

# The Gambling Industry – ‘A changing landscape’

## Impact of the 4 MLD on UK gambling operators

16 December 2016

### AML changes in the gambling industry

In the UK, gambling operators are licensed by the Gambling Commission (GC) under the Gambling Act 2005. The Act sets out three licensing objectives, to prevent gambling from:

1. being a source of crime or disorder;
2. being associated with crime and disorder; or
3. being used to support crime.

The GC introduced new Anti-Money Laundering (AML) requirements in the Licence Conditions and Codes of Practice (LCCPs) effective 31 October 2016. This included a requirement for operators to:

- have a Money Laundering /Terrorism Financing (ML/TF) risk assessment in place that is reviewed at least annually and where trigger events occur;
- establish appropriate policies, procedures and controls to prevent ML/TF; and
- ensure that such AML/CTF policies, procedures and controls are implemented effectively, regularly reviewed and revised appropriately to ensure that they remain effective, and take into account any applicable learnings or guidelines published by the GC.

### The EU 4<sup>th</sup> AML Directive and Brexit

The Directive (EU) 2015/849 (“EU 4<sup>th</sup> AML Directive” or “the 4 MLD”), is required to be implemented by 26 June 2017 across all member states by obliged entities. Obligated entities includes those who provide gambling services, defined in the 4 MLD as ‘a service which involves wagering a stake with monetary value in games of chance, including those with an element of skill such as lotteries, casino games, poker games and betting transactions that are provided at a physical location, or by any means at a distance, by electronic means or any other technology for facilitating communication, and at the individual request of a recipient of services’. Although the UK has voted to leave the EU, this is unlikely to occur before 26 June 2017 and the 4 MLD will remain applicable for the foreseeable future.

### What is the trigger of the changes?

The 4 MLD outlines that, ‘the use of gambling sector services to launder the proceeds of criminal activity is of concern’ to the EU and as a result there are a large number of high impact changes to gambling services in the 4 MLD.

### Who can I speak to for more information?



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### Impact of the 4 MLD on UK gambling operators

There are significant changes you need to be aware of and action. The overall impact of the 4 MLD for gambling operators will be a requirement to ‘know your customers’ better and enhance your AML/CTF and financial crime framework with more effective prevention and detection controls together with clear roles and responsibilities and reliable management information. For many organisations significant changes may be required including enhancements to compliance functions and operational processes. The major changes you should be aware of relate to:

#### a) The application of the EU 4 MLD

The 4 MLD expands the coverage of the regulations to all gambling providers rather than just Casino operators.

#### b) Potential exemptions

There are potential exemptions from the 4 MLD that may be made possible on the basis of being a proven low risk operator posed by the nature and scale of operations.

#### c) Risk based approach

Operators are required to document and apply a risk based approach to ML/TF. This includes the need to identify, understand, mitigate and manage the risks of ML/TF with a greater focus on evidence based decision making.

#### d) Customer due diligence

Operators are required to apply specific CDD measures outlined in the 4 MLD, for example when:

- Establishing a business relationship;
- Upon collection of winnings, the wagering of a stake, or both when carrying out transactions of £1,672 (EUR2,000) or more whether the transaction is carried out in a single operation or in several operations which appear to be linked;
- When there is suspicion of ML or TF, regardless of the situation on derogations, exemptions or thresholds; and
- When there are doubts about the veracity or adequacy of previously obtained customer identification information.

## What does the 4 MLD mean for operators?

There are numerous other changes outlined in the 4 MLD which you should be aware of and action, these include:

### e Other changes

- **Simplified Due Diligence (SDD)** – For activities evidenced as being low risk in Annex II of the 4 MLD SDD may be applied however transaction monitoring is still required.
- **Enhanced Customer Due Diligence (ECDD)** – Specific situations trigger ECDD including PEPs and Correspondent Banks (see Annex III of 4 MLD). The European Commission is compiling a list of high risk countries with strategic deficiencies where ECDD is required to be applied to individuals and businesses in those countries.
- **Reliance on third parties** – Obligated entities retain ultimate responsibility when services are outsourced and so should consider reviewing or obtaining comfort over third party service providers especially for CDD.
- **Assessment of risks and controls** – In identifying, understanding and mitigating risks considering customers, jurisdictions, products/services and delivery channels, operators should consider the supranational risk assessment and relevant national risk assessment for relevant learnings and guidance.
- **PEPs** – PEP definitions have been expanded to include domestic and international PEPs.
- **Ultimate Beneficial Ownership (UBO)** – UBO registries are required in each state. Obligated entities need to update customer details on Companies House annually.
- **Record keeping/reporting** – Records must be retained for five years and this can be extended for another five years following an assessment of risk by supervisory bodies.
- **Supervisors** – Powers of the supervisors are increasing and administrative sanctions may be applied.
- **Fit and proper test** – Senior Managers must have a fit and proper test completed.

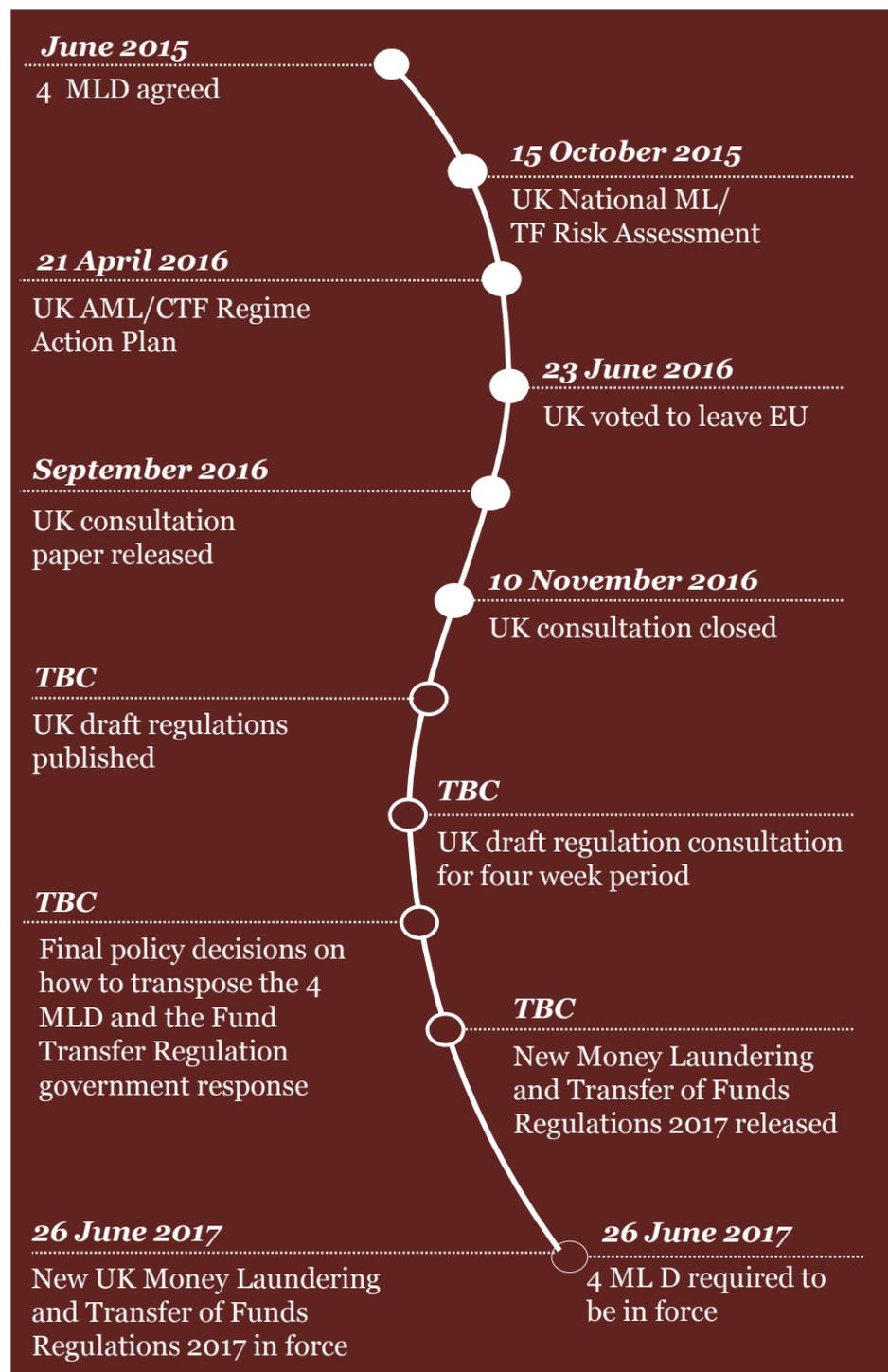
## Key industry challenges

From our experience, the key challenges currently faced by the gambling industry are the development and implementation of the risk based approach, specifically:

- ML/TF risk assessments that identify inherent ML/TF risks, outline the controls mitigating those risks and assess whether the residual risk ratings are within the operators risk appetite;
- Clearly documented customer risk assessment including scoring and rating processes outlining clear due diligence requirements; and
- Maintaining documented, up to date and appropriate due diligence on customers.

## What are the key dates?

The key dates in the 4 MLD process are outlined in the figure below. Importantly, the date that the UK draft regulations and final regulations will be released are not yet clear.



Refer to the UK consultation paper (link below) for more details:

<https://www.gov.uk/government/consultations/transposition-of-the-fourth-money-laundering-directive>

## AML/CTF control framework considerations

Operators should have a clearly documented AML/CTF control framework in place, including but not limited to the following controls:

- Clear governance and oversight;
- ML/TF risk assessment considering customers, jurisdictions, products/services and delivery channels;
- AML/CTF training at induction and on an ongoing basis;
- Customer risk assessment and Know-Your-Customer procedures including SDD/CDD/ECDD screening procedures especially for PEPs and beneficial owners;
- Transaction monitoring including red flag behaviors;
- Record keeping/ data protection;
- Compliance monitoring and independent reviews; and
- Reporting obligations and escalation routes.