



Financial Transactions and
Reports Analysis Centre
of Canada

Centre d'analyse des
opérations et déclarations
financières du Canada

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January 23, 2015

Brad Desmarais
Vice-President, Corporate Security and Compliance
British Columbia Lottery Corporation
2940 Virtual Way
Vancouver, British Columbia
V5M 0A6

Dear Mr. Desmarais,

Subject: Compliance Examination Findings

Examination Number: EXAM-2014-0119
Examination Dates: November 3-7, 2014
Period Examined: February 1, 2014 to July 31, 2014
Examination Scope: As indicated in our letter dated September 12, 2014

The purpose of this letter is to advise you of the results of our recent compliance examination to assess your organization's compliance with the requirements under Part 1 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)* and associated Regulations.

As we advised you and your compliance staff verbally during the exit interview on November 7, 2014, the following deficiencies were identified resulting in significant non-compliance with Part 1 of the PCMLTFA for the scope and period covered by this examination:

Deficiency #1: PCMLTF Regulations 71(1)(b) - Compliance Regime - Policies and Procedures - For Entity

Your organization has the obligation to develop and apply written compliance policies and procedures that are kept up to date and approved by a senior officer to comply with the Act and as required by paragraph 71(1)(b) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Specifically, as discussed with you and your compliance staff during the examination, your organization did not have adequate policies and procedures as required, including the legislative amendments post February 2014. We recognize that your organization provided policies and procedures; however they were inadequate as they too narrowly defined "business relationship". Your organization defined "business relationship" as being established when a client conducts two or more reportable transactions; instead of

more broadly when two or more transactions simply require you to identify that client. For example, this would include a client conducting two foreign exchange transactions of \$3,000 or greater when there may be no reporting obligation.

Moreover, the policies and procedures submitted by your organization failed to include the purpose and intended nature of the business relationship. Your compliance staff agreed this should have been included in the policies and procedures.

Deficiency #2: PCMLTF Regulations 71(1)(c) - Compliance Regime - Risk Assessment

Your organization has the obligation to assess and document the risk of a money laundering offence or a terrorist financing offence in the course of your activities, taking into account the prescribed factors, as required by paragraph 71(1)(c) of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Specifically, as discussed with you and your compliance staff during the examination, your organization did not have an adequate risk assessment as required. Your organization's risk assessment did not identify all risks related to money laundering and/or terrorist financing related to all products and services offered by your organization and its related casino sites. This included Player Gaming Fund (PGF) accounts, Global Access Cash machines and self-service redemption machines (NRTs).

Moreover, your organization's risk assessment did not evaluate the risk of the geographical locations of your clients relative to the casino sites or activities.

Deficiency #3: PCMLTF Regulations 71.1 - Compliance Regime - Special Measures for High Risk Activities

PCMLTF Regulations 71.1 - Special measures for high risk activities

Your organization has the obligation, in respect of the activities that pose high risk, to mitigate the risks identified, to take reasonable measures to keep information up to date and conduct ongoing monitoring for the purpose of detecting reportable transactions, as required by section 71.1 of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*.

Specifically, as discussed with you and your compliance staff during the examination, we recognize that your organization conducted a 6 month review on high risk patrons; however it did not follow the enhanced due diligence monitoring procedures for these patrons as outlined in your organization's AML manual, Section 20. In addition, your compliance staff acknowledged that the ongoing monitoring procedures need to be updated to reflect current business operations.

Moreover, our compliance team reviewed high risk clients identified by your organization through transaction testing and visits to your casino sites, and we identified that your organization is not conducting ongoing monitoring for all your high risk clients. This included reviewing PGF accounts and our compliance team concluded that special measures for high risk patrons are not being conducted on these accounts.

Finally, as discussed with you and your compliance staff during the examination, we recognize that in your Policies and Procedures, Section 11.2 states "The Service Provider shall ensure that the identification scanned into the Media field of the repeat patron's Subject Profile in CRS is valid, and that it is updated at least every 2 years or as required"; however per the *Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations*, the obligation is to update client information (name, address, occupation) for high risk clients on a more frequent basis relative to their risk levels as identified by your organization.

As a result of this examination, we are informing you that your organization is required to take immediate action to address each deficiency noted above. We remind you that your organization has an ongoing obligation to meet all applicable provisions under the PCMLTFA and associated Regulations. Failure to meet all legislative provisions may lead to civil penalties or criminal liabilities. At a later date, a follow-up examination may be conducted to ensure compliance with Part 1 of the PCMLTFA.

No additional information or material in relation to the above noted deficiencies will be accepted or considered, unless explicitly requested by FINTRAC, as the issuance of this findings letter concludes the current examination.

We thank you for your cooperation during examination process. If you have any questions, please do not hesitate to contact me by telephone at [REDACTED] or by email at [REDACTED]

Yours sincerely,



Robby Judge
Regional Compliance Manager

cc: Len Meilleur
Executive Director – Audit and Compliance Division
Gaming Policy and Enforcement Branch