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2014 BANK SECRECY ACT CONFERENCE

LAS VEGAS, NV

JUNE 12, 2014

Good morning. It is a pleasure to be joining all of you today for this event. I would first like to thank the State Bar of Nevada's Gaming Law Section, the American Gaming Association, and UNLV's International Gaming Institute, for sponsoring today's event.

The fact that today's conference is sold out tells me there is a clear need for more programs like this one. It also tells me that the casino industry has a strong interest in developing a deeper understanding about these issues. And I am very glad I could be here to be a part of the discussion.

Let me start by recognizing the obvious: Casinos, like other financial institutions, are increasingly spending time and money to comply with the Bank Secrecy Act. And we are committed to working with you to maximize our ability to be effective partners.

As you likely already know, the Bank Secrecy Act, or "BSA," is the common name for a series of statutes and regulations that form this country's anti-money laundering and countering the financing of terrorism laws. Nearly every country around the world has similar laws in place at this point. These laws are meant to protect the integrity of the financial system by leveraging the assistance of financial institutions to make it more transparent and resilient to crime and security threats, and by providing information useful to law enforcement and others to combat such threats.

Indeed, the threats that we face in the United States are quite serious and provide the context for why we must work effectively together. The information that casinos and other financial institutions provide is used to confront terrorist organizations, rogue nations, WMD proliferators, foreign grand corruption, and increasingly serious cyber threats, as well as transnational criminal organizations, including those involved in drug trafficking, and massive fraud schemes targeting the U.S. government, our businesses, and our people.

With this backdrop, I want to focus my remarks today on the importance of the casino industry understanding and embracing a risk-based approach to anti-money laundering (AML) efforts. I will also discuss trends in the casino industry that are of concern to us at FinCEN, revisit the importance of a strong culture of compliance within the casino industry, and discuss our ongoing efforts to further strengthen our partnerships in this industry and with law enforcement and federal regulators.

First, let's discuss why a risk-based approach is so important, and why I think casinos are uniquely positioned to make effective use of this approach. Casinos are no stranger to the concept of risk. You calculate the risk of losing money as part of your business operations. You safeguard yourselves from cheating and theft. You look out for those who attempt to game the system. Illicit actors are also looking to game the system so that they can move or hide funds among the many cash and non-cash transactions you conduct daily. In this way, casinos are well suited to, and should, employ this same concept of risk to their AML programs.

We often hear the refrain "just tell us what to do" when we explain why a risk-based approach to AML is needed. I can appreciate that a prescriptive yes-or-no/check-the-box exercise may seem easier. I can also appreciate that a risk-based approach can create some uncertainty. Unfortunately, there is no one-size-fits-all approach to AML. Every financial institution – from its products, to its customers, to its internal procedures – is different. So every financial institution needs to consider its own products and practices and assess its own risks, to develop a program that works best for that financial institution to mitigate its particular risks. FinCEN's mission is to safeguard the financial system from illicit use. The most effective way the financial industry can help us is to understand and address the unique risks faced by their industry.

I recognize that casinos offer far more than financial services. Understandably, the entertainment component is a significant driving force behind the decisions your casino makes as a business.

But casinos are not simple cash intensive businesses. They are not arcades. They are complex financial institutions with intricate operations that extend credit, and that conduct millions of dollars of transactions every day. They cater to millions of customers with their bets,

markers, and redemptions. And casinos must continue their progress in thinking more like other financial institutions to identify AML risks. Not only is this thinking necessary to safeguard your corner of the financial sector, but it is also something that should be good for your individual business too.

Think about what happens each time a customer enters your casino. Often, the first thing a customer does is conduct a financial transaction – they buy chips. And the last action a customer takes is usually also a financial transaction – they cash out those chips. And while the vast majority of these transactions are purely for entertainment purposes, casinos can serve as the vehicle for the use, movement, and concealment of ill-gotten gains. This is a risk inherent in all financial institutions.

Casinos have the same responsibility as more traditional financial institutions to file reports about certain financial transactions. For example, casinos need to report currency transactions by any person of more than \$10,000 in cash each day. In addition, casinos are required to report suspicious activity when they know or have reason to suspect that a financial transaction, or attempted transaction:

- (i) involves funds derived from illegal activity or is an attempt to disguise funds derived from illegal activity;
- (ii) is designed to evade regulations promulgated under the BSA, or
- (iii) lacks a business or apparent lawful purpose.

This is where the substantial investment in technology that casinos have made can be extremely helpful. Casinos invest heavily in sophisticated monitoring tools to track a wide range of customer activities and to understand their customers' preferences. These same kinds of monitoring and customer service capabilities can and should be leveraged for AML purposes. I would ask those of you here today to think about the systems you already have in place and how you can adapt these systems so that you can use all available information to assess risk more effectively and improve monitoring on the AML side.

Building upon the importance of a risk-based approach, I would like to clarify the obligations casinos have concerning the source of funds. I believe there may have been some confusion caused by recent press reports on this issue.

For example, one article stated, in part, that existing rules do not require casinos to “vet” the source of funds, and that rulemaking would be forthcoming to address this issue. That, however, is not entirely accurate. Casinos are required to be aware of a customer's source of funds under current AML requirements.

Specifically, under existing regulations, a casino is required to develop and maintain a robust risk-based anti-money laundering program. In fact, the regulations explicitly state that casinos must implement reasonably-designed procedures for “using all available information to determine... the occurrence of any transactions or patterns of transactions required to be reported as suspicious.”

Among the various reporting and recordkeeping obligations imposed on casinos is the obligation to identify and report suspicious activity. Meeting this obligation relies largely upon the casino’s ability to understand with whom it is doing business. FinCEN expects that casinos, like other financial institutions, inquire about source of funds as appropriate under a risk-based approach.

Significant amounts of money coming in from jurisdictions reported to have high crime or corruption present greater risks to you. Under a risk-based approach, these situations represent times when you may need to learn more about your customer and his or her source of wealth to identify suspicious activity.

Think about what it means when you are dealing with money that comes to you from overseas. This happens, for example, when you are affiliated with or have relations with a casino in an overseas jurisdiction, such as Macau, or when you are receiving patrons through overseas junket operators. In these situations, you need to be concerned about potentially illicit sources of funds issues and the strength of AML controls in the originating overseas jurisdiction. In particular, you should be paying attention to:

- **Source of Funds:** Where precisely are the funds coming from? High-risk jurisdictions with weaker controls and reputations for higher corruption? Foreign casinos with weaker controls, including those that allow luxury goods stores on property to front cash for fabricated goods sales?
- **Customer Due Diligence:** Have the customers been linked to negative news reports, such as links to crime or failing businesses? Are they politically exposed persons? In this vein, it is important to keep in mind that bad actors are more than just drug dealers and the money laundering predicates include a wide variety of illegal activity.
- **International Money Transfers:** How are customers or junket operators moving the funds to and from the United States? Are they utilizing third parties or possibly unregistered money services businesses?
- **Pass Thru Activity:** Are funds being passed through casino accounts without engaging in much gambling activity? Are the funds forwarded to third parties or used to purchase assets like real estate?
- **Dormant Accounts:** Are accounts being used to park funds for an extended period of time?

In addition, with respect to junkets, casinos are reminded that they are required to implement risk-based procedures for ensuring compliance with the requirement to report suspicious transactions. A casino is required to implement procedures for identifying the junket representative and each member of the junket, obtaining other information on these individuals, and conducting due diligence, for front money accounts. (This is spelled out in one of the Frequently Asked Questions guidance documents FinCEN put on its website two years ago.)

I want now to revisit the importance of a culture of compliance, which is an issue we raised when I spoke here in Las Vegas last September. A strong culture of compliance within any institution is key to its ability to comply with the BSA. From purely a business side, you understandably want to be the casino that has the best reputation for catering to your guests. You pride yourself in knowing what kind of wine a high-roller drinks, or his or her favorite music. Your intelligence operations and the knowledge of your hosts, when it comes to pleasing your guests, are second to none.

You have a culture of hospitality and entertainment that enables you to grant every request a customer makes. To be sure, proper business etiquette suggests that the customer is always right – although that might be true in many things, it certainly isn't true in everything. You could jeopardize your reputation and run afoul of the law in an effort to please your customer. A casino's capability for knowing its customers' preferences and credit information, combined with your security technology, can and should be leveraged to piece together relevant information to understand your customers' source of funds.

Another aspect of the culture of compliance relates to information sharing. As in other financial sectors, for a casino's compliance culture to be truly strong and effective, it should promote appropriate information sharing to help achieve AML goals. Casinos should think about the information that they have on an enterprise-wide basis and how to ensure it gets to the right people in their compliance unit. In addition, FinCEN will continue to work with industry to find opportunities to increase the amount of information sharing that can occur within the industry among financial institutions and between casinos and the government.

On that point, I'd like to emphasize the need for information sharing across financial institutions. Just like other FinCEN-regulated financial institutions, casinos have the ability to share information with one another and with other regulated financial institutions, such as banks, when they suspect that the information may relate to the proceeds of unlawful activities, and thus be relevant to money laundering or terrorist activity.

The 314(b) safe harbor provisions permit financial institutions to share information under the 314(b) program as it relates to transactions involving proceeds of foreign corruption offenses and other specified unlawful activities (SUAs), the predicate offenses for money laundering, if the financial institution suspects there is a nexus between the suspected foreign corruption, or

other SUA, and possible money laundering or terrorist financing activity. And I can tell you as a former money laundering prosecutor, anytime you have funds that you suspect are related to foreign corruption or another SUA in or moving through your casino, you should also be suspicious that transactions made with those funds may involve money laundering.

FinCEN's website has details on how to take advantage of this program and the benefits of doing so. While section 314(b) information sharing is a voluntary program, FinCEN strongly encourages all financial institutions, including casinos, to participate.

To address concerns the casino industry may have about the potential disadvantages of sharing such information directly with competitors, the industry may consider the utility of 314(b) sharing through a third-party association that may register with FinCEN, which has been done in other financial sectors.

FinCEN also has another information sharing process called the 314(a) program. Under this program, FinCEN, of its own accord – or at the request of law enforcement – regularly asks industry to identify any accounts to help law enforcement locate financial assets and recent transactions involving subjects that may be involved in terrorism or money laundering activity. Presently, we send requests out to roughly 43,000 contacts primarily in the banking and securities sectors, but we have branched out to certain institutions in other industries as well. We have been discussing the utility of a similar approach for such requests to the casino industry. I can't overstate the importance of this program – based on feedback we received from law enforcement, we estimate that approximately 95% of 314(a) requests have contributed to arrests or indictments.

Finally, at the request of the casino industry, FinCEN is working on guidance that will enable casinos filing SARs to share such reports within their domestic corporate structures, similar to guidance that we have already issued with respect to the banking and securities sectors.

One very simple aspect of a culture of compliance is to make sure that your institution and your industry take the requirements very seriously. Violating the BSA can result in FinCEN imposing civil penalties against the casino itself, as well as its employees, partners, officers, and directors. It can also result in the U.S. Department of Justice imposing criminal penalties. So I would encourage you to make sure that the business side of your casinos takes AML controls just as seriously as it treats its high-rollers.

That being said, I am very encouraged by the very productive discussions FinCEN has engaged in over these past many months with the American Gaming Association (AGA). We have met with representatives to discuss a variety of issues and we look forward to continuing the active dialogue. Our participation in today's conference is an example of how we are reaching out to industry to provide more information about the BSA and regulatory expectations.

In addition to working with industry, FinCEN regularly works alongside IRS BSA examiners, who serve as FinCEN's examiners for casinos and card clubs (as well as other entities, such as money services businesses). We speak with one voice on these issues. Your IRS BSA examiner is an important source of information on whether your AML program is on the right track. FinCEN also coordinates and maintains an open line of communication with the Nevada Gaming Control Board who we have found to be a valuable partner over the years. Moreover, FinCEN conducts investigations alongside criminal law enforcement partners, including IRS - Criminal Investigations (CI), FBI, U.S. Attorneys' Offices, state authorities, and other regulatory and law enforcement partners. These civil investigations run parallel to criminal investigations with such agencies. In fact, I understand that at the end of today's program IRS-CI will be discussing some of the trends they are seeing on the exploitation of the casino industry by bad actors. I encourage all of you to stay and listen to their feedback.

An active and open dialogue among everyone – industry, law enforcement, and regulators – is important. For example, one issue we have been discussing with the IRS BSA examiners, as well as the AGA, is chip walking. Chip walking in and of itself may not be suspicious. We know there can be legitimate reasons why a patron would leave a casino and take chips with him or her, but there may also be less innocent reasons. A customer who walks out of your casino with a large amount of chips, or stores them on-site in a lock box for an extended period of time, may be trying to hide their funds or structure. This might be the kind of activity that you should report. Again, this speaks to the need for casinos to have procedures in place to monitor for this kind of activity to help mitigate risk. It also speaks for the need of government to understand from you the particulars of your business models and the precise areas of risk. That comes through continuing engagement.

In closing, I want to thank each of you for being here today to be a part of these discussions. The public has entrusted you with providing an entertainment service in an area where we know that there are certain risks. We are counting on you to control for those risks.

I have also learned a great deal during my time here this week. For me, building these partnerships – and learning from each of you – is truly the most rewarding and inspiring part of my job. Being here today, where we can all learn how to better work together, is so important. Keeping this dialogue going will benefit all of us.

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