



## Casinos & Money Laundering Q & A

### Executive Summary

Money laundering is a process in which so-called 'dirty money' from the proceeds of crime is transformed into 'clean money' or legitimate money or other assets, such as cars, art, homes or investments. Money laundering typically occurs in three stages: placement, layering and integration. In Canada, money laundering is a criminal offence that covers all three stages of money laundering activity.

The structure of gambling in Canada differs in important ways from many other jurisdictions, including the United States. In Canada, gambling is legal only when it is supervised and managed by a provincial or the federal government. Commercial casinos may only be operated under the management of a provincial government. Gambling activities that are authorized in Canada are regulated, including provincially operated gambling websites.

Casinos, similar to banks and other areas of the Canadian economy traditionally viewed as vulnerable to money launderers, are closely regulated with respect to money laundering and terrorist financing risks. Casinos operate within a highly regulated legal environment and are subject to the supervision of provincial government regulators as well as the oversight of the federal anti-money laundering regulator. Provincial lottery corporations, which are agents of the government created to manage gambling, establish and implement operating standards, policies and procedures to ensure the compliance by casinos with applicable laws, and in particular anti-money laundering requirements. To date there are no known cases in Canada where a person has been arrested, charged or convicted of a money laundering offence that directly involves a casino.

Government and businesses have responded in various positive ways to money laundering concerns to preserve the integrity of the gambling industry and Canada's financial system. This response has included: membership on the part of Canada in the Financial Action Task Force (FATF), an international inter-governmental body focused on money laundering; enacting federal proceeds of crime legislation; strengthening the *Criminal Code of Canada* ("Criminal Code"); establishing the Financial Transaction and Reports Analysis Centre of Canada ("FINTRAC"), the independent federal financial intelligence unit that oversees compliance with proceeds of crime legislation; and, imposing various reporting and other obligations on reporting entities, which include casinos. Under this anti-money laundering regime, casinos report on large cash transactions, suspicious transactions, casino disbursements, and electronic fund transfers. Casinos also conduct extensive customer identification; undertake ongoing audits and training programs; and, monitor for and put in place controls to detect and mitigate against common money



laundering methods.

The anti-money laundering regime protects casinos and Canadians, as well as our financial system, from money laundering and other financial crime risks.

### **What is money laundering?**

Criminals launder money to hide its illicit origins by bringing that money into the legitimate economy. Money laundering has traditionally been viewed as a three-stage process.

In the first, or placement stage, proceeds of crime are introduced into the Canadian financial system. Placement usually occurs by breaking up large amounts of cash into smaller sums that are then deposited into various accounts at financial institutions or used to purchase a series of monetary instruments such as travelers' cheques or money orders. In the case of a casino, placement could be attempted through the purchase and cashing in of chips without play in an attempt to disguise proceeds of crime as gambling winnings, however as will be discussed below this practice is not permitted in Canadian casinos.

In the second, or layering stage, money is converted (or moved) through a web of transactions to disguise it from its source and ownership. Money may be channeled through the purchase and sale of investments, or wired through a series of accounts at various banks across the globe.

In the third, or integration stage, the money is re-integrated into the Canadian economy as apparently legitimate funds and may be used to purchase real estate or luxury assets or to invest in business ventures.

In Canada, money laundering is a criminal offence and it includes using, transferring, delivering, transmitting, altering, dealing with or disposing of property, or proceeds of property, with the intent to convert or conceal the proceeds, knowing or believing that the proceeds were derived from the commission of an indictable offence. Some of the key indictable offences include insider trading, terrorist financing, drug trafficking, bribery and prostitution. When money from that type of criminal activity is earned or generated, that money is proceeds of crime.

### **What type of gambling is legal in Canada?**

In Canada, gambling is legal only when it is supervised and managed by either the provincial or federal government. Gambling activities that are authorized in Canada are regulated. Gambling activities that are not conducted or licensed by the provincial or federal government, or contravene the Criminal Code, are not permitted in Canada.



There are generally four types of regulated gambling in Canada: (a) land-based gambling, such as takes place at casinos, bingo halls, fairs or charity events; (b) lotteries, such as Lotto 6/49; (c) online gambling through websites operated by the provincial lottery corporations; and, (d) betting on horse races at federally-regulated horse-racing tracks or online through the approved horse-racing system.

### **Is all online gambling available in Canada regulated by the provincial governments?**

Websites that are operated by provincial governments are regulated and authorized to provide services to Canadians. Offshore online gambling websites that are not authorized by provincial governments to operate in Canada are operating in contravention of the Criminal Code. Unregulated online gambling websites have not been made subject to Canada's anti-money laundering legislation that protects consumers and the integrity of gambling. As a result, Canadian money laundering controls apply only to on-line gambling websites operated by a province.

### **How do regulated gambling venues take bets in Canada?**

How registered gambling venues take in bets depends upon the type of gambling that takes place and where. At casinos, a person can play the slot machines or table games. In order to play the slot machines, a person buys "tokens" usually by inserting cash directly into a machine and places bets on the slot machine using these tokens. In order to play table games, a person buys casino chips and places bets using the casino chips.

In Canada, some lottery corporations operate online regulated gambling websites. A person can gamble online by playing a variety of games, such as lottery, keno, casino games, sports betting and bingo. In order to play online at a regulated gambling site, typically a person must register for an account online, and once the account information, including confirmation of the identity and location of the individual, has been verified the player can deposit funds to his or her account. Money deposited into a player's account can then be used to buy virtual tokens to place bets on casino games, bingo or purchase lottery tickets.

### **How do regulated gambling venues pay out winnings to players who win?**

How winnings are paid to players depends upon the type of games played. If a person played the slot machines at a casino and won, the casino pays winnings in cash or with a casino cheque. A slot machine payout is paid by the casino as cash, or the casino issues a cheque to the player. If a person played table games at a casino and won, he or she can redeem the casino chips for cash or a casino cheque for the



amount equal to the verified winnings.

Typically on provincially regulated online gambling sites, a player who plays casino-style games and wins earns virtual tokens, equivalent to dollars which are deposited into the player's online account or wallet. Winnings are then paid by the lottery corporation via direct deposit into the player's nominated bank account if the amount is below \$100,000. Generally, if the amount is \$100,000 or more, the lottery corporation operating the site will deliver a cheque in person to the winner.

### **What are the money laundering risks at casinos?**

Casinos, similar to banks and other areas of the Canadian economy which may be vulnerable to money laundering, are closely regulated with respect to money laundering and terrorist financing risks. There are no known cases in Canada where a person has been arrested, charged or convicted with a money laundering offence that directly involves a casino. Casinos operate within a highly regulated legal environment and are subject to the supervision of provincial government regulators as well as to the audit powers of FINTRAC, the independent federal government agency that is Canada's financial intelligence unit ("FIU"). Casinos in Canada follow "know your customer" ("KYC") rules and have stringent anti-money laundering controls in place to detect and report suspicious transactions. In addition, casino staffs are trained to recognize indicators of potential money laundering that may be tied to a serious criminal offence. In those circumstances, lottery corporations report to FINTRAC when there are reasonable grounds to suspect that a gambling transaction or attempted transaction is related to the commission of a money laundering offence.

### **What are the money laundering risks on provincial online gambling websites?**

It would be exceedingly difficult to launder proceeds of crime on Canadian regulated online gambling sites. Online websites have extensive controls in place to prevent this from occurring both during the player on-boarding process (account opening) and when games are played online. For example, the amount of money a player can deposit to play online is capped and all transactions are monitored and recorded using cutting-edge technology. Only residents of a province offering regulated online gambling and whose identity and residency have been verified by a lottery corporation may gamble at online websites operated by that lottery corporation. This removes any possibility of anonymity, which is a significant deterrent for any person attempting to launder proceeds of crime online. Provincial lottery corporations also have controls in place on their online gambling websites that restrict the source and amount of funds deposited into each player's account. In most instances, player funds deposited at online websites are deposited directly from Canadian financial institutions. Under Canadian anti-money laundering laws, those financial institutions have a parallel obligation to undertake their own due diligence with respect to anti-money laundering compliance, and in that way, players' funds used for online gambling with lottery corporations have an additional layer of financial crime oversight.



### **What role do lottery corporations and Canadian gambling jurisdictions play in anti-money laundering?**

In Canada, provincial lottery corporations are responsible for implementing an anti-money laundering law compliance program that meets federal standards. These programs include detailed operating standards, policies and procedures that help to ensure compliance by casinos with anti-money laundering law obligations. Casino staff report player and transactional information to lottery corporations, who then analyze and consolidate the information, and file reports with FINTRAC. Lottery corporations conduct operational audits of gambling venues under their jurisdiction and may notify law enforcement when there are reasonable grounds to suspect that a gambling transaction or attempted transaction is related to the commission of a money laundering offence.

### **What role does FINTRAC play in the anti-money laundering legal regime with casinos?**

When lottery corporations and casinos have reasonable grounds to suspect that a transaction is related to a money laundering offence, they have an obligation to report the financial transaction to FINTRAC. FINTRAC collects, analyzes and assesses all of the reports submitted to it to assist in the detection, prevention and deterrence of money laundering across Canada.

Lottery corporations are not authorized by the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* ("PCMLTFA") to intervene or prevent money laundering from occurring at casinos or online. Lottery corporations are prohibited from informing a person that they may be the subject of a suspicious transaction report.

When FINTRAC collects and analyzes information provided to it by lottery corporations through reports, it must disclose this information to law enforcement agencies in Canada where it has reasonable grounds to suspect that the information would be relevant to the investigation or prosecution of a money laundering offence. However, FINTRAC is prohibited from sharing the results of its analyses with lottery corporations or other reporting entities, and therefore FINTRAC cannot inform lottery corporations if it has evidence of money laundering occurring at casinos. The flow of information with respect to suspicious transactions tied to money laundering offences is unidirectional in the sense that the information flows from lottery corporations to FINTRAC on suspicious activities, but not from FINTRAC to lottery corporations.

### **How has government and business responded to money laundering concerns?**

Government and business have responded in various positive ways to money laundering concerns to preserve the integrity of the gambling industry and Canada's financial system.



### *Government Response - The FATF*

The Financial Action Task Force (“FATF”), an inter-governmental policy-making body, was established in 1989 by the G-7 to establish anti-money laundering and counter-terrorist financing policy. The FATF studies money laundering in various sectors and prepares recommendations on anti-money laundering law for member countries that are issued on a regular basis. The FATF also undertakes assessments of the strengths and weaknesses of a country’s anti-money laundering controls and makes suggestions for improvement.

The FATF recommendations require that countries, such as Canada, adopt laws that require that financial transactions be monitored for criminal activity and that certain reports be submitted to government agencies, for example in cases of large cash transactions. The recommendations also require that, for certain transactions, customer identity be verified to reduce financial crime. The FATF recommendations also require that member countries criminalize money laundering.

### *Proceeds of Crime Legislation*

The FATF’s recommendations are incorporated into Canada’s anti-money laundering legislation, the PCMLTFA and the Criminal Code. The objective of the PCMLTFA is to combat the laundering of proceeds of crime and counter-terrorist financing activities by requiring that reporting entities, such as casinos, follow client identification rules and report certain transactions to FINTRAC in a timely manner. It also requires that reporting entities keep detailed records of financial transactions and player activity. The PCMLTFA applies to many sectors in addition to casinos, such as banks, credit unions, insurance companies, accountants, real estate and securities brokers.

More information on the FATF may be found here:

<http://www.fatf-gafi.org/>

The FATF Guidance for the Casino Sector may be found here:

<http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatfguidanceontherisk-basedapproachforcasinos.html>

FINTRAC Guidance for the Casino Sector may be found here:

<http://www.fintrac.gc.ca/publications/guide/guide6/6F-eng.asp>

### *Establishment of FINTRAC*

In 2000, Canada created FINTRAC, the FIU. It operates as an independent federal government agency that reports to the Minister of Public Safety and Emergency Preparedness and the Minister of Finance.



FINTRAC's objectives are to:

- . collect, analyze, assess and disclose information to assist in the detection, prevention and deterrence of money laundering;
- . ensure that personal information under its control is protected from unauthorized disclosure;
- . enhance public awareness and understanding of money laundering; and,
- . ensure compliance with the record keeping, verifying identity, reporting and registration requirements of the PCMLTFA.

FINTRAC discloses information to law enforcement from reports it receives from reporting entities like banks and casinos if it has reasonable grounds to suspect that the information would be relevant to the investigation or prosecution of a money laundering offence.

FINTRAC is not an investigative body and it does not have powers to gather evidence, lay charges, seize and freeze assets or create watch lists of suspected money launderers. It also does not investigate or prosecute suspected offences. It does, however, conduct reviews and audits of reporting entities to ensure they are meeting their anti-money laundering law obligations and may assess penalties for violations of the PCMLTFA.

### ***Reporting Entities' Response to Money Laundering Concerns, including the Gambling Sector***

Businesses that are reporting entities have responded to money laundering concerns by implementing comprehensive anti-money laundering compliance programs. Reporting entities include financial institutions, credit unions, insurance brokers, realtors, securities dealers and casinos. Compliance programs at reporting entities, including casinos, enable those sectors to identify the risks of proceeds of crime being laundered through financial transactions and to mitigate those risks. Among other things, compliance programs include procedures that set out the requirements for reporting entities to report to FINTRAC in a timely manner where they have reasonable grounds to suspect that a gambling transaction or attempted transaction is related to the commission of a money laundering offence.

The obligations of regulated gambling entities under the PCMLTFA are as follows.

### ***Reporting Large Cash Transactions***

Reporting entities, including casinos, must report large cash transactions to FINTRAC. A large cash transaction occurs when a casino receives cash of \$10,000 or more in a single transaction from a client for gambling purposes, or when it receives 2 or more large cash transactions of less than \$10,000 each that are made within 24 consecutive hours, that together, total \$10,000 or more. Lottery corporations must report all



such large cash transactions, including those under the '24-hour rule', if the lottery corporation knows that the transactions were conducted by or on behalf of the same person or entity. A large cash transaction is not necessarily evidence of money laundering however; large cash transactions may be an indicator of money laundering in some circumstances.

The number of large cash transaction reports submitted to FINTRAC from reporting entities across Canada has been steadily increasing. Table 1A, below, shows the number of large cash transaction reports submitted to FINTRAC per sector in Canada during the period from 2010-2013, inclusively.

<b>Table 1A: Large Cash Transaction Reports in Canada</b>				
<b>REGULATED SECTOR</b>	<b>2010-2011</b>	<b>2011-2012</b>	<b>2012-2013</b>	<b>Total</b>
Financial Institutions (All)	7,056,564	7,935,527	8,391,790	23,383,881
▪ Banks	6,384,073	7,243,585	7,725,450	21,353,108
▪ Credit Unions	234,337	241,168	235,605	711,110
▪ Caisse Populaire	435,154	450,774	430,735	1,316,663
Money Services Businesses	30,416	31,735	32,616	94,767
Real Estate	22	25	18	65
Casinos	52,717	53,762	56,707	163,186
Securities Dealers	0	5	3	8
Dealers in Precious Metals and Stones	391	701	682	1774
Life Insurance	1	4	8	13
<b>Total of all sectors</b>				<b>23,643,694</b>

FINTRAC must disclose to law enforcement the information it receives from large cash transaction reports in circumstances where it has reasonable grounds to suspect that the information would be relevant to the investigation or prosecution of a money laundering offence. Table 2A shows how many large cash transaction reports were referred to law enforcement from FINTRAC in Canada during the period from 2010-2013, inclusively.

<b>Table 2A: FINTRAC Disclosures to Law Enforcement in Canada</b>			
	<b>2010-2011</b>	<b>2011-2012</b>	<b>2012-2013</b>
Total FINTRAC disclosures sent to law enforcement and federal agencies	1,635	2,005	2,204
FINTRAC disclosures that involved at least one report from a casino	305	352	331



### ***Reporting Suspicious Transactions***

Reporting entities, including casinos, report suspicious transactions and attempted suspicious transactions to FINTRAC when they have reasonable grounds to suspect that a financial transaction is related to a money laundering offence or terrorist financing offence. Reasonable grounds to suspect means that a casino employee has credible evidence to support his or her belief that the transaction is tied to a serious criminal offence, known as an indictable offence, such as drug trafficking. Being able to identify a suspicious transaction in a casino requires that casinos have knowledge of their clients. Casinos have anti-money laundering controls in place across Canada, and these controls serve to effectively identify suspicious financial transactions and reduce the risks of casinos being used as a venue for laundering proceeds of crime. The anti-money laundering regime and oversight of lottery corporations and regulated gambling activities in Canada make casinos an unattractive place for laundering proceeds of crime for criminals. A suspicious transaction report is not evidence of money laundering activity, rather it serves as evidence of potential suspicious financial activity that may be tied to an indictable offence. Whether a suspicious financial transaction can be tied to money laundering is a determination made by law enforcement and prosecutors in the judicial process.

### ***Reporting Terrorist Financing Transactions***

Reporting entities, including lottery corporations in Canada, cannot accept property, including money, from any source if they believe that it is related to terrorist activity. Lottery corporations must file terrorist property reports with FINTRAC, the Canadian Security Intelligence Service and the RCMP when the lottery corporation has property in its possession or control that it knows is owned or controlled by or on behalf of a terrorist or terrorist group, as well as any information it has about a transaction or proposed transaction in respect of such property. Lottery corporations have parallel obligations under other federal statutes in respect of terrorist financing activity.

### ***Reporting Casino Disbursements***

Lottery corporations across Canada file casino disbursement reports to FINTRAC each time they make a disbursement of \$10,000 or more in a single transaction or through multiple transactions to the same person in any consecutive 24-hour period, including gambling winnings. For example, lottery corporations file these reports when a player redeems slot machine tickets or chips for \$10,000 or more, or when the casino issues a cheque to a winner for \$10,000 or more.



### ***Reporting Electronic Funds Transfer***

Reporting entities, including casinos, file reports with FINTRAC when they receive or send international electronic funds transfers of \$10,000 or more for a player.

### ***Know Your Customer Obligations***

Reporting entities, including casinos, must implement and follow KYC rules. These are identification procedures in place at casinos in Canada that ensure that the gambling sector is not abused for financial crimes, such as money laundering. To ascertain player identity, casinos verify picture identification documents such as driver's licenses or passports. Casinos keep records of financial transactions and of player identity in order to comply with the PCMLTFA and to preserve the integrity of gambling by knowing who their customers are.

KYC rules operate to protect players, as well as the casinos and the public from financial crimes, and encourage a more effective gambling experience. Under KYC rules, players buying in at a casino for \$10,000 or more, or gambling online at lottery corporation websites, must be verified by lottery corporations.

Casinos also follow KYC rules in other instances, such as when a player opens an account, signs a signature card, converts foreign currency in the amount of \$3000 or more, completes large chip redemptions over \$10,000, requests an electronic transfer of \$1000 or more, has a large slot machine payout, or requests a payout cheque.

### ***Audits & Training***

Casinos conduct routine audits of their policies, procedures, risk assessments and training programs to ensure they are current with the latest money laundering trends and risk factors and by law, must have an independent audit of their anti-money laundering regime completed at least once in each 24 month period. Casinos also have comprehensive training programs for their employees and executives on anti-money laundering procedures. As the first line in the defence against money laundering, casino employees play a critical role in preventing financial crime from occurring at casinos.

### **Preventing Common Methods of Money Laundering**

There are a number of common methods money launderers around the world use to attempt to launder money. A few of the more common methods are set out below.



- Refining - this money laundering method involves the attempted exchange of small bills for larger ones and may be carried out by several individuals who attempt to convert the bills at a number of different casinos in order not to raise suspicion. The aim of refining is to decrease the bulk of large quantities of cash. Attempting to feed large sums of cash in an amount below the reporting threshold into slot machines and cashing out for casino cheques would be a type of refining.

Casinos in Canada have procedures in place to prevent refining from occurring. For example, slot machines are programmed to limit the amount a person can buy-in at any one time, and this therefore prevents refining activities. When playing card games, casinos prevent refining from occurring by requiring that customers buy casino chips. Both of these methods of refining are closely monitored by trained casino employees and reported to FINTRAC when there are reasonable grounds to suspect that the transaction or attempted transaction is related to the commission of a money laundering offence.

- Chip purchases - this method occurs when a person attempts to buy casino chips and cash them out for a casino cheque after minimal play. Criminals may travel to another province to attempt this method and they may divide this activity into two separate tasks - one group will attempt to buy casino chips while another later attempts to redeem them for casino cheques.

Casinos have procedures in place to prevent this technique from occurring in Canada. Moreover, where there is minimal play, casino policy may result in a refusal to issue a cheque or even a ban on future play for the individual involved if money laundering is suspected. Where a cheque is issued casinos will clearly state on the face of the cheque whether the amount is from casino winnings or merely the return of a player's funds used to buy-in. Lottery corporations report to FINTRAC when there are reasonable grounds to suspect that the chip purchase transaction or attempted transaction involves minimal play and is related to the commission of a money laundering offence.

- Currency exchanges - under this money laundering method, a person may attempt to exchange foreign currency at casinos often in groups, by dividing the foreign currency into smaller amounts to be exchanged for Canadian currency at casinos, using multiple casino locations to avoid suspicion.

Across Canada, the use of casinos as a vehicle to exchange currency rarely occurs. In fact, casinos do not allow customers to exchange currency without playing games at the casino.

- Electronic funds transfer - under this money laundering method, a person may send electronic wire transfers from one city or country to another to avoid the need of physically transporting currency, which allows them to arrange a multitude of cross-border transactions per day, making it difficult to trace the funds back to their source.



In Canada, this money laundering technique is addressed by casinos having severe restrictions on outbound electronic fund transfers (usually only to an account in Canada in the name of the player) and usually only allow inbound electronic fund transfers from an account held in the name of a player whose identity has been rigorously ascertained and verified by a lottery corporation under anti-money laundering procedures.

- Structuring or smurfing - Under this money laundering method, a person will work with many others to wash proceeds of crime at multiple locations in amounts under the \$10,000 reporting threshold to avoid detection. Often smurfing occurs through ATM machines.

Casino employees across Canada are trained to monitor for and report instances of smurfing, including structuring or smurfing behaviour. Any suspected structuring of transactions will be reported to FINTRAC including the identity of the individual involved.

## Conclusion

In order to prevent casinos, land based or online, from being targeted by criminals for laundering proceeds of crime, Canadian gambling jurisdictions have implemented robust countermeasures, including policies, procedures and training that allow for the detection and reporting of such transactions, which in turn deters criminals from using casinos for money laundering.

Land based casinos have security and surveillance personnel on the premises who monitor players around the clock to detect attempts at money laundering. Virtually every transaction at a casino in Canada is video recorded, making casinos one of the highest risk locations to potential money launderers. Canada's strict enforcement of anti-money laundering law, the requirements of which are described above, and the presence of security and surveillance personnel at casinos, and the inability of criminals to complete large financial transactions anonymously with cash, chips or by converting currency or electronic funds transfers, makes Canadian casinos unattractive to would-be money launderers.