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March 17, 2023

CIRCULAR LETTER TO:

ALL GAMING MACHINE OPERATORS - GAMING LOUNGES

- Chief Executive Officers
- Chief Operating Officers
- Nominated Employees
- Compliance Officers
- Other Principal Senior Officers

REF: CIR-001-03-2023

BUSINESS RISK ASSESSMENT FOR GENERAL OPERATIONS

Pursuant to section 6(1)(a)(iv) A and B of the Proceeds of Crime (Money Laundering Prevention) (Amendment) Regulations, 2019 and section 6A of the Terrorism Preventions Act, all gaming machine operators of gaming lounges are required to implement procedures and to conduct money laundering risk assessments of:

- a) products and business practices (whether new or existing);
- b) Developing technologies applied or used in such products or practices;

Risk assessments should be conducted by the entity and related subsidiary, if any. All activities must be conducted annually, proof of which must be available at the request of the Commission, pursuant to its powers as Competent Authority under section 91A of the Proceeds of Crime Act, 2007.

Accordingly, the Commission wishes to remind all licensees of their statutory obligations to comply with relevant anti-money laundering and combatting of the financing of terrorism (AML/CFT) legislation and guidelines.

Business and Product Risk Assessment (BPRA)

1. Board involvement

The Board is required to conduct and record a BPRA in respect of its operations with specific consideration given to its risk appetite and the extent of its exposure to ML/TF risks.

Examples of best practice to help licensees improve compliance in this area

- All members of the Board are involved in determining the ML/TF risks posed to the entity.
- There is contemporaneous records of the Board's discussion, challenge and scrutiny of the BPRAs which are created and maintained.
- Board's approval of the BPRAs is obtained and clearly recorded where this is required by the entity's policies and procedures.
- In the circumstances where the Board delegates part of the process to another board sub-committee, the terms of reference for that sub-committee should be clear. Be reminded that the Board must recognize that it cannot absolve itself of its overall responsibility to conduct and record a BPRAs, maintain oversight of the development of the BPRAs and own its ultimate output.

2. Risk Appetite

As part of conducting a BPRAs, it is imperative that, on an on-going basis, the Board sets and monitors its risk appetite. Without a clearly defined risk appetite, it is questionable how the business (including its staff) can understand the level of risk it is willing or able to accept and/or when to act to reduce risk to an acceptable level.

Examples of best practice and other resources to help licensees improve compliance in this area:

- When preparing a risk appetite statement, consider not only the risks faced, but the sophistication and effectiveness of your systems and controls to detect breaches, thereby enabling mitigation, if not elimination.
- Consider using a number of short, succinct, specific statements, as opposed to one all-encompassing statement, so that staff members are clear about what is not acceptable.
- Consider the use of quantitative parameters to clearly articulate the level of acceptable risk, for example: "we will limit our exposure to PEPs to X% of our client base".
- Consider reporting metrics to the Board that allow it to monitor adherence with the risk appetite statement(s) and/or parameters set.

3. Assessment of Risks

All gaming operators are required, for its business relationships and one-off transaction to assess the extent of its exposure to ML/TF risks in its general operations. To conduct the BPRAs, the four pillars (Customer, Product, Payment, and Geography) should be assessed to determine the maximum impact that they can have on the entity and how these will be mitigated.

The business risk assessment should reference the following factors:

- organizational structure
- customers (e.g. analysis of composition of domestic vs. international)
- the countries and territories with which those customers are connected;
- the products and services provided and how those products and services are delivered.
- Developing technologies applied or used in such products or services
- The operator's distribution channels
- The regional environment in which the business operates (e.g. parishes)
- The size of the business operations

The assessment must consider the cumulative effect of risks identified, which may exceed the sum of each individual risk element.

Examples of best practice:

- Ensure that people who know the business best determine what risks the business faces,
- Describe its risk exposure and resultant risk appetite in language that is understandable and relevant to its employees.
- When assessing risks, consider the likelihood of them occurring and the impact should they occur.
- Clearly define what risk means to the business.
- Assess risk on a variety of impact parameters, e.g. financial, legal, regulatory, reputational, etc.
- Clearly document a methodology for assessing risks.
- Include consideration of and clearly distinguish between the different types of financial crime risks (money laundering, terrorist financing, proliferation financing, and non-implementation/breaching/circumvention/evasion of targeted financial sanctions) by evaluating the associated risks independently.
- Consider emerging risks that may not yet have presented themselves to the business but may become relevant as a result of a proposed change to the business model.
- Ensure that residual risks are considered against risk appetite and prioritise actions to reduce risk exposure to within appetite.

4. Assessment of Controls

The Board is required to ensure that its systems and controls (including policies and procedures) are appropriately designed and implemented to manage the ML/TF risks it has identified in its BPRA and that they are appropriate to the circumstances of its business.

Licensees should be considering the following:

- assessing its inherent risks, i.e. the level of risk without mitigation or controls;
- assessing the effectiveness of its systems and controls in mitigating risk;
- calculating its residual risk, i.e. the level of risk that remains after taking into account the effectiveness of its systems and controls; and
- considering residual risk against risk appetite and mitigate, if necessary, for example: where residual risk is assessed as being outside of appetite, enhance controls to reduce residual risk to an acceptable level.

The Board is required to consider what barriers (including cultural barriers) exist to prevent the operation of effective systems and controls (including policies and procedures) in relation to ML/TF risks and to take measures to address any identified of those identified barriers.

Examples of best practice to help licensees improve compliance in this area:

- Consider assessing the effectiveness of controls on more than one parameter, for example how well do the controls a) reduce the likelihood of the risk occurring and b) lower the impact in the event a risk materializes.
- Consider using the findings of assurance activities, such as compliance monitoring or other reviews, to inform and support the effectiveness assessment of systems and controls.
- Consider using an anonymized staff questionnaire to gauge the prevalence of cultural barriers in the business and to assess how those barriers may prevent controls from operating as intended or prevent the controls from being effective.

5. Ongoing Update to the BPRA

The Board must consider, on an ongoing basis, its risk appetite and exposure to ML/TF risks in its entity and carry out and record a business risk assessment. This assessment must be kept up to date.

Where a gaming machine operator does not periodically undertake an assessment of its exposure to ML/TF risks, including the cumulative effect of the risks identified, then it is unlikely to fully understand the likelihood of those risks manifesting themselves and the resultant impact on the entity's business and risk profile. In the absence of such a regular assessment a licensee will be unlikely to be able to determine whether its control environment would be effective in managing its risks.

6. Provision of BPRA to BGLC

The legislation requires a licensed gaming machine operator to maintain appropriate policies and procedures to enable it, when requested by the BGLC, to make available to that authority a copy of its BPRA.

7. Formal AML/CFT Strategy

Based on its BPRA, the Board must establish a formal AML/CFT strategy to counter ML/TF risks identified in its business.

Without a comprehensive formal AML/CFT strategy, a gaming machine operator's ability to organize and control its affairs in a way that effectively mitigates the risks identified in its BPRA will be hampered.

The Factors listed above should be assessed annually to evaluate the impact that they have on the entity on whole. This is necessary as the risk is not static.

The Commission expects licensees to comply with all relevant statutory and regulatory requirements in relation to the BPRA and formal AML/CFT strategy.

Where gaming machine operators identify any deficiencies in systems and controls, the Commission expect licensees to:

- prepare a remediation plan setting out the timelines and discuss this with the Commission.
- remedy any identified deficiencies in the manner set out in the documented remediation action plan agreed with the Commission; and
- consider what assurance activities may provide comfort to the Board and senior management that deficiencies identified have been addressed effectively.

In future examinations with us, gaming machine operators may be asked to evidence steps taken to address identified deficiencies in their control environment.

The goal of this REF: CIR-001-03-2023 is:

- to ensure the gaming operator understands their obligations as it relates to evaluating overall risk and developing and implementing adequate policies, procedures, and controls to mitigate those identified risks;
- to ensure the gaming operator is in the best position to prevent the gaming lounge from being used to facilitate money laundering, terrorism financing or the proliferation of weapons of mass destruction; and
- to ensure compliance with the Proceeds of Crime (Money Laundering Prevention) (Amendment) Regulations, 2019 and other relevant legislations.

The Commission will take enforcement action if the gaming operator is found to be in breach of this direction.

Please be guided accordingly.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'L. Wiggan', is written over a horizontal dotted line.

Laurie Wiggan

Director, Compliance & Regulatory
BETTING, GAMING & LOTTERIES COMMISSION