



**Macau Junket Operators Pose Financial Crime Risks to Banks –
How to Identify, Assess and Address Those Risks**

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CONTENTS

		Page
Title	Macau Junket Operators Pose Financial Crime Risks to Banks - How to Identify, Assess and Address Those Risks	
Executive Summary		3
Statement of Purpose		4
Financial Crime Risks Posed by Macau Junket Operators	<ul style="list-style-type: none"> ▪ Background of Junket Operations in Macau ▪ Adverse Reports Concerning Macau Junket Operators ▪ Money Laundering ▪ Links to Triads and Organized Crime ▪ Regulatory, Financial and Reputational Risks ▪ Diversification of Business Interests of Macau Junket Operators ▪ Regulation of Macau Junket Operators ▪ Movement of Interest of Macau Junket Operators to Other Jurisdictions 	<p>5</p> <p>6</p> <p>7</p> <p>10</p> <p>11</p> <p>14</p> <p>15</p> <p>15</p>
Identifying, Assessing and Addressing Financial Crime Risks	<ul style="list-style-type: none"> ▪ How to Identify Macau Junket Operators ▪ Risk Scoring Macau Junket Operators ▪ Identifying Business Structures of Macau Junket Operators ▪ Using Data Analytics to Identify Risks to the Bank ▪ Assessing the Financial Crime Risks ▪ Addressing the Risks 	<p>17</p> <p>18</p> <p>21</p> <p>21</p> <p>22</p> <p>23</p>
Conclusion		24

Executive Summary

Macau junket operators developed from being ferry ticket scalpers, to arranging VIP trips for gambling in casinos that had an agreement with the junket operator and, most significantly, for collecting the gambling debts. This latter service continues to be an essential aspect of the role of the Macau junket operator, and makes them relevant to the casino gambling business even today. Being a licensed gaming promoter (junket operator) in Macau is, obviously, legal. However, junket operators have, and continue, to feature in adverse media associated with Macau triads and organized crime, and with money laundering. Furthermore, in practice, some individuals and corporate entities that are junket operators might not be licensed; they might operate behind the scenes concealed through layers of shell companies or other entities through which majority control is exercised. Recent research concludes triads are still centrally involved in private gambling rooms in casinos, as well as in the casino cruise business.

Macau junket operators present challenging financial crime risks to banks that provide service to them. A problem for banks is that the risks might not be immediately obvious, especially since many junket operators have diversified geographically, as well as in the range of business activities in which they are engaged.

There is ample evidence that some Macau junket operators are establishing business in casinos in countries for which regulation is less rigorous, or in countries that are in close proximity to others that are high risk for money laundering and terrorist financing. Some junket operators have engaged in other areas of business including financial services, property and jewelry. Comingling revenue from junket operations with that from other business practices presents difficulties for banks to be confident as to the source of funds.

The solution for banks is to identify Macau junket operators and their connected parties, as well as their full range of activities. There are open sources to identify licensed Macau junket operators. With careful review of each listed junket operator, including fund flow analysis and identification of business structures and connected parties, it is possible for banks to be able to assess the financial risks presented. Risk factors can be used to prioritize deep dive research and analysis.

Banks need to be alert to the full financial crime risks that Macau junket operators, and those connected to them, can present, and should have clear and well-defined positions with regard to provision, or otherwise, of banking services. For some banks, assessment might lead to the conclusion that, despite controls that could be utilized, continued banking of a junket operator and the businesses to which he/it is engaged lies beyond the risk appetite of the bank, and that exiting of all relevant accounts might be necessary. This conclusion might be reached despite (or perhaps, at least in part, because of) the huge sums that the client might be channeling through the bank and for which the bank is not comfortable.

Banks in countries that are now attracting interest of Macau junket operators should be familiar with the regulation of junket activity in those particular countries, and should conduct thorough research to ensure they have in-depth knowledge of junket operator individuals or entities, as well as their connected parties and other business interests.

The purpose of this paper is to alert financial crime compliance departments in banks to the risks that junket operators can pose, and to provide guidance as to how junket operators can be identified, including their possible connections to triads and organized crime figures. The paper suggests a means to risk-score junket operators to enable prioritized deep-dive review, and to alert banks to financial crime risks that might not be immediately evident, and to suggest means by which such risks can be assessed and mitigated. Finally, this paper highlights the difficulty that many banks will face when junket operators diversify geographically and in business areas of activity, the solution to which might have to be to exit all activity connected to the junket operator due to the challenge in identifying funds derived from junket operations and those from other business activities.

Statement of Purpose

It is clear that many junket operators pose significant financial crime risks to banks that include: (a) **regulatory** - primarily through exposure to potential money laundering; (b) **financial** - in respect to potential fines from regulators; and (c) **reputational** - from providing banking services in respect to funds that can be linked to financial crime as well as to triads¹ and organized crime figures.

This financial crime concern is exacerbated by expansion—there is media commentary and clear evidence that Macau junket operators are extending or moving business operations to other countries. Furthermore, there is abundant openly available evidence that junket operators have diversified business interests into areas that have no obvious connection with the gaming industry, including financial services, property development and the jewelry business. It is evident that funds from junket operations can be comingled with those from legitimate sources, making the task of identifying the source of funds a challenge to banks.

There is a problem in that some banks might be unwittingly providing service to individuals and/or corporate entities and for funds that actually present a high risk to the bank. Furthermore, banks might be used by organized crime figures to launder proceeds of crime and to assist building business empires that have their original and/or current roots in crime. A seemingly respectable CEO might be a junket operator or have close connections to a junket operator, the gaming business and/or to triads and organized crime. Being a licensed junket operator is a legitimate business, and in itself does not mandate malpractice, but it is important that banks are not blind to financial crime compliance risks posed by junket operators, and to what could lay behind a seemingly respectable business façade.

This paper explains the origin and development of the operation of junkets in Macau, and reviews some of the adverse media concerning their activities. It will identify how casinos are used to launder money from crime, including a review of some of the commentary and evidence clearly demonstrating that some junket operators have close links to triads and organized crime figures. It reviews risks posed to banks that provide service to junket operators and individuals

¹ Triad societies originated in China in the 17th century, to defeat the Ch'ing dynasty and restore the Ming dynasty. Post Second World War, triad members fled to Hong Kong, Macau and Taiwan, as well as to Chinatowns in cities around the world, and protected the interests of Chinese refugees from the same ethnic group and locality. Triads became operative in China following the government's open door policy in the 1980s, but became involved in criminal activities that included smuggling of drugs and trafficking of prostitutes into Hong Kong. In recent times triads have also been increasingly involved in legitimate business enterprise. (T, Wing Lo, and Sharon Ingrid Kwok. "Chinese Triad Society." *Chinese Triad Society - Criminology - Oxford Bibliographies*. N.p., 13 Jan. 2014. Web. 16 Feb. 2017.)

or entities closely associated with them. It describes diversification by junket operators geographically as well as in areas of business activity, and provides commentary as to the effectiveness, or otherwise, of regulation of Macau junket operators. It includes actions banks can take to identify junket operators, risk score them to enable prioritized review, to identify business structures, and to use data analytics to identify what could be hidden risks to a bank. Lastly, it suggests actions to assess and mitigate risks to banks.

Background of Junket Operations in Macau

Gaming became legal in Macau during the mid-1800s, and was used as a source of government funding for the (then) Portuguese colony. Macau is still the only place in China in which casino gambling is legal. At the end of the nineteenth century, a licensing system was created to ensure the government received rent from gambling houses. However, it was not until 1962, when the government granted the Sociedade de Turismo e Diversões de Macau (STDM) a monopoly over all types of gambling, that Macau (it reverted to Chinese rule in 1999) began to strongly develop as an Asian gambling mecca. In 2002, legislation resulted in other casino operators being granted access to Macau with regards to the provision of games of fortune and chance (Law No. 16/2001).²

According to the Direcção de Inspeção e de Coordenação de Jogos, (DICJ) otherwise known as the Gaming Inspection and Coordination Bureau (GICB), there are 141 licensed gaming promoters (junkets) in Macau, 20 individuals and 121 corporates.³

There are currently six entities to which gaming licences for Macau have been granted: Sociedade de Jogos de Macau (SJM), Wynn Resorts, Galaxy Entertainment Group, Las Vegas Sands, MGM Mirage/Pansy Ho and Melco/PBL.⁴

Junket operators, or 'gaming promoters,' attract high-stake gamblers (VIPs or 'whales'), typically from China and Hong Kong, to Macau to casinos to which the junket operator is contracted; they usually provide the gamblers with transport to the casinos, money (credit) with which to gamble, accommodation, food and refreshment, as well as other entertainment, and collect debts from the losing gamblers. These actions are in exchange for a share of casino profits, through a commission of 1.25 percent on the bets laid by the VIPs.⁵

Junket operators originated through the actions of STDM that were designed to prevent triad ticket scalpers controlling ferry tickets to Macau. STDM allowed the scalpers (otherwise known as 'Damazai') to sell 'dead chips' that could not be redeemed for cash, and were normally used in loans to customers, for a commission of 7 percent. Dead chip dealers persuaded gamblers to buy dead chips from them, and if the gamblers won, they would be paid in regular chips. 'Chip-rolling' was a means by which the former ticket scalpers made money from gamblers in casinos. The business practice was expanded to include free transport and accommodation in

² Henrick Jorgensen "History of Gambling in Macau!" *History of Gambling in Macau*. N.p., n.d. Web. 16 Feb. 2017.

³ Joanne Kuai, "Some 35 Gaming Promoters Denied licence Renewal." *Macau Business Daily*. N.p., 13 Jan. 2016. Web. 16 Feb. 2017.

⁴ "Concessionaires – the 6 Players « Macau Casino World – Baccarat Great Learning." *Macau Casino World*. N.p., n.d. Web. 16 Feb. 2017.

⁵ Farah Master. "Factbox: How Macau's Casino Junket System Works." *Reuters. Thomson Reuters*, 21 Oct. 2011. Web. 16 Feb. 2017

Macau. In the 1980s, STDM restricted the activities to VIP rooms, in an attempt to provide regulation of this growing business activity, and this practice formed the basis of current junket operator practice (now with an increased commission percentage).⁶

Being a junket operator in Macau is legal, and requires a licence to have been granted by the DICJ. Junket license holders need to apply every six years, although the authorities also have the power to make interim checks.⁷ A junket operator can be an individual or a corporate entity.

Junket operators were only loosely regulated until 2002, because there was only a single gaming concessionaire (STDM); regulation was centred on control of junkets by the GICB, and contracts between STDM and junkets were seen as private agreements that were subject to the commercial law of Macau.⁸ In 2002, following a government review that identified the close correlation between junket operators and the vast majority of revenues created by the casino business, Macau passed legislation (Administrative Regulation No. 6/2002) to better regulate junket operators through provision of a licensing regime and verification protocols that relate to the fitness of applicants, their registration with the gaming concessionaires and sub-concessionaires and the payment of commissions.⁹

At its height prior to 2014, it is estimated that 70 percent of casino revenue in Macau was generated from VIPs, and the Macau gambling industry created seven times the revenue of Las Vegas (the current figure is 50 percent).¹⁰ Macau is the world's largest casino hub, but gaming revenue fell for the third consecutive year in 2016, partly due to the prolonged anti-corruption drive in China.¹¹ However, there is evidence that gaming revenue derived from VIP gambling has started to increase in recent months.¹²

Casino cruise ships first appeared in Hong Kong in 1988 when the late Yip Hon, a Macau casino tycoon, was in conflict with Stanley Ho (STDM), and competed against him by introducing casino cruises on the *Oriental Princess*, a renovated cargo ship. Casino cruise ships are not subject to legal restriction concerning the gambling that occurs in international waters. Casino cruises have proven to be a lucrative business, and the 2002 relaxation by the mainland government on the number of mainland tourists able to visit Hong Kong provided a boost to it. In 2013, casino cruises in Hong Kong attracted 1.31 million passengers, and in February 2014, there were eight casino cruises operating. Triads continue to be active in casino cruises; they control junket operations and are engaged in the loansharking business.

⁶ T. Wing Lo, and Sharon Ingrid Kwok. "Triad Organized Crime in Macau Casinos: Extra-Legal Governance and Entrepreneurship." *British Journal of Criminology* (2016).

⁷ HG.org Legal Resources. "Rules on Junket Operations in Macau." *Hg.org*. N.p., n.d. Web. 16 Feb. 2017.

⁸ Carlos Siu *An Introduction to the Junket Operation in Macau*. Rep. N.p.: Macau Polytechnic Institute, n.d. Print. Web. 16 Feb. 2017

⁹ The Gaming Inspection and Coordination Bureau. "Initial Application for Junket Promoter License." N.p., n.d. Web. 16 Feb. 2017.

¹⁰ Dan Moskowitz. "Macau Gross Gaming Revenue Jumps, Again (MGM, LVS)." *Investopedia*. N.p., 02 Dec. 2016. Web. 16 Feb. 2017.

¹¹ South China Morning Post, 2 January 2017, <http://www.scmp.com/epaper>. <http://www.scmp.com/news/hong-kong/economy/article/1903423/casino-revenue-figures-confirm-terrible-year-macaus-biggest>

¹² Lisa Pham and Daniela Wai, Bloomberg Markets, 1 January 2017, <https://www.bloomberg.com/news/articles/2017-01-01/macau-gaming-revenue-extends-recovery-to-rise-8-in-december>. Web. 26 February 2017

Corrupt Mainland officials and businessmen have laundered money through casino cruises since the 2012 crackdown on corruption in China directed by President Xi Jinping. In 2015, the mainland government announced the “one belt, one road” initiative of economic development that will include use of land and sea routes. It seems likely that development of tourism along China’s “maritime silk road” could well entail an expansion of the casino ship business operation, and this could be evidenced, for instance, in the Taiwan Strait.¹³

Adverse Reports Concerning Macau Junket Operators

Links between triads and Macau’s VIP industry have long featured in the media. In the years preceding the return to China of sovereignty over Macau, triad warfare broke out in Macau and received international media attention. Reports centered on murders, bombings, and arson that resulted from territorial disputes between the 14K and Shui Fong triad groups.

Following a failed attempt to murder a senior police officer in Macau, Wan Kuok-koi, popularly known as Broken Tooth Koi, was arrested and, in 1999, was sentenced to 15 years’ imprisonment.¹⁴ In 1999, the year of the handover to Chinese sovereignty, 42 people died in gang-related attacks.¹⁵ During the period before the change of sovereignty, triads, who purposefully maintained a high profile and used violence against rival triad gangs, ran the casino VIP business in Macau.¹⁶ The change of sovereignty resulted in the gaming industry in Macau being reviewed and updated to accord with a Las Vegas casino management style.

A 2001 report by the U.S. Congressional-Executive Commission on China stated,

“The growth of gambling in Macau, fuelled by money from Mainland Chinese gamblers and the growth of U.S.-owned casinos, has been accompanied by widespread corruption, organized crime, and money laundering.”¹⁷

Casinos junkets solved some of the practical problems inherent in running a casino in Macau, including the need to attract VIP gamblers (in order to maximize profits), provide credit to them to gamble, and also collect gambling debts in mainland China. The system has proved to be an attractive arrangement for customers who need to secrete large quantities of cash out of China. Proceeds of crime can be moved out of China through the use of junkets by handing over cash on one side of the border and recovering it in gambling chips on the other, and they can be played and cashed out in clean foreign currency.¹⁸

Macau’s gaming magnate, Stanley Ho Hung-sun, reportedly an associate of known and suspected triads and the sole Macau casino gambling concessionaire until 2002, allegedly

¹³ Sonny Shiu-Hing Lo, ‘The Politics of Controlling Organised Crime in Greater China’, Chapter 6, ‘From China’s Underground Casinos to Macau’s Casinos and Hong Kong’s Cruise Ships’, Routledge, 2016.

¹⁴ BBC News. “ASIA-PACIFIC | Macau Moves against Gangs.” *BBC News*. BBC, 04 May 1998. Web. 16 Feb. 2017.

¹⁵ Benjamin Carlson. “Broken Tooth and New Macau.” *Foreign Policy*. N.p., 28 Jan. 2013. Web. 16 Feb. 2017.

¹⁶ T. Wing Lo, and Sharon Ingrid Kwok. “Triad Organized Crime in Macau Casinos: Extra-Legal Governance and Entrepreneurship.” *British Journal of Criminology* (2016): 4,5. 16 Feb. 2016.

¹⁷ Eva Osnos. “The God of Gamblers.” *The New Yorker*. The New Yorker, 20 Feb. 2015. Web. 16 Feb. 2017.

¹⁸ Ibid.

permitted “organised crime to operate and thrive within his casinos,” according to a report by the New Jersey state attorney general's Division of Gaming Enforcement.¹⁹

Money Laundering

The 2009 Financial Action Task Force (FATF) Report, “Vulnerabilities of Casinos and Gaming Sector” concluded,

“Overall, there is significant global casino activity that is cash intensive, competitive in its growth and vulnerable to criminal exploitation. This paper identifies significant gaps in awareness of ML typologies, gaps in regulatory and law enforcement responses, gaps in online gaming typologies, issues with controls over junkets / VIP programs, and significant issues with controls over high seas gaming.” The report identified significant gaps in global coverage of AML/CFT controls over the gaming sector, and such constituted a significant vulnerability.²⁰ The report listed numerous ways in which casinos can be used to launder money, including: “Use of Casino Value Instruments (cash / casino chips / TITO / gaming machine credits / Cashier's orders / casino cheques / gift certificates / chip purchase vouchers / casino reward cards); Structuring / Refining; Use of Casino Accounts (credit accounts, markers¹⁷, foreign holding accounts) / facilities; Intentional losses; Winnings / intentional losses; Currency Exchange; Employee Complicity; Credit Cards / Debit Cards; and False Documents.”²¹

The report noted an area of concern was the control of junket operators and their agents. A number of jurisdictions that allowed junket play did not require registration/licensing and regulation of junket organizers or their agents. Concern was stated regarding the need to ensure junkets and their agents were not under criminal control or influence, and that financial transactions were transparent and subject to relevant AML/CFT measures. The report noted that international standards did not clearly address junket operations, yet their role as intermediaries or third parties was a significant concern in many jurisdictions. Particular issues with regard to foreign branches or subsidiaries of junkets (use of foreign holding accounts) that were used by junket providers operating in a number of jurisdictions that offered services from the same casino group in a number of jurisdictions were identified (money used in a casino in one country could be used in a casino in another country). It was noted that it was not clear what obligations were placed on junket operators when they operate in another jurisdiction.²²

Price Waterhouse Coopers (PwC) issued results of an economic crime survey in March 2014 that concluded money laundering had greater prevalence in Hong Kong and Macau than in most other areas of the world. It commented that, “the concentration of financial services in Hong

¹⁹ Asia Legal News. “Hong Kong Legal & Law Community | Latest Law News | LexisNexis Hong Kong: News: Asia Legal News: US Report Says Stanley Ho Helped Triads Gain Foothold in Macau.” *Hong Kong Legal & Law Community | Latest Law News | LexisNexis Hong Kong: News: Asia Legal News: US Report Says Stanley Ho Helped Triads Gain Foothold in Macau.* N.p., 18 Mar. 2010. Web. 16 Feb. 2017.

²⁰ Vulnerabilities of Casinos and Gaming Sector. The AsiaPacific Group On Money Laundering, and Financial Action Task Force. Rep. N.p.: n.p., 2009. Print. Web. 16 Feb. 2017

²¹ Ibid. P. 27

²² Ibid. P. 59

Kong and gaming in Macau drives the significance of money laundering in the local marketplace.”²³

On April 23, 2014, the *Macau Times Daily* reported that Hong Kong and Macau law enforcement agencies had acted on information provided to them by Chinese authorities that had compiled a list of over 20 junket operators that were allegedly assisting mainland officials to launder money.²⁴

It was reported that some of the \$81 million stolen in March 2016, from the account held by Bangladesh at the Federal Reserve Bank, New York, had been converted into gambling chips, for money laundering purposes.²⁵ It stated,

“Money laundering has long plagued casinos in the Philippines, which largely operate beyond the reach of anti-money laundering authorities. The U.S. Department of State, among others, has identified the country's gaming industry as a nexus for illegal activity and money laundering. Transnational drug trafficking organizations based in East Asia use the existing banking system, casinos, and commercial enterprises to transfer drug proceeds from the Philippines to offshore accounts.”²⁶

There are significant issues with implementation of customer due diligence (CDD) controls over VIP rooms. Some jurisdictions lack clear powers for the regulator, FIU or law enforcement agencies to have access and to share information regarding members of casino VIP programs. If VIP gaming rooms are leased to junket operators that provide the gaming equipment, staff and funds to play in the room, such activity may be performed outside the CDD and other internal controls of the casino. VIP rooms may offer safety deposit boxes and other facilities that are not subject to AML/CFT controls, but which might represent vulnerability for AML/CFT.²⁷

Links to Triads and Organized Crime

Over the last two decades there have been a large number of reports in the media that link Macau casino activity with triads, organized crime and financial crime. In May 2014, a director of a U.S.-based trade union, the International Union of Operating Engineers, alleged that the DICJ had failed to determine the suitability of a junket operator that had clear links with members of the 14K triad society that had convictions for triad crimes in Macau.²⁸

²³ Toh Han Shih. Money Laundering Huge in Hong Kong and Macau: Crime Survey." *South China Morning Post*. N.p., 4 Mar. 2014. Web. 16 Feb. 2017.

²⁴ Shuli Ren. "Macau Gaming Junket Incidents Sour Sentiments Says Credit Suisse." *Barrons*. N.p., 28 Apr. 2014. Web. 16 Feb. 2017.

²⁵ Charles Riley. "Casinos, Money Laundering and Wire Transfers: Inside a Global Bank Heist." *CNN Money*. *Cable News Network*, 18 Mar. 2016. Web. 16 Feb. 2017.

²⁶ Ibid.

²⁷ T. Wing Lo, and Sharon Ingrid Kwok. "Triad Organized Crime in Macau Casinos: Extra-Legal Governance and Entrepreneurship." *British Journal of Criminology* (2016): 60. 09 Feb. 2016. Web. 10 Jan. 2017.

²⁸ Niall Fraser. "Wynn Macau Casino Firm Hits Back over 14K Triad-link Accusations." *South China Morning Post*. N.p., 16 May 2014. Web. 16 Feb. 2017.

In March 2013, Carsen Yeung, the former owner of Birmingham City Football Club, was convicted of five counts of laundering HKD 721 million. A Hong Kong-listed junket operator, Neptune Group Limited, was stated to have been a channel for the fund flow. Yeung reportedly obtained a HKD140 million loan from Kingston Finance.²⁹ 437 cash deposits totaling over HKD97 million had been made into five bank accounts under the control of Yeung. Many of the deposits had been made without apparent reason. The appeal judge noted Yeung's connections with Macau casinos.³⁰

In December 2014, *The Macau Times* reported that Mandy NG Chor Har, wife of Cheung Chi Tai and owner of the Neptune Group Limited, had been arrested by Hong Kong Police, and HKD 200 million of liquid assets, purportedly provided by her husband as household expenses, had been seized or frozen. It stated that since NG's arrest, 40 persons connected to Neptune group had been arrested or questioned by the Hong Kong Police.³¹

A study conducted by T. Wing Lo and Sharon Ingrid Kwok, titled, "Triad Organised Crime in Macau Casinos: Extra-legal Governance and Entrepreneurship," published in 2016 concluded:³²

- a) Triads treat VIP rooms as "economic territories"
- b) Not all junket operators are triads, but they may be businessmen that need triad connections, otherwise they would experience difficulties in controlling VIP room daily operations
- c) The change of sovereignty in 1999, and the introduction of Las Vegas-style management into casinos in Macau did not result in triad activity in VIP rooms disappearing. The role of the Damazai changed, and they became junkets. Customers were no longer solicited inside casinos, but rather junkets sought VIP customers in mainland China
- d) Casino management typically select junket operators for VIP room activities that have substantial financial resources, and also an ability to mobilize manpower
- e) Triad presence in VIP rooms fosters business and enhances order
- f) VIP room business in casinos in Macau is an activity run by a triad individual; loansharking is an activity of a triad society, due to the need for enforcement, coercion and protection of triad members if disputes with other triads occur
- g) Nowadays triads are very evident in the Macau gaming industry
- h) More than one triad might operate in a casino; casino management divides VIP rooms between different triads
- i) Junkets aim to attract gamblers to VIP rooms, but junkets also seek investors for the VIP rooms. Some triads and businessmen who are running VIP rooms form their own junket companies to run the rooms; they act in a way that has similarities to a bank in that they solicit funds from investors and pay monthly dividends to them. Money raised from investors is used to give credit to the gamblers in the VIP rooms. Some companies

²⁹Chan, Thomas. "Carson Yeung Planned Mainland Soccer Empire, He Tells Money Laundering Trial." *South China Morning Post*. N.p., 22 Oct. 2013. Web. 16 Feb. 2017.

³⁰ Austin Chiu. "Carson Yeung Jailed for Six Years after Tip-off Triggered Money-laundering Probe." *South China Morning Post*. N.p., 7 Mar. 2014. Web. 16 Feb. 2017.

³¹ Macau Daily Times. "As Reported by MDT: Neptune Owner's Wife Detained following Tightened Grip on Junkets." *Macau Daily Times – Asas reported by MDT: Neptune Owner's Wife Detained following Tightened Grip on Junkets*. N.p., 23 Apr. 2014. Web. 16 Feb. 2017.

³² T. Wing Lo, and Sharon Ingrid Kwok. "Triad Organized Crime in Macau Casinos: Extra-Legal Governance and Entrepreneurship." *British Journal of Criminology* (2016): 60. 09 Feb. 2016. Web. 10 Jan. 2017.

engaged in such practice list on the Hong Kong Stock Exchange in order to raise higher revenue

- j) Being a triad member is not a prerequisite for VIP room operation. What is essential is to have connections within mainland China to attract the gamblers to the VIP rooms
- k) Triads still dominate VIP rooms but their model has changed away from overt violence, to creation of harmonious relationships and 'Dor' – a reputation for trust within the casino world that the VIP room operator will provide stability, non-violence and cordial relationships, backed up by force and power, and avoiding unnecessary violence. Furthermore, inter-triad collaboration in VIP room operation occurs because of the need to provide huge sums of capital. Such collaboration assists in the maintenance of a VIP room entrepreneurial system that has a focus on cooperation amongst triad groups
- l) Although legislation was enacted in Macau in 2002 (Administrative Regulation 6/2002) to create a licensing regime of junkets, some unlicensed junkets still remain active in the business. Casino VIP room operators might be triads who operate behind the scenes, for instance, the true owner of a junket company could be a triad figure holding shareholdings of offshore companies that have an interest in the listed junket operator. Layers of shell companies and corporate entities can be used to hide true ownership and personal interests in the operations of junkets in Macau casinos;
- m) Money laundering occurs in triad-controlled VIP rooms primarily driven by corruption in mainland China;
- n) Travel restrictions to Macau imposed on Chinese officials as an anti-corruption measure have been circumvented by use of video live betting that enables gamblers to participate whilst on the mainland by use of a login ID. Furthermore, under-the-table betting is practiced by which an ostensible bet of, for instance HKD100,000 on the table, actually represents HKD1 million. When huge bets are laid, triads operating VIP rooms can collaborate to ensure sufficient capital is available. By such means as video live betting and under-the-table betting VIP gamblers can assist to avoid being seen to gamble, and also to evade tax on casino income; and
- o) The source of VIP clients for casinos used to be Hong Kong but is now China. Triads provide capital for VIP room operation, but it is the junkets that are relied upon to provide credit to VIP gamblers in the form of dead chips. Chinese VIP gamblers are able to gain credit that evades the foreign currency restriction of USD50,000 per year that is imposed to restrict capital outflow from China. Whilst junkets provide credit to VIP gamblers, they do not act as loan sharks against them, but rather threaten to expose their gambling and non-payment to significant others, and thus damage their reputation. Gambling-related debt collection is illegal in China, and junkets can outsource debt collection to powerful individuals (including local gangsters) in the area in China where the debtor lives.

Some Criminologists consider gangsters are becoming “grey entrepreneurs,” and that it has become more difficult to distinguish between triads that have gone into business, and businesses that act like triads.³³

Steve Vickers, a former commander of Criminal Intelligence Bureau of the (then) Royal Hong Kong Police, stated, “I know of no Chinese junket operator that doesn’t have some association with triads.”³⁴

³³ Eva Osnos. "The God of Gamblers." *The New Yorker*. 20 Feb. 2015. Web. 16 Feb. 2017.

³⁴ Ibid.

Observers predicted that when American-run casinos began operating in Macau, U.S. financial scrutiny, including that of state regulators, would force organized crime out of Macau's gambling industry. However, the junket industry has maintained its links to triads. Furthermore, it is reported that every U.S.-owned casino in Macau has junket operations, largely because they are able to collect debts (from VIP gamblers) in China.³⁵

Regulatory, Reputational and Financial Risks

Banks that have Macau junket operators as clients clearly run significant regulatory, reputational and financial risks due to the financial crime that is associated with junket operators. There are clear money laundering risks inherent in casino operations and particularly in VIP gambling. The money laundering and terrorist financing risks intrinsic to the gaming world include challenges in ensuring practical application of AML measures (especially when there is a high staff turnover), and the preponderance of cash transactions. A lack of transparency in junket operations increases risks to banks. Risks apply to Macau casinos, as well as to casino ships that operate out of Hong Kong.

Whilst the action of gambling in casinos in Macau using funds derived from China in breach of currency exchange restrictions does not in itself create a predicate offense of money laundering, the lack of clarity with regard as to the source of such funds creates an obvious money laundering risk.³⁶ It is noted that Macau has the world's second highest number of ATMs per head of population (254 ATMs for every 100,000 persons), and that there was a dramatic rise in the number of ATMs once gambling was liberalized in 2001.³⁷

In its 2016 International Narcotics Control Strategy Report, the U.S. Department of State, concluded that the pervasiveness and activities of Macau junket operators created a prospect for money laundering. Macau is listed as a country/jurisdiction of primary concern. Capital flight from Mainland China was believed to have encouraged by the operation of Macau junkets together and underground banking systems. The report stated that organized crime, including triads, were active in gaming activities in Macau.³⁸

The anti-corruption drive initiated by President Xi Jin Ping in China since 2014 resulted in a 26-consecutive month decline of gaming revenue in Macau, that was halted only in August 2016.³⁹ However, infrastructure projects, including the Hong Kong-Zhuhai-Macau bridge (due to open in 2018), and the Guangzhou Rail link extension to Hengqin, and as well as the internal light rail development, could encourage higher volumes of tourists, and Macau casinos functioning as a conduit for capital flows and money laundering.

³⁵ Ibid.

³⁶ Legalref.judiciary.gov.hk. "In The Court of Final Appeal of the Hong Kong Special Administrative Region Final Appeal No 6 of 2011 (Criminal) (On Appeal From CACC NO. 435 OF 2009). HKSAR and Yan Sui Ling." *Result*. N.p., 2011. Web. 16 Feb. 2017.

³⁷ Niall Fraser. "Macau World's Second Densest ATM Hotspot." *South China Morning Post*. N.p., 2 Jan. 2017. Web. 16 Feb. 2017.

³⁸ Macau Daily Times. "Report | Junkets Basis of Macau 'vulnerability for Money Laundering'." *Macau Daily Times*. N.p., 09 Mar. 2016. Web. 16 Feb. 2017.

³⁹ Celia Chan. "Macau's Gaming Industry to See Better Days in 2017, Says Morgan Stanley." *South China Morning Post*. N.p., 28 Dec. 2016. Web. 16 Feb. 2017.

The mainland government in China has taken a series of steps since the anti-corruption drive was launched in 2014, and these have adversely affected the gaming business in Macau due to the reduced flow of funds from China. Actions taken have included the government prohibiting Chinese nationals buying overseas-related insurance policies by use of UnionPay, MasterCard or Visa cards.⁴⁰ It was reported in January 2017 that from July 2017, banks must report all domestic and overseas cash transactions over 50,000 yuan (reduced from the previous requirement relating to 200,000 yuan).⁴¹ It was stated mainlanders would be required to complete a document when making application to use their annual foreign exchange quota of \$50,000, and the funds would not be able to be used for purchase of property overseas, insurance products, securities, or investment-type products, and that they would be required to indicate how they plan to use the money.⁴²

Foreign holding accounts (FHAs) represent a significant risk of money laundering and are being used to an increasing extent to channel funds and to evade mainland capital controls.⁴³ Casinos use FHAs to facilitate gamblers gaining access to funds in different jurisdictions (although the funds are not physically transferred, and occur only in 'book entries'). Junkets might be considered the 'perfect cover' for gamblers wishing to make large international fund movements without leaving electronic fingerprints. Junkets sell dead chips that must be used for gambling; this means that all funds transferred via FHAs must be gambled, and this provides the casinos and junkets with higher potential profit. FATF has stated casinos and junkets that have activities in multiple jurisdictions are of particular attractiveness to money launderers, including high-net-worth individuals and PEPs.

Reputational risks exist for banks that provide service to junket operators. The widely reported adverse media linking junkets with triad and organized crime figures should alert banks to the significant risk involved. It is accepted that not all junket operators are triads or have connections with organized crime. However, the lack of transparency of behind the scenes control, and concealment through multiple layers of shell companies and hidden interests, present challenges for banks.

Financial risks exist to banks from the risk of fines from regulators. Media reports signify large multinational banks are potentially subject to greater pressure from U.S. regulators to clamp down on casino money laundering.⁴⁴ Rizal Commercial Banking Corporation in the Philippines was recently fined \$21 million for systematic failures within the bank that allowed money to be laundered through the casino industry.⁴⁵

⁴⁰ Niall Fraser and Josh Ye. "Singapore Casinos at Risk of Crackdown." *South China Morning Post*. N.p., 30 Dec. 2016. Web. 16 Feb. 2017.

⁴¹ Daisy Wu. Reuters. "China Tightens Forex Rules." *The Standard*. N.p., 3 Jan. 2017. Web. 16 Feb. 2017.

⁴² Ibid.

⁴³ Pricewaterhouse Coopers. "Effectively Meet Your Regulatory Obligations. Anti-Money Laundering in the Casino and Gaming Industry." *Effectively Meet Your Regulatory Obligations* (n.d.): n. pag. July 2011. Web. 16 Feb. 2017

⁴⁴ Peter Rudegeair and Brett Wolf. "Regulators Pushing Banks to Rid Casinos of Money-laundering." *Reuters. Thomson Reuters*, 15 Aug. 2014. Web. 16 Feb. 2017. <<http://www.reuters.com/article/us-banks-casinos-analysis-idUSKBN0GF0BV20140815>>.

⁴⁵ "Philippines' Rizal Bank Fined \$21m." Reuters, Manila. *The Daily Star*. N.p., 06 Aug. 2016. Web. 16 Feb. 2017. <<http://www.thedailystar.net/backpage/philippines-rizal-bank-fined-21m-1265185>>.

Regulation of junket operators in Macau is becoming more stringent, and this is likely to increase in the future, one area of consideration being the need for databases to be kept regarding credit extended to gamblers.⁴⁶

Diversification of Business Interests of Macau Junket Operators

In response to declining revenues caused by the slowing mainland China economy that casinos in Macau experienced until the third quarter of 2016, and due to regulatory and mainland governmental pressure (especially from the anti-corruption drive), Macau casinos and junket operators have sought to diversify interests, expand into overseas locations, and focus less on core gambling business in Macau.

A review of annual reports of junket operators clearly demonstrates diversification of operations into activities and geographies that include: travel (David Group); pawn broking (Sino Credit Holding Limited); telephone agency sales service of welfare lotteries (Success Universal group); equine and auction business in Australia (Sun City Group); financial services, and a water park and golf course in the Philippines (Jimei Group); and listing on the Hong Kong Stock Exchange (Iao Kun Group and Sing Hou Entertainment Group). Junket operators have, furthermore, extended gaming activity to many overseas gaming locations that include Vanuatu and North Cyprus (Amax International Holdings limited); and resort development and gaming in Saipan (Imperial Pacific International Holdings limited - an investor in the Hengsheng Group junket).⁴⁷

Casino operators have shifted operational models away from core gambling activity and toward provision of leisure facilities that cater more for the mass market.⁴⁸ Martin Purbrick, Director of Security and Integrity at the Hong Kong Jockey Club, stated that some junket operators are engaging in business lines and using cash reserves to buy into diverse areas of business including “financial services, auctions, online games and mining, and the problem comes from the criminal and triad-society background of a number of people involved in... Macau junkets.” He stated that the activity resembled an “expansion of organised crime that governments in the region have to understand. Governments need to stop organised crime and triad-society influence expanding, by ensuring that there are strict regulatory controls on the casino-license holders, as well as investigations into areas where casino junkets are investing to ensure that there is no money laundering involved.”⁴⁹

It was reported by a casino security insider, that,

⁴⁶ GGR Asia, <http://www.ggrasia.com/over-30-macau-junkets-fail-to-meet-new-rules-dicj/> January 13, 2016. Web. 16 Feb 2017

⁴⁷ Niall Fraser. "What a Mysterious Death Tells You about the Future of Macau." *South China Morning Post*. 26 Sept. 2016. Web. 16 Feb. 2017. <<http://www.scmp.com/week-asia/business/article/2020083/what-mysterious-death-tells-you-about-future-macau>>.

⁴⁸ Raquel/ CalvinAyre, Stephanie, and Geoff Freeman/ American Gaming Association. "Macau's Gambling Industry Still Evolving - Freeman." *CalvinAyre.com*. N.p., 15 July 2016. Web. 16 Feb. 2017. <<http://calvinayre.com/2016/07/15/casino/geoff-freeman-macau-gambling-industry-is-still-in-its-early-stages-of-its-evolution-sr-video/>>.

⁴⁹ Niall Fraser. "Junket Operators Look beyond Macau to Sidestep Beijing's Crackdown." *South China Morning Post*. N.p., 30 May 2015. Web. 16 Feb. 2017. <<http://www.scmp.com/news/china/policies-politics/article/1813110/junket-operators-look-beyond-macau-sidestep-beijings>>.

“Macau’s casino revenue and the reliance of casino operators on junkets to bring in customers from China had resulted in many people with triad and criminal backgrounds becoming millionaires, who had diversified and invested internationally, some Macau casino junkets have purchased mines and plantations in Southeast Asia, farms in Australia and vineyards in Europe and the US.”⁵⁰

Regulation of Macau Junket Operators

There is pressure for enhanced regulation and control of junkets being exerted by the Chinese government, which has sought to force uncooperative junkets out of the Macau gaming business, by taking measures to restrict capital flows, monitor debit card use, restrict individual cash withdrawals from ATMs using mainland-issued China UnionPay bank cards, crack down on underground banks, require CCTV cameras in VIP rooms, and restrict the number of junket operators by forcing smaller operators to leave the business. Some junkets have consequently abandoned Macau and have focused on other locations that are emerging gambling venues.⁵¹ Jeff Fielder, Macau Gaming Watch project leader, stated junket regulation had been “far too superficial” and “wholly inadequate.” Fielder states licensing protocols had not been applied, “for many key powerbrokers in the junket systems, such as third-party profit participants, credit guarantors, major financiers and off-paper shareholders of junkets. These under-regulated individuals and entities are positioned to exert substantial influence over a junket operation.”⁵² Fielder commented that enhanced regulation is required, with regard to cross-border fund flows and debt collection, and capitalization methods used by junkets needed to be better comprehended, with more exacting background checks being conducted, and detailed accounting and financial reporting obligations being mandated.⁵³

In May 2016, Macau introduced tighter controls over the gaming industry that required maintenance of daily records, the hiring of compliance officers, the conducting of enhanced due diligence, the requirement of casino operators to verify and sign suspicious reports submitted by junkets, the prohibition of casinos and junkets conducting business with a person using an alias, and the requirement of casino operators to know the ultimate beneficiaries of transactions over \$60,000.⁵⁴

It is reported that the Macau government is also considering legislation that would require all international visitors and those from Mainland China to state how much cash they have on them, on arrival, if the sum is above the equivalent of \$15,000.⁵⁵

⁵⁰ Ibid.

⁵¹ Julian Rogers. "Macau Junkets: A Broken Model?" *Macau Junkets: A Broken Model?* N.p., 09 Mar. 2016. Web. 16 Feb. 2017. <<https://www.gamblinginsider.com/in-depth/1874/macau-junkets-a-broken-model>>.

⁵² Ibid.

⁵³ Ibid.

⁵⁴ Reuters. "Macau Tightens Anti-money Laundering Regulation for Casino Industry." *Reuters. Thomson Reuters*, 06 June 2016. Web. 16 Feb. 2017. <<http://www.reuters.com/article/us-macau-gambling-regulation-idUSKCN0YS0VA>>.

⁵⁵ Samantha Beckett. ""Welcome to Macau, How Much Money Are You Carrying?" Macau Casinos Face Proposed Stranglehold Regulation." *Casino.org*. N.p., 02 Dec. 2016. Web. 16 Feb. 2017. <<https://www.casino.org/news/macau-casinos-face-proposed-stranglehold-regulation>>.

Movement of Interest of Macau Junket Operators to Other Jurisdictions

There is ample open-source information that clearly demonstrates Macau junkets have diversified their business activities, and have also expanded gaming-related operations to other geographies. It is reported that junket operators have flown to overseas destinations to enable mainland VIP clients to gamble in countries including the Philippines (Manila), South Korea, Laos, Cambodia, Saipan, Vanuatu and Vietnam (Ho Tram strip).⁵⁶

Martin Purbrick, has commented that a casino complex on Jeju Island, South Korea, is a new destination that has experienced an influx of Macau junket operators that offer clients gambling-chip deals that evade China's currency transaction regulations. The surge has caused South Korean lawmakers to state their disquiet over organized crime in the gaming industry.⁵⁷

In late 2016, the Japanese parliament passed a new law that facilitates a gaming industry that could generate more than \$30 billion a year, according to analysts.⁵⁸

Singapore has banned Macau-style junket operators (and has experienced difficulties in collecting gambling debts), but it is reported that the success of the gaming industry in Saipan (Commonwealth of the Northern Mariana Islands - in political union with the U.S.) will depend on the performance of Best Sunshine International Limited (BSI) that will operate Macau-style junket practices that will represent a gaming model not yet experienced on U.S. soil.⁵⁹ The model is anticipated to present challenges to regulators required to investigate junket operators from Asia, and to ensure laws and regulations are complied with. BSI CEO, Mark Brown, stated Macau-style junket operations would be utilized when the complex opened in April 2017.⁶⁰

It should be noted the number of countries facilitating casino gambling is growing worldwide. Some locations for such growth have inadequate governance and/or border with countries or areas that have money laundering challenges.⁶¹ When junket operators work with casinos that have operations in several countries, there is the potential for funds in one country being used for gambling in another, further complicating the challenge of identification of the source of funds, as well as creating a significant money laundering risk.⁶²

⁵⁶ Fraser, Niall. "Junket Operators Look beyond Macau to Sidestep Beijing's Crackdown." *South China Morning Post*. N.p., 30 May 2015. Web. 16 Feb. 2017. <<http://www.scmp.com/news/china/policies-politics/article/1813110/junket-operators-look-beyond-macau-sidestep-beijings>>.

⁵⁷ Ibid.

⁵⁸ Metro Mullen "Casinos: Japan Opens Door to Potential \$30 Billion Industry." *CNNMoney. Cable News Network*, 14 Dec. 2016. Web. 16 Feb. 2017. <<http://money.cnn.com/2016/12/14/investing/japan-casinos-gambling-law/>>.

⁵⁹ Jonathan Burgos. "Singapore's Casinos Made a Mistake: Cutting Out the Junkets." *Bloomberg.com. Bloomberg*, 08 Apr. 2015. Web. 16 Feb. 2017. <<https://www.bloomberg.com/news/articles/2015-04-09/singapore-s-casinos-made-a-mistake-cutting-out-the-gangsters>>.

⁶⁰ Dennis B Chan. "BSI's Macau-style Gaming Will Be 1st on US Soil." *Saipan News, Headlines, Events, Ads | Saipan Tribune*. Saipan News, Headlines, Events, Ads | Saipan Tribune, 20 Mar. 2016. Web. 16 Feb. 2017. <<http://www.saipantribune.com/index.php/bsis-macau-style-gaming-will-1st-us-soil/>>.

⁶¹ Alexandra Stickings, 'Gambling on Low-Risk: Anti-Money Laundering in Non-Business sectors', RUSI Newsbrief, 2 December 2016, <https://rusi.org/publication/newsbrief/gambling-low-risk-anti-money-laundering-non-banking-sectors?page=4>, Web. 16 Feb. 2017

⁶² Ibid, page 21.

How to Identify Macau Junket Operators

The DICJ publishes licensed gaming promoters on its website (but only in Chinese and Portuguese).⁶³ Translations of the junket names and checking of them against bank systems assists to identify whether a bank is providing service. Where names are common (such as in China) it is necessary to identify the potential relevant accounts and to review transaction activity to search for suspicious fund flows.

The majority of major junket operators are listed companies. Annual reports and company announcements are a useful source of information and are publicly available in country stock exchange websites. Open source media articles, particularly those with a gaming industry focus, can be a source of useful information to identify junkets, their activities and associations, as well as connected triad and/or organized crime figures. By scanning through annual reports and online materials, individual and company names can be extracted, including subsidiary names, group company names, substantial shareholders, chairmen, directors, etc.

Conducting name screening against bank internal systems to ascertain whether these individuals or companies are bank clients can assess bank exposure.

Related party identification can be gained through public source information as well as bank records. A deep dive review of a junket operator should include examination of client documentation held by the bank, account transaction analysis and adverse media research.

Transaction analysis can be used to identify a junket, or entities close to a junket. However, connections to a junket, or to the gaming industry, can be concealed through the use of shell companies or layering through other entities and accounts. A review of CDD documents can identify whether a junket has declared such identity to the bank, and what the source and volume of fund flows are anticipated to be. A client cannot be relied on to have volunteered the status of being a junket and/or that significant income results from the gaming industry. Furthermore, International Standard Industrial Classification (ISIC) codes cannot be relied on, since an entity can be involved in a range of business areas, and the selected ISIC code might not indicate links to the gaming industry. A company deriving its income directly from junket operators could, for instance, have an ISIC code for a holding company.

A review of law enforcement search warrants, Production Orders and similar requests or demands can indicate junket activity and gaming industry connections. Similarly, a check to ascertain whether any suspicious transaction or activity reports have been filed by the bank against relevant individuals or entities should be conducted, together with a review of the substance of the report and checking of other individuals and entities mentioned.

Risk-Scoring Macau Junket Operators

⁶³ <http://www.dicj.gov.mo/web/en/frontpage/index.html> The Gaming Inspection and Coordination Bureau. "The Gaming Inspection and Coordination Bureau (hereafter Called as the DICJ), Provides Guidance and Assistance to the Chief Executive of Macao SAR on the Definition and Execution of the Economic Policies for the Operations of the Casino Games of Fortune or Other Ways of Gaming, Pari-Mutuels and Gaming Activities Offered to the Public." N.p., n.d. Web. <<http://www.dicj.gov.mo/web/en/frontpage/index.html>>. Web. 16 Feb. 2017

There could be a number of entities that fall into the junket scope, and a methodology should be considered to risk-score the entities to enable prioritization of risk assessment to the bank.

Such risk scoring should utilize a comprehensive risk matrix comprised of a range of relevant risk factors, including:

a) Entity Type Risk

For example: This refers to the business segments the customer is in. This can reflect the company size and revenue. For each financial institution, the risk configuration could be different due to the target market and the level of controls applied in the different segments. The percentage of customers in each segment that have been subject to STR filing can be a useful indicator.

b) Business and Activity Risk

For example: Industrial or occupation risk. Some industries are more likely to be used by criminals for money laundering purposes, such as money remittance, jewelry stores, restaurants, pawnshops, and other business that would involve significant cash transactions. Entities located in this type of high-risk business should attract higher risk scores.

c) Geography Risk

For example: The nationality of the individual, or the country of incorporation of the corporate entity. Again, a higher risk score should be applied to companies that are incorporated in tax havens, are countries known for corrupt practices or with known poor AML controls. Existing public scorecards can be used, (e.g. the Transparency International country score).⁶⁴ Usually banks will have their own internal country rankings.

d) Relationship Risk

For example: How long the client has had an established relationship with the bank. Criminals can be expected to establish vehicles to facilitate layering of funds, and to do so they might register companies, open accounts and immediately transfer funds through the newly established accounts. The longer a client has been with the bank, the better the bank might consider it knows the client. However, diversification of business interests could enable a well-established client to comingle funds from gaming with funds from legitimate sources, creating a challenge for the bank in identifying the source of funds, especially when overseas transfers are involved.

e) Transaction Risk

In addition to reviewing the background and profile of the client, it is necessary to review transaction activities. Some indicators such as a heavy cash flow, duration the funds remain in a bank account, business logic of transfer patterns, frequency with which the client receives or remits funds to high risk businesses, countries and individuals, for instance, should be considered.

⁶⁴ Transparency International, <https://www.transparency.org> "Transparency International." *Transparency International - The Global Anti-Corruption Coalition*. N.p., n.d. Web. 10 Jan. 2017. <<https://www.transparency.org/>>.

[Macau Junket Operators Pose Financial Crime Risks to Banks - How to Identify, Assess and Address Those Risks]

After determining the risk factors to consider, a score range should be set for each risk factor. For example, for a score within the range of 60, the distribution of the scores for risk factors could be:

	Risk Factor	Score Range
a)	Entity Type Risk	10
b)	Business & Activity Risk	10
c)	Geography Risk	10
d)	Relationship Risk	10
e)	Transaction Risk	20

For an individual or entity subject to review, the criteria assigning the risk score should be determined.

	Risk Factor	Score Range	Score Assignment Rules
a)	Entity Type Risk	10	low risk - 1, medium risk - 5, high risk - 10
b)	Business and Activity Risk	10	low risk - 1, medium risk - 5, high risk - 10
c)	Geography Risk	10	low risk - 1, medium risk - 5, high risk - 10
d)	Relationship Risk	10	Number of months since account opening: 0-3 months: 10 4- 6 months: 8 7-12 months: 6 1-2 years: 4 over 2 years: 2

e)	Transaction Risk	20	<p><u>Percentage of cash transactions:</u> over 40%: 10 30-40%: 8 20-30%: 6 10-20%: 4 below 10%: 1</p> <p><u>Transaction Amounts (USD) involving high-risk countries:</u> over 10M: 10 1M - 10M: 8 100K - 1M: 6 10K - 100K: 4 below 10K: 1</p>
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For the purposes of demonstration, results for two entities could be:

Risk Factor	Client A's profile	Score
Entity Type Risk	Retail, Business	10
Business and Activity Risk	Wholesale textile sales, medium risk	5
Geography Risk	Nigeria, high risk country	10
Relationship Risk	On-boarded 4 months ago	9
Transaction Risk	25% are cash transactions 3 wire transfers totalling 3.6M USD from high countries	6+8
Total Risk Score		48
Risk Factor	Client B's profile	Score
Entity Type Risk	Commercial client, medium risk	5
Business & Activity Risk	Manufacturer of agricultural machinery, low risk	1
Geography Risk	China, medium risk	5
Relationship Risk	On-boarded 1.5 years ago	4
Transaction Risk	6% were cash transactions 18 wire transfers totalling 13.2M USD from high risk countries	1+10
Total Risk Score		26

Identifying Business Structures of Macau Junket Operators

Transaction analysis of accounts of an individual or entity can be used to reveal unknown financial interest and linkage and identify relevant connected parties. Company annual reports should be used with information from public sources, such as Company Registries, and the media, to properly identify relationships. Company annual reports can be useful in identifying corporate structures. It is good practice to obtain such reports from several companies in order to identify the full picture; for instance, linkages can be identified through the extent of shareholding interest in various companies. Individuals and entities identified should be subject to detailed review to identify negative information that might indicate a financial crime risk to the bank.

It should not be assumed that all relevant connections could be easily identified; individuals and entities could have reason to conceal connections with a junket or the gaming industry as a whole. Geographical and business diversification can challenge identification of relationships and interests of individuals or entities engaged as junkets, or with close connections in or with the gaming industry. It is through consolidation of information from diverse sources that risk to the bank can be properly identified and assessed.

Using Data Analytics to Identify Risks to the Bank

Data analytics can be used to provide an overview of the client's activities and also to assist directing the investigator to the high-risk areas.

For a junket review, one of the most important factors is who the client is transacting with, i.e., the transaction counterparties. Through the below suggested analysis, the most significant counterparties can be identified:

- a) Top 10 individual and corporate originators;
- b) Top 10 individual and corporate beneficiaries;
- c) Identification of common counterparties: counterparties that have transactions with multiple clients;
- d) Identification of counterparties of large round dollar transactions;
- e) Identification of counterparties for repeated transactions, such as a counterparty that receives a similar sum on numerous occasions; and
- f) Specifically for Macau junkets, fund flows from/to Macau, and from locations serving Macau, such as money remittance exchangers, or travel agents at ferry terminals.

Subsequent background check, due diligence and adverse media search should be conducted. If the names of individuals or companies that are linked to junket operators, triads or organized crime appear, then the client, even though not revealed from CDD documents, must have adverse connections that represent financial crime risk to the bank. If no direct links are found, but a counterparty is located in a high-risk business, such as a money remittance agent or jewelry business, further research should be conducted. In addition to names, common addresses and telephone numbers with junkets or related businesses can also reveal connections.

Transaction analysis should be conducted to identify red flags for financial crime risk, such as:

- a) Circular fund flows, for instance, fund flows to accounts under the same name but held with different banks, then back again;
- b) Fund flows from corporate accounts to those of directors of the company, when the client is a public listed companies and no individual has controlling shareholding; and
- c) Fund flows from corporate to/from individual accounts that do not have an obvious business rationale.

Creation of a summary of countries, with the amount and percentage of incoming/outgoing funds can assist in understanding whether the transaction activity is consistent with what the client stated in account opening or CDD documents.

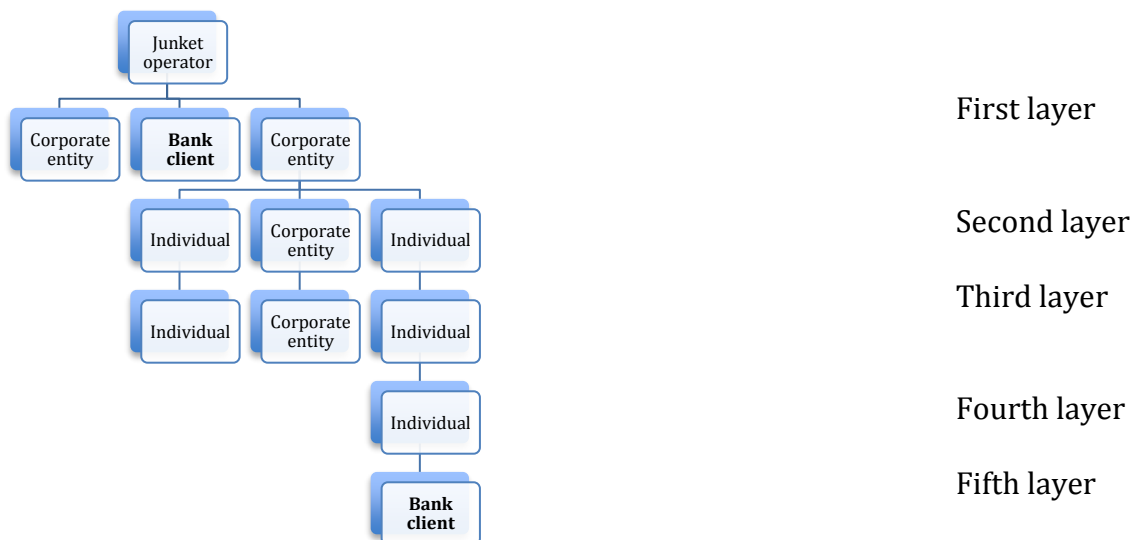
A search that uses gaming-related keywords found in the “free text fields” of payment messages (e.g., “loan” or “commission” that can indicate relevant connections to the gaming industry).

Assessing Financial Crime Risks

A seeming reputable company can have connections to the gaming business and be in receipt of funds for which the source cannot be proven, and for which there is a significant risk of money laundering. Beneficial owners of junkets can be hidden through shell companies and through layering. Comingling of funds can conceal fund flows from junket operators and the gaming industry.

Junket operators pose obvious financial crime risks to banks, and when junket operators are being reviewed it is important to identify how close other bank clients are to junket operators, and this can be ascertained by identifying the layers of separation from the junket operator. By working through connections to junket operators up to a set depth of layers, the number of individuals/entities that are bank clients and that are, or are close to, junket operators, can be ascertained. Such individuals/entities can then be subject to detailed transaction analysis and review in order to identify risks posed. For instance, a bank client that has five layers between itself and a junket operator, could have a controlling interest in the operator and be in receipt of funds from it through wholly-owned companies, that serve to conceal the true business relationship.

Detailed transaction analysis, media review and open source research is necessary for identification of gaming industry links, connections to triads or organized crime, as well for understanding of the geographic and business scope of operation of a client, and identification of the financial crime risks to the bank of the client(s) in question.



Addressing the Risks

Businesses within a bank should have consistency with regard to their approach to risks posed by junket operators.

Banks should have clear position papers and procedures regarding junket operators (and the gaming industry). Such papers should be reviewed and endorsed by appropriate risk committees that are attended by senior management. A bank's stance will reflect its risk appetite and the risk culture within the bank; such a position should be based on a risk assessment and view of practical efficacy of mitigating controls.

Banks should consider appropriateness of applicability of similar standards, to control and regulate junket operators, as those currently utilized in developed countries that allow casinos to operate. Reference should be made of risk assessments of casinos that are available on the Internet.

Banks should conduct due diligence that includes background checks on junket operators and on all connected parties, and an assessment of the effectiveness of internal AML controls implemented by the junket operator, connected parties and the relevant casino(s), including training, codes of conduct, ethical standards and whistle-blower systems.

Banks should consider what, if any, services they will provide to casinos and to individuals or entities connected to the gaming industry. In Macau, being a junket operator (or licensed gaming promoter) is legal, yet banks should consider whether the regulatory, financial and reputational risks entailed in providing service can be properly identified, assessed and mitigated through actions to be taken by the client and the bank. Due to geographic and business diversification of Macau junket operators, banks should consider to what extent funds from junket operators (and therefore the gaming industry) have been comingled with funds from other apparently legitimate business, and the degree to which money laundering risks can be addressed.

For some banks, the policy might simply be that no bank service can be provided to junket operators. In such instances, banks should consider whether casino operators should be provided banking service. This consideration might be more complex in countries in which regulators push for bank service to be provided, to ensure inclusivity, in which case responsibilities of the bank and of the junket operator (and casino operator) need to be carefully assessed, particularly with regard to regulatory expectations and legal requirements.

Conclusions

There is a well-documented link between Macau junket operators, triads and organized crime figures. Casinos and the gaming industry have long been recognized as high risk for money laundering. Despite there being a licensing regime in Macau for junket operators, there is commentary that it is insufficiently effective; however, there is reason to expect further enhancement of regulation and control of Macau junket operators, driven by the anti-corruption campaign led by the mainland government in China.

Financial crime compliance departments in banks have a challenge in assessing risks posed by Macau junket operators due to purposeful concealment of interests in some instances, as well as diversification of business interests geographically and in the business areas.

It is recommended that banks conduct deep reviews of junket operators, their connected parties and their network of business interests. This can be achieved through prioritized research and data analytics, including the analysis of fund flows.

Banks should have clear policies with regard to banking interests in the gaming industry, including junket operators, and a risk-based approach should be adopted. In some instances banks might consider that banking such interests lay outside their risk appetite.

Banks in other geographies in which Macau junket operators have an interest should be aware of the effectiveness of each country in regulating the gaming business, including junket operators, and should be alert to the high risk of financial crime that might be presented when such entities are provided with banking services.