

AML compliance challenges for casinos operating in Asia Pacific

Keeping the cards close to the vest is not the best strategy for casinos trying to avoid being used as money laundering outlets. Rather, transparency trumps secrecy. This is particularly true for casinos operating in the Asia Pacific region. In this area, the laws vary greatly between countries as to how far casinos can go in conducting financial transactions and whether they are covered by the relevant money laundering laws. Casino cruise lines traveling port to port face jurisdictional questions when they open their tables in international waters. And what to do about smurfs at the roulette wheel?

The issue of money laundering and casinos has been a focus of intergovernmental groups, such as the Financial Action Task Force (FATF) and the Asia Pacific Group on Money Laundering (APG), and most of the regional governments. As international investors move into these countries or as Asia Pacific gaming companies consider global expansion, there is a great deal of discussion about protecting the reputations of the companies and of the countries. The legitimacy and reputation of a casino's operations in Asia may affect its licenses on the other side of the world.

While the regulatory and statutory approaches differ, there is agreement that the less transparent an activity is, the riskier it is. The goal should be to increase visibility to lessen the likelihood it will be used for illicit purposes.

The AML Risk

Money laundering is the process by which those involved in criminal activities conceal the source and disguise the nature of illicit funds by making them appear legitimate. The money is "tainted" because it may

have come from embezzlement, theft, fraud, and bribery, or street crimes, like prostitution and drug dealing – generally in large amounts. The process involves three stages:

1) Placement: Converting those funds into another financial instrument or medium. (Casino chips, slot tickets, credit on casino players' cards, diamonds, horses)

2) Layering: Camouflaging their source by involving the funds in a series of legitimate transactions. (Table games, slot machines, VIP rooms and junkets)

3) Integration: Making the funds look like they were derived legitimately. (Redeeming winnings, cashing out chips, even-money wagering with a partner)

At the second stage, the practice known as "smurfing" is often used to avoid attention, minimize suspicion, and evade threshold reporting requirements. Smurfs will deposit money into gaming accounts or buy chips just under the reporting disclosure limit, will use shift changes to cash in chips systematically, will switch tables and rooms or chain casinos when the bets get too high, or request winnings to be broken down between chips and cash.

On the other hand, at the third stage, some money launderers seek the legitimacy of a cash transaction report to authenticate a transaction at a casino.

One of the key concerns discussed in the intergovernmental reports is that of junkets and VIP rooms. For example, because it is illegal to gamble in China, big gamblers are attracted to nearby Macau, currently generating six times the gaming revenue of

Las Vegas. Private junket operators often handle these high rollers, arranging transportation and luxury lodging, as well as extending credit for special "dead" chips to use in VIP rooms in the casinos. Historically, these junket operators have been subject to only limited scrutiny from officials or casino operators. Moreover, while the VIP customers are extended financial capabilities similar to banking institutions, the level of regulation applicable to banks may not extend fully to casinos. Consequently, there is no customer due diligence and minimal reporting obligations.

The lack of transparency surrounding junkets and the involvement of high rollers may facilitate those seeking to 1) launder funds gained through bribery or embezzlement; or 2) elude the strict limits on how much money can be taken out of the country. To illustrate, a corrupt official could pass on her RMB proceeds to the junket

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operator in China for advance credit, travel to Macau and pick up her chips, play a few hands and then, cash out in Hong Kong dollars which can be banked anywhere. In 2008, in an unintentionally leaked report by the Central Bank, it was reported that 18,000 corrupt officials and employees of state-owned enterprises left China, taking with them \$123 billion USD. The money left in various ways, but one way that is likely is through the junket operators.

It is estimated that the junket operators bring in about 70 percent of Macau's gambling revenue, accounting for \$22 billion USD last year. Accordingly, while it has been reported that the sector is shrinking due to weakening of the mainland economy and the consequent difficulty in collecting debts, this sector of the gaming industry serves a useful purpose and will probably not disappear.

Recognising the Risk

For any casino, the key is recognising the risk and then, developing and implementing an effective AML compliance program to combat those risks. The specific risk factors should be identified, with a deeper analysis of the casino's level of vulnerability. By understanding its risk profile, a casino can apply appropriate risk management processes.

There are general risks, such as the physical layout of the establishment. There have been reports of slot ticket and cash out machines obscured by pillars which were used by money launderers with bags of cash carried up from the parking garage. Moreover, the mix of games may raise the risk depending on the inherent risk of collusion with the games offered, the number of tables, and the betting limits.

The risk may be increased depending on the types of financial services offered by the casino, such as deposit accounts, credit/marker accounts, account access cards,

currency exchange services, safe deposit boxes in VIP rooms, check cashing, and wire transfers. The more the casino operates like a bank, the more it should consider some of the measures banks adopt to protect themselves. The services provided by third parties should be scrutinised, including contractors providing check cashing or money transmitting, providing race and sports book wagering, or even the gift-shop operators who accept chips as payment or in exchange for gift cards.

Another risk to be considered is whether there is more or less exposure for the operations on the high seas. In one sense, since arguably the laws of a particular jurisdiction would not apply to gaming conducted in international waters, there would be less chance of an enforcement action, but the question then is whether that would attract more gamers intent on using the floating casino for illicit purposes. Such a casino may need to be even more vigilant.

Response to the Risk

Once the risk is identified, a system of internal controls should be adopted to assure on-going compliance. This system should include internal or external independent testing for compliance with a scope and frequency commensurate with the identified risks posed by the products and services provided.

Training of casino personnel should be a part of the system, including identification of unusual or suspicious transactions. Investment in employee training discourages high turnover, a significant risk factor in money laundering requiring collusion. Employees should be trained to identify minimal or no casino play where chips are bought and cashed out through agents without a corresponding level of play.

Appointing an individual responsible for ensuring day-to-day compliance is key.

Every effort should be made to identify ways to maximise transparency. Customers, even VIP customers, should provide identification information that is verifiable. Junket operators should be registered and their business should not be conducted without some measure of casino scrutiny. It is the casino's license at issue and money laundering involvement jeopardises both the local license or even, a highly regulated US license, based on the damage to the casino's reputation.

Dynamic tracking and reporting of customer profiles and gaming history can be automated and put in place. This should enable procedures to identify the occurrence of transactions or a pattern of transactions that should be reported as suspicious.

Conclusion

Casinos operating in Asia Pacific understand that it is easier to operate under their own levels of scrutiny, as opposed to being subject to strict governmental scrutiny. Accordingly, they are hedging their bets, recognising the risks they face and adopting measures to address the risks. The source of the funds flowing over their tables and through their machines should be open and above board. AML compliance is a casino's ace in the hole.

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