



Casino Industry Currency Transaction Reporting

**An Assessment of Currency Transaction Reports Filed
by Casinos between July 1, 2006 and June 30, 2008**



December 2008

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Purpose

As part of its efforts to provide efficient and effective administration of the Bank Secrecy Act (“BSA”)¹ the Financial Crimes Enforcement Network (“FinCEN”) has committed to providing affected industries with written feedback within 18 months from the effective date of new regulations, or changes to existing regulations. On June 26, 2007, FinCEN issued a final rule concerning casino currency transaction reporting requirements. This report highlights key findings of an assessment conducted by FinCEN of Currency Transaction Report by Casinos (“CTRC”)² filings from the period July 1, 2006, through June 30, 2008. FinCEN assessed CTRC filings comparing the number of reports filed in the one-year period before the BSA regulations were amended, to those filed in the one-year period after the June 26, 2007, amendment. In furtherance of FinCEN’s mission to provide beneficial information to law enforcement, regulators and regulated industries, this report indicated that the overall volume of filings for cash out transactions has decreased significantly since the regulation was amended.

This report also offers insight into the quality of CTRC reporting. CTRCs can provide invaluable information to law enforcement investigators and need to be filed in a complete and timely manner. This opportunity for feedback to the industry can result in better information for law enforcement and will help establish a foundation to shape FinCEN’s future analysis and guidance efforts.

We have included two Appendices to this analytical study. Appendix A highlights recent guidance issued specifically for the casino industry. Appendix B discusses law enforcement cases in which BSA reports filed by the casino industry proved important or beneficial. We are highlighting this information to better assist the casino industry in developing continuing training programs for its employees.

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1. The BSA is codified in part at 31 U.S.C. 5311 et seq. Rules implementing the BSA appear at 31 CFR Part 103.
 2. Casinos file FinCEN Form 103, Currency Transaction Report by Casinos and Card Clubs, while other financial institutions file FinCEN Form 104, Currency Transaction Report.

As we provide written feedback to the industry on changes to our regulations and/or trends we find in overall BSA filings, we encourage financial institutions to respond with reaction and comment to these products. We provide these analytical products specifically so industry can improve the efficiency and effectiveness of its BSA and general fraud programs. Accordingly we want to make these products as beneficial to industry as possible. Please provide FinCEN with any feedback regarding the contents of this study by contacting Webmaster@fincen.gov.

Executive Summary

On June 26, 2007, FinCEN excluded from requirements to file CTRCs, jackpots from slot machines and video lottery terminals. The rule also exempted certain transactions between casinos and currency dealers or exchangers and between casinos and check cashers. The basis for this regulatory change was that these types of transactions posed little risk of money laundering or tax evasion, or would be duplicative of other BSA reporting.

FinCEN conducted an assessment of CTRC filings by the casino industry to compare the number of CTRCs filed in the period before modifying its BSA regulations with the period after it modified its rules. FinCEN found that the total number of CTRCs filed in the 12 months following modification of the rules (July 1, 2007, through June 30, 2008) fell to 525,182 from 809,919, or 35%, compared with 12-month period preceding the regulation change. With respect to the relevant subset of CTRCs on cash-out transactions, the reporting declined 74% from 426,325 to 112,027. The significant decrease in CTRC filings was observed in each month as compared to the prior year period. Moreover, the decline was observed across almost all State jurisdictions.

This study also evaluated the quality of CTRC filings. A higher quality of CTRC reporting increases the usefulness to law enforcement in criminal, tax, regulatory, and counterterrorism investigations.

The overall result has been a decrease in the total number of CTRC filings. This result confirms the expected results of the rule change: to promote more efficient allocation of resources by both the casino industry and the government while still being effective in providing law enforcement information necessary to pursue the common goal of fighting crime, terrorist financing, and other illicit activity.

Background on June 2007 Rule Change

An initial objective of the BSA as passed in 1970 was to require banks to report large cash transactions because the anonymity of cash made it an attractive vehicle for drug traffickers, tax evaders and persons engaged in organized crime. The requirement to file Currency Transaction Reports (“CTRs”) has been expanded to include other financial institutions, and casinos have been required to file CTRCs since 1995.

On June 26, 2007, FinCEN amended the BSA regulations requiring casinos to report transactions in currency.³ The amendments exempted, as reportable transactions in currency, jackpots from slot machines and video lottery terminals, as well as certain transactions involving money plays or bills inserted into electronic gaming devices. The rule also exempted certain transactions between (i) casinos and currency dealers or exchangers and (ii) casinos and check cashers. Finally, the amendments provided additional examples of “cash in” and “cash out” transactions.

Jackpots from slot machines and video lottery terminals accounted for a significant portion of CTRCs filed by casinos. Absent fraud or abuse, however, winnings in excess of \$10,000 in jackpots at a slot machine or video lottery terminal are random and are not likely to form part of a scheme to launder funds through the casino. Moreover, casinos are required to file federal income tax forms with the Internal Revenue Service on jackpots of \$1,200 or more;⁴ therefore, jackpots from slot machines and video terminals are not likely to form part of a scheme to evade taxes. We believe that jackpots from slot machines and video lottery terminals do not pose a significant risk for money laundering, terrorist financing, or tax evasion.⁵ Consequently, CTRCs filed with respect to slot jackpots do not have a high degree of usefulness in criminal, tax, regulatory, and counterterrorism matters. Thus, the final rule amended 31 CFR 103.22(b)(2)(ii)(E) by removing the reference to “slot jackpots” from the examples of cash out transactions and adding paragraph

3. See 72 Federal Register 35008 - 35013 (June 26, 2007).

4. Casinos file IRS Form W-2G, Certain Gambling Winnings, to report payments made to customers for slot jackpot wins of \$1,200 or more, pursuant to Title 26, Internal Revenue Code.

5. See 71 FR 14129 (March 21, 2006).

103.22(b)(2)(iii)(D), which exempts jackpots from slot machines and video lottery terminals as reportable cash out transactions.

In addition, currency transactions in excess of \$10,000 conducted between casinos and currency dealers or exchangers, and between casinos and check cashers, are routine casino business transactions conducted pursuant to a contractual or other arrangement with a casino. Recognizing this, FinCEN determined that transactions between businesses described in sections 103.22(b)(2)(i)(H), 103.22(b)(2)(ii)(G), and 103.22(b)(2)(ii)(H), should not be subject to a casino's currency transaction reporting requirements. To illustrate the nature of these transactions, a check cashing company may operate on the premises of a casino and may cash checks for customers of the casino. Typically, the check cashing company writes a business check to the casino and in return receives currency from the casino cage to run the check cashing operation. As another illustration, a casino may enter into a contractual agreement with a commercial currency dealer or exchanger to have that business acquire foreign currency and foreign coins that a casino has accumulated from exchanges with its customers. In return, a casino generally receives a cashier's check or a business check from the dealer for the currency exchanged minus a commission for the service.

Requiring a casino to file CTRCs for these transactions, which do not pose a significant money laundering risk, would result in duplicative reports, since currency dealers or exchangers and check cashers are already required to file CTRs on these transactions.⁶ Accordingly, FinCEN believes that CTRs filed by casinos on these transactions do not have a high degree of usefulness in criminal, tax, or regulatory investigations or proceedings. Thus, the final rule amended 31 CFR 103.22(b)(2) by exempting certain transactions with currency dealers or exchangers and check cashers as reportable transactions for currency transaction reporting purposes.

6. The final rule exempting certain transaction between casinos and currency dealers or exchangers and casinos and check cashers did not affect the obligations of currency dealers or exchangers and check cashers under the rule requiring these businesses to file Currency Transaction Reports. *See* 31 CFR 103.22(b)(2).

Methodology

FinCEN used BSA database tools to retrieve all CTRCs filed from July 1, 2007, through June 30, 2008, the first year after a revision to the regulation exempted cash out transactions on jackpots from slot machines or video lottery terminals from the reporting requirements. Previously, such payments were reported as cash out in Item 31(d)⁷ of the CTRC.

The total filings were further broken down according to those which marked Item 31(d), Cash Out/Payments on Wagers. A total of 525,182 CTRCs were filed during that period, with 112,027 of those filings marking Item 31(d).

For comparison, CTRCs filed during the same period of time in the previous year, July 1, 2006, through June 30, 2007, were also retrieved. During that time, a total of 809,919 CTRCs were filed, with 426,325 of those CTRCs marking Item 31(d).⁸

FinCEN analysts further categorized the filings for each one-year period into total filings by each state. Filer errors, consisting of blank filer state fields, occurred in approximately 2,000 CTRCs. Over the course of the study these errors have steadily decreased. All forms were retrieved and reviewed in their entirety and allocated to the proper state groups wherever possible. A total of 105 CTRCs lacked any type of filer identification. A number of these forms were filed by Nevada casinos prior to July 1, 2007, on Form 103-N, Currency Transaction Report by Casinos-Nevada ("CTRC-N"). It is possible that many of those filed after July 1, 2007, when the Nevada casinos began using Form 103, the CTRC, were attributable to their transition from Form 103-N to Form 103.

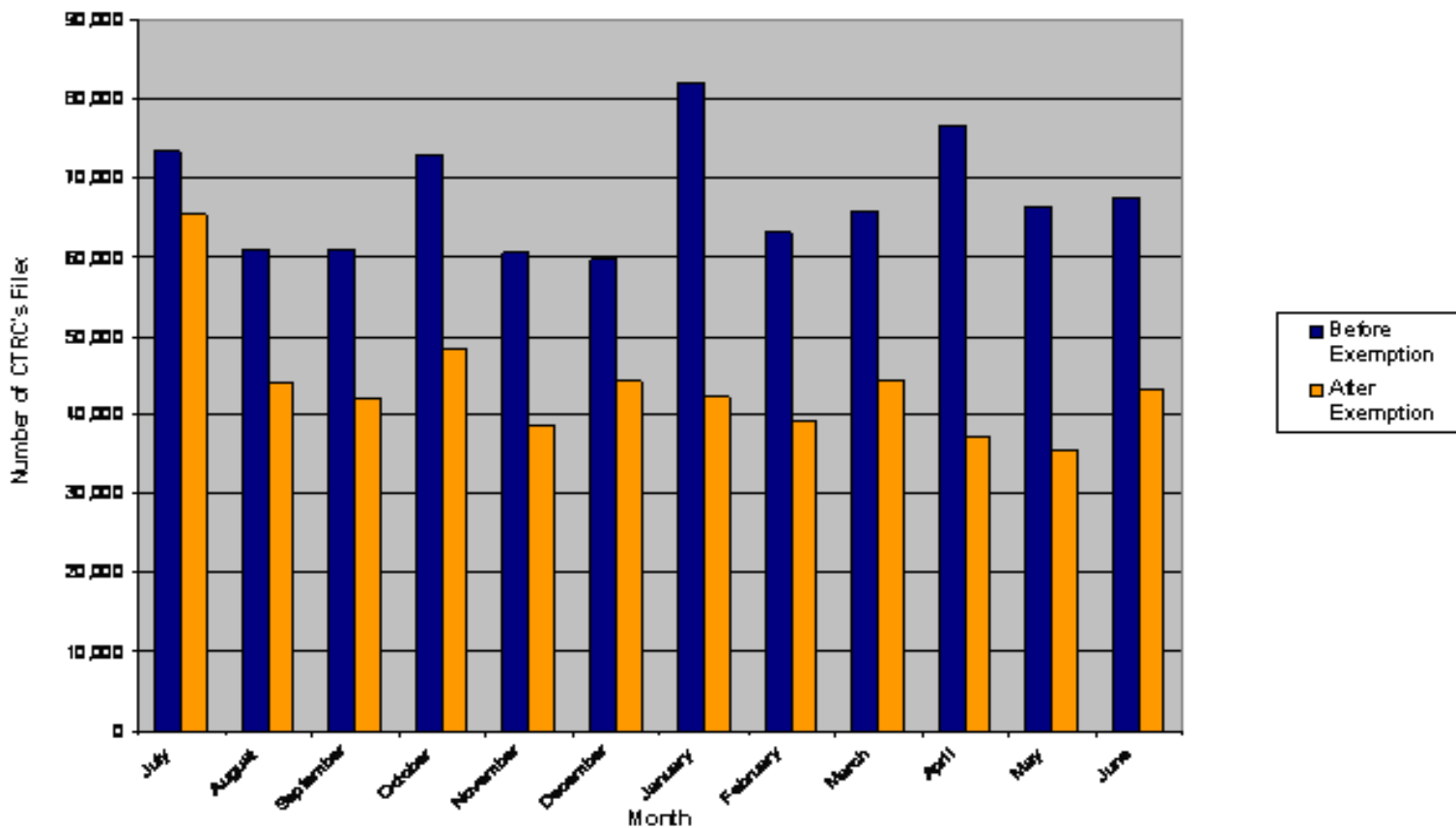
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7. This study was conducted using CTRCs filed before the August 2008 revision to FinCEN Form 103. At that time, cash out payments on wagers were reported on line 31(d). Those payments are now reported on line 32(d).
 8. Prior to July 1, 2007, Nevada casinos complied with Nevada Gaming Commission Regulation 6A in lieu of BSA regulations, and filed CTRC-Ns on FinCEN Form 103-N. With the repeal of the Nevada regulation on 6/30/2007, Nevada casinos became subject to BSA regulations including the requirement to file reports on FinCEN Form 103. The CTRC statistics provided herein for the earlier period of July 1, 2006 to June 30, 2007 include Nevada filings on FinCEN Form 103-N.

Analysis of Filing Trends

The filings retrieved for the time period covered by this study encompass 1,335,101 records using the CTRC and CTRC-N. The total filings for all CTRCs for the period July 1, 2007, to June 30, 2008 were 525,182 records, a decrease of 35% from the one-year period preceding the regulation change, when 809,919 CTRCs were filed. During the same period, the number of filings where box 31(d) was checked, which includes the cash out payments from jackpots on wagers in slot machines and video lottery terminals, totaled 112,027, a decrease of 74% from the total of 426,325 filed during the prior one-year period.

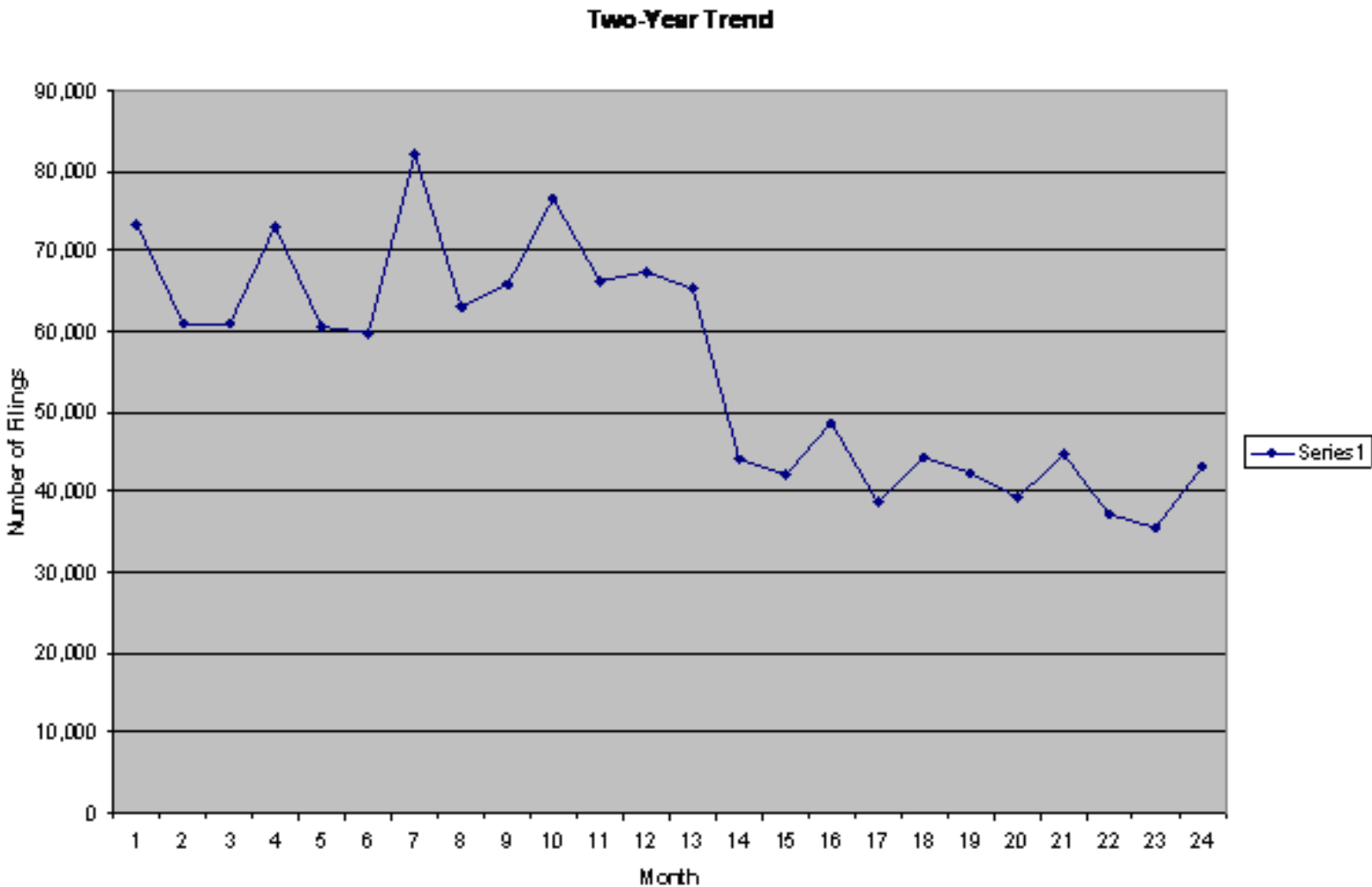
Chart 1 below reflects a comparison of the monthly CTRC filings for the one-year period before and after the amendment became effective.

CTRCs Filed Before and After the Exemption to Jackpots



Following the first full month after the regulation change took effect, from July to August 2007, CTRC filings decreased by 33%, which may be attributable to the timing of software changes the reporting casinos would have made in response to the change in the reporting requirement. The rate of filings stabilized after August 2007, and while some months have reflected a slight increase since the regulation change, overall the number of filings continues a slow but steady decline. In the year prior to the regulation change CTRC filings followed a pattern of one month of relatively high filings followed by two months of lower but consistent filings rates which are based somewhat on seasonal business fluctuations. You can note from the chart below that, following the regulatory change, filings followed a somewhat similar pattern.

Chart 2 illustrates the CTRC filing pattern over the two-year period from July 2006 to June 2008.



Filings by Filer Location

The highest volume for all CTRC filings before the regulation change were reported by Nevada, accounting for 247,712 (30%) of all filings, followed by California with 118,680 (14%) and New Jersey with 100,001 (12%). The percentage of total CTRC filings for the three largest filing states remained consistent as a percentage of all filings following the regulation change, with Nevada filing 31% of all CTRCs followed by New Jersey at 14% and California at 13%. However, the total number of overall CTRC filings, as well as filings in which box 31(d) was checked, were reduced significantly for all three states. Filings for the state of Nevada decreased 33% to 165,338 filings and New Jersey decreased 24% to 75,621 filings. Among the three largest filing states, California saw the largest percentage decrease, 41%, to a total of 70,191 filings in the year following the regulation change.

Other states that are leading filers (10,000 or more reports filed from July 1, 2006, to June 30, 2007), and which also saw a significant reduction in the number of filings, included: Mississippi, Louisiana, Connecticut, Indiana, Illinois, Oklahoma, Michigan, Arizona and Florida. Overall, among other leading filing states, Illinois showed the largest percentage reduction in total CTRC filings from July 2007 to June 2008 at 54%, followed by Oklahoma at 47% and Mississippi at 43%. The states showing the largest overall decrease in CTRC filings were states that coincidentally all filed less than 1,000 CTRCs both before and after the regulation change. Maine showed the largest percentage decrease, 87%, followed by Alabama, 74%, and New Hampshire, 67%. For all states that showed a decline in CTRC filings, the average percentage decrease was 43%.

Five states and one territory did show an increase in CTRC filings following the regulation change. Filings for North Carolina,⁹ the Northern Mariana Islands, and West Virginia all saw overall increases, however filings where box 31(d) was checked decreased as a percentage of filings. For example, in West Virginia two of

9. During this time period, only one casino was operating in North Carolina. This casino opened an adjacent hotel, which likely had a positive effect on its casino operation.

the four racinos¹⁰ in the state began offering table games in December 2007, which may explain the general increase in filings for that state. Nebraska, Arkansas and Montana all saw increases for both their CTRC filings overall and for filings where box 31(d) was checked.

Nearly every state showed a significant decrease in filings where box 31(d) was checked, with the average decrease being 62%. In the year preceding the filing change, Nevada, California and New Jersey were also the largest filers where box 31(d) was checked, followed by Mississippi, Louisiana and Illinois. Following the regulation change, the states experiencing the largest number of filings where box 31(d) was checked were Nevada, California and Louisiana, followed by Mississippi, Oklahoma and New Jersey.

Among the leading filers, (10,000 or more CTRCs where box 31(d) was checked) Connecticut showed the greatest percentage reduction for the one-year period ending June 30, 2008, over the prior years' filings, with a decrease of 91%, followed by New Jersey at 86% and Illinois at 79%. For all filers, the largest reduction was reflected in filings from Maine, 96%, followed by Kansas, 93%, and Connecticut, 91%.

Filings by Transaction Location

Our review of filings by state revealed one anomaly of note – a casino that filed two CTRCs from a branch office location overseas, which may be attributable to a customer putting money on deposit or paying off a marker at one of the casino's overseas locations. Under the BSA regulations, casinos are not required to file CTRCs for these transactions;¹¹ however they may voluntarily file the CTRC.

10. A racino is a combined horse or greyhound race track (which may offer wagering on televised races at other tracks - also known as "simulcasting") and casino. A State issues two licenses to a racino which authorizes each type of gambling operation. In some cases, the casino is limited to slot machines or video lottery terminals, but many locations are beginning to include table games such as blackjack, poker, and roulette. If State law defines or characterizes slot machine or video lottery operation at a racino as a "casino, gambling casino, or gaming establishment," and the gross annual gaming revenues of that operation exceed the \$1 million threshold, then the operation would be deemed to be a "casino" for purposes of the BSA and subject to all applicable requirements.

11. 31 CFR 103.11 (n)(5)(i) states that the term casino "includes the principal headquarters and every domestic branch or place of business of the casino."

Quality of CTRC Reporting

In addition to determining the impact of the regulatory changes, this study evaluated the overall quality of filings by casinos for certain fields on the CTRC form. FinCEN uses such analysis in part to identify areas on which to focus industry outreach and education efforts, and provide feedback.

A small number of CTRCs reviewed failed to provide information for the filer's "State" field in Part III. The numbers were not necessarily a significant indicator of non-compliance but, as stated in FinCEN form instructions and guidance, fields marked with an asterisk are considered critical for law enforcement and must be completed as required by the line item instructions. During the second period of the study from July 1, 2007, to June 30, 2008, a 76% reduction in these errors was noted.

Another category of CTRCs with either blank or incorrect entries in the casino filer's State field was attributed to filings by tribal casinos. However, while these errors occurred in approximately 400 CTRCs in the earlier period of this study, during the second period there was a 98% improvement with only 10 such filing errors.

Some filers are also reporting transactions that occurred in foreign branches of U.S. casinos. Filings from overseas locations may be attributable to situations such as a customer putting money on deposit or paying off a marker at one of the casinos overseas locations. Reporting of these transactions was a requirement under the Nevada Gaming Commission Regulation 6A but is not required by the BSA. During the second period of the study the number of reported transactions that occurred in foreign branches of U.S. casinos did decline.

FinCEN is encouraged that the overall accuracy of the CTRCs was quite good and expects that casinos will continue to ensure that their CTRC filings provide all the information that is required on these forms.

Conclusions

The number of CTRCs filed during the study period indicates that the overall volume of filings for cash out transactions has decreased significantly since the regulation was amended. Although it was difficult to predict magnitude, the results are consistent with expectations. The number of filings has decreased while the quality of reporting to law enforcement has increased. Analysis of the filings after the final rule has confirmed the policy decision that resulted in the amendment to the regulation.

Regulatory changes, such as these amendments to the CTRC reporting requirement, present an opportunity for affected industries to review and update their anti-money laundering compliance programs and train their employees on these regulatory changes.

Going forward, FinCEN will evaluate its CTRC filings as needed to determine whether other regulatory changes are warranted to exempt other types of transactions that may not pose a significant risk of money laundering and terrorist financing. In addition, FinCEN will continue to monitor applicable reports filed by casinos to help deter those who would want to abuse casino gambling to conduct criminal activities. Filing of reports forces criminals to behave in risky ways that expose them to scrutiny and capture.¹² This points to the need for casinos to be ever vigilant in their efforts to combat money laundering and terrorist financing.

12. See GAO Report to Congressional Committees, Bank Secrecy Act; Increased Use of Exemption Provisions Could Reduce Currency Transaction Reporting While Maintaining Usefulness to Law Enforcement Efforts (February 28, 2008), pages 23 – 24. Report is located at webpage: <http://www.gao.gov/new.items/d08355.pdf>.

Appendix A - Guidance, Rules and New Releases Regarding the Casino Industry

Following are links to previously released information, regarding the casino industry and its responsibilities under the Bank Secrecy Act. All of the information listed below currently appears on FinCEN's website – <http://www.fincen.gov>.

Guidance on Recognizing Suspicious Activity – Red Flags for Casinos and Card Clubs (Guidance) – August 1, 2008

(http://www.fincen.gov/statutes_regs/guidance/pdf/fin-2008-g007.pdf)

FinCEN Releases “Frequently Asked Questions” for Casinos (Guidance) – November 14, 2007

(http://www.fincen.gov/statutes_regs/guidance/pdf/Casino_FAOs_Final.pdf)

Final Rule Amending Casino Currency Reporting Requirements Announced (Final Rule) – June 21, 2007

(http://www.fincen.gov/statutes_regs/frn/pdf/Final_Rule_Casino.pdf)

Appendix B – Law Enforcement Cases Relating to the Casino Industry

Below are two examples where Currency Transaction Report by Casinos (“CTRC”)¹³ and other Bank Secrecy Act (“BSA”) information played an important role in the successful investigation and prosecution of criminal activity. These and other examples can be found in the [Law Enforcement](#) section of FinCEN’s website as well as in the Law Enforcement Cases section of each [SAR Activity Review, Trends, Tips and Issues](#).

Bank Secrecy Act Information Helps Jury Convict Cocaine Trafficker

Prosecutors used information directly derived from BSA records to help convict a repeat drug trafficker in federal court. The wealth accumulated by the defendant through illicit drug sales became evident by the filing of numerous CTRCs, a Form 8300 filed in conjunction with the purchase of a luxury automobile, and Suspicious Activity Reports by Casinos (“SARCs”) highlighting an attempt to buy another luxury item through structured transactions.

In 2008, a federal jury returned a verdict of guilty against the defendant on conspiracy to possess with the intent to distribute five kilograms or more of a mixture or substance containing a detectable amount of cocaine as well as other trafficking offenses. The evidence established at trial was part of a conspiracy to buy and sell kilogram quantities of cocaine. Specific evidence included court-authorized intercepted telephone conversations that arranged for delivery of multi-kilogram quantities of cocaine, unexplained wealth inconsistency with his source of income, and admissions of purchases of cocaine.

The United States attorney and state officials noted this prosecution stems from an ongoing federal, state and local law enforcement effort to quell violence fueled by the drug trade in that state. To date, 27 individuals have been charged with federal crimes as a result of this joint investigative effort. Several additional individuals have been prosecuted and the effort has removed more than two dozen illegal firearms from the streets.

13. Casinos file FinCEN Form 103, Currency Transaction Report by Casinos and Card Clubs, while other financial institutions file FinCEN Form 104, Currency Transaction Report.

During searches conducted at the time of the arrests, including searches of rented units at several self-storage locations, law enforcement seized approximately five kilograms of cocaine, more than 30 pounds of marijuana, seven firearms, approximately \$60,000 in United States currency, 10 vehicles, and large-scale drug packaging materials from numerous locations.

An analyst working on the case reported that CTRCs and SARCs played a significant part in this case, and especially in a guilty verdict at trial. The casino records obtained indicated that the defendant gambled over \$1.8 million in a 7-year period and a SARC describes his attempt to purchase other luxury items valued over \$46,000 by violating structuring laws. At the trial in federal court, the prosecution team successfully used this financial information from the casinos to confront him about his wealth and gambling activities when he testified that he was not a drug dealer.

Prosecutors were able to use 16 CTRCs to show that the defendant spent tens of thousands of dollars for “buying-in” at various casinos. Two SARCs were also filed documenting repeated attempts to buy luxury items. In addition, an automobile dealer filed a Form 8300 regarding the purchase of a luxury vehicle and a local bank filed two SARs referencing apparent structuring of cash withdrawals.

(Investigating agencies included Federal, State and Local Police Departments)

Currency Transaction Reports Expose Drug Traffickers Laundering Profits Through Casinos

Nine members of a drug trafficking organization were exposed and convicted largely through evidence collected from CTRCs.

The defendant was known as the “money-man” of the drug trafficking organization because he was responsible for laundering the organization’s illegal proceeds from drug sales. The defendant was a known, though modest, gambler until hired by the drug trafficking organization to launder its profits. Both the money the organization paid the defendant for these services and the large sums of money put into the defendant’s possession to be laundered allowed the defendant to trade a low-budget gambling style for that of a high roller.

The defendant would recruit third parties at a casino to purchase or cash in chips for the defendant, paying these recruits a nominal fee for doing so. Presumably unbeknownst to the recruits, the chips were purchased with illegal drug profits.

After spending some time gambling, the defendant would cash out some of the chips, claiming they were gambling winnings, and thereby fabricating a source for the group's revenue other than drug trafficking, thus successfully "laundering" the money.

Every time the defendant cashed-out chips in an amount over \$10,000, the transactions were recorded on a CTRC by the casino. According to the reports, the total value of chips redeemed was approximately four times the total amount of chips purchased. When the dollar amount of the chips was compared to the recorded winnings in the pit area, the numbers did not correspond.

The reports also provided other evidence supporting money laundering by the defendant and associated group. Twenty-four of the CTRCs recording the defendant's transactions revealed the use of aliases and multiple Social Security numbers. On numerous other CTRCs, the defendant refused altogether to provide a Social Security number.

The defendant may not have been entirely aware of the currency transaction reporting requirements in casinos. The defendant was apparently aware, however, of the currency transaction reporting requirements of banks. In addition to money laundering, the defendant was charged with structuring transactions to avoid reporting requirements. Criminals trying to hide illegal proceeds will often make a series of deposits just under the \$10,000 reporting threshold (referred to as structuring) to avoid having a CTR filled out recording the transaction.

In the face of the evidence against them, eight of the nine defendants in this case pleaded guilty to a 68 count superseding indictment charging distribution of marijuana, money laundering and structuring transactions to avoid reporting requirements. Criminal forfeitures in the case included millions of dollars, multiple properties, automobiles and bank accounts. CTRCs and CTRs were invaluable to the success of this investigation.

(Investigating Agency: U.S. Bureau of Immigration and Customs Enforcement)

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