

**MINISTRY OF ATTORNEY GENERAL
GAMING POLICY AND ENFORCEMENT BRANCH
BRIEFING NOTE**

PURPOSE: For INFORMATION for Attorney General David Eby

Unregulated Online Gambling Overview

ISSUE:

Provide an overview of the unregulated online gambling market in British Columbia.

SUMMARY:

- There are thousands of unregulated online gambling websites offering their services to British Columbians. These sites are based offshore and represent risks to public safety.
- The Gaming Policy and Enforcement Branch (GPEB) is developing a strategy to address these internet-based gambling opportunities, however, s.13 s.13
- Additionally, significant authorities related to this issue lie with the federal government.
- The Minister may wish to consider raising this issue with his provincial and federal colleagues in an effort to give the issue momentum and status.

BACKGROUND:

- The *Criminal Code* currently permits only the provincial government or its agent to conduct and manage gambling in the province (monopoly model). In B.C., only the British Columbia Lottery Corporation (BCLC), as an agent of the Crown, can conduct and manage gambling.
- The *Criminal Code* prohibits certain types of wagers; single-event sports betting and betting on the outcome of a race or fight.¹
- s.14

¹ Efforts have been made to abolish these prohibitions twice by the federal government: Once in 2011, where it unanimously passed in the House of Commons but died in the Senate the following year. In 2016, a new private members bill was introduced but was defeated in the House of Commons. The federal Liberals, who supported the bill while in opposition, opposed it citing concerns with problem gambling and match fixing. B.C. supported both bills to take these bets out of the illegal market, protect citizens, and capture revenue for government.

² This briefing note uses the term 'unregulated online gambling' rather than grey market as it is recognized that these sits are unregulated in B.C. See APPENDIX I for a list of terminology related to online gambling markets.

- Presently, B.C., Manitoba, Québec, Ontario, and Atlantic Canada have implemented regulated online gambling platforms. Manitoba uses B.C.'s PlayNow.com.
- Of the regulated online operators in Canada, BCLC's PlayNow.com is by far the most successful and offers the widest range of games and gambling offerings. PlayNow.com offers lottery games, casino games, poker, parlay sports betting, and novelty betting.
- As the *Criminal Code* is unclear as to the legality of online gambling, thousands of unregulated operators have entered the British Columbian and Canadian marketplace. s.13,s.17
- The total global amount wagered in both regulated and unregulated online markets has grown from an estimated \$6 billion in 2003 to \$46 billion in 2016 and is projected to grow another 20 per cent to \$56 billion by 2018³.
- The current B.C. online gambling market is estimated to be approximately \$640 million, s.13,s.17
- In jurisdictions that permit online gambling,⁴ there are three basic models: licensing, mixed model, and monopoly;
 - Licensing model is where a regulatory body issues licenses to companies to offer their online platform to the citizens of that jurisdiction.
 - Mixed model is where some forms of gambling such as lotteries are offered by a single company or organization that has a monopoly and other forms of gambling such as casino games are offered in an open market using a licensing model.
 - Monopoly is where a single service provider offers services to citizens in that jurisdiction.
- Most jurisdictions have implemented some form of licensing to regulate online gambling, including nearly all European countries.
- For any of these models to be effective, appropriate and robust enforcement mechanisms must be in place to protect their model. See APPENDIX II for a description of the most popular enforcement mechanisms used around the world.

³ Source: <https://www.statista.com/statistics/270728/market-volume-of-online-gaming-worldwide/2009>

⁴ Unregulated online gambling continues to occur in jurisdictions that do not permit online gambling, or have clear online gambling legislation. Notably, the US is defined as a black market because federal legislation in the US has clearly defined online gambling as illegal (except in Nevada and a few other notable states). The federal government has also taken significant enforcement action against numerous online companies; however, persistent consumers still find ways to participate in the market through hiding their IP address, using third-party payment systems and alternative currencies such as bitcoin.

- Canada's monopoly model is relatively ineffective due to the lack of clear legislation outlining the legalities of online gambling as well as the popularity of certain prohibited wagers. This ambiguity has led to a lack in availability of enforcement mechanisms.

DISCUSSION

- Unregulated online gambling websites pose significant risks to consumers, including risk of fraud, changing odds, lack of responsible gambling features, and access by minors.
- Government also bears the negative social consequences and pays through its health and justice systems for problem gamblers who gamble on unregulated sites.
- Additionally, online gambling websites represent a potential untapped revenue source for government.

Efforts to address the unregulated online market in Canada

- s.14
- In Québec, there is significant interest at the senior bureaucratic and political level of government to address illegal online gambling. Québec's online platform – Espacejeux – has not been successful in attracting a large amount of players.
- Québec undertook a study to determine how to address the unregulated sites. The report recommended the *Criminal Code* be amended to permit a licensing model.
- After Québec released its report and recommendation for a *Code* change to permit a licensing model, it connected with the other provinces and a sub-working group of the larger federal/provincial/territorial (FPT) working group on gambling was established to study whether the *Criminal Code* should be amended to permit a licensing model. s.16
- s.16 . The sub-working group is co-chaired by Québec and the federal government. B.C. is a participant in the group however; there has not been a meeting in the last year.
- Additionally, in May 2016, Québec passed legislation to enable the blocking of unregulated gambling websites through its *Consumer Protection Act* and impose significant fines for violators. This legislation is currently being challenged by the

Canadian Wireless Telecommunications Association in Québec Superior Court on the grounds it is unconstitutional. B.C. expects this legislation to be struck down.

- In August 2016, GPEB sent letters to 18 companies that operate at least 25 of the most prominent unregulated online gambling websites, advising they may be operating contrary to the *Criminal Code*. However, none of these companies has ceased operations in B.C. because of these letters.
- In September 2016, GPEB met with regulators in the United Kingdom (UK) s.16 s.16

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Strategies in progress in B.C.

- B.C. is in a unique position because it has the most successful legal online platform in the country. PlayNow.com has continued to grow year-over-year while land-based gambling is flat lining.
- s.13,s.17

- BCLC has been successful in capturing the market for certain types of online gambling offerings –s.13,s.17 s.13,s.17

- s.13

- GPEB is also pursuing several other approaches to address the unregulated gambling websites including:

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Potential Next Steps

- In addition to the discussions GPEB is having at the FPT table, government may wish to consider having discussions with their federal and provincial counterparts to raise the profile of unregulated gambling websites and encourage the federal government to take steps to address this issue.

- Examples of general areas where discussions could occur are:
 - The Premier and the Minister of Finance could raise the issue that millions of dollars are flowing offshore to unregulated gambling sites and not coming to the provinces to fund public services;
 - The Premier, the Minister of Finance, and the Attorney General could renew discussions about legalizing single-event sports betting - this is an area where money could begin to flow immediately to the provinces and more citizens could be protected by betting on regulated websites such as PlayNow.com.
 - Unregulated gambling websites are a consumer protection issue that could be raised by the Minister of Public Safety to discuss the prevalent advertising of unregulated gambling websites.

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Attachment(s)

APPENDIX I – Terminology
APPENDIX II – Enforcement Mechanisms

APPENDIX I – Terminology

There are several different terms to describe the online gambling market. The most common terms and definitions are listed below:

Illegal gambling	Online gambling that happens outside the regulatory framework in a jurisdiction that has clearly defined what is and isn't legal gambling.
Black Market	Refers to a jurisdiction where legislation has clearly defined what is and isn't legal in relation to online gambling The United States is an example of a country that has 'black market' gambling
Grey Market	Refers to a jurisdiction where legislation is not clearly defined what is and isn't legal in relation to online gambling Canada is an example of a country that has 'grey market' gambling
Offshore	Term used to refer to companies that operate online gambling websites that operate both in the grey and black market that are located outside of a jurisdiction Bodog is an example of an 'offshore' company/website
Onshore	Term used to refer to companies that operate online gambling websites that are located inside of a jurisdiction and, typically, within the regulated market PlayNow.com is an example of an 'onshore' company/website

APPENDIX II – Enforcement Mechanisms

Nearly all countries that have legalized online gambling and have implemented either a licensing model or a monopoly have also implemented accompanying enforcement provisions to ensure that they are able to protect their citizens. The different types of enforcement options that are used in other countries include:

Enforcement Mechanisms	Used commonly in;
Offence provisions (criminal and civil)	<ul style="list-style-type: none"> • USA • Scandinavia
Payment blocking This is when the credit card companies are restricted from permitting citizens from purchasing gambling offerings off unregulated websites	<ul style="list-style-type: none"> • USA • Scandinavia • Latvia
Website blocking This is when ISP addresses of unregulated websites are blocked by Internet service providers so citizens are not able to visit the unregulated gambling websites	<ul style="list-style-type: none"> • Scandinavia • Latvia
Advertising restrictions Some countries clearly prohibit unregulated gambling websites from advertising their products within the jurisdiction.	<ul style="list-style-type: none"> • Scandinavia • Latvia • Australia
Blacklisting Some countries create a list of the companies and websites that are offering online gambling illegally to their citizens. This serves the dual purpose of shaming companies and encouraging them to leave voluntarily while at the same time raising public awareness about unregulated gambling websites and their risks.	<ul style="list-style-type: none"> • USA • Latvia • Australia

**MINISTRY OF PUBLIC SAFETY AND SOLICITOR GENERAL
POLICING AND SECURITY BRANCH
BRIEFING NOTE**

PURPOSE: For INFORMATION for the Honourable Mike Farnworth, Minister of Public Safety and Solicitor General

ISSUE: Joint Illegal Gaming Investigation Team (JIGIT)

SUMMARY:

- Authorized by the Minister of Public Safety and Solicitor General, JIGIT is a collaboration between the Combined Forces Special Enforcement Unit of British Columbia (CFSEU-BC) and the Gaming Policy and Enforcement Branch (GPEB) of the Ministry of Attorney General.
- The objective of JIGIT is to help combat police-reported increases in illegal gaming, and to enhance investigations into the flow of illegal gaming funds through provincial gaming facilities by top-tier organized crime groups.

BACKGROUND:

- At the provincial-level, GPEB and the British Columbia Lottery Corporation (BCLC) oversee the BC gaming industry, and the companies within it. GPEB regulates all gaming in BC, ensures the integrity of gambling industry companies, people and equipment, and investigates allegations of wrongdoing. This includes regulatory oversight of BCLC. BCLC manages and operates the province's gambling industry and seeks to maintain its integrity and security. BCLC owns the games and equipment used in casinos and oversees the private sector service providers who maintain the facilities and manage day-to-day operations.
- In April 2016, JIGIT was formed to disrupt organized crime and gang involvement in illegal gaming, prevent criminals from using BC gaming facilities to legalize the proceeds of crime, and conduct criminal investigations of illegal gambling houses and activities. JIGIT also works to raise public awareness of the role service providers' play in identifying and reporting illegal gaming and financial transactions.
- JIGIT is located within CFSEU-BC, at the RCMP BC Headquarters and is fully staffed with 22 law enforcement positions and five GPEB personnel who are appointed as investigators under the *Gaming Control Act* and Special Provincial Constables under the *Police Act*.
- The law enforcement positions are responsible for conducting criminal investigations while GPEB's investigators provide subject-matter expertise to the team, though the scope of their role is limited by what is legally permissible.

- Fenced funding for JIGIT is received from the Ministry of Finance and administered through the Provincial Police Service Agreement (PPSA) to CFSEU-BC under the 70/30 ratio. Provincial funding for the first three fiscal years of JIGIT entails: \$1.8 million in FY 16/17 for 9 positions; \$3 million in FY 17/18; and \$3 million in FY 18/19 for all 22 positions.
- BCLC also supports JIGIT through gathering and reporting information to GPEB on occurrences where the conduct, activity or incidents in, around or related to provincial gaming involves the commission of an offence under the *Criminal Code* or the *Gaming Control Act*.
- Since forming in mid-2016, members of JIGIT have engaged in specialized training. On February 6, 2017, CFSEU-BC made the first public announcement regarding JIGIT after two individuals were charged as a result of an investigation conducted by the team at Lake City Casino in Kelowna (which is owned by Gateway Casinos and Entertainment Limited).
- Also, JIGIT recently led a year-long investigation into a network believed to be connected to illegal gaming houses and money laundering. On June 13, 2017, CFSEU-BC announced that this investigation resulted in nine arrests and the seizure of: large amounts of cash and bank drafts; drug paraphernalia; suitcases; cell phones; computers and other related material; and a number of luxury vehicles.
- Several mechanisms are in place to monitor the success of JIGIT. For instance, CFSEU-BC collects qualitative and quantitative metrics relating to mission success, impact on society and demonstrated dollar for value. Policing and Security Branch receives the metrics from CFSEU-BC, and distils them to GPEB which, in turn, conveys the information to BCLC on a bi-annual basis
- All reports produced by JIGIT (i.e. performance reports, financial reports) remain confidential unless otherwise agreed to by PSSG and GPEB or where required by law or regulatory disclosure requirements.
- To ensure an arm's length relationship between police and government, public-facing communications related to JIGIT fall under CFSEU-BC's jurisdiction. However, when CFSEU-BC plans to issue such communications it has discretion to provide the information in advance to PSSG which may, in turn, share details with GPEB on a confidential basis in order to confirm content.

OTHER MINISTRIES IMPACTED/CONSULTED:

- Not Applicable

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Page 04 to/à Page 09

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**MINISTRY OF ATTORNEY GENERAL
GAMING POLICY AND ENFORCEMENT BRANCH
BRIEFING NOTE**

PURPOSE: For INFORMATION for Richard Fyfe, Deputy Attorney General

ISSUE:

The Deputy Attorney General (DAG) has requested detailed information regarding the compliance reporting and auditing requirements that are imposed on service providers. In addition, DAG has requested a detailed summary of Great Canadian Gaming Corporation's (GCGC) compliance track record.

SUMMARY:

Service provider auditing requirements:

Section 78 of the GCA provides the GM or an inspector (designated by the GM) with the authority to conduct inspections and audits for the purposes of monitoring compliance of registrants (including gaming service providers) with the Act, Regulation and the rules and conditions of registration. The requirements imposed on service providers falls under Section 79 of the GCA.

Auditing requirements for Service Providers consist of:

- Allowing GPEB auditors access to enter gaming facilities and all areas within a gaming facility for the purpose of carrying out an audit.
- Allowing GPEB auditors access to enter any part of the grounds of a race track for the purpose of carrying out an audit.
- Responding to any inquiries or requests from GPEB auditors to review or obtain any of the records or things necessary to complete an audit.

Compliance reporting requirements:

Section 77 of the GCA outlines financial reporting requirements and Section 34(1) of the GCR outlines conditions of registration for gaming service providers. See appendix 1 for detailed conditions of registration applicable to all gaming service providers and appendix 2 for conditions specific to GCGC.

GCGC compliance track record:

The GPEB Audit team carries out compliance audits at gaming facilities (casinos, community gaming centres and bingo) with the Gaming Control Act, Regulation, GPEB directives and BCLC policies and procedures. Audit frequency is determined using risk-based factors including materiality, previous audit and compliance issues identified in

GPEB audits and BCLC compliance reviews etc. All facilities are annually risk assessed. On average, GCGC facilities are audited approximately every two years. The majority of issues identified from compliance audits were lower risk administrative issues such as:

- Insufficient documentation of casino transactions or incidents,
- Limited occurrences of training levels not being kept up to date and;
- Slot machine settings are not always being kept current.

In addition to compliance audits, GPEB audit has also conducted work to assess potential risks and concerns that have been identified at River Rock such as monitoring the use of cash alternatives, identifying denominations of suspicious cash buy ins and compliance with non-cash directives. Concerns continue to exist around suspicious transactions occurring at the site, especially around high volumes of unsourced funds continuing to be accepted.

GPEB Corporate Registration had indicated that GCGC is in compliance with all conditions of registration as outlined in their 2014 Condition of Registration letter (see attachment 2).

In April 2017 Corporate Registration received a letter from BCLC identifying concerns at GCGC. A meeting was held with the GCGC Director of Corporate Compliance to review their plan to address the issues and Corporate Registration is satisfied with the steps taken.

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Attachment(s)

1. Detailed conditions of registration applicable to all gaming service providers


Conditions of
Registration - corporate

2. Conditions of registrations specific to GCGC.


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Updated Conditions o

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Attachment(s)

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Conditions of
Registration - corporate

2. Conditions of registrations specific to GCGC.



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Updated Conditions o