

Caesars Entertainment (UK) Ltd:

Failures in anti-money laundering controls public statement

15 December 2015

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1 Introduction

The Gambling Commission (the Commission) has identified a number of serious weaknesses in the Anti-Money Laundering (AML) controls used by Caesars Entertainment (UK) Ltd (Caesars) to mitigate the risk of money laundering occurring in its casinos.

Caesars has co-operated fully and openly with the Commission in this respect and has acknowledged its shortcomings. It has proposed, and the Commission has accepted, a voluntary settlement pre-empting the need for a full investigation or licence review.

Casinos in the United Kingdom have a legal responsibility to comply with the requirements of the Money Laundering Regulations 2007 (the MLRs).

As a licensed gambling operator, Caesars has to undertake its gaming activities in compliance with the Gambling Act 2005 (the Act) and in accordance with the licensing objectives, namely:

- to prevent gambling from being a source of crime or disorder, being associated with crime or disorder or being used to support crime
- to ensure that gambling is conducted in a fair and open way
- to protect children and other vulnerable people from being harmed or exploited by gambling.

We examined AML controls used at two casinos owned and operated by Caesars: the Playboy Club London Limited (Playboy) and the London Clubs LSQ Ltd (LSQ). The Commission considers that, at both of these premises, the processes and procedures used to manage the risk of money laundering did not comply with the requirements of the MLRs, nor did they satisfy the duty to comply with the licensing objective to keep crime out of gambling. Specifically the Commission found that Caesars failed to:

- appropriately assess customer risk
- demonstrate appropriate levels of ongoing monitoring
- undertake appropriately rigorous due diligence checks, instead over-relying on negative information, such as no trace results from third party and open source information
- ensure that decision-making records relating to high risk customers such as politically exposed persons (PEP) were complete
- obtain adequate information with regard to customers' source of funds or source of wealth
- ensure that customer due diligence (CDD) and enhanced due diligence (EDD) records, and the policies behind those records, were sufficiently comprehensive to form an effective money laundering control system
- undertake appropriate due diligence checks on customers of other overseas' Caesars Group companies.

The casino sector should be on notice that the issues identified in this statement are likely to form the basis of future Commission compliance assessments.

The issues identified are considered in more detail below. We have also outlined areas for further consideration by operators as well as good practice measures now adopted by Caesars to allow operators to reflect on their own AML policies and procedures in order for them to address any weaknesses that they may identify.

In accordance with our *Statement of principles for licensing and regulation* the Commission has accepted a voluntary settlement from Caesars consisting of:

- Immediate action to rectify the specific matters raised by the Commission
- An independent external provider will review Caesars' AML policies and processes. This will be done at Caesars' expense, within an agreed timeframe, and will be shared in its entirety with the Commission
- Implementation of an action plan that addresses any further weaknesses identified by the third party review of its AML risk and controls
- The publication of this public statement to draw the issues to the attention of the wider industry to provide an opportunity for others to improve
- An agreement to disseminate learning from the shortcomings identified through seminars or other forms of direct engagement with other gambling operators
- Caesars does not wish to profit from the compliance failures identified. It therefore agrees to divest itself of £845,000 to be applied to agreed socially responsible purposes.

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2 Identified issues

Customer risk

Customer risk was not integral to the AML approach undertaken by Caesars. Although the Commission accepts that CDD checks were undertaken by Caesars, the information was not used as effectively as it should have been. Decisions were not consistently recorded to create a customer risk assessment to enable continuing and proportionate ongoing monitoring.

<p>Operator consideration - Is customer risk adequately assessed?</p> <p>The MLRs require operators to have in place risk-sensitive policies and procedures to prevent money laundering occurring at their establishments. Failure to consider the risk posed by customers clearly does not meet this requirement.</p> <p>Operators should be able to prove that an appropriate risk assessment is undertaken for each business relationship. This will determine the level of due diligence and ongoing monitoring applied to mitigate the money laundering risk posed by the customer in question.</p> <p>If the levels of due diligence are not consistent with the risk posed, it is unlikely that an operator would be able to demonstrate compliance with the MLRs.</p>	<p>Indicators of good practice</p> <p>Caesars addressed this issue by introducing processes to create a comprehensive risk matrix, which identifies risk indicators relevant to their business and customers.</p> <p>Caesars now creates and maintains a customer risk profile for each customer. This profile is compared to the risk matrix to provide a level of risk for each individual business relationship, which in turn determines the levels of due diligence and ongoing monitoring undertaken by Caesars.</p>
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Ongoing monitoring

A combination of insufficient customer risk consideration and poor record-keeping meant that Caesars was unable to demonstrate to the Commission that the levels of ongoing monitoring were appropriate to the risk of money laundering posed by a customer.

<p>Operator consideration – Is ongoing monitoring undertaken appropriately?</p> <p>We expect operators to evidence a risk-sensitive approach to ongoing monitoring that can clearly illustrate how levels of ongoing monitoring reflect the risk of money laundering posed by a customer.</p> <p>Regulation 8(3) of the MLRs requires operators to be able to demonstrate that the extent of ongoing monitoring undertaken is appropriate in considering the risk of money laundering.</p>	<p>Indicators of good practice</p> <p>By taking steps to ensure that details of customer risk are properly maintained and compared to relevant risk indicators, operators can ensure that the levels of ongoing monitoring are appropriate.</p> <p>Operators should consider the use of customer risk profiles (or an equivalent) as a means of recording the specific risks posed by customers and the mitigation used to manage the risks posed.</p>
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Lack of positive evidence

Caesars placed undue reliance on negative indicators, such as 'no trace' results from open source internet searches and third party due diligence providers. Such evidence can provide limited negative or positive information about the customers in question. Caesars admit to over-reliance on this type of information to provide assurance about a customer's legitimacy. This over-reliance allowed high risk customers to gamble to a significant extent without appropriate and adequate due diligence material to support their levels of spend.

This unwarranted confidence resulted in decisions being made with limited and incomplete facts, allowing high risk customers to stake substantial sums in the absence of appropriate and adequate due diligence material.

Operator consideration - Is negative evidence inappropriately relied upon?	Indicators of good practice
<p>Good decisions must be based on the considered collection and analysis of relevant information. We expect a customer's risk assessment to be informed by a variety of indicators, some of which will be more important than others. In some instances the fact that there is no information is perfectly acceptable, for example when a customer is not on a sanctions or politically exposed persons list. But in other circumstances, missing information relating, for example, to claimed business interests or sources of income, should be treated seriously. This should cause an operator to consider the integrity of its business relationship with that individual.</p>	<p>A system of AML controls that includes a requirement for customers to evidence their circumstances to an appropriate extent, taking into consideration the money laundering risk they pose, is likely to manage such risks more effectively than a system that overly relies on third party due diligence providers or open source information.</p>
<p>If a customer is on a sanctions or politically exposed persons list, an absence of information is normally considered to be positive. However, in other circumstances, the absence of information, for example in relation to business interests or sources of income, could lead operators to question the integrity of their relationship with the customer.</p>	<p>Appropriate levels of information and evidence obtained from customers can be verified using a variety of methods, such as third party due diligence providers.</p>
<p>Operators should ensure that the due diligence information they hold supports the conclusions they reach over a customer's circumstances.</p>	<p>This approach contrasts to the use of third party due diligence material which, without the evidence from the customer, is unlikely to provide more than a vague indication of a customer's circumstances.</p>
	<p>An operator should insist on appropriate, specific and clear information that evidences a customer's circumstances prior to the formation of a business relationship with a customer who presents a higher risk of money laundering.</p>
	<p>We consider that adequate customer due diligence measures are fundamental in managing the risk of money laundering, and that the information and documents provided by customers should form the basis for any due diligence checks undertaken by the operator.</p>

Decision making should be recorded

Caesar's decision-making records relating to high risk customers such as potential PEPs were limited and sometimes incomplete. As a result of this, Caesars was unable to satisfy the Commission that it was applying the requirements of the MLRs or the Commission's AML guidance appropriately.

<p>Operator consideration - Decision making should be recorded.</p> <p>Although there is no specific requirement in the MLRs to record the basis for decision making, Regulation 7(3) requires operators to be able to demonstrate that the levels of due diligence are appropriate to the risk of money laundering.</p> <p>A failure to effectively record decisions significantly decreases the credibility of any money laundering controls which are in place. It could indicate that senior management is unable to exercise appropriate governance in this area through the inability to review the decisions made.</p>	<p>Indicators of good practice</p> <p>AML procedures that ensure the recording of the basis for key decisions made by relevant personnel will increase the credibility of any system designed to manage the risk of money laundering.</p>
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Inadequate investigation into customer's source of funds or source of wealth

Caesars acknowledged that it had historically viewed investigations into a customer's financial circumstances as primarily a matter of establishing their credit-worthiness. It also stated that staff generally had a wide knowledge of their customers but that, in the past, this knowledge had not always been recorded. Therefore, in a number of instances, Caesars was unable to establish that a high risk customer's level of spend corresponded to the customer's known financial circumstances. As a result, Caesars was unable to demonstrate that the level of due diligence and ongoing monitoring was appropriate in light of the money laundering risks posed.

<p>Operator consideration – Are customers' source of funds and source of wealth adequately investigated?</p> <p>The collection of due diligence material is not an end in its own right. It is a means of determining the risk involved in undertaking a business relationship with a particular customer and mitigating the specific risks that they may pose with regard to money laundering.</p> <p>Operators should ensure that they properly scrutinise the due diligence information they obtain about a customer to ensure the customers' gaming activities correspond with the information they have obtained.</p>	<p>Indicators of good practice</p> <p>Caesars has undertaken a review of all customers who are subject to Caesars EDD checks to ensure that the customers' levels of play correspond to their financial circumstances.</p> <p>Customer accounts have been suspended until customers have provided evidence to Caesars about the source of their funds and the source of their wealth.</p> <p>Caesars has ended business relationships with customers who have failed to provide relevant information.</p>
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EDD/CDD procedures lack the rigour required by the MLRs

Caesars' CDD and EDD records, and the policies behind those records, were not sufficiently comprehensive to form an effective money laundering control system. The Commission determined generally, and in light of the above, that the due diligence activity undertaken in relation to 14 specific Playboy customers had lacked the rigour required in order to appropriately safeguard against the risk of money laundering in accordance with the MLRs and Commission guidance.

The Commission also found that Caesars failed to apply relevant EDD measure to two of its customers at the LSQ, contrary to the MLRs, Commission guidance and its own policies.

Operator consideration – Are EDD/CDD procedures sufficiently rigorous?	Indicators of good practice
<p>Licence condition 5.1.1 of the Licence Conditions and Codes of Practice requires operators to put into effect policies and procedures concerning the handling of cash and cash equivalents to minimise the risk of crimes such as money laundering.</p> <p>In addition, Regulation 20 of the MLRs requires operators to have risk sensitive policies and procedures in place with regard to customer due diligence measures and ongoing monitoring in order to prevent money laundering activities.</p> <p>Under Regulation 7(3) of the MLRs, operators must be able to demonstrate to the Commission that the extent of due diligence measures undertaken is appropriate considering the risks of money laundering.</p> <p>Taking into account the requirements of the licence condition, the MLRs and the Commission's guidance, we expect operators to be able to evidence that the AML systems they have in place are effective in preventing money laundering.</p>	<p>To provide assurance with regard to the effectiveness of their AML controls, Caesars has instructed a leading auditor to independently assess its approach to money laundering prevention to ensure its processes and practices are fit for purpose.</p>

Reliance on checks made by other Caesars Group Companies

Caesars has acknowledged that it transacted with high-spending customers of overseas Caesars Group companies. It failed to check in some cases that due diligence information and documentation held by the originating companies was to the standard required under the MLRs. In these cases it had insufficient evidence to commence a business relationship. It should not have placed reliance on documentation gathered by an operator in another jurisdiction that was not itself licensed in Great Britain, without scrutinising it fully within a domestic context.

Operator consideration – Is there over-reliance on checks made by third parties?	Indicators of good practice
<p>We accept that in taking a risk based approach to money laundering controls it may, in limited circumstances, be acceptable to rely on due diligence measures undertaken by third parties.</p> <p>Regulation 17 of the MLRs prescribes the circumstances in which operators may rely on due diligence undertaken by specified third parties. If operators cannot meet the requirements of Regulation 17 then they cannot rely on the due diligence measures undertaken by the third party and would continue to remain liable for such measures.</p> <p>When considering their responsibilities relating to the licensing objectives and licence conditions and codes of practice and the restrictions created by Regulation 17, operators should carefully consider how appropriate it is to rely on third party due diligence.</p>	<p>Caesars now reviews all due diligence material provided by overseas Caesars Group companies to ensure that it meets the requirement of the MLRs and Commission guidance.</p>

3 Voluntary settlement

The Commission has determined that there were significant weaknesses in the way Caesars managed risk with regard to money laundering.

As a result, Caesars proposed a voluntary settlement, accepted by the Commission, comprising the following elements:

- Immediate action to rectify the specific matters raised by the Commission
- A review of Caesars' AML policies and processes by an independent external provider. This will be done at Caesars' cost and within an agreed timeframe, and will be shared in its entirety with the Commission
- Implementation of an action plan that addresses any further weaknesses identified by the third party review of Caesars' AML risk controls
- The publication of this public statement to draw the issues to the attention of the wider industry to provide an opportunity to others to improve

- An agreement to disseminate learning from the shortcomings identified through seminars or other forms of direct engagement with other gambling operators
- Caesars does not wish to profit from compliance failures identified. It therefore agrees to divest itself of £845,000, to be applied to agreed socially responsible purposes.

The Commission will monitor Caesars' progress in delivering the terms of this settlement.

4. Conclusion

The Commission considers that this case provides valuable learning for operators, who should in light of these matters consider reviewing their legal obligations regarding the prevention of money laundering.

Gambling Commission 14 December 2015

Keeping gambling fair and safe for all

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www.gamblingcommission.gov.uk

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