April 11, 2024

CIRCULAR LETTER TO:
ALL GAMING MACHINE OPERATORS - GAMING LOUNGES
- Chief Executive Officers
- Chief Operating Officers
- Nominated Employees
- Compliance Officers
- Other Principal Senior Officers
- Other Relevant Personnel

REF: CIR-002-04-2024

AML/CFT/CPF RISK-BASED SUPERVISORY FRAMEWORK

The Betting, Gaming & Lotteries Commission advises that its riskbased approach to Anti-Money Laundering (AML)/Combatting the Financing of Terrorism (CFT) and Proliferation Financing (PF) supervision (the "AML Risk-Based Supervisory Framework") has been published and posted on the Commission's website and can be accessed at https://www.bglc.gov.jm/anti-money-laundering/.

Effective risk-based supervision entails identifying money laundering, terrorist and proliferation financing risks, supervising gaming lounges commensurate with the risks identified, and taking the necessary and proportionate actions to bring about compliance with AML/CFT/CPF statutory obligations.

Accordingly, the Risk-Based Supervisory Framework explains, inter alia, the Commission's process for conducting risk-based AML/CFT/CFP supervision of its regulated entities, inclusive of how the risk assessment for a regulated entity is derived. Additionally, definitions for the risk rating and the nature of supervisory engagement based on these ratings are also included.

If you have any questions concerning the Framework please email the Commission at compliance@bglc.gov.jm.

Please be guided accordingly.

Yours sincerely,

....

Laurie Wiggan (Mrs.)
Director, Compliance & Regulatory
BETTING, GAMING & LOTTERIES COMMISSION

BETTING, GAMING & LOTTERIES COMMISSION

AML/CFT/CPF RISK BASED SUPERVISORY FRAMEWORK

DOCUMENT REVISION HISTORY

Version	Modification Date	Owner
1.0	APRIL 9, 2024	Director, Compliance & Regulatory

Table of Contents

1. Introduction

1.1. One of the primary objectives of the Betting, Gaming & Lotteries Commission (BGLC) is to maintain confidence in and promote the integrity of the gaming industry in Jamaica. As part of its supervisory oversight mandate, the BGLC licenses gaming machine operators to provide gaming services in accordance with specific legislation (e.g. BGLA, POCA, TPA, UNSCRIA), sets regulatory rules and guidance, monitors compliance with statutory obligations and takes appropriate enforcement action for non-compliance.

1.2. In keeping with its proactive approach to supervision, and in response to addressing new and emerging risks to the gaming sector, the BGLC periodically reviews its applied risk-based supervisory processes and procedures to ensure that it aligns with international best practices and the ML/TF/PF risks and vulnerabilities of its gaming lounges are assessed on an ongoing basis. Accordingly, and congruent with a dynamic risk environment, the BGLC has refined and revised its risk-based supervisory approach to ensure relevance to the current operating environment factoring the results of the National Risk Assessment.

1.3. The Commission's supervisory attention and resources are therefore focused on gaming lounges that pose higher risks of ML/TF/PF to the gaming industry while maintaining adequate and appropriate levels of supervision of those gaming lounges that present lower risks.

1.4. This document outlines the Commission's general risk based supervisory framework for AML/CFT/CPF supervision.

1.5. The AML/CFT/CPF Supervision Framework includes:
- The implementation of the AML/CFT/CPF Risk-Based Examination Manual;
- Implementation of the ML/TF/PF Risk Assessment Tool; and
- Partnership with key stakeholders to ensure ongoing training and sensitization on AML/CFT/CPF emerging issues.

2. Background

2.1.   In 2012, the FATF updated its Forty Recommendations to strengthen global safeguards and introduced additional measures to protect the integrity of the financial system against the threat of money laundering, terrorist financing and financing the proliferation of weapons of mass destruction. One of the most important changes was the increased focus on the risk-based approach (RBA) to AML/CFT/CPF, particularly in relation to preventive measures and supervision.

2.2.   The Recommendations consider the RBA to be an 'essential foundation' of a country's AML/CFT/CPF framework, requiring countries and regulated entities to identify, assess, understand and mitigate risks associated with ML/TF/PF. Further, the frequency and intensity of AML supervision of regulated entities should be determined based on:

   a)   *the ML/TF/PF risks and the adequacy of policies, procedures and internal controls* of the institution as determined by the supervisor's assessment of the institution's risk;

   b)   *the ML/TF/PF risks present in the country and the characteristics of the institutions* and in particular, *the diversity and number* of institutions; and

   c)   the degree of discretion allowed under the risk-based approach.

2.3.   In this regard, the Commission has reviewed its AML/CFT/CPF supervisory approach to align it more closely with the FATF risk-based supervisory approach. The risk-based approach will ensure that supervisory resources are appropriately focused on higher risk gaming lounges and activities, and that the frequency and intensity of supervisory engagement will be commensurate with the identified risks.

2.4.   The RBA to supervision not only conforms with FATFs Recommendations but allows for a more effective supervisory approach to AML/CFT/CPF by the Commission. The RBA is not a zero-tolerance approach and does not exempt the supervision of any gaming lounge considered to possess a low risk of ML/TF/PF.

3. Scope and Applicability

This Framework applies to gaming machine operators, operating gaming lounges.

4. Benefits of a Risk-based Approach

The principal benefits of adopting a risk-based approach to AML/CFT/CPF supervision are:

a) ensuring compliance with FATF international standards and best practices;

b) ensuring that the level of supervisory intensity/engagement is aligned with the level of ML/TF/PF risks and controls of each gaming lounge;

c) ensuring a more efficient allocation/alignment of supervisory resources;

d) facilitating more proportionate supervisory enforcement action based on identified risks; and

e) ensuring early identification of emerging ML/TF/PF risks and system-wide issues.

5. Key Principles

The following key principles form the basis of the AML/CFT/CPF Risk-Based Framework:

a) AML risk-based supervision is an ongoing process. It is not a one-off exercise.

b) The level and frequency of AML/CFT/CPF supervisory intensity/engagement will depend on the overall ML/TF/PF risk assessment of the gaming lounge.

c) No two gaming lounges or locations within an entity are the same. ML/TF/PF risks may vary for each gaming lounge depending upon the size, complexity and scope of their business and the specific risks involved.

d) The size or systemic importance of a gaming lounge is not, by itself, indicative of its vulnerability to ML/TF/PF risk.

6. The BGLC's Risk-based Approach to Supervision

6.1. This Framework describes the Commission's RBA to AML/CFT/CPF supervision of gaming lounges and entails four (4) major steps.

6.2. The different stages if the risk-based supervisory framework is not intended to be rigid sequentially in practice, but to operate in a dynamic and interrelated manner.

See figure below.
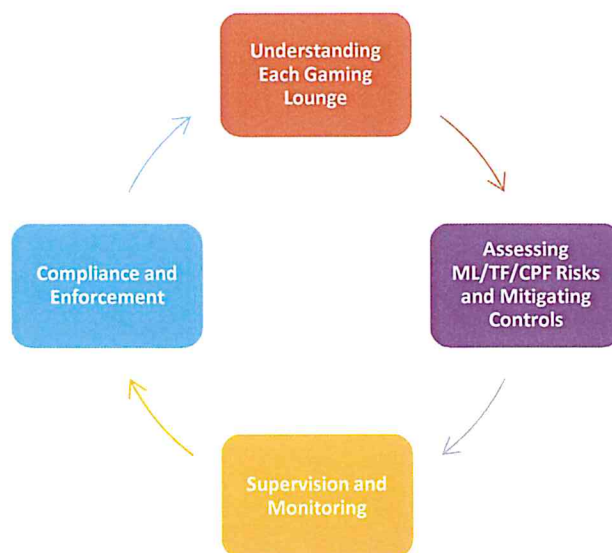
1) **Understanding Each Gaming Lounge Establishment**: This stage involves developing a risk profile for each entity, allowing for a comprehensive understanding of their unique risks.

2) **Assessing ML/TF/PF Risks and Mitigating Controls**: A meticulous assessment of inherent risks and the controls in place to mitigate those risks.

3) **Supervision and Monitoring**: Conducting ongoing supervision and monitoring activities based on the identified risks.

4) **Compliance and Enforcement**: Ensuring operators' compliance with AML/CFT/CPF regulations and taking enforcement actions when necessary.

6.3. <u>The step-by-step approach</u>

a) **STEP 1 - Understanding the Gaming Lounge**
By developing the ML/TF/PF risk profile of the gaming lounge through awareness and knowledge of:

i. the entity's profile and business model to determine the level of exposure to ML/TF/PF risks. Knowledge of the gaming lounge allows for an understanding of where vulnerabilities reside. For example, the Commission would ask key questions such as: "Who are the gaming lounge's customers?", "What type of products/services does the gaming lounge offer?", etc.

ii. the ML/TF/PF risks identified at the national level or during the course of routine prudential supervision, in order to identify any risk factors that would impact the ML/TF/PF risk assessment of the gaming lounge.

b) STEP 2 - Assessing the Gaming Lounge's ML/TF/PF risk

By evaluating:

    i.   The extent to which the risk factors identified under Step 1 impact the overall ML/TF/PF risk assessment of the gaming lounge; and

    ii.   the effectiveness of the AML/CFT/CPF systems and internal controls that are in place to mitigate the ML/TF/PF risks to which the gaming lounge is exposed.

It should be noted that each gaming lounge is required to conduct an ML/TF/PF Business Risk Assessment in determining the institution's ML/TF/PF risks and these should be reviewed periodically.

c) STEP 3 - Monitoring the Gaming Lounge

By:

    i.   applying the appropriate level of supervisory oversight (on-site and off-site supervision) based on the assessed risks; and

    ii.   reviewing the risk profile and Risk Assessment of the gaming lounge to ensure that they are up-to-date and relevant. This review can be done at least annually but should consider the occurrence of events that would trigger a reassessment. Additionally, the review will include the Independent Audit report, and the annual risk-assessment questionnaire that the company is required to complete via ORBS.

d) STEP 4 - Compliance and Enforcement

By taking:

    i.   early action to mitigate emerging and increasing risks; and

    ii.   the necessary proportionate enforcement measures to secure compliance, prevent the commission of an unsafe or unsound practice and minimize risks of financial crime.

7. AML Supervisory Process

7.1.   Understanding the Institution – Building the Institutional Profile

a) **The first step in an effective AML/CFT/CPF risk-based supervisory framework requires a thorough understanding** of the gaming lounge in order to develop its risk profile.

b) **The institutional risk profile is based on, inter alia, knowledge of the entity through an assessment of the gaming lounge's business structure, directors, shareholders, customer profiles (both domestic and international), range of products, supplementary services offered, number of prescribed premises, composition of gaming machines (including slots, electronic table games, and multi-stations setups),** as well as financial performance in terms of sales and payouts. This extensive information is garnered from licensees, utilizing data collection on each risk factor, in conjunction with insights from the National Risk Assessment (NRA).

c) Information for compiling and updating the gaming lounge profile initially and on an ongoing basis is collected from various sources, open sources, information gathered during the onsite and offsite supervisory process, information provided by the gaming lounge itself during the application/licensing process and other returns/reports submitted by the entity, new systems and product-gaming devices approvals, financial statement, annual returns etc.

7.2.   Assessing the Institution's ML/TF/PF Risks – Preparing the AML Risk Matrix

a) **The second step in the AML/CFT/CPF risk-based supervisory framework involves assessing the inherent risks and the mitigating controls implemented to determine the residual risk profile.** It should be noted that information gathered in understanding the institution (Step 1) helps inform the assessment of the institution's ML/TF/PF risk.

b) Consequently, the Commission must conduct an assessment of the gaming lounge's overall risk environment, the ML/TF/PF risks associated with each of its significant business activities, the reliability of its risk management framework, the quality of the internal governance arrangements, the effectiveness of the policies and procedures, and the adequacy of its information technology systems and internal controls.

c) Source information which will assist the Commission with this risk assessment includes external and internal audit reports, on-site examination reports, reports from other regulators assessments/feedback where applicable, regulatory returns, annual risk assessment questionnaires, the gaming lounge's own Business Risk Assessment, any ML/TF/PF-related board reports and papers (extracts), statistics on customer accounts closed, statistics on STRs/SARs filed or other regulatory concerns from the FID, and any other reliable, public-source information.

d) The AML Risk Matrix is a tool to assist with completion of the risk assessment, which identifies, records and assesses the level of ML/TF/PF risks inherent in an institution's activities, utilizing the institutional profile and the information collected in (c) above. The matrix also allows for an assessment of the adequacy/effectiveness of the AML/CFT/CPF risk management function in controlling or mitigating identified ML/TF/PF risks. It facilitates an assessment of the direction of those risks after taking into account both internal and external factors which may affect the institution's risk profile. It should be noted that the effectiveness of the controls/risk management function can generally only be determined by an on-site examination.

e) The residual risk rating derived from completing the Risk Matrix will inform the level of supervisory oversight – that is, monitoring and enforcement actions- to be applied to the gaming lounge.

f) The Commission utilizes a 5-point risk profile scale.

Residual Risk Rating	Control Risk Rating	Definition
VERY LOW	0 ≤ 1.49	Currently meets expected standards and indicates a very low risk of ML/TF/PF occurring.
LOW	1.50 ≤ 2.49	Currently meets expected standards and indicates a low risk of ML/TF/PF occurring.
MEDIUM-LOW/MEDIUM	2.50 ≤ 4.49	Meets some expected standards but contains deficiencies. There is a medium to medium-low risk of ML/TF/PF occurring.
MEDIUM-HIGH/HIGH	4.50 ≤ 6.49	Does not meet expected standards. There is a medium high to high risk of ML/TF/PF occurring.
VERY HIGH/CRITICALLY HIGH	6.50 ≤ 8	Does not meet the expected standards. There is a very high to critically high risk of ML/TF/PF occurring.

7.3.   Monitoring the Gaming Lounge

a) The risk assessment conducted in Step 7.2 and the overall AML/CFT/CPF residual risk rating of the gaming lounge will form the basis for determining the level of supervisory engagement necessary for each individual gaming lounge operator.

b) Supervisory engagement refers to the processes and tools used by the Commission to monitor adherence to AML/CFT/CPF regulatory requirements. This includes desk-based reviews, on-site examinations, risk assessment questionnaires, thematic study, review of policies and procedures, business risk assessment methodology and actual assessments, assessment of internal/external audit reports and meetings with the gaming lounge operator.

c) The supervisory engagement approach places more intense supervisory measures, for example, more frequent on-site examinations for those gaming lounges that pose a greater ML/TF/PF risk and utilization of other supervisory tools, such as risk assessment questionnaires and desk-based reviews, for those gaming lounges that are deemed to be of lower ML/TF/PF risk and impact.

d) It should be noted that the supervisory engagement levels once determined are the minimum standard applicable to gaming lounges in the different risk categories. The Commission may apply additional supervisory measures if it determines that there is emerging, or elevated risk of gaming lounges being exploited for ML/TF/PF purposes.

e) The risk-based focused onsite examinations can take any one of the following forms: full-scope, limited-scope, follow-up, thematic.

8. Compliance and Enforcement

a) The Commission takes firm and appropriate enforcement actions, when necessary, in the supervision and regulation of gaming lounges, to prevent the establishment from being used to conduct financial crimes and monitor compliance with AML/CFT/CPF requirements.

b) Enforcement powers are generally set out in the enabling legislation and include, inter alia, criminal sanctions, issuance of compliance directions, suspension, revocation or cancellation of licenses. Other interventions and enforcement measures include actions taken by the regulator to influence through moral suasion (e.g. stakeholder

outreach, institutional meetings, guidance on industry best practices); written warnings and directing the gaming lounge to provide remedial action plans with timelines to address compliance deficiencies.

c) Where there are identified areas of concern, the degree of intervention will be commensurate with the materiality of the deficiencies.

d) The Commission will communicate clearly with the gaming lounge operator when issues arise to ensure that the licensee understands the materiality of the deficiencies noted, supervisory expectations, including the remedial action required and the timeframe within which remedial work/actions must be completed.

e) The Commission will consider whether the finding impacts one gaming lounge operator or whether there is a systemic issue and communicate its views accordingly.