

Supplementary consultation

**Extending the requirement to assess
money laundering risk to non-remote
lottery licence holders**

Consultation

May 2016

Contents

1	Introduction	3
2	Extending the requirement to assess money laundering risk to non-remote lottery licence holders	4
3	Responding to this consultation	7

1 Introduction

- 1.1 In September 2015, the Gambling Commission (the Commission) consulted on [Proposed amendments to licence conditions and codes of practice \(LCCP\) for all operators in relation to the prevention of crime associated with gambling](#). The consultation included a proposal to introduce a requirement for all operating licences except non-remote lottery, gaming machine technical and gambling software licences to assess and manage the risk of money laundering in their businesses. After assessing views on this proposal, we concluded in our consultation response, [The prevention of crime associated with gambling: amendments to licence conditions and codes of practice \(LCCP\) for all operators](#), that we will implement this requirement. We also decided to issue a supplementary consultation to determine whether we should extend the requirement to assess and manage money laundering risk to non-remote lottery licence holders. This document fulfils that commitment.
- 1.2 We now invite responses on this question. This consultation is specifically relevant to non-remote lottery operators, but also to those with an interest in our approach to managing money laundering risk.
- 1.3 We aim to implement all changes to LCCP from this and from other consultations at the same time later in the year. If, following consultation, we extend the requirement to holders of non-remote lottery licences, the provision will therefore come into effect for all relevant licensees in autumn 2016. Later this year, we will publish on our website the revised LCCP and other relevant LCCP documents, such as sector-specific extracts of LCCP.
- 1.4 The closing date for responses to this consultation is 20 June 2016. Further details on how to respond are set out in Section 3.

2 Extending the requirement to assess money laundering risk to non-remote lottery licence holders

Background

- 2.1 As explained in paragraph 1.1, we previously consulted on introducing a requirement for all operating licences except non-remote lottery, gaming machine technical and gambling software licences to assess and ensure they have plans in place to manage the risk of money laundering to their businesses.
- 2.2 Responses to the proposal were positive, with the majority of respondents behind the principle of an assessment of money laundering risk. The full detail is contained in our [response to the consultation](#).
- 2.3 Some respondents felt we should exclude from the new licence condition those gambling sectors where there may be lower risk of money laundering, such as Adult Gaming Centres (AGCs), bingo licence holders and lotteries. However, we consider that an assessment of risk is widely seen as the foundation of any system to manage and prevent money laundering. It is central to meeting anti-money laundering obligations because it will assist in developing effective and proportionate procedures for prevention. We therefore consider it appropriate, and good business sense, for all licence holders to assess the risks to their business. Without such assessment, operators cannot demonstrate they have given sufficient consideration to potential risks in order to be able to rate them as 'low'.

2.4 We therefore decided to take the condition forward, with some drafting changes to focus on the outcome we intend to achieve: that is, that licensees must conduct an effective assessment of money laundering risks to their businesses, and develop and implement effective policies, procedures and controls in order to manage these. The new licence condition will come into effect in autumn 2016, alongside all other amendments to LCCP made from other consultations this year.

2.5 We did not include non-remote lotteries within the scope of our initial consultation on this licence condition. However, we consider that for the same reasons we have outlined above, non-remote lotteries should also assess the risks to their business.

2.6 Therefore, **we are now consulting on whether to expand the new licence condition to include non-remote lottery licence holders.** This change, if adopted, would be implemented at the same time as the new licence condition comes into effect for other operators in autumn 2016.

2.7 Please note that we are only consulting on whether to extend the reach of the new licence condition. We have already established the need to introduce the condition for other operators in our previous consultation.

Risks to the non-remote lotteries sector

2.8 Non-remote lotteries licensed by the Commission include large society lotteries, external lottery managers (ELMs) and lotteries operated by local authorities. We define a large society lottery as one where the proceeds (ticket sales) in the lottery may exceed £20,000 or the aggregate proceeds over a year exceed £250,000.

2.9 Most society lotteries are low stake, low frequency and small prize gambling. The society lotteries we license are mainly operated by charities and other good causes, such as sports clubs. ELMs are commercial businesses licensed by the Commission to promote lotteries on behalf of societies. Some ELMs operate larger 'brand lottery schemes' where multiple society lotteries are promoted under a lottery brand. Some of these lotteries can be larger in scale than society lotteries and some offer larger prizes. The maximum prize payable in a society lottery is £25,000 or 10% of the maximum proceeds (£4 million) up to £400,000.

2.10 Generally, non-remote lotteries are perceived as lower risk than other sectors of the gambling industry in terms of money laundering concerns. We do not dispute this. Nevertheless, we are aware that there are risks in this sector, which we have considered in our assessment of money laundering risks in the gambling industry (due for publication later this year). Individual licensees may also identify risks that are specific to their business model, customer base or other factors.

2.11 Risks to non-remote lotteries include, amongst others:

- acquisition or control of an operation by organised crime, eg, collusion between an ELM and its societies, or unlicensed lotteries. We are aware of one investigation of the risk of a criminal exploiting a lottery.
- fraudulent use of identity to claim lottery prizes falsely, or anonymous customers laundering the proceeds of crime. There is currently no expectation that non-remote lotteries will routinely undertake customer due diligence. Nevertheless, we would expect licensees to have given some consideration to the risks of this occurring in their businesses, and implemented controls to manage the risks they have identified.

2.12 We therefore consider it is appropriate for non-remote lottery licence holders to be included in the new requirement to assess the money laundering risks that are relevant to their businesses, and consider whether they need to take mitigating action.

- 2.13** Licensees must already consider risks related to cheating or theft by staff, for example, in door-to-door lotteries. We expect that further assessment of money laundering risks need not be too burdensome, and should be proportionate to the risks that exist, as they should for all sectors. Where risks identified are low, mitigating actions may be correspondingly light.
- 2.14** We therefore seek views on expanding the new licence condition, requiring licence holders to assess the money laundering risks in their businesses, to the non-remote lottery sector. The amended licence condition is below, with proposed amendments struck out in the text.

Proposed amendment to new licence condition 12.1.1

12. Anti-money laundering

12.1.1 Prevention of money laundering and terrorist financing
All operating licences except ~~non-remote lottery~~, gaming machine technical and gambling software licences

- 1 Licensees must conduct an assessment of the risks of their business being used for money laundering and terrorist financing. Such risk assessment must be appropriate and must be reviewed as necessary in the light of any changes of circumstances, including the introduction of new products or technology, new methods of payment by customers, changes in the customer demographic or any other material changes, and in any event reviewed at least annually.
- 2 Following completion of and having regard to the risk assessment, and any review of the assessment, licensees must ensure they have appropriate policies, procedures and controls to prevent money laundering and terrorist financing.
- 3 Licensees must ensure that such policies, procedures and controls are implemented effectively, kept under review and revised appropriately to ensure that they remain effective and take into account any applicable learning or guidelines published by the Gambling Commission from time to time.

Consultation question

Q1. What are your views on extending the new licence condition on assessing and managing money laundering risk to non-remote lotteries?

3 Responding to this consultation

- 3.1 The closing date for responses to this consultation is 20 June 2016.**
- 3.2** The Commission is inviting comments on these proposals and would prefer respondents to complete the responses template provided on our website and send it by email to: consultation@gamblingcommission.gov.uk
- 3.3** Further information and assistance is available from the Commission's consultation co-ordinator at the same email address. If you are not able to use the template provided, please indicate clearly the questions or issues to which your comments refer

- 3.4** Alternatively, responses can be sent by post to:
Consultation
Gambling Commission
Victoria Square House
Victoria Square
Birmingham
B2 4BP
- 3.5** When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please make clear who that organisation represents. If responding as an individual, please mention your own interest.
- 3.6** Please note that responses may be made public or published in a summary of responses to the consultation unless you state clearly that you wish your response or name to be treated confidentially. Confidential responses will be included in any statistical summary of numbers of comments received. If you are replying by email or via the website, unless you specifically include a request to the contrary in the main text of your submission, the Commission will assume your consent overrides any confidentiality disclaimer that is generated by your organisation's IT system.
- 3.7** Any information or material sent to us and which we record may be subject to the Freedom of Information Act 2000 (FOIA). The Commission's policy on release of information is available on request or by reference to our website at www.gamblingcommission.gov.uk. The Commission will treat information marked confidential accordingly and will only disclose that information to people outside the Commission where it is necessary to do so in order to carry out the Commission's functions or where the Commission is required by law to disclose the information. As a public authority the Commission must comply with the requirements of FOIA and must consider requests for information made under the Act on a case-by-case basis. Therefore when providing information, if you think that certain information may be exempt from disclosure under FOIA, please annotate the response accordingly so that we may take your comments into account.
- 3.8** All information provided to the Commission will be processed in accordance with the Data Protection Act 1998. However, it may be disclosed to government departments or agencies, local authorities and other bodies when it is necessary to do so in order to carry out the functions of the Commission and where the Commission is legally required to do so.

Gambling Commission May 2016

Keeping gambling fair and safe for all

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