



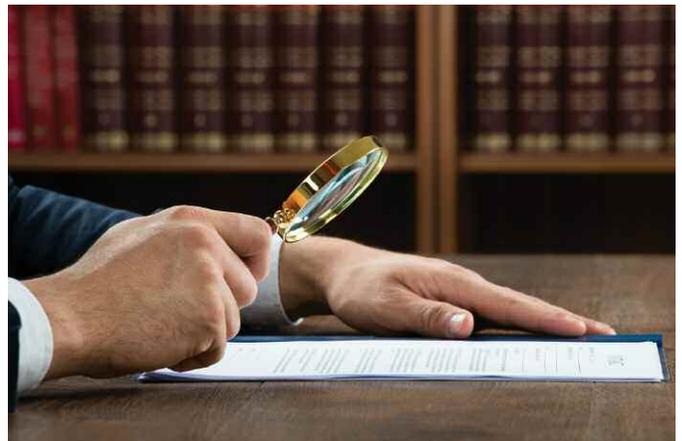
# Interview with Geoff Freeman regarding the AGA's AML Research Initiative

Earlier this year, ahead of a major international evaluation of the United States' system for preventing criminal abuse of the financial system, the American Gaming Association (AGA) released the most comprehensive examination ever conducted of the U.S. casino gaming industry's compliance with anti-money laundering (AML) requirements. AGA President and CEO, Geoff Freeman, shares more on the background for this research, its key findings and its implications for the future.

## **Q.** Why did you pick the middle of 2015 to commission a study of AML compliance in the gaming industry?

The immediate spur was the pending review of U.S. AML programs under the auspices of the international Financial Action Task Force (FATF), which proceeded through the first quarter of this year. Since FATF was going to look at the AML record of the U.S. gaming industry, among many other things, we thought we could facilitate that effort by taking an in-depth look ourselves.

In addition, the evolution of AML policy toward a risk-based approach supported performing the study now, as the trend continues to place a premium on the exercise of judgment by financial institution personnel. An early AGA response to the increased focus on suspicious activity reporting and risk-based compliance was to sponsoring an industry-wide effort to develop a best practices document that distills and shares our members' experiences with AML compliance. That best practices document, first issued in 2014, has proven useful both for our members and for law enforcement officials who are trying to get a handle on the challenges of designing effective and cost-effective AML programs. We have now gone



through our first revision and update of the best practices document. The next logical step was to take a hard look at the industry's compliance efforts.

The gaming industry has always been required to satisfy stringent licensing and operational regulation at the state level, so our AML efforts reflect the application of that attitude to the challenges of meeting federal AML requirements.

## **Q.** What were the principal findings of the Ernst & Young/AGA study?

The study found that risk assessment has taken root in the industry and is playing a central role in the AML effort. Increased budget and expanded human resources are being applied to this priority: two-thirds of the respondents reported an increase in their AML budget

over the last five years, with an average budget increase of about 74 percent. Much of the expanded focus is on training, with 88 percent of respondents showing increased spending on training over the last five years. And the increases will continue: two-thirds of the respondents plan to increase AML compliance spending by an average of 13 percent in the next fiscal year. Moreover, gaming companies are expanding the skill base of their compliance departments. The number of compliance workers with ACAMS certification has quintupled since 2010, while gaming companies are looking to add professionals with law-enforcement backgrounds, foreign language skills, and familiarity with sources of overseas information.



This increased emphasis on risk-based reporting has had a dramatic impact on AML compliance. Statistics released by the Financial Crimes Enforcement Network (FinCEN) show a 250 percent increase in SARs filed by gaming companies from 2011 to 2014. Our study found that for those respondents that recorded when they terminated customer relationships because of AML concerns, such terminations increased 23-fold over the same four-year period.

The study included interviews of officials with twenty-three different law enforcement agencies; it found a consensus view that the gaming industry has made substantial advances in AML compliance in recent years. A risk-based compliance system can never be perfect because it relies on the exercise of human

judgment based on information gleaned from multiple sources. But the metrics reported in the study demonstrate strong improvements.



**Q. Does the AGA/Ernst & Young Study suggest any changes in the AML regulatory regime for casinos?**

One of the clear findings was that despite the increased emphasis by FinCEN and other regulators on risk-based compliance that identifies suspicious activity, respondents still must spend extensive effort on old-fashioned currency transaction reporting (CTRs) that has considerably less utility for law-enforcement purposes. Our study found that 80 percent of the examination process by federal auditors is focused on suspicious activity reporting, yet the respondents of the study still have to devote more than 40 percent of their AML compliance budget to CTR filings. That's a misalignment between the burdens and benefits of AML regulation. We understand that other financial institutions are in the same bind. FinCEN officials and others have acknowledged that some adjustment in that CTR compliance burden may be warranted, but it hasn't yet occurred in a meaningful way. That adjustment should be a high priority.

**Q. Did the study identify special challenges for gaming companies – as compared to other financial institutions – in achieving AML compliance?**

Casinos always have the challenge that their customers do not come to them in order to conduct financial transactions, but because they want to have a good time. Consequently, the AML compliance effort takes place in part on the noisy gaming floor or at the casino cage, not in a quiet office, and involves transactions that are ancillary to (not at the heart of) the relationship between the casino and the individual.

In addition, although some financial activity in casinos is suspicious by its nature – for example, the structuring of transactions to avoid CTR reporting thresholds – much of it is not inherently suspicious but becomes suspicious only because of the identity of the customer.



As noted in the U.S. Treasury’s National Money Laundering Risk Assessment (June 2015), “most often criminals who use casinos to launder illicit proceeds do it through gambling and spending on entertainment.” This presents a challenge because all of the other casino customers are also gambling and spending money on entertainment, which means that casino AML compliance programs cannot rely solely on what employees observe on the gambling floor or at the cage. Rather, they



must combine those observations with other information about the background of the specific customer. More data points must be consulted, diverse parts of the business must share information with each other, and decision-making individuals must make complex, often nuanced judgments.

## **Q. Does the study help point the way towards the next stages of casino AML compliance efforts?**

Due to the increasing emphasis on risk-based AML compliance efforts designed to identify suspicious activity, it will become ever more important to improve communication between the industry and law-enforcement agencies. Risk-based compliance involves pursuit of a moving target. Criminal techniques evolve over time and potential criminal groups emerge and recede from the scene. Industry AML compliance can only be improved by better communication to casinos by government and by other financial institutions of the evolving nature of these risks. The study found that 40 percent of respondents had registered in the government’s 314(b) program, which facilitates the exchange of information among financial institutions. Such efforts need to grow.

In addition, the commitment to AML compliance needs to spread through the industry. Smaller properties in niche markets face different risks than global companies do, and often less overall risk, but all casinos face material AML compliance risk. As other financial industries have seen, bad actors will search out the weak spots in the financial system, no matter how small or remote they may be.

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Geoff Freeman is President and CEO of the American Gaming Association (AGA). In his role as chief executive of the AGA, Freeman is the leading advocate for the commercial and Tribal gaming industry and is responsible for positioning the association to address regulatory, political and educational challenges and opportunities. Follow him on Twitter: @GeoffFreemanAGA.