facilitated at BC casinos. Local belligerents, large cash facilitation, foreign covert entities, ongoing criminal power struggles within the region, leveraging of individuals with influence both corporately and politically are cause for concern at all levels of LE and government.

⁶ <http://www.fatf-gafi.org/>

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APPENDIX 1

Extract from “Currency Seizures Briefing”

E-Division RCMP Federal and Serious Organized Crime - Financial Integrity

29 Dec 16

Eliminating Myths

1. Business Proceeds

Money made in a patrons business would be deposited into a business account at a financial institution to avoid theft and to ensure that the business costs were available to be paid. IE Overhead, staff salaries, operating costs, utilities etc. Money taken from a business account is easily compared to industry payment and cash handling norms which can be evidenced by the type of cash bundling and the denomination of bills.

2. Cultural Aversion

A common myth is that Chinese patrons have a cultural aversion to keeping cash and not using banks. This myth is dispelled by finding out if the Subject has credit cards/debit cards in their possession.

3. Sale from real estate

Patrons claiming to have large quantities of cash from the sale of real estate forget that the flow of funds move through a lawyer's trust account. Disbursement is then made through cheque or bank draft.

4. Financial Institutions DO NOT:

- A. Include cheques, different denominations or unfit notes in a bundle
- B. Face bills in random directions
- C. Use elastics in place of 3 cm to 5cm
- D. They do use (1 ½ - 2 inch) paper strap

5. Reasonable Ground to Believe

- A. Large amount of currency or bearer instruments
- B. Speed, Cost, Security comparison
- C. Outside business norms

6. Reasonable Grounds to Arrest

- A. Deception
- B. Vague story
- C. Lack of documentation
- D. No apparent legitimate source/employment
- E. Evidence of an underlying offence: trafficking, gaming

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APPENDIX 2

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Legitimate Transactions vs Money Laundering

Comparing Legitimate Business Transactions to Money Laundering

CONSIDER: SPEED, COST & SECURITY

LEGITIMATE

Quick transactions
Lowest cost (wires and transfers)
Security (armoured car services and insured financial instruments)

MONEY LAUNDERING

Lack of speed (inter-provincial travel)
Expensive (flights, car rentals)
Risk (rip-offs or use of third parties)

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APPENDIX 3

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Standards of Proof

Standards of Proof

- Beyond a Reasonable Doubt
- Balance of Probabilities
- Reasonable Grounds to Believe
- Reasonable Suspicion