

Ministry of Finance

BRIEFING DOCUMENT

To: Heather Wood
Assistant Deputy Minister
Minister of Finance

Date Requested: March 15, 2016

Date Required: March 15, 2016

Initiated by: Paul Flanagan
Executive Director
Tax Policy Branch

Date Prepared: March 15, 2016

Ministry Contact: Paul Flanagan
Executive Director
Tax Policy Branch

Phone Number: 250 387-9014

Email: Paul.Flanagan@bc.gov.ca

Cliff #: 349980

TITLE: Real Estate Speculation Tax

PURPOSE:

(X) FOR INFORMATION

COMMENTS: This note contains information on a speculation tax that could be implemented to reduce speculation in BC real estate.

Executive Director approval: _____

ADM approval: _____

DM approval: _____

DATE PREPARED:

TITLE: Real Estate Speculation Tax

ISSUE: Whether to levy a real estate speculation tax

s.13

This note provides analysis on a potential speculation tax^{s.13}

DISCUSSION:

s.13

s.13

s.13 For example, Tax Policy Branch was provided with data that indicates there were 591 residential properties sold within one year of purchase in the City of Vancouver, suggesting between 1700-1900 sales in Metro Vancouver. s.13
s.13

s.13

Page 05 to/à Page 07

Withheld pursuant to/removed as

s.13

Ministry of Finance
BRIEFING DOCUMENT

To: Honourable Michael de Jong, Q.C. **Date Requested:** February 23 2016
Minister of Finance

Initiated by: Paul Flanagan
Executive Director

Date Prepared: March 3 2016

Ministry Contact: Steve Hawkshaw
Tax Policy Analyst

Phone Number: 250 387 7364
Email: Steve.Hawkshaw@gov.bc.ca

Cliff #: 349871

TITLE: BC Housing Affordability Fund Proposal

PURPOSE:

(X) FOR INFORMATION

COMMENTS: The province has received a proposal to introduce a new tax that would target property owners with limited economic or social ties to Canada and property owners who leave residential property vacant. The revenues would then be directed to a housing affordability fund.

DATE PREPARED: March 3, 2016

TITLE: BC Housing Affordability Fund Proposal

ISSUE: Whether to introduce a new property tax targeting property owners with limited economic or social ties to Canada and property owners who leave residential property vacant.

BACKGROUND:

The province has received a proposal to introduce a new tax that would target property owners with limited economic or social ties to Canada and property owners who leave residential property vacant. The goal of the new tax would be to:

"[make] British Columbia a better place to live and work, by making B.C. a less attractive target for investors who wish to avoid taxation or park cash in residential real estate."

The authors of the proposal define "limited economic or social ties" to mean those who do not pay (or pay a modest amount) of Canadian and Provincial income tax.

The new tax would take the form of a 1.5 per cent property tax levied on all residential property in a given region or municipality. For comparison, the average annual property tax rate for residential property located in a municipality (including provincial and municipal levies) is approximately 0.5 per cent.

The application of the tax would then be narrowed by a series of offsets and exemptions in order to only apply to property owners who do not pay a sufficient amount of federal and provincial income tax, or property owners who fall into certain exempt categories.

The proposed offsets and exemptions are as follows:

1. A dollar for dollar offset would be provided for federal and provincial income taxes paid by all members of a household. The rationale for using income tax is that income taxes are a proxy for contributing to the "local economy".
2. Veterans and those living with them would be exempt.
3. Disabled persons and those living with them would be exempt.
4. Canadian residents receiving CPP plan benefits or Old Age Security would be exempt.

5. Individuals who have resided in their *current* home for a significant number of years would be exempt from paying the tax on their current home, in order to protect long-time residents of a community. Additionally, they suggest that this could be a lifetime benefit, once an individual qualifies as a long term resident they would exempt in any home they occupy.
6. Occupied rental properties would also be exempted from the surcharge. The proposal suggests either using an offset based on gross rental revenue reported to the Canada Revenue Agency (CRA), or a complete exemption, provided some minimum amount of rental income is reported to the CRA. An income averaging mechanism is suggested to deal with temporary vacancies.

The goal of these offsets and exemptions would be to target owners of vacant properties, owners of multiple properties, and those who own property but do not pay a significant amount of income tax, such as so called satellite families.

Although not clear from the proposal, it is likely that the authors envision the program will be administered in a similar fashion as the home owner grant program. A taxpayer would receive their property tax notice and then apply online for an offset based on the amount of income tax they have paid, or indicate their eligibility for an exemption. Data would then be provided from the CRA to the Property Taxation Branch for audit and enforcement purposes.

Revenues from this tax would be distributed as lump-sum payments to all Canadian tax filers in a given region or municipality, or that they be used to reduce provincial tax rates. According to the proposal, this would help offset the cost of living in BC. The proposal estimates the tax on vacant properties in the City of Vancouver could raise approximately \$90 million.

DISCUSSION:

s.13

Page 11 to/à Page 15

Withheld pursuant to/removed as

s.13

Appendix: s.13,s.16

s.13,s.16

- Ontario implemented two measures aimed at curbing house price inflation in the 1970s.
 - A 20 per cent transfer tax on non-residents of Canada s.13,s.16
 - An income tax on land speculation aimed at short term speculators (flippers).
 - The taxes were enacted in 1974 and repealed by 1978...
 - The 20 per cent rate for non-residents remained for the acquisition of certain land (farmland) until 1997.

The 20 per cent land transfer tax on non-residents

- This imposed a 20 per cent tax upon the acquisition of property in Ontario by non-residents of Canada.

s.13,s.16

- The s.13,s.16 tax was imposed at a rate of 20 per cent (initially 50 per cent) of the excess of proceeds of disposition over the adjusted cost of acquisition, if property was sold before ten years.

s.13,s.16

Page 17

Withheld pursuant to/removed as

s.16;s.13

Press after Vacant Housing Study March 2016

Tax vacant homes to increase housing supply says economist

CBC Online

Wednesday, March 09, 2016

By CBC Online

Copyright

Copyright

P

Over 10,000 homes sit empty in Vancouver, 90% apartments

Ming Pao News

Wednesday, March 09, 2016

Page A05

1

Copyright

Copyright

Vancouver had nearly 11,000 homes sit empty in 2014: study

BiV

Wednesday, March 09, 2016

By Mike Howell, Vancouver Courier

Copyright

Page 21

Withheld pursuant to/removed as

Copyright

See more at Vancouver Courier [fin, csc, ngdh]

Group urges cautious reaction to study

Vancouver Sun

Thursday, March 10, 2016

Page A09

By Gordon Hoekstra

Copyright

Copyright

Change to strata bylaws explored as an option to increase rental units
Sing Tao Daily
Wednesday, March 09, 2016
Page A02

Copyright

Vancouver Shines Light on Empty Condos
The Tyee
Wednesday, March 09, 2016

By Katie Hyslop

Copyright

Page 25

Withheld pursuant to/removed as

Copyright

Ministry of Finance
BRIEFING DOCUMENT

To: Honourable Michael de Jong, Q.C.
Minister of Finance **Date Requested:** January 13, 2016

Date Required: March 14, 2016

Initiated by: John Mazure **Date Prepared:** March 14, 2016
ADM and General Manager
Gaming Policy & Enforcement Branch

Ministry John Mazure **Phone Number:** 250 387-1301
Contact: ADM and General Manager **Email:** John.Mazure@gov.bc.ca
Gaming Policy & Enforcement Branch

347858

TITLE: Enforcement Strategy to Combat Illegal Gambling in British Columbia

PURPOSE:

(X) FOR DECISION

DATE PREPARED: March 14, 2016

TITLE: Enforcement Strategy to Combat Illegal Gambling in British Columbia

ISSUE:

There is evidence based on police investigations that the use of legal and illegal gambling by organized crime for the purpose of laundering money is ^{s.13}. There is currently no dedicated or integrated enforcement response to unlawful activities within gaming facilities or illegal gambling in BC between the province and RCMP. The Minister of Finance and Minister of Public Safety requested that the Gaming Policy and Enforcement Branch (GPEB) and Policing and Security Branch (PSB) provide a coordinated response to this concern in the fall of 2015.

Based on the direction provided, GPEB, PSB and the Royal Canadian Mounted Police (RCMP) are working to establish a specialized policing component within the Combined Forces Special Enforcement Unit British Columbia (CFSEU-BC). The Joint Illegal Gaming Investigation Team (JIGIT) will be funded by the British Columbia Lottery Corporation (BCLC) and will provide a dedicated, coordinated, multi-jurisdictional investigative and enforcement response to unlawful activities within BC gaming facilities (emphasis on anti-money laundering strategies) and illegal gambling in BC (emphasis on organized crime).

BACKGROUND:

- Gambling activities that contravene Part VII of the *Criminal Code* and occur either inside or outside of legal gaming facilities are a high risk to the overall integrity of gaming in BC. GPEB and BCLC report all known illegal gaming activities to the police of jurisdiction; however due to competing demands on police resources, these investigations often remain low priority for police.
- From 2003-2009, the Integrated Illegal Enforcement Team (IIGET)¹ investigated illegal gaming activities occurring outside of licensed gaming facilities such as illegal lotteries, common gaming houses, the distribution of illegal video lottery terminals, animal fights, bookmaking, and internet gaming. IIGET's budget was cut due to exigent funding pressure on the primary funder, BCLC, and a perceived lack of effectiveness. Since this time, investigations and enforcement of illegal gambling activities has been conducted by individual police departments in an ad-hoc manner with assistance from GPEB's compliance division where requested.
- Over the past year, GPEB has been made aware of reports of high stakes illegal gaming houses and other illegal activities related to gambling occurring in the lower mainland. These activities impact both the integrity of gaming and revenue generated by legal gaming facilities and is believed to support organized crime. GPEB is also aware of a prevalence of large

¹ Signatories to IIGET's establishing Memorandum of Understanding (MOU) were the RCMP, Ministry of Public Safety and Solicitor General (Police Services Division) and the Ministry of Public Safety and Solicitor General (GPEB). The IIGET Consultative Board included representatives from Police Services Division, GPEB, RCMP, BC Association of Chiefs of Police, and BCLC (as outlined in the MOU).

cash transactions (LCT), often resulting in suspicious transaction reports (STR)², in BC gaming facilities.

- Both BCLC and GPEB have previously identified concerns to law enforcement about the potential for organized crime to utilize gaming facilities for the purpose of money laundering or the movement of proceeds of crime.
- Nationally, the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) creates data trails that are used by law enforcement to identify patterns and gather evidence of potential money laundering. In 2014/15, FINTRAC data shows that large cash transaction reports from casinos (all large-cash transactions and disbursements over \$10,000) from BC make up s.16 of the national total. Suspicious transactions reports from BC casinos are shown to account for s.16 of the national share. s.16 accounts for 24 per cent of casinos nationwide (17 out of 72).³
- In June 2015, GPEB and BCLC co-hosted an anti-money laundering workshop, *Exploring Common Ground – Building Solutions*. Attending organizations, including BCLC, law enforcement agencies, gaming service providers, private sector, and financial institutions, supported the creation of a dedicated enforcement unit for both illegal gambling and suspicious money in BC gaming facilities.

DISCUSSION:

- Following a meeting between the Minister of Finance and the Attorney General and Minister of Justice, with representatives from the RCMP, PSB, MoF and GPEB, the Director of Police Services requested the RCMP prepare a business case for the creation of a new enforcement team to address GPEB and BCLC concerns of illegal gaming houses and money laundering in BC's gaming facilities.
- The RCMP submitted a business case for establishing a coordinated enforcement approach in the form of a Joint Illegal Gaming Investigative Team (JIGIT) within the CFSEU-BC. s.12 s.12

s.12 The RCMP recommended a five year lifespan for JIGIT in order to ensure the broadest range of enforcement and prosecution activities could be undertaken by the team. s.13

s.13 RCMP believes their model will disrupt top-tier organized crime and gang involvement in illegal gaming, will disrupt future expansion in this criminal domain, and will help preserve the integrity and reputation of the legal gaming industry.

² Suspicious transactions are financial transactions that you have reasonable grounds to suspect are related to the commission of a money laundering offence. This includes transactions with reasonable grounds to suspect are related to the attempted commission of a money laundering offence. "Reasonable grounds to suspect" is determined by what is reasonable in each industry's circumstances, including normal business practices and systems within the gambling industry.

³ Source: 2012/13 Canadian Gambling Digest, Table 1. Venues. Found <http://www.cprg.ca/articles/Canadian%20Gambling%20Digest%202012-13.pdf>

Strategic objectives of the Joint Illegal Gaming Investigation Team

- There are two key strategic objectives:
 - Target and disrupt top-tier organized crime and gang involvement in illegal gaming; and
 - Prevent criminal attempts to legalize the proceeds of crime through gaming facilities.
- A secondary strategic objective for JIGIT is to have a clear public education function with respect to the identification and reporting of illegal gambling in BC with consideration of its provincial partners. Ensuring both a positive public perception and media coverage of investigations will maintain trust and confidence in the initiative as well as raise awareness of the provincial mandate.
- The strategic objectives will be formalized in the Team's mandate which will be developed jointly between GPEB, PSB and the RCMP/CFSEU-BC.

CFSEU-BC

- At present there are 14 law enforcement agencies integrated under the umbrella of CFSEU-BC. One of the 14 agencies is the Organized Crime Agency of British Columbia (OCABC) which was established as a Designated Policing and Law Enforcement Unit⁴ under the *Police Act*. When the CFSEU-BC was established in 2004 as an integrated joint forces operation, OCABC was moved under its purview.
- CFSEU-BC as an agency is strategically located throughout the province; and as such, would be in a strong position to significantly disrupt organized crime-connected with illegal gaming given the existing footprint, infrastructure, and support mechanism which is currently in place. Additional CFSEU-BC in-house specialty support sections cover areas such as surveillance, analytical teams, uniform enforcement, and forensic video analysis.

s.13,s.15

Governance

⁴ As a Designated Policing and Law Enforcement Unit, the CSFEU-BC is an independent law enforcement unit with full police powers.
s.15

- Through the Ministry of Justice's (now Public Safety and Solicitor General [PSSG]) PSB, the provincial government provides overall direction respecting police services in the province and ensures there are adequate and effective levels of policing. Police agencies conduct investigations at arm's length from government, and government cannot interfere with or direct police in particular investigations.
- Under the authority of the provincial *Police Act*, a designated policing and law enforcement unit such as OCABC which operates within CFSEU-BC requires that the Minister of Public Safety and Solicitor General establish and appoint a Designated Board to implement program strategies, priorities and performance management.
- The mandate of the CFSEU-BC/OCABC Designated Board of Governance includes strategic-level governance and provides a process to make certain that all teams including JIGIT are targeting top-tier organized crime and gang involvement in illegal gaming in BC. These Board members, which includes the Director of Police Services, represent various police agencies and jurisdictions.
- Within the strategic-level governance, the Board's responsibilities include reviewing and approving operational plans which are submitted prior to beginning an investigation, and the setting of unit performance measurements and outcomes. This oversight assists in budget forecasting and cost containment.
- Internally in the case of JIGIT, the Chief Officer of CFSEU-BC will utilize existing accountability mechanisms to monitor, assess, and provide quarterly reporting on the actions of JIGIT to the Board. CFSEU-BC also provides performance accounts to the RCMP "E" Division Investigative Services and Organized Crime (ISOC) bi-annual report as well as the bi-annual BC RCMP Performance Plan. The activities of JIGIT will form an additional chapter to the current reporting requirements.
- A key difference between the Integrated Road Safety Unit (IRSU) and the proposed JIGIT models relates to the governance structure. ICBC participates in the Traffic and Road Safety Enforcement Governance Council which ensures that all terms and conditions of the MOU are met. IRSU's primary responsibility is focused on pro-active enforcement of road safety priorities. Their mandate is provincial traffic enforcement and they are not funded for investigative or criminal responsibilities. In contrast, JIGIT which is funded to conduct criminal investigations. Unlike IRSU, it would be inappropriate for a government body such as GPEB or BCLC to sit on a governance body in order to protect the independence of the police investigations.

Establishment of JIGIT

- PSB is the provincial branch responsible for managing and providing oversight of the RCMP provincial contract. In the case of supplemental policing agreements and in its position as contract holder/manager for the RCMP, PSB acts as the go-between for the parties.
- Three service agreements will establish JIGIT and articulate operational principles, objectives and goals of the joint team and establishment of metrics;

1. A Letter of Agreement between BCLC and GPEB will establish funding for JIGIT from BCLC to GPEB. This agreement will also define the terms and conditions between BCLC and GPEB;

s.13,s.16

- Current information sharing agreements that exist between police and BCLC and the police and GPEB and decisions regarding these agreements remain with the parties.

Organizational structure of JIGIT

- Under the proposed RCMP staffing plan, 9 positions will be filled during the first year of operation (FY 16/17) with the remaining 13 positions filled in FY 17/18. This is in line with the funding structure provided.
- Fully staffed, JIGIT will be comprised of two teams; twenty- two multi-agency law enforcement positions consisting of two operational teams located at the RCMP "E Division" Headquarters (CFSEU-BC Green Timbers space, Surrey BC). This two-team model allows for greater flexibility and more efficient administration of cases compared to a single team. For example, while one team is working on a long-term investigation, the second team would be able to investigate shorter-term concerns or issues that require a fast response.
- GPEB will provide four (4) investigators to JIGIT to act as subject matter experts. Their activities will be limited to their current designated enforcement powers under the *Police Act*. As such, they will not do independent surveillance or require use of force options. These investigators will come from within GPEB's current staff compliment. The CFSEU-BC has requested to be involved in the selection of personnel. Funding for these positions will remain the responsibility of GPEB and come from existing budgets.
- GPEB's Intelligence unit will work closely with CFSEU-BC's analytical staff. The GPEB Intelligence unit is currently developing its mandate and will ensure that it reflects the work they will do with the CFSEU-BC. GPEB's unit will also be trained as to how to collect, analyze and disseminate information in accordance with policing standards. This is to ensure that there is no risk to investigations being tainted by way of what is regulatory and what is criminal.⁶

s.13

- BCLC will play an active role by continuing to gather and report information to GPEB about any occurrence where the conduct, activity or incident involves the commission of an offence under the *Criminal Code*. GPEB will ensure that BCLC is kept informed when and where appropriate (GPEB / CFSEU-BC will ensure that BCLC is kept informed on a need-to-know basis). This arrangement does not preclude BCLC from contacting the police of jurisdiction about criminal matters that are outside of JIGIT's mandate (e.g. theft of a patron's wallet).
- See Appendix I for Roles and Responsibilities of all parties.

s.12

- All provincial funds committed to the new illegal gambling Team within the CFSEU-BC would be fenced; no provincial funds allocated to JIGIT would be used for any other purpose. All funds would be directed towards maintaining investigations as per the three service agreements that will establish JIGIT. This is preferable to a general funding model in which revenues are used for a wide-variety of enforcement initiatives.
- Some special investigative costs related to ongoing investigations have been included in the budget. This includes costs related to wiretap and surveillance and document management for prosecution of complex investigations. There is no reasonable methodology to predict these costs, as they are situation specific to each investigation.
- In special circumstances should a more complex investigation require investigative costs above and beyond what has been budgeted for, CFSEU-BC would approach all interested parties to enter into an extraordinary cost-recovery agreement.

Unit evaluation & measures of success

- The RCMP/CFSEU-BC will develop clear performance metrics to assess the effectiveness of JIGIT in consultation with GPEB. These metrics will be established in the three JIGIT service agreements.
- In addition to traditional metrics (e.g., arrests and seizures), the CFSEU-BC will supplement these with unique qualitative and quantitative measures that relate to achieving mission success, impact on society, and demonstrated value for dollar to more fully express the performance as it relates to these proposed teams. The comprehensive performance

strategy not only captures the key performance metrics related to inputs, activities, and outputs, but also information on outcomes and impacts.

- The five year model proposed by the RCMP is the most appropriate for establishing and evaluating impacts on crime disruption in the gaming environment. This is due to the fact that in the first year of operation, a new unit is typically staffing up, training and establishing its roles and responsibilities; by enabling four years of guaranteed operations, the unit will be able to gain expertise and retain staff while conducting longer-term complex investigations.

s.13

Communications

- External, public-facing communications of JIGIT activities, such as media releases and press conferences, are within CFSEU-BC jurisdiction. The three service agreements may include a commitment from the RCMP to proactively consult and include provincial partners where appropriate on communication materials and activities.

IMPLICATIONS OF THE JOINT ILLEGAL GAMING INVESTIGATION TEAM:

The establishment of the Joint Illegal Gaming Investigation Team is anticipated to have wide ranging implications;

s.13

Cost & Resource Implications:

- Significant upfront and long term cost implications to be borne by BCLC as the primary funder of the Team;
- Current costs are known and to remain within approved budget.
- Negotiation of extraordinary cost-recovery agreements may be required if there is a complex investigation that requires special investigative costs above and beyond what has been budgeted.

s.17

- GPEB will shift 4 investigators away from current responsibilities to be integrated to the team; this would be consistent with risk-based allocation of resources.

OPTIONS:

1. Approve the creation of JIGIT
2. Do not approve the creation of JIGIT

RECOMMENDATION

Option 1: Approve the creation of JIGIT

APPROVED / NOT APPROVED

Michael de Jong, Q.C.
Minister

Date

APPENDICES:

- APPENDIX I – Joint Illegal Gaming Investigation Team Roles and Responsibilities
- APPENDIX II – Joint Illegal Gaming Investigation Team Budget
- APPENDIX III – Statutory Enforcement Authority of BCLC, GPEB and Police

APPENDIX I – Joint Illegal Gaming Investigation Team Roles and Responsibilities

| | Governance | Operations | Funding | Other |
|-----------------------|---|---|---|---|
| CFSEU-BC/JIGIT | <ul style="list-style-type: none"> Day-to-day operations will be the responsibility of the JIGIT Team Commander who will report to the Chief Officer, CFSEU-BC through the Senior Management Team. The Chief Officer and Senior Management Team will ensure that JIGIT activities and operations are on mandate. CFSEU-BC/OCABC Board of Governance provides operational and strategic-level governance. | <ul style="list-style-type: none"> All operational aspects including: conducting investigations, collecting and analyzing all-source information and intelligence, and ensuring assets and monies derived from illegal gaming are identified and seized appropriately. | <ul style="list-style-type: none"> Fund 30% of total cost of the Team. | <ul style="list-style-type: none"> Provide additional speciality in-house support. Provide quarterly performance and financial reports to GPEB and PSB on agreed upon metrics as outlined in the service agreement between PSB and the RCMP/CFSEU-BC. Proactively work with all provincial partners on public communications/ announcements. |
| RCMP | <ul style="list-style-type: none"> CFSEU-BC/OCABC Board of Governance includes the Commanding Officer "E" Division RCMP and senior officers. Day-to-day reporting and oversight is through the Chief Officer, reporting to the "E" Division RCMP Criminal Operations Officer in Charge of Investigation Services and Organized Crime. | | | |

| | | | | |
|-------------|---|--|--|--|
| PSB | <ul style="list-style-type: none"> • CFSEU-BC/OCABC Board of Governance includes the Director of Police Services. • Management and oversight of the RCMP provincial contract. | <ul style="list-style-type: none"> • Lead drafting of the 3 service agreements. • Act as the primary point of contact between the province and the CFSEU-BC. | | |
| GPEB | | <ul style="list-style-type: none"> • Provide 4 subject matter experts to the Team. • Integrate GPEB's intelligence team with the CFSEU-BC analytics team. | <ul style="list-style-type: none"> • Provide funding and resources for 4 integrated GPEB investigators. | <ul style="list-style-type: none"> • Provide quarterly performance and financial reports to BCLC on agreed upon metrics as outlined in the service agreement between GPEB and BCLC. |
| BCLC | | <ul style="list-style-type: none"> • Continue with current role of gathering and reporting information to GPEB and the police about relevant conduct, activity, or incidents. • AML analytical team will work with GPEB's intelligence unit to ensure that relevant data is collected, analyzed, and disseminated. | <ul style="list-style-type: none"> • Fund 70% of total Cost of the Team. | |

Page 37 to/à Page 38

Withheld pursuant to/removed as

s.12

Appendix III - Statutory Enforcement Authority of BCLC, GPEB and Police

| | Status | Gaming Control Act | Criminal Code of Canada | Proceeds of Crime (Money Laundering) Terrorist Financing Act |
|----------------|--|---|--|---|
| GPEB | GCA Investigator and/or Auditor upon designation of the general manager. Special Provincial Constable upon appointment by provincial director of Policing and Security Branch. | GPEB Investigators have authority to investigate and to issue violation tickets in relation to offences under the GCA. | Authority to investigate and enforce provisions of the CC, but these would be restricted to gaming matters or matters which impact the integrity of gaming. GPEB must notify local police when doing so. | No authority or responsibilities |
| BCLC | No peace officer status | BCLC has the authority to investigate matters related to corporate operations. Monitor compliance of gaming services providers. Monitor operation of provincial gaming or horse racing and the associated premises and facilities. Right to refuse entry. Conduct due diligence investigations in relation to assisting reporting requirement of PCMLFTA. | Authority to investigate matters related to corporate operations. General non-peace officer powers of arrest and protection of property. | Designated reporting entity responsible for anti-money laundering regime at casinos in the province. |
| Police | Police Officer | Can investigate and issue violation tickets in relation to the GCA. | Full jurisdictional enforcement authority. Can make arrests, issue appearance notices, recommend charges, etc. | Jurisdiction to investigate and enforce laws related to money laundering and proceeds of crime. |
| FinTRAC | Financial Intelligence Unit | N/A | N/A | Responsible for receiving and analyzing information from reporting entities, making disclosures to police on money laundering offences, and regulating and auditing reporting entities. |

Ministry of Finance
BRIEFING DOCUMENT

To: Michael de Jong
Minister of Finance

Date Requested: March 24, 2016
Date Required: April 8, 2016

Initiated by: John Mazure
ADM & General Manager
Gaming Policy and Enforcement Branch

Date Prepared: March 24, 2016

Ministry
Contact: John Mazure
ADM & General Manager
Gaming Policy & Enforcement Branch

Phone Number: 250-893-5270
Email: John.Mazure@gov.bc.ca

350292

TITLE: BC Anti-Money Laundering Strategy

PURPOSE:

(X) FOR INFORMATION

DATE PREPARED: March 24, 2016

TITLE: BC Anti-Money Laundering Strategy

ISSUE: In preparation for the announcement of JIGIT on Friday April 8, 2016. This note summarizes the BC Anti-Money Laundering Strategy.

BACKGROUND:

- BC has had anti-money laundering policies in place since 1998. In 2000 the federal government created FINTRAC, which requires businesses that deal in large sums of cash - banks, life insurance companies, real estate companies and casinos – to report large-cash transactions and disbursements over \$10,000, foreign exchanges over \$3,000 and all “suspicious” transactions.
- Released in 2011, the “Anti-Money Laundering Measures at B.C. Gaming Facilities”¹ review found that the Province already has a progressive anti-money-laundering regime in place. The review also contained recommendations to further strengthen this regime; GPEB and BCLC have been developing and implementing strategies that address these recommendations.
- The multi-phased AML strategy is led by an internal GPEB AML working group. The strategy focuses on moving the industry away from cash transactions as quickly as possible, and scrutinizing the remaining cash for appropriate action in an effort to isolate money laundering from legitimate gaming, enabling enhanced enforcement action.
- The AML strategy included three phases;
 - Phase 1: the development and implementation of cash alternatives;
 - Phase 2: the promotion of cash alternatives by gaming facility patrons; and
 - Phase 3: regulatory guidance and as necessary intervention about potential additional measures for enhancing AML due diligence.

Phase 1 and 2 initiatives:

- As part of Phase 1 and 2 of the AML strategy a number of improvements have been made including, but not limited to:
 - Patron gaming fund (PGF) accounts allowing casino customers to transfer money from regulated banks and credit unions or add funds to their account via certified cheques, bank drafts, internet transfers, or verified win cheque;
 - The ability to electronically transfer money into patron gaming fund accounts through Canadian and U.S. chartered banks;
 - Customer convenience cheques clearly marked as verified win or as a “return of funds that are non-verified wins”;

¹ This review was requested by then Minister Responsible for Gaming, Hon. Rich Coleman, in response to multiple media reports of suspicious cash transactions in BC casinos.

- A "cheque hold" system for high-volume players where players can secure play against a personal cheque from an approved bank that will not be processed by a casino until an agreed upon period of time and any winnings or remaining funds are paid back to the player by casino cheque;
 - Debit withdrawals at the "cash cage" as well as ATM withdrawals inside gaming facilities;
 - Casino chips are only able to be used at a single facility and regulations to monitor how those chips are used;
 - Tight restrictions on the ability of patrons to exchange small bills for large currency denominations;
 - Activities on the gaming floor or elsewhere on the property that raise concerns may result in a temporary, 14-day ban while the concerns are investigated; and
 - GPEB is an associate member of the BC Association of Chiefs of Police, and actively collaborates with law enforcement agencies on AML issues.
- Overall, focus of phase 1 and 2 was the development of cash alternatives and the promotion of their use by patrons to minimize the opportunity for the need to access cash outside of gaming facilities which may lead to money laundering or other unlawful activity. These and further cash alternatives are continuously being examined to enhance the phase 1 and 2 strategies already in place.

Phase 3

- Phase 3 of the AML strategy is centered on regulatory guidance and additional measures, including intervention, for enhancing AML due diligence. As such, GPEB has shifted its focus to target its resources at analyzing the areas of highest risk to the integrity of gaming such as large and suspicious currency transactions.
- In June 2015, GPEB and BCLC co-hosted an anti-money laundering workshop, *Exploring Common Ground – Building Solutions*. Attending organizations, including BCLC, law enforcement agencies, gaming service providers, private sector, and financial institutions, supported the creation of a dedicated enforcement unit for both illegal gambling and suspicious money in BC gaming facilities.
- Both GPEB's General Manager and the Minister have directed BCLC in late 2015 to enhance the existing AML regime in gaming facilities. The letters required that BCLC increase its efforts to develop and promote the use of cash alternatives and implement enhancements to its due diligence and compliance program and include:
 - Develop and implement additional customer due diligence policies and practices constructed around financial industry standards and robust Know Your Customer requirements with a focus on identifying source of wealth and funds;
 - Develop and implement additional cash alternatives, focusing on furthering the transition from cash-based to electronic and other forms of transactions, and instruments, and exploring new ways to promote existing and new cash alternatives;

- Work with GPEB to develop processes and approaches to clarify roles and responsibilities around AML intelligence, analysis, audit and compliance activities. This includes considering information sharing and access to systems that support the AML strategy's elements.
- Work with GPEB and other stakeholders such as FINTRAC to develop a BCLC public information and education strategy and action plan for government's review and approval.

Current Situation

- Over the past year, GPEB has been made aware of reports of high stakes illegal gaming houses and other illegal activities related to gambling occurring in the lower mainland. These reports have been confirmed by police investigations. These activities impact both the integrity of gaming and revenue generated by legal gaming facilities and is believed to support organized crime.
- GPEB is also aware of a prevalence of large cash transactions (LCT), often resulting in suspicious transaction reports (STR), in BC gaming facilities. The number of STR's being filed has been increasing in recent years.
- There is currently no dedicated or integrated or coordinated enforcement response to unlawful activities within gaming facilities or illegal gambling in BC between the province and RCMP. The Minister of Finance and Minister of Public Safety requested that the Gaming Policy and Enforcement Branch (GPEB) and Policing and Security Branch (PSB) provide a coordinated response to this concern in the fall of 2015.
- Based on the direction provided, the Gaming Policy and Enforcement Branch (GPEB), Policing and Security Branch (PSB) and the Royal Canadian Mounted Police (RCMP) are working to establish a specialized policing component within the Combined Forces Special Enforcement Unit British Columbia (CFSEU-BC). The Joint Illegal Gaming Investigation Team (JIGIT) will be funded by the British Columbia Lottery Corporation (BCLC) and will provide a dedicated, coordinated, multi-jurisdictional investigative and enforcement response to unlawful activities within BC gaming facilities (emphasis on anti-money laundering strategies) and illegal gambling in BC (emphasis on organized crime).
- In September 2015, GPEB engaged MNP LLP to conduct an analysis of current practices with respect to source of funds, source of wealth, handling of cash, use of cash alternatives and overall customer due diligence, in gaming facilities and financial institutions and conduct an assessment of BCLC's customer due diligence regime and assess compliance with industry best-practices. ^{s.13}

s.15,s.16

s.15,s.16

Integrated Illegal Gaming Enforcement Team

- From 2003-2009, the Integrated Illegal Gaming Enforcement Team (IIGET) investigated illegal gaming activities occurring outside of licensed gaming facilities such as illegal lotteries, common gaming houses, the distribution of illegal video lottery terminals, animal fights, bookmaking, and internet gaming. It was not tasked with examining money laundering in legal gaming facilities. IIGET's budget was cut due to exigent funding pressure on the primary funder, BCLC, and a perceived lack of effectiveness. Investigations and enforcement of illegal gambling activities have been conducted by individual police departments, dependent on departmental priorities and resources, with assistance from GPEB's compliance division where requested.

Minister of Finance Briefing Anti-Money Laundering (AML) Gaming Facilities

Monday, April 4th, 2016

Presented by:

Gaming Policy and Enforcement Branch



Ministry
of Finance

AML in BC Gaming Facilities

Government's response to AML concerns

In Fall 2011, government approved a strategy to identify and mitigate this potential activity:

- a phased approach was developed by GPEB and communicated to BCLC, and the Industry AML Working Group*
- based upon 2011 White Paper authored by R. Kroeker

*BCLC formed an industry working group to develop and implement solutions. The working group is composed of BCLC, GPEB and casino service providers (CSPs).

AML in BC Gaming

The Strategy

GPEB set the following strategy in place, which has been used to frame the regulatory AML activities:

“The gaming industry will mitigate money laundering in gaming by moving from a cash based industry as quickly as possible and scrutinizing the remaining cash for appropriate action. This shift will respect or enhance our responsible gambling practices and the health of the industry.”

The Approach – A Phased Plan

GPEB and BCLC have worked to mitigate this activity:

- Phase 1: Develop and implement cash alternatives to obtain funds inside the facilities, for gaming.
- Phase 2: Operator intervention to more actively engage the use of the cash alternatives by patrons.
- Phase 3: Regulator intervention, which involves conducting a study ^{s.13} [REDACTED]

s.13 [REDACTED]

s.13 [REDACTED]

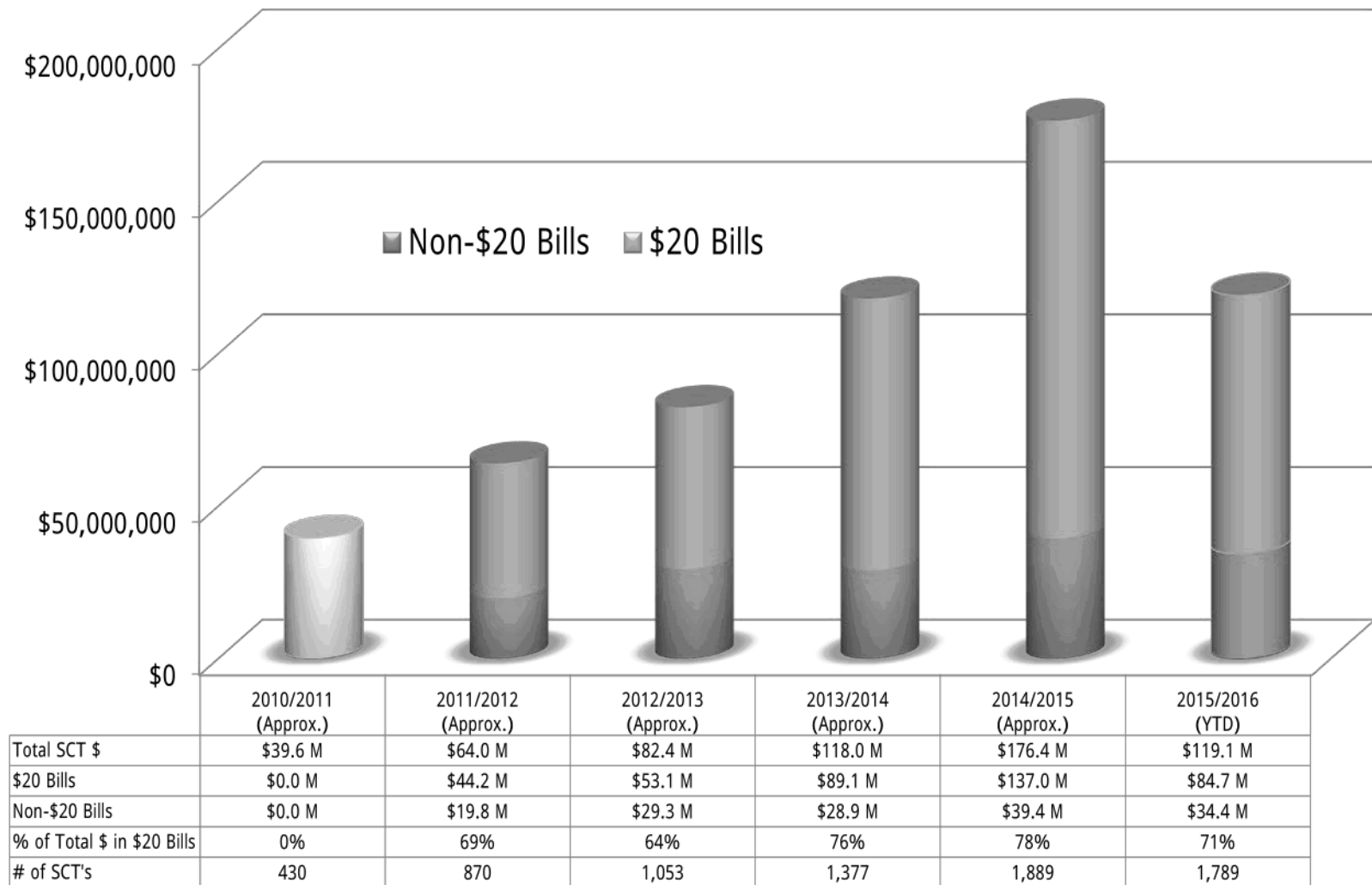
(Where we are now in the process)

The Challenge – Suspicious Cash Transactions

- Continue to see increases in the reporting of suspicious currency transactions (SCTs) at gaming facilities, as reported to GPEB.
- Note, SCTs do not prove the existence of money laundering. Rather these are transactions that may be unusual and warrant reporting to GPEB and the federal regulator FINTRAC.
- Concern is the source of large volumes of cash.

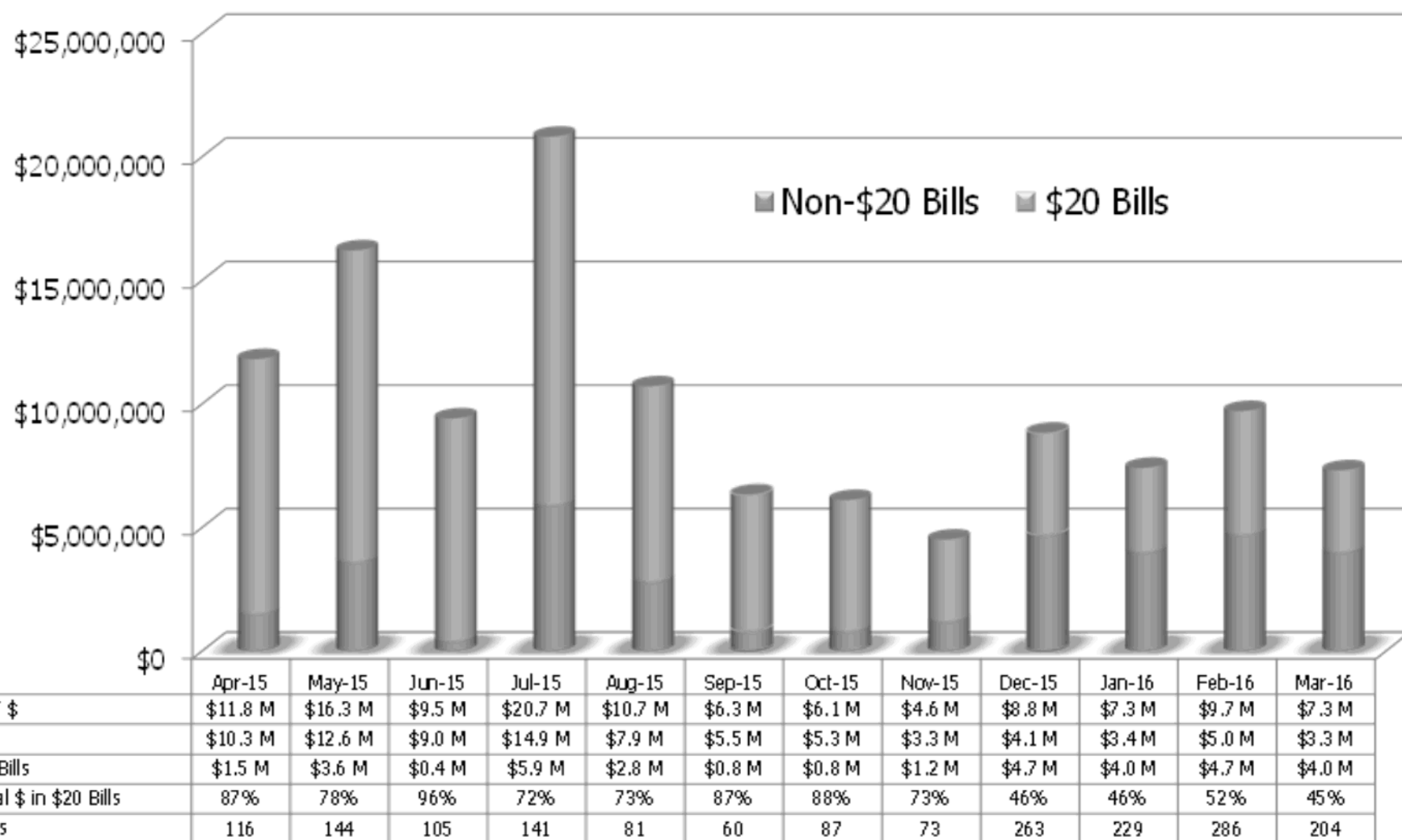
s.15

Suspicious Currency Transactions by Denomination 2010/2011 to 2015/2016



PREPARED BY: GPEB Compliance Division
CONFIDENTIAL - Updated: March 30, 2016

Suspicious Currency Transactions by Denomination for 2015/2016



AML In Gaming

JIGIT (Joint Illegal Gaming Investigation Team)

- JIGIT's two objectives include: (1) targeting organized crime and gang involvement in illegal gaming and; (2) mitigating criminal attempts to legalize proceeds of crime through gaming facilities.
- JIGIT will be comprised of two teams; 22 multi-agency law enforcement positions consisting of two operational teams. Four GPEB positions integrated.
- CFSEU-BC will provide reporting metrics based on qualitative and quantitative measures that relate to achieving mission success, impact on society, and demonstrated value for dollar.
- Their comprehensive performance strategy not only captures the key performance metrics related to inputs, activities, and outputs, but also information on outcomes and impacts.
- Funding is 'fenced' – cannot be allocated to other purposes.

AML in BC Gaming

Ministerial and GPEB Direction to BCLC (Aug–Sept 2015):

- Introduce additional Customer Due Diligence (CDD) policies and practices constructed around financial industry standards and robust Know Your Customer (KYC) requirements, with a focus on identifying source of wealth and funds as integral components to client risk assessment.
- Introduce additional cash alternatives. Develop a broader strategy for increasing the use of cash alternatives in gaming facilities, including implementing a performance measurement framework and an evaluation plan to determine service provider participation.
- Clarify roles and responsibilities around AML intelligence, analysis, audit and compliance activities with GPEB.
- Develop a BCLC public information and education strategy and action plan for government's review and approval, including coordinated messaging about anti-money laundering activities in gaming facilities.

Direction reflects outcomes from stakeholder workshop “Exploring Common Ground” on AML in May 2015.

AML in BC Gaming

GPEB AML Strategy Phase 3 – (Current work)

s.13

- An AML report was commissioned with a firm (MNP) that has experience in this realm.



AML in BC Gaming

s.13

AML in BC Gaming

s.13

AML in BC Gaming

s.13



Next Steps (Requiring Consideration)

s.13

Emerging Issues

- Real estate
 - On Feb 2016, the Real Estate Council of BC announced the establishment of an independent advisory group mandated to examine how Council responds to licensee conduct that could pose a risk to consumers or that fails to meet the standards expected by the public.
- Liquor and other retailers
 - Liquor stores (and retail) are not sectors covered by the Proceeds of Crime and Money Laundering Terrorist Financing Act (PCMLTFA)
- Bodies compelled to report are dictated by statute (PCMLTFA) and the Department of Finance is the lead on any changes to this legislation.
- Entities that are not compelled to report can submit (public) Voluntary Information Records (VIRs) to FINTRAC if they suspected money laundering or terrorist financing.