

# Response to the Review of Canada's Anti-Money Laundering and Anti- Terrorist Financing Regime

WITH RESPECT TO PARI-MUTUEL WAGERING

KATHERINE CURRY, EXECUTIVE DIRECTOR, ONTARIO RACING MANAGEMENT

**SUBMISSION OF WOODBINE ENTERTAINMENT GROUP**

**On behalf of**

**RACETRACKS OF CANADA**

**With respect to**

**PARI-MUTUEL WAGERING**

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## Introduction

The Canadian horse racing industry commits to maintaining a strong anti-money laundering and anti-terrorist financing (“AML”) regime, and has put measures in place to deter the use of pari-mutuel wagering facilities to conduct such activities. Pari-mutuel wagering in Canada is legally conducted solely with respect to horse racing, pursuant to the Criminal Code of Canada. The horse racing industry is aware of and responsive to the need to detect and deter such criminal activity as related to pari-mutuel wagering, and has implemented a risk-based program to combat potential issues in this regard. It is the submission of the horse racing industry that the measures already in place to combat money laundering and terrorist financing activities as related to pari-mutuel wagering on horse racing currently reflect best practices having regard to the commercial realities currently being faced by the horse racing industry.

## Pari-Mutuel Wagering

Pari-mutuel wagering is a betting system in which all bets of a particular type are placed together in a pool. After deductions, those holding winning tickets divide the net amount wagered in proportion to their wagers. Pari-mutuel wagering may only be legally conducted in Canada on live horse races, in accordance with the provisions of section 204 of the Criminal Code. This activity is regulated by the Canadian Pari-Mutuel Agency (“CPMA”), a special operating agency of Ministry of Agriculture and Agri-Food, with the mandate of maintaining the integrity of pari-mutuel wagering in Canada. Pari-mutuel wagering in Canada requires Canadian address and/or Canadian identification criteria, and physical locations for wagering are located only in Canada.

Pari-mutuel wagering takes place in person at racetracks, at teletheatres and online. The integrity of the pari-mutuel wagering system and the safety and security of customers is paramount to the horse racing industry.

## Challenges of the Horse Racing Industry

The horse racing industry has addressed unique industry challenges through its tailored AML programs. Pari-mutuel wagering on horse races is the oldest form of legal wagering, and until 1969, the only form of non-charity-related legal wagering in Canada. Traditionally, anonymity has been characteristic of the cash wagering transaction, and this remains the case today. Further, the majority of wagers are placed in a very short time frame just prior to race time. It is

the expectation of patrons of the horse racing industry that they be able to place bets when and in such amounts as they choose, with minimal interference from the host racetrack. To restrict the customer's right to conduct themselves in this fashion, particularly given the competition for the wagering dollar taking place in Canada today, would greatly restrict the industry's revenues and place an undue burden on an industry that is struggling to survive in today's market for entertainment dollars.

Cash wagers may be placed onsite at racetracks through trained, live tellers or at self-serve wagering terminals. Due to the timing of placed bets, implementing formal cash wagers AML procedures at Canadian racetracks via live tellers would fundamentally change the customer experience. With respect to the self-serve terminal option, there is no reasonable means of capturing and verifying the identity of patrons placing wagers using this method. It should be noted that high volume patrons could reach prescribed AML thresholds very quickly, simply in the conduct of legitimate wagering activity.

Due to the nature of the horse racing business, therefore, it is virtually impossible to track cash transactions.

Further, horse racing wagering is substantially different from the casino wagering. Patrons of the races do not sit and wagering for extended periods of time as the wagering activity is not continuous. Wagering on horse races is discrete, where bets are placed at approximate 20-minute intervals, and most of the wagering is done just prior to race time. The wagering business conducted by the racetracks is extremely time sensitive. Applying AML requirements would slow the wagering process down immeasurably, resulting in fewer wagers being placed and jeopardizing future wagering activity. The horse racing industry relies on wagering dollars to operate; to unnecessarily alter or restrict wagering due to additional provisions would jeopardize the existence of the industry.

Finally, most Canadian racetracks cannot afford to staff personnel for the implementation and management of AML requirements. Additional AML-related measures must be balanced against the stated objective of the Government not to place an undue burden on the industry. Most Canadian racetracks simply do not have the capability or the resources to carry out additional AML requirements or to absorb the costs inherent in these additional obligations.

## Current Pari-Mutuel Wagering AML Measures

The horse racing industry uses a risk-based approach to its anti-money laundering measures to maximize effectiveness:

### ON-TRACK WAGERING

Horse racetracks in Canada have implemented a maximum cash wagering amount per transaction as a means of reducing AML risk. Transactions self-serve terminals cannot exceed \$1,000, and transactions at tellers are limited to \$100 per transaction.

Any transaction involving an instrument other than cash, vouchers or wagering tickets must be directed to a track representative. Instruments involving amounts more than \$10,000 are subject to an approval process and are recorded.

It is also possible for patrons to establish anonymous player card accounts for use at the physical racetrack locations. Such accounts are set up to protect the identity of the account holder, but still require age information to verify that the patron is of legal age to wager in Canada and are subject to financial limits. Anonymous accounts can only be set up and used at physical racetrack locations, and cannot be used to wager online.

### ONLINE/ACCOUNT

Approximately 50% of pari-mutuel wagering in Canada is done through registered online account betting.

To safeguard this portion of the industry, *Know your Customer* procedures are implemented. These procedures include requiring authenticated identification to complete onsite registration. Similarly, when a patron applies for a registered wagering account on-line, they must provide identification which is authenticated via a secure third-party platform, as approved by CPMA. In both cases, identification includes name and date of birth, and must also include a Canadian address. All wagering activity conducted through registered online accounts is performed by account holders whose identity and associated personal information has been established and verified, and all such transactions are tracked and auditable.

Based on previous betting patterns, anti-fraud software limits customer deposit and withdrawal amounts, while new accounts are limited to a \$200 deposit or withdrawal. Deposit and

withdrawal amounts can be increased once betting and winnings are generated. A patron may call an online support centre to fund their account, however, a funding limit of \$2,500 applies and no wagering can take place over the telephone. Additionally, the technology used to provide online wagering automatically flags activity consistent with potential money laundering for further investigation. This approach is complimented by enhanced patron due diligence and internal reporting of suspicious activity. Additionally, online deposits exceeding \$1,000 are identified and an email is automatically generated and sent to a trained supervisor/manager for review. Where suspicious activity is identified, an investigation is conducted and, where appropriate, remedial or other measures are taken (for example, an account can be suspended or withdrawal activity inhibited).

Finally, most online wagering done through account betting is funded using credit or debit cards (not cash), and is therefore already subject to the FINTRAC requirements at the bank level.

### DISBURSEMENTS OF FUNDS

Upon the completion of betting, if a patron requests a cheque disbursement greater than \$10,000 from their account or cashing a voucher, the racetrack will investigate to ensure that the cheque is the result of winning bets. If the request is a result of a cash in and out transaction, rather than normal wagering activity, racetrack security proceed as appropriate. All cheques are issued with a verified name and address and cheques over \$10,000 are kept in a separate file.

### ELECTRONIC FUNDS TRANSFERS

EFT is used to enable customers to withdraw from their betting accounts. EFT withdrawals are subject to the same procedures and anti-fraud measures listed above, and are subject to the appropriate measures taken at the bank level. Patron EFT transactions may not be sent internationally.

In addition to the outgoing EFT's that are arranged for patrons on request as described above, racetracks issue and receive EFT's from global establishments who have simulcast racing agreements with the Canadian racetracks.

Wagers for Canadian races are pooled by other gaming and wagering entities and Canadian racetracks pool wagers for races that are simulcast through their on-site and online operations. The funds that are due to the Canadian tracks, or are owed by the Canadian tracks to the

international tracks, are calculated on a monthly basis and EFT's are issued and received to settle the balances. These business-to-business EFT transfers are often more than \$10,000 and should not be subject to FINTRAC reporting requirements.

The above measures have been effective, on a risk assessment basis, in detecting and preventing AML activity at racetracks across Canada while maintaining service levels necessary for the industry to continue.

## Impact of the Imposition of Additional Requirements

The horse racing industry is not able to implement additional AML detection and prevention measures. Due to the current economic realities of the horse racing industry, racetracks do not have the resources to implement the additional FINTRAC AML tracking and reporting requirements. Significant costs and resources would be required to affect such measures due to the nature, complexity, and significant volume of pari-mutuel cash wagering activities. Such additional costs and resources include, but are not limited to, the following:

- Personnel to implement, train, administer, and oversee additional AML policies and procedures to meet the required reporting standard
- Engaging the wagering totalisator service provider to develop a sophisticated real-time transaction tracking and reporting mechanism on cash wagering activities to identify potential money laundering activities as they occur
- Running and maintaining robust monitoring systems (e.g. real time ongoing monitoring on security cameras to cover all betting terminals) for AML triggering activity and a task force to investigate and gather intelligence on identified suspicious activity
- Appointing an onsite AML officer to train, and enforce compliance on AML policies across all offsite betting (tele-theatre) operations to fulfill the AML tracking and reporting requirements
- Engaging independent external testing for AML policy and systems compliance with a scope and frequency commensurate with the identified risks posed

In addition to the financial challenges precluding the horse racing industry's ability to implement additional AML measures, the nature of the industry mandates against the efficacy of such

requirements. As noted above, anonymity is the main characteristic of cash pari-mutuel wagering. *Know your Customer* challenges related to the gathering personal information including identification and verification are not possible due to the nature of the wagering activity. If racetracks were required to implement KYC requirements with respect to wagering transactions, this would result in (i) a decrease in wagering activity due to time constraints based on the condensed timeframes involved in horse racing wagering transactions, and (ii) a decrease in the wagering patron guest experience satisfaction level. The resulting business disruption would place the already struggling racetracks in an even more precarious economic position.

In an industry which is largely dependent on government funding for survival, it would be counter-productive to require that racetracks spend this funding on additional regulatory requirements with respect to AML activity.

## Conclusion

It is important to balance the capturing of financial activity that poses money laundering and terrorist financing risk, and the amount of resources needed to comply with obligations and analyze that activity.

The measures in place today at Canadian racetracks reflects a measured risk-based approach to AML-related issues, and is designed to maximize the ability of the tracks to detect and prevent the use of pari-mutuel wagering facilities for AML activity. The Canadian racetracks and their patrons are both located within Canada. Although patrons can wager anonymously, this only makes up approximately 40% of the wagering conducted, and can only be conducted directly at the racetracks with limited instruments to maintain anonymity. Most of the product and service offerings require individuals to be onsite, which inherently lowers AML risk.

The imposition of additional requirements on an industry that is already struggling in today's economic climate would create an undue burden on the industry and pose challenges to those responsible for overseeing compliance. Significant costs associated with the implementation of additional AML measures as well as increased administrative and reporting requirements would be prohibitive for the majority of the tracks in Canada. In the context of the horse racing industry, the costs of such additional requirements would greatly exceed the benefits.