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May 28, 2008

Honourable John van Dongen
 Acting Minister of Public Safety and Solicitor General
 Room 236, Parliament Buildings
 P.O. Box 9053, Stn Prov Govt
 Victoria, BC V8W 9E2

Dear Minister van Dongen:

Re: Money Laundering and Suspicious Currency Transaction Reporting at BC Casinos

I am writing on behalf of the British Columbia Lottery Corporation's (BCLC) Board of Directors to provide a summary of the actions being taken by BCLC and overseen by the Board in relation to money laundering and suspicious currency transactions reported at BCLC's gaming facilities. Please consider this letter to be a formal response to our meeting on May 23, 2008 and a status report related to our discussions on this matter.

Recent events have highlighted concerns about BCLC's ability to detect suspicious currency transactions as well as a comparatively less reporting relative to other jurisdictions in Canada. The Board of Directors and BCLC senior management recognize the seriousness of this issue and are committed to making continual improvements to BCLC's policies and procedures related to audits, training and reporting to uphold the integrity of gaming and ensure continued compliance with provincial and federal statutes. Therefore, BCLC will review all current policies and procedures including the areas of service provider consistency of reporting of suspicious currency transactions, procedures for verified win cheque distribution and the intensity and quality of training activity.

The key points related to this issue are:

- The number of suspicious currency transactions reports generated at BC casinos and Community Gaming Centers (CGCs) compared to other jurisdictions in Canada.
- The process by which currency transactions at casinos and CGCs are deemed suspicious.
- Compliance with policies and procedures related to the issuance of cheques at BC casinos and CGCs.

Compliance with federal and provincial statutes has always been a priority for BCLC. In collaboration with its service providers, the provincial Gaming Policy and Enforcement Branch (GPEB), the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) and law enforcement agencies BCLC has developed strict standards and policies to deter and detect criminal activity at its casinos.

Since 2000, BCLC has been actively working with its casino and CGC service providers and with FINTRAC to meet the requirements to record and report suspicious currency transactions



under the federal *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (the Act)*. More recently, in anticipation of amendments to *the Act*, BCLC engaged IPSA International, a recognized global provider of investigative consulting services, to conduct an independent review of BCLC's Anti-Money Laundering Program in relation to FINTRAC requirements. The following is a high-level chronology that outlines the development of this matter and the work done to date.

June 1998

- BCLC is designated responsibility for the conduct and management of casinos in British Columbia.
- BCLC Casino Site Managers are placed at every casino in BC to oversee casino operations and compliance with corporate policies and procedures.
- BCLC commences Anti-Money Laundering Training Program for casino staff and implements policies to conform to *the Act*. Since 1998, BCLC has conducted 249 training sessions to 4,755 employees of casinos and CGCs, law enforcement agency members and GPEB.

October 1998

- The Federal Government passes the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* requiring casinos to record financial activity in casinos in relation to the following:
 - Foreign exchange of \$3,000 (CDN) or more.
 - Buy-Ins of \$10,000 or more in a slot machine or at a table game.
 - Cash-Outs of \$10,000 or more.
 - Any transaction of \$1,000 or more where a cheque is made out to a third party.
 BCLC is confident that it is in full compliance with these requirements.

July 2000

- The Financial Transactions and Reports Analysis Centre of Canada or FINTRAC is created. FINTRAC is a specialized federal agency created to collect, analyze and disclose financial information and intelligence on suspected money laundering and terrorist activities.

January 2001

- *The Proceeds of Crime (Money Laundering) and Terrorist Financing Act* is amended requiring casinos to report to FINTRAC, in addition to recording, currency activity in relation to the following:
 - Foreign exchange of \$3,000 (CDN) and more.
 - Buy-Ins of \$10,000 or more in a slot machine or at a table game.
 - Any transaction of \$1,000 or more where a cheque is made out to a third party.
- BCLC assumes responsibility for reporting to FINTRAC due to its mandate to conduct and manage casino gaming in BC. FINTRAC supports this consolidation of reporting.



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- In addition, BCLC begins to proactively report to FINTRAC all cash-outs of \$10,000 or more to provide a more fulsome picture of currency transactions in casinos.

November 2001

- *The Proceeds of Crime (Money Laundering) and Terrorist Financing Act* is amended requiring casinos to report to FINTRAC suspicious currency transactions of any dollar value in relation to money laundering. BCLC undertakes this responsibility based on its mandate to conduct and manage gaming in BC.

August 2002

- BC's *Gaming Control Act (GCA)* comes into effect.
- BCLC and GPEB institute a separate process with casino service providers to ensure BCLC is complying with Section 86 of the GCA. The process requires service providers to send reports related to suspicious currency transactions from the casino site directly to GPEB and copied to BCLC.

June 2004

- FINTRAC instructs BCLC verbally and in writing to stop reporting cash-outs of \$10,000 or more.

July 2005

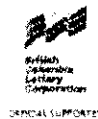
- BC Auditor General Releases "Keeping the Decks Clean: Managing Gaming Integrity Risks in Casinos", a report on gaming integrity risks in casinos. The report concludes that the government, through BCLC and GPEB, is managing gaming integrity risks in casinos.

March 2006

- GPEB 2005/06 Audit Report on BCLC's compliance with FINTRAC requirements notes BCLC audits of Section 86 reports are occurring as required and does not identify specific reporting issues related to these requirements.

March 2007

- GPEB's 2006/07 Audit Report on BCLC compliance with FINTRAC requirements notes a need for more detailed corporate policies on FINTRAC requirements be established and a more aggressive training regime with service providers.
- BCLC responds to these recommendations with the recruitment of additional staff to support security and training requirements.
- The GPEB Audit Report also notes further work is required for compliance with BCLC's own audit regime and some delays in FINTRAC reporting.
- GPEB also notes the secondary review process undertaken by BCLC and does not agree that this activity is required. These audit finds have been responded to by BCLC and actions to remedy the concerns are underway.



April 2007

- As part of a cross Canada review process, BCLC meets with the RCMP/FINTRAC task force to clarify reporting activity and processes employed by BCLC. The task force commented BCLC reporting was less than other jurisdictions but they were satisfied with the processes employed by BCLC.

December 2007

- In anticipation of further amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*, BCLC initiates an independent review and risk assessment of its Anti-Money Laundering Program. The final report was submitted to BCLC in April 2008 and distributed to FINTRAC and GPEB for comment and review.

April 2008

- Mr. Michael Graydon's appointment as BCLC's CEO is announced by the BCLC Board on March 31, 2008, consistent with the Deloitte Independent Review's recommendation to recruit a permanent CEO. Mr. Graydon begins his tenure in April 2008 and included in his leadership mandate is a review of all policies and procedures at BCLC. Deloitte also recommended a Chief Compliance Officer role be established within BCLC and that appointment will be announced in June 2008.

June 2008

- The Proceeds of Crime (Money Laundering) and Terrorist Financing Act* is expected to be amended requiring cash-outs of \$10,000 or more to be reported to FINTRAC. If required in the amendment, BCLC will re-commence reporting all cash-outs over \$10,000 on June 23, 2008.

Actions Underway

Overseen by the Board and led by BCLC senior management, several actions have been identified to enhance current policies and practices related to this matter. Specifically:

- BCLC will continue the practice of requiring casino and CGC service providers to send Section 86 Reports on suspicious currency transactions directly to GPEB with a copy to BCLC.
- BCLC will send all of the Section 86 Reports related to suspicious currency transactions dating from 2002 to present to FINTRAC in the interest of transparency. Beginning immediately, BCLC will send all Section 86 Reports received from service providers related to suspicious currency transactions directly to FINTRAC.
- BCLC will continue the secondary review process as an internal mechanism to manage, for the purpose of compliance, and to aid in the enhancement of training within the service provider network.
- BCLC will begin monthly reviews of all cheques issued by service providers to analyze trends and multiple wins.
- BCLC will review the content and increase the frequency of the Anti-Money Laundering Training Program for all service providers. New training materials will be developed and training sessions will be segmented to include training for new employees and refresher



- courses. BCLC will also implement a testing mechanism for both new and current employees.
6. BCLC will enhance its internal audit process to include a more frequent and systematic review of anti-money laundering procedures at casinos and CGCs as well as adherence to existing policies such as verified win payout procedures. We will also incorporate any suggestions from GPEB's 2006/07 audit findings.
 7. BCLC will determine how it can better exercise the discipline remedies available under existing contracts and legislation to continually stress and strengthen the culture of compliance among all service providers.
 8. Meetings will be established on a semi-annual basis with BCLC's CEO, Board Chair and all service provider executives to review procedures and audit results specific to money laundering and suspicious currency transaction reporting.
 9. A new quality assurance program will be developed to test on-site compliance with anti-money laundering policies and procedures in addition to other casino and CGC operating policies and procedures.
 10. BCLC will request GPEB to increase the intensity of their compliance audits in all gaming facilities related to suspicious currency transaction policies.
 11. BCLC will report to GPEB on its progress in implementing the above actions and will work directly with them to measure performance and compliance.

BCLC Chief Executive Officer Michael Graydon and BCLC senior management recently met with FINTRAC to ensure requirements recommended in this outline fully met FINTRAC's requirements, particularly in light of pending amendments to the federal legislation. FINTRAC commented that they were satisfied with the processes being employed by BCLC regarding Section 86 Reports on suspicious currency transactions to FINTRAC. They recognized BCLC's additional policies and processes in place that reduce the potential for money laundering. Further meetings are planned involving both BCLC and GPEB to confirm future reporting standards.

In addition, BCLC will continue to review, enhance and emphasize with our service providers the measures currently in place that are recognized to deter money laundering in casinos and CGCs, including:

- BCLC's policies do not permit casinos or CGCs in BC to receive or transmit funds via electronic wire transfer;
- BCLC policies require wins to be verified prior to the issuance of cheques; and
- BCLC does not permit Lines of Credit and accounts for patrons in BC casinos or CGCs.

Finally, I would be remiss if I did not comment on the culture and leadership of BCLC. As you know, the Deloitte Independent Review of BCLC's lottery system (October, 2007) also looked at the Board, leadership team and morale throughout the Company. It found that:

- the Board: "...was engaged in the business of BCLC... and demonstrated its commitment to making the necessary changes in the organization...";
- the "...management team is a strong team and integrity is recognized as an operating imperative..."; and
- the "... people across the organization were open and embracing of change..."



I have no doubt in light of these comments that BCLC will do all that is necessary to address these concerns. In closing I would like to emphasize the Board has full confidence in our BCLC leadership and their ability to respond to these challenges and I can assure you they are committed to meeting the Government's goal of responsibility and integrity in British Columbia's casino gaming industry. We will continue to update you on this and we thank you for your support.

Sincerely,

John McLernon
Chairman of the Board