

Project Islington

Inquiry into Money Laundering via Electronic Gaming Machines in Hotels and Clubs

26 October 2022

The NSW Crime Commission acknowledges the Traditional Custodians of the lands where we work and live. We celebrate the diversity of Aboriginal peoples and their ongoing cultures and connections to the lands and waters of NSW.

We pay our respects to Elders past, present, and emerging and acknowledge the Aboriginal and Torres Strait Islander people that contributed to the development of this resource.

Acknowledgements

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The Inquiry team would also like to thank the organisations and individuals who made a submission to or met with the Inquiry team. This assisted the Inquiry team to develop a deeper understanding of the sector and the challenges associated with the detection and interruption of money laundering within hotels and clubs licensed to operate electronic gaming machines.

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Terms of Reference

The terms of reference established for the Inquiry were:

- 1) to investigate the nature and extent of money laundering that may be occurring in licensed premises in NSW with particular reference to the use of gaming machines;
- 2) to identify potential vulnerabilities within the regulations and legislation governing gaming machines which could be exploited for the purpose of laundering; and,
- 3) to furnish reports about matters relating to money laundering through electronic gaming machines to government, pursuant to:
 - i. s 10 (1) (e) of the *Crime Commission Act 2012* (NSW);
 - ii. s 59AA of the *Australian Crime Commission Act 2002* (Cth); and
 - iii. the various provisions of the *Gaming and Liquor Administration Act 2007* (NSW), the *Gaming Machines Act 2001* (NSW), *Registered Clubs Act 1976* (NSW), and the *Liquor Act 2007* (NSW).

Preface

In common parlance, money laundering refers to the processes used by criminals to make crime-derived money or assets appear to be legitimately acquired wealth. It can create a major obstacle to the detection of offenders and is itself an offence. It allows offenders to enjoy the proceeds of their crimes; to avoid paying income tax; to have access to “seed capital” for future offending; and to unfairly compete with legitimate businesses.

Money laundering, as the term is used in the *Crimes Act 1900* (NSW), includes that commonly understood meaning but also extends to possessing or using the proceeds of crime, irrespective of any intention to conceal the origin of the funds.

The extent to which money laundering is occurring in Australia is impossible to calculate with precision, including where it occurs via the use of electronic gaming machines (EGMs) where vast sums of cash flow with few effective controls.

In 2020-21, approximately \$95b was gambled through EGMs in hotels (pubs) and licensed clubs in New South Wales. Concern has increased that the magnitude of this cash flow has made EGMs attractive to criminals as a mechanism for laundering money to make it appear legitimately acquired. Amid these concerns, shared by law enforcement agencies and Government, the NSW Crime Commission (NSWCC) identified the need for a detailed investigation in accordance with its principal function to furnish reports relating to organised and other crime and, if appropriate, to make recommendations for law reform.

A series of news media articles published in 2020 and 2021 that asserted that tens of millions of dollars of proceeds of crime, were being “laundered” through EGMs in licensed clubs and pubs and that only a small proportion of pubs and clubs were complying with their money laundering prevention obligations.

Accordingly, the Commission sought and obtained from its Management Committee a reference to undertake the Inquiry set out in the Islington Terms of Reference (the Inquiry).

Other agencies with investigative expertise and/or regulatory responsibility in relation to the issues raised – the Independent Liquor and Gaming Authority; the Australian Criminal Intelligence Commission; the Australian Transaction Reports and Analysis Centre and the New South Wales Police Force – agreed to partner with or to assist the NSWCC to pursue this Inquiry.

The Inquiry was undertaken in the same way as any organised crime investigation. Electronic and physical surveillance was undertaken on persons of interest, intelligence holdings were extensively analysed, and coercive hearings were held. In addition, data matching and data analytics was undertaken; a literature review was done; and legal authorities were analysed.

The Inquiry used both a top-down and a bottom-up approach to its investigations. Individuals who had been featured in the media as being involved in money laundering were identified and investigated. At the same time, the conduct of others who had not come to the public attention, but who were known to or identified by the Inquiry team due to their involvement in money laundering and/or gambling were examined.

The Inquiry was an intelligence probe, a research project that did not commence with a case theory; the investigative agencies bore no burden of proof. The Inquiry team simply sought to establish the extent to which money laundering via EGMs is occurring and to identify vulnerabilities that could be addressed.

The Inquiry found that many of the individuals referred to publicly as engaged in high-level money laundering had in fact been engaging in suspicious, but ultimately lawful, activities. Others, known to be engaged in crime that generates a large cash flow and who were using EGMs, were also investigated to ascertain whether they were laundering the proceeds of their offending via the machines in an effort to disguise the origins of the funds. Few were.

The Inquiry did however find compelling evidence that drug dealers were gambling on a large scale via EGMs with the money obtained by their offending. They were not seeking to disguise or “wash” the origin of the cash but, instead, were using the cash proceeds of their crimes to gamble. This “spending” of proceeds of crime is illegal under the Crimes Act and currently some clubs and pubs are failing to take sufficient steps to prevent this.

The recommendations in this report will, if implemented minimise both types of money laundering and equip law enforcement and regulators with the data necessary to ensure other criminal conduct does not replace it. It is important to note that this Inquiry set out to investigate money laundering using EGMs and recommend measures to combat criminal activity. It is not the Inquiry’s role to address the issue of problem gambling, however, adoption of these recommendations are likely to have flow on effects for harm minimisation.

The collaboration of the partners participating in this Inquiry has generated new insights that provide a sound evidence base for the recommendations contained in the report. The Government, the stakeholders, and the public can have confidence that if implemented, these recommendations will reduce the impact of serious and organised crime in NSW.

I commend the work of the NSWCC team who undertook the investigation and the support and assistance provided by the partner agencies.

Michael Barnes
Commissioner
NSW Crime Commission

Executive Summary

Across NSW, \$95 billion was gambled (turned over) in electronic gaming machines (EGMs) in pubs and clubs in the year ending 30 June 2021. There are almost 100,000 EGMs licenced to be used in NSW, with 86,747 of these currently available in gaming rooms.¹ From corner pubs in regional towns to large multi-venue conglomerates of registered clubs, EGMs are broadly accessible.

The Inquiry found that a significant amount of money which is put through poker machines is the proceeds of crime, or ‘dirty money’. The Inquiry assesses that billions of dollars gambled in NSW in the year to 30 June 2021 was dirty money.

As the Inquiry’s lead agency, the NSW Crime Commission (NSWCC) used the special powers entrusted to it to conduct coercive hearings with criminals and their associates as part of extensive criminal investigations. In addition, the Inquiry analysed and matched large datasets across law enforcement, regulatory and intelligence holdings, interviewed industry stakeholders, staff in venues and other experts, considered submissions to the Inquiry and undertook an analysis of judicial decisions.

Based on an assessment of this material, the Inquiry found that most dirty cash being used in EGMs is being gambled, rather than being used to extract “cleaned” money. Part 4AC of the *Crimes Act 1900* (NSW) criminalises both types of conduct as money laundering, with both being serious indictable offences.

EGMs constitute a money laundering risk because they primarily accept cash and because cash continues to be the primary method by which criminals obtain wealth from dealing in illicit commodities.

The extent of money laundering via EGMs cannot be precisely quantified, but the Inquiry assesses it to be widespread and significant. Even utilising the combined holdings of law enforcement agencies and coercive functions, the Inquiry was not able to get a complete picture of criminal activity due to a lack of data. This hinders detection and investigation by law enforcement and minimises the ability of the NSW Police Force (NSWPF) and other law enforcement agencies to prosecute this type of criminal activity.

The recommendations in this report are designed to make it significantly more difficult for criminals to place their ill-gotten gains into EGMs. They will, if implemented, also make it

¹ As at July 2022, there were 96,178 gaming machine entitlements and poker machine permits issued in NSW. However, only 86,747 gaming machines were actually in operation. See [here](#).

easier for regulators and venues to detect, and law enforcement agencies to investigate and prosecute money laundering when this occurs.

Mandatory cashless gaming will minimise money laundering associated with EGMs by removing anonymity and increasing traceability of EGM related transactions. This will enable law enforcement to identify and respond to money laundering and will improve data analytics around gambling and money laundering. The recent (not yet commenced) amendments to the *Casino Control Act 1992* (NSW) provide a model which could be extended to pubs and clubs operating EGMs.

Introducing a voluntary system (where gamblers can opt to use either cash or a player card) will not address money laundering as criminals dealing with the proceeds of crime will simply use cash. A hybrid/voluntary system will likely make pubs and clubs more attractive venues for money launderers as hybrid player card systems could be exploited to make 'cleaning' easier.

The Inquiry found that law enforcement faced challenges when investigating money laundering via EGMs as the evidence can be difficult to verify. The introduction of a general proceeds of crime offence in the recent *Crimes Amendment (Money Laundering) Act 2022* will assist in prosecutions of money laundering offences.

The Inquiry considered multiple data sources, including the Central Monitoring System (CMS), which is a regulatory tool that all gaming machines in NSW registered clubs and pubs must be connected to. The information collected from each machine is used to calculate the Gaming Machine Tax and to monitor any faults and integrity issues. However, the CMS was not designed to collect information that could flag money laundering and the level of data captured cannot identify suspicious money laundering activity.

In 2021, Liquor & Gaming NSW (L&GNSW) developed an algorithm which used CMS data to attempt to flag suspicious transactions. While this identified a number of suspicious gaming activities, it also flagged a significant number of false positives. There is no data source in NSW that identifies criminal activity associated with EGMs. Mandatory cashless gaming will, if implemented, resolve this, increase the capacity of venues to identify and report suspicious activity and enhance the ability of law enforcement to prosecute alleged offending.

The Inquiry was not able to develop a comprehensive method to calculate the precise value of proceeds of crime used in EGMs in NSW. However, based on multiple sources of information, the Inquiry was able to assess that there are likely billions of dollars of proceeds of crime put through EGMs in NSW each year.

Hearings and interviews carried out by the NSWCC, when combined with data analysis and a review of law enforcement holdings, highlight the prevalence of dealing with the proceeds of crime in EGMs, with dirty money being gambled across pubs and clubs in NSW.

The NSWCC took evidence from a number of convicted criminals. They stated that cleaning money via an EGM would not be effective due to the time it takes, the amount of money that would be lost and the risk that it would be monitored and reported. This aligns with information available to the Inquiry based on current and historical criminal investigations. Instead of 'cleaning' money via EGMs, the Inquiry found evidence that EGMs were being used extensively for spending the proceeds of crime, including by people who became involved in criminal activity to fund their gambling.

The prevalence of criminals dealing with the proceeds of crime via EGMs highlights the importance of venues having a strong understanding of their money laundering risks and obligations under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) (*AML/CTF Act*) and creating a culture of compliance in venues. This can protect a venue from:

- misuse by criminals for money laundering purposes;
- findings that they have breached their AML/CTF obligations; and
- findings that they have been reckless to the fact that their customers, and by implication, the venues themselves, have been dealing with the proceeds of crime.

The Inquiry assesses that the currently varied load-up limits are a money laundering vulnerability because they allow for up to \$10,000 in cash to go into an EGM at any one time. This makes money laundering easier, because higher value bank notes can be laundered in a short time period. The shorter time period means less opportunity for money laundering to be detected and reported by the venues.

Not all the money laundering that the Inquiry has identified can be set out in the body of this report. Some criminal investigations remain active and ongoing. To maximise the ability of law enforcement and regulators to respond to the issues identified, the Inquiry through the NSWCC will be providing classified reports to relevant agencies.

Findings

Finding 1 – Page 11

Some people involved in serious criminal offences, when found by NSWPF to be in possession of large amounts of cash, claimed that money in their possession was EGM winnings. The accuracy of these claims is difficult to refute due to limited evidence that law enforcement can rely on to confirm if an EGM win had occurred.

Finding 2 – Page 18

The Inquiry's assessment, based on analysis of several large datasets, reviews of law enforcement holdings, information obtained from coercive hearings, and interviews with both industry stakeholders and people involved in organised criminal activity, is that a large amount of 'spending' type money laundering – dealing with proceeds of crime – is occurring across pubs and clubs in NSW.

Finding 3 – Page 23

Current detection systems successfully identify only some money laundering, more sophisticated money laundering cannot be detected.

Finding 4 – Page 26

It was not possible to precisely quantify the proceeds of crime being laundered via EGMs in NSW, however the Inquiry's assessment of this figure is that billions of the \$95 billion EGM turnover for the 2020-21 financial year was likely the proceeds of crime.

Finding 5 – Page 32

Using EGMs to clean large quantities of dirty money is high risk and inefficient. Accordingly, while it is occurring, it is not widespread.

Finding 6 – Page 41

The October 2022 amendments to Part 4AC of the *Crimes Act 1900*, particularly the introduction of a 'proceeds of general crime' offence, will support more successful prosecutions of people dealing with proceeds of crime in licenced venues in NSW.

Finding 7 – Page 43

While only a small number of RCG holders have significant criminal histories including convictions for a prohibited drug, fraud and other high-risk offences, there is no mechanism by which an RCG holder's certification can be cancelled.

Finding 8 – Page 49

The tipping off offence under the *AML/CTF Act* is misunderstood by many venues as restricting their ability to exclude patrons or revoke their membership, leading to money launderers not being reported or not being excluded from venues.

Finding 9 – Page 53

Not all venues with a legal requirement to do so have an AML/CTF program and risk assessment tailored to their circumstances.

Finding 10 – Page 54

Many venue staff lack knowledge and training on AML/CTF issues. While industry stakeholders expressed a willingness to comply with AML/CTF obligations, the training these venues deliver to employees and board members does not always provide an adequate understanding and awareness of money laundering, or the associated AML/CTF obligations.

Finding 11 – Page 60

NSW has the highest load-up limits associated with EGMs in Australia. This represents a money laundering vulnerability because larger amounts of dirty money can be loaded into an EGM.

Finding 12 – Page 61

Some EGM audit reports and player gambling histories lack the detail needed to identify suspicious behaviour.

Recommendations

Recommendation 1 – Page 19

Government introduce a mandatory cashless gaming system to minimise EGM related money laundering within pubs and clubs.

Recommendation 2 – Page 24

Government, in consultation with industry and regulators, create a legislative or regulatory framework requiring certain standardised data be maintained for EGMs to better flag suspected money laundering.

Recommendation 3 – Page 25

Government engage with industry to:

- (a) identify ways that collection and analysis of EGM data could be enhanced for the purposes of money laundering identification at a venue level and to improve evidence available for prosecution;
- (b) explore technical and policy/process solutions to better utilise data collected by EGMs; and
- (c) identify ways of creating real-time alerts for money laundering flags.

Recommendation 4 – Page 42

The legislative and regulatory frameworks governing EGMs in NSW be amended to clarify that persons/entities with functions associated with EGMs must take steps to prevent money laundering.

Recommendation 5 – Page 44

Government introduce a mechanism that enables government agencies or venues to recommend the cancellation/revocation of an RCG certification; and a mechanism for the regulator to revoke an RCG certification in appropriate circumstances.

Recommendation 6 – Page 50

Government engage with industry and regulators to create a legislative or regulatory mechanism to support the exclusion of persons suspected of dealing with proceeds of crime from venues with EGMs, supplementing the existing rights of venues to exclude patrons from their premises.

Recommendation 7 – Page 56

Government, in consultation with industry, update education requirements to include education on money laundering and increase the frequency of the training provided to venues from internal and external sources to support venues in discharging their obligations under the *AML/CTF Act*.

Recommendation 8 – Page 56

Government work with industry to build the sector’s investment in *AML/CTF* training and education, and secure support for training from external sources.

1. Introduction

Nearly 100,000 electronic gaming machines (EGMs) – more commonly known as poker machines or ‘pokies’ – are licensed to be used in hotels (pubs) and clubs in NSW, with 86,747 of these currently available in gaming rooms, making them broadly accessible. In the financial year 2020-21, \$95 billion was gambled through those EGMs in pubs and clubs. This figure relates to money bet, including money put into EGMs and winnings reinserted.

Following the publication of the Inquiry under s 143 of the *Casino Control Act 1992* (NSW) (*Casino Control Act*) by the Hon P A Bergin SC² into the Crown Casino (the Bergin Report), which identified the significant incidence of money laundering in casinos operated by Crown Resorts, concerns were raised in the media that money laundering was also occurring in pubs and licensed clubs via EGMs. These concerns were later amplified by the Report of the inquiry under s 143 of the *Casino Control Act* undertaken by A Bell SC³ (the Bell Report) which raised significant concerns relating to the Star Casino.

In view of the magnitude of the money laundering alleged in some media reports to be occurring;⁴ concerns that there is a culture of non-compliance with obligations under the *Anti-Money Laundering/Counter-Terrorism Financing Act 2006* (Cth) (*AML/CTF Act*) within the gambling sector, particularly within registered clubs, and the intelligence gaps that existed in relation to the issue, the NSWCC sought and obtained from its Management Committee a reference to undertake the Inquiry to test the validity of the claims. The Inquiry was joined by the ILGA (represented by Liquor and Gaming NSW (L&GNSW)) and supported by other law enforcement and regulatory partners, including the Australian Criminal Intelligence Commission and AUSTRAC.

Money laundering is a serious criminal offence and an enabler for other types of offending. Gambling, including the use of EGMs, is vulnerable to exploitation for money laundering. The Inquiry found that money laundering is occurring via EGMs, but this more commonly amounts to dealing with the proceeds of crime rather than deliberate attempts to conceal the source of the funds and to produce ‘clean’ cash. Where this ‘cleaning’ was identified, it was a low

² [Report of the inquiry under s. 143 of the *Casino Control Act 1992* \(NSW\)](#) undertaken by the Hon P A Bergin SC delivered February 2021.

³ Report of the inquiry under s. 143 of the *Casino Control Act 1992* (NSW) undertaken by A Bell SC delivered in August 2022.

⁴ Nick McKenzie and Joel Tozer, "[The money laundry: Pubs and clubs the next frontier for crime](#)," *The Sydney Morning Herald*, 28 November 2021; Nick McKenzie and Joel Tozer, "[\\$1 billion and counting: Investigator reveals size of poker machine crime](#)," *The Sydney Morning Herald*, 28 November 2021; *60 Minutes*, "[Dirty Money: Exposing the neighbourhood pubs running massive money laundering operations](#)," aired November 2021; Linda Silmalis, "[Explosive report details money laundering linked to crime groups at 178 NSW venues](#)," *The Daily Telegraph*, 28 May 2022.

dollar value. The Inquiry found evidence of money laundering methods linked to EGMs, which do not use the cash in/cash out with no or minimal play technique that has been publicly reported.⁵ These methods include:

- the purchase of winning cheques or vouchers; and
- the use of EGMs to process counterfeit notes.

While the Inquiry was triggered, in part, by allegations of serious non-compliance with requirements under the *AML/CTF Act* and widespread money laundering via EGMs, industry bodies submitted that it is not in their interest to allow money laundering at their venues and asserted their commitment to stamping out money laundering. They also noted that pubs and clubs do not realise a financial benefit from many of the money laundering practices, particularly those associated with cash in/out with no play as it both blocked an EGM from being used by another player and did not deliver revenue to the venue.⁶ This claim is valid in relation to cleaning the proceeds of crime but does not apply to the spending of the proceeds of crime.

The NSWCC and its partners utilised many of the strategies typical of criminal investigations during the Inquiry. This included but was not limited to using the NSWCC's powers under the *Crime Commission Act 2012 (NSW)* and *Telecommunications (Interception and Access) Act 1979 (Cth)*, analysis of law enforcement, intelligence and financial records, physical surveillance of persons of interest (POIs) and reviewing hundreds of hours of CCTV footage. Several matters are subject to ongoing criminal investigation.

⁵ Nick McKenzie and Joel Tozer, "[\\$1 billion and counting: Investigator reveals size of poker machine crime](#)," *The Sydney Morning Herald*, 28 November 2021.

⁶ Australian Hotels Association (NSW), *AHA NSW Submission to the NSW Crime Commission and Independent Liquor and Gaming Authority Inquiry into Money Laundering in Pubs and Clubs* (2022), 19; ClubsNSW, *ClubsNSW Submission to the NSW Crime Commission Inquiry into Money Laundering in Pubs and Clubs* (2022), 3.

2. The nature and extent of money laundering in NSW

2.1 The nature of money laundering via EGMs

Money laundering is an indictable criminal offence under Part 4AC of the *Crimes Act*. Those provisions define a wide range of conduct as money laundering.⁷ Money laundering is also an offence under Part 10.2, Division 400 of the *Criminal Code Act 1995* (Cth).

The common theme that runs through all the provisions is that any conduct which involves a person dealing with the proceeds of crime when the person knows (or ought to have known) that they were dealing with proceeds of crime, is a serious criminal offence. In this context, the word 'dealing' means any sort of handling, like spending it (including gambling with it), receiving it, moving it around, or trying to hide it.

Two types of Money Laundering

Money laundering exists on a spectrum but can be broadly categorised into two types of conduct: cleaning and spending. The Inquiry looked for both types of laundering across pubs and clubs. It found that 'spending' money laundering was far more commonly occurring via EGMs in pubs and clubs in NSW than the 'cleaning' type of money laundering.

The 'Cleaning' type of money laundering

This type of money laundering occurs where a person deals with proceeds of crime to disguise its criminal origins and make it seem like it was obtained legitimately. The Inquiry undertook significant analysis regarding how 'cleaning' money laundering could be undertaken via EGMs. While it is possible to clean money via EGMs, the Inquiry found limited evidence of this kind of money laundering occurring.

Methods of cleaning money via EGMs

A well-known money laundering method associated with EGMs is loading cash into EGMs, engaging in no or limited play, and then claiming the credits as winnings.⁸ Indicators of cash in/out activity are relatively easy to identify based on the data available to venues. However, while this behaviour is suspicious, there can also be legitimate reasons for it that must be considered before concluding that money laundering is occurring. Cash in/cash out with minimal or no play is only a criminal offence if the cash was the proceeds of crime.

⁷ Part 4AC of the *Crimes Act 1900* (NSW).

⁸ AUSTRAC, *Short Pubs and Clubs with Gaming Machines: Regulatory Guide.*, p 8; Mathew Leighton-Daly, "[Money Laundering by Gambling: Regulatory Gap or Green Light](#)," *Thomson Reuters: Governance, Risk & Compliance Posts*, 22 February 2021; June Buchanan, "Money laundering through gambling devices," *Society and Business Review* 13, no. 2 (2018), p 228.

Issues with the data in isolation

The data available to venues can identify instances of cash in/cash out with minimal or no play but it is unable to track what preceded or followed the incident, both of which are factors in determining the reasons for the behaviour. Further analysis, including analysing audit reports from other (nearby) EGMs, tracing tickets taken from EGMs, and reviewing CCTV footage is necessary to establish what occurred.

Potential reasons for cash in/cash out behaviour

There are reasons that a person may engage in cash in/cash out behaviours. Some of these are legitimate, such as cashing out to obtain a ticket which is then placed in another machine and used. However, some activities may form part of money laundering offending, such as:

- the refinement of notes (changing small denominations to larger denominations);
- cashing out and seeking a winning cheque; or
- cashing out to obtain a winning ticket which may then be photographed as evidence of the source of the funds found in a person's possession.

Case study 2.1-1: CS16

CS16 is a well-known organised crime figure and member of an Australian outlaw motorcycle gang (OMCG). CS16 has multiple convictions relating to serious violence offences and drug trafficking.

CS16 came to the attention of the Inquiry following allegations that they had laundered over \$50,000 via EGMs at V08, a metropolitan hotel licensed to operate up to 30 EGMs. When stopped by the NSWPF and questioned regarding over \$10,000 in their possession, CS16 made claims they had "made heaps of money on pokies". CS16 provided the details of two venues at which they claimed they had won money.

Investigations carried out by the NSWPF showed that CS16 had engaged in cash in/out behaviour with very little play using \$50 notes and \$100 notes. CS16 sought a consolidated cheque for the value of the tickets that they received.

CS16 was charged with a range of fraud and money laundering offences. They were later convicted of three counts of publishing false or misleading material and one count of dealing with property reasonably suspected to be the proceeds of crime contrary to s 193C(1) of the *Crimes Act*. CS16 was sentenced to a period of imprisonment in respect of these offences.

Refining and converting notes

A key indicator of money laundering activity linked to EGMs identified by the Inquiry was the exchange of notes (particularly low denomination notes) for high denomination notes. This

activity is known as note refinement. Note refinement is a known method of money laundering; however, there are also legitimate reasons to refine notes.

In several cases examined in which the people were flagged for converting low denomination notes to high denomination notes, particularly \$100 notes, the evidence indicated they were doing so to use them in Multi Terminal Gaming Machines (MTGM) such as roulette, baccarat, and blackjack, as it makes playing these games more efficient for gamblers using multiple machines on a single game.

Conversely, organised criminal groups prefer \$50 notes when dealing with large volumes of cash on a transactional basis, but in cases of bulk cash storage it is more common to use a combination of \$50 notes and \$100 notes. It is possible to transport approximately \$500,000 in \$50 notes or \$1 million in \$100 notes in standard 'enviro' bag that can be obtained from a grocery store.

The Inquiry identified some evidence of people refining notes at clubs, generally values of less than \$5,000. The following case study demonstrates how note refinement takes place.

Case study 2.1-2: W17

W17 came to the attention of the Inquiry due to reports that they had inserted a large number of \$20 notes into an EGM at a metropolitan club, V02, and then redeemed winning tickets with little or no play.

A review of the CCTV footage and EGM data obtained from V02 identified W17 engaging in activity on EGMs on the date in question that was inconsistent with their usual gambling behaviour. Over the course of one night, footage showed W17 inserting \$20 notes totalling tens of thousands of dollars into EGMs, gambling a small portion of the funds, requesting winning tickets and then redeeming the tickets for larger denomination notes.

W17's adult child resided with them at the time of this activity and was on parole for the attempted importation of over 100 kilograms of cocaine.

Financial records obtained for W17 indicated that W17 deposited \$50,000 into their bank account on the same day as the unusual gambling activity at V02. The records also showed that W17's primary income was government welfare and that W17 had a history of conducting structured cash deposits into their bank accounts. Structured cash deposits (structuring) is a known money laundering method whereby a person makes deposits into a bank account (or equivalent) under the *AML/CTF Act* reporting thresholds in an effort to avoid detection. Structuring also constitutes a criminal offence under section 142 of the *AML/CTF Act*. The Inquiry formed a suspicion that W17 may have been attempting to launder the proceeds of crime via EGMs. W17 was summonsed to give evidence before the NSWCC.

W17 claimed they had been recruited by a third party to transfer \$100,000 overseas to pay for an illegal shipment of e-cigarettes. W17 received \$100,000 in the form of cash comprised of \$50 and \$20 notes. W17 decided to convert the \$20 notes to larger denomination notes to make it easier to deposit the funds into their bank account for a subsequent transfer. As W17 was already planning to play the EGMs, W17 decided to both gamble and refine the notes at V02.

W17 also admitted that over time they received income from a cash-in-hand business and had previously used EGMs to convert smaller notes into larger notes. W17 explained that they did not want to deposit that cash into a bank account, and it was easier to store \$100 notes at home.

Because W17 gave this evidence in a NSWCC coercive hearing it could not be used against them to prosecute them for those offences.

The Inquiry is also aware that persons involved in counterfeiting have targeted EGMs in an attempt to convert the fake notes into legal tender.

Money laundering using cheques and tickets

Cheques and tickets can also be exploited for the purpose of money laundering. There are two main ways in which they can be exploited:

- the purchase of winning cheques and tickets; and
- seeking cheques or EFTs when the winnings do not require this. Both mechanisms provide a way of legitimising funds.

Purchase of cheques and tickets

There is historical reporting regarding the purchase of winning cheques and tickets in NSW, however the Inquiry only found limited current evidence of this money laundering technique. This is potentially linked to the threshold at which gambling winnings must be paid out by cheque or electronic funds transfer (EFT) in NSW and actions which have been taken by venues to stamp out the behaviour.

In July 2015, the *Gaming Machines Regulation 2010* (NSW) was amended to increase the threshold at which cheques or EFTs must be issued from \$2,000 to \$5,000. This means that if the total prize money payable to a person exceeds \$5,000, the portion above \$5,000 must be paid as a cheque or as an EFT.⁹ A customer may elect to take the entire winning amount as a cheque or EFT only the portion above \$5,000, or a combination.

⁹ *Gaming Machine Regulation 2019* (NSW), cl. 26.

While there are often references to the purchase of winning cheques, this method of laundering has limitations. It relies on no further investigations being undertaken in respect of evidence of winning cheques being deposited into bank accounts. This can readily be discounted by obtaining a copy of the voucher associated with the deposit which will highlight if a cheque has been made over to a third party.

Rather than purchasing cheques, it is more effective to purchase tickets. The purchase of tickets, which contain no information identifying the person to whom the ticket was initially issued, enable a person to have a winning cheque made out in their name.

Seeking cheques/EFTs with no reason

Typical gamblers seek payout of the maximum amount of cash to which they are entitled so they can keep gambling. The Inquiry confirmed this pattern through the review of multiple cheque and EFT registers from venues across the state. As a result, the Inquiry could flag potential money laundering behaviour when a person sought a cheque or EFT where these forms of payments were not required. On rare occasions, problem gamblers sought cheques as a deliberate and legitimate way to attempt to slow down their gambling.

Not all venues provide the option of being paid out through EFTs. Some venues have opted to provide payouts solely in the form of cheques as a money laundering and fraud risk mitigation strategy.

Case study 2.1-3: CS16

CS16, who was convicted of dealing with property reasonably suspected to be the proceeds of crime in contravention of s 193C(1) of the *Crimes Act* in respect of their laundering through EGMs, also sought cheques where they were not required. With one exception, the tickets that CS16 received were less than \$5,000. CS16 could have cashed out after they received each ticket, instead they rolled all their winning tickets from V08 into a single cheque in order to legitimise the proceeds of their crime. See Case study 2.1-1: CS16 for additional information.

The 'Spending' type of money laundering

It is simple for people to engage in the 'spending' type of money laundering. Any person who has the proceeds of crime in their possession (knowing or being reckless about whether it is proceeds of crime) and who deals with it in any way, for example, by gambling with it (spending it) on EGMs, has engaged in this kind of money laundering and has committed an offence under Part 4AC of the *Crimes Act*.

The Inquiry obtained evidence of people involved in other serious offences (like drug trafficking) using EGMs to undertake this kind of money laundering in two situations:

- cases where gambling drives the offending – a person is a problem gambler and has committed criminal offences, including the supply of prohibited drugs, to fund their gambling; and
- cases where gambling is incidental to the offending – a person involved in organised criminal activity enjoys gambling and uses the proceeds of their offences for this purpose.

From the analysis of data sources, interviews with members of industry, the use of coercive hearings, and information gathered from people involved in organised criminal activity, the Inquiry assesses that this kind of money laundering is occurring in pubs and clubs in NSW.

[Serious Crime to fund EGM addiction](#)

The Inquiry found a number of people involved in serious and organised crime who were problem gamblers and who had used the proceeds of crime to fund their gambling.

Case study 2.1-4: W27

W27, a convicted drug supplier, was alleged to have laundered money through EGMs for a number of years. When giving evidence to the Inquiry, W27 denied laundering money through EGMs instead stating they were a gambling addict and spent the proceeds of their drug trafficking to fund that addiction.

W27 denied ever using EGM winnings to legitimise funds that were proceeds of crime when questioned by police, claiming instead that the funds were always legitimate wins. W27 did not appear to have realised they had effectively converted the proceeds of crime when they won on the EGMs.

Case study 2.1-5: CS03

CS03 had multiple convictions for low level drug possession, was facing charges for drug supply, and was suspected to be involved in money laundering and dealing with the proceeds of crime via EGMs at multiple venues in NSW and interstate. CS03 acknowledged to the Inquiry that they were a gambling addict.

CS03 understood that their behaviour could be construed to be money laundering. However, they told the Inquiry that it was never their intention to launder funds by obtaining cheques and depositing them into their bank account. Rather, CS03 did not want to carry cash and felt safer knowing the money was in their bank account.

2.2 The extent of money laundering via EGMs

The Inquiry identified multiple instances where it was alleged that a person was attempting to clean dirty money using EGMs. However, subsequent review and analysis of the behaviour showed that the person or persons were dealing with the proceeds of crime by gambling it without trying to clean that money. This is a serious indictable offence under Part 4AC of the *Crimes Act*.

The NSWCC reviewed its electronic investigations and confiscation proceedings records and identified multiple instances of persons dealing with the proceeds of crime via EGMs, although the values differed. Each person identified was involved in serious and organised crime, generally linked to the supply of prohibited drugs. Some of those matters are referenced in the case studies in this report.

In many cases outlined below, there were clear indicators that the person involved was or may have been dealing with the proceeds of crime. These included:

- dealing with amounts that were disproportionate to their stated income; and/or
- being known for their involvement in criminal activity, including via overt indicators that they were a member or associate of an OMCG.

In most of these matters, the venue made no report regarding the person to AUSTRAC or the NSWPF. Without the information from venues regarding the suspicious behaviour, law enforcement is unlikely to become aware of the extent of a person's dealing with the proceeds of crime via EGMs. Due to gaps in reporting, the extent of money laundering taking place via EGMs cannot be accurately measured.

Review of information held by NSWPF

The Inquiry undertook extensive searches of the NSWPF computerised operational policing system (COPS) to identify cases in which a person was suspected or believed to have laundered money via EGMs. The searches covered the period 1 January 2018 to 31 December 2021.

This resulted in the identification of 948 unique event reports and 291 unique information reports. The Inquiry reviewed each of these reports and identified 479 event reports that related to the suspected use of EGMs to facilitate money laundering.

A common trend identified within the reports were claims made by people — who were suspected to be involved in criminal activity — that money in their possession was gambling winnings. Where the amounts were reported, the average value was \$4,782 with the most commonly claimed figure being around \$2,000. This is significant as it falls below the

threshold at which gambling winnings must be paid out in the form of an EFT or cheque. In 88% of cases, the person was suspected of involvement in the supply of prohibited drugs.

Approximately 63% of events resulted in charges being preferred for goods in custody and/or dealing with the proceeds of crime offences. Approximately 57.3% of charges for dealing with the proceeds of crime offences resulted in a conviction.

TABLE 2.2-1: OFFENCES IDENTIFIED FROM EVENT REPORT DATA SET:

Offence	Number of charges	Outcomes			
		Convicted	Withdrawn	Not guilty	Before the courts ¹⁰
Dealing with the proceeds of crime	185	106	44	5	30
Goods in custody suspected to be unlawfully obtained	134	71	42	5	16

The NSWPF conducted further enquiries in respect of 62% of the relevant events. In 42% of cases, the POIs claims were refuted. This included cases in which the POI was unable to provide information regarding the venues at which they had gambled, were found to have not attended the venue, or were found not to have gambled at the venue. In 39% of cases, the POIs claims were either confirmed or there was insufficient evidence to refute the claim. This included cases in which there was no CCTV or payout information available from the venue.

It should be noted that in cases in which a POI was confirmed to have gambled, the possibility remains that they were gambling with the proceeds of crime. However, this was not the focus of the investigations which looked at whether there was a reasonable explanation for the cash which the person was found with at a given point in time.

In 16% of cases, or 48 matters, the POI changed their explanation regarding the source of the funds when it was put to them that the NSWPF would be conducting further enquiries. In 2% of cases, or 6 matters, the NSWPF formed the view that the gambling activity that was undertaken was highly likely to be indicative of 'cleaning' money laundering.

¹⁰ As at 30 June 2022.

This analysis reflects the challenges faced by law enforcement when investigating money laundering via EGMs. The October 2022 amendments to Part 4AC of the Crimes Act¹¹ will help law enforcement to respond to this kind of offending more aggressively.

Finding 1

Some people involved in serious criminal offences, when found by NSWPF to be in possession of large amounts of cash, claimed that money in their possession was EGM winnings. The accuracy of these claims is difficult to refute due to limited evidence that law enforcement can rely on to confirm if an EGM win had occurred.

Data matching and analysis

To ascertain the nature and extent of money laundering via EGMs in NSW, the Inquiry undertook a series of bulk data analyses and data matching projects. This included the data matching in respect of persons identified from CMS data, persons identified as high rollers at different clubs, persons identified at pubs and clubs as receiving large numbers of winning cheques, AML/CTF compliance officers, licensees, and responsible conduct of gaming card holders.

The data sets were matched across criminal intelligence holdings. This assisted in:

- determining whether particular claims that have been made in respect of the sector were supported by the available data;
- testing the datasets; and,
- identifying new lines of enquiry.

AUSTRAC data matching project

The Inquiry sought information regarding 'high rollers' from 23 different clubs (representing 54 licenced venues) across NSW for a 12-month period (1 April 2021 to 31 March 2022). Information was requested in respect of the following:

- the top twenty players at each venue by turnover, winnings, and funds in;
- the top twenty players by cheque register; and
- the top twenty players by EFT register.

The results were compiled, and once duplicates were removed the result was a list of 3,387 unique 'high rollers'. The list was provided to AUSTRAC to identify people who are also recorded in Suspicious Matter Reports (SMRs). That request resulted in a list of 544 people

¹¹ The Crimes Amendment (Money Laundering) Bill 2022 passed on 13 October 2022, inserting a proceeds of general crime offence into Part 4AC of the *Crimes Act*.

linked to a total of 1,604 SMRs. Additional analysis identified that 408 of those SMRs related to gambling.

As a result of this analysis, 153 people were identified as being both high rollers and recorded in gaming related SMRs. The Inquiry conducted further checks on each of the people. Based on this assessment, almost half of the people had indicators which suggested that they were involved with some form of criminality (either via charges or police intelligence reports), or the SMR information specifically indicated that there were suspicions around their EGM activity being indicative of cleaning money or dealing with the proceeds of crime.

The enhanced dataset provided by AUSTRAC assisted in identifying a series of people of interest to the Inquiry due to their probable use of proceeds of crime in EGMs. This included people who had not been identified through other means.

The assessment indicates that a small number of high rollers are also criminals likely to be using the proceeds of crime in EGMs either to clean or spend it. Although the dataset is not sufficiently comprehensive to determine the extent of the problem, it strengthened the understanding of the nature of the problem. The people identified in these lists will be referred to appropriate agencies for further scrutiny.

[Data matching across criminal intelligence holdings](#)

As part of the Inquiry, analysts at L&GNSW undertook a review of AUSTRAC SMRs related to suspicious EGM activities and interrogated the activities of people who had come to attention due to suspicious gambling activity identified through the analysis of CMS data. This identified 211 people of interest who were checked against law enforcement holdings.

The Inquiry identified 23 people who were suspected to have used EGMs for the purpose of money laundering who were also known to law enforcement for significant criminal activities. Some of these are included in the case studies below.

These case studies, and others in the report, highlight the following key issues:

1. While it is an offence to deal with the proceeds of crime in any context, in a number of these scenarios the EGMs were not being exploited to deliberately place, layer, and integrate funds into the legitimate financial system (cleaning). Rather, the EGMs were being used for their intended purpose of gambling (spending), which in some instances was a driver for further crime.
2. Significant proceeds of crime were placed in EGMs, including in objectively suspicious circumstances, but failed to trigger the suspicions of staff at the relevant venues.

Case study 2.2-1: W25

W25 came to the attention of the Inquiry due to allegations they may be involved in money laundering via EGMs. W25 has convictions for supply of a commercial quantity of prohibited drugs and dealing with the proceeds of crime.

W25 explained that their drug supply activities funded their gambling and that they often gambled up to \$10,000 per day in EGMs and had done so for many years. When asked about the total amount that they had put through EGMs W25 stated that they made a significant amount of money selling prohibited drugs and had nothing left so believed most of it may have gone through EGMs. W25 indicated that it could be close to or more than a million dollars.

W25 stated that all their associates who are involved in selling drugs also play EGMs.

W25 said that they had never used EGMs to launder their proceeds of crime, admitting that they had made a lot of money selling drugs but had no wealth as a result. W25 said they had never considered using EGMs to launder their proceeds of crime. In W25's view, this would not be an effective method due to the time it takes and the amount of money that would be lost. W25 believed there would be more effective methods to launder money, such as by starting a business.

Case study 2.2-2: W27

W27 has convictions for the supply of commercial quantity of prohibited drugs and dealing with the proceeds of crime. The Inquiry analysed W27's gaming data. In 2018, at one venue alone, W27 had a turnover of up to \$113,000 per month with losses of up to \$8,000 per month. Review of CCTV footage showed W27 playing up to four EGMs at a time. This indicates the available player data did not capture the entirety of W27's gaming activity. In addition to gambling at clubs, W27 gambled at casinos and pubs. Between 2011 and 2017, W27 received over \$1 million in above threshold gaming payouts (that is payments over \$10,000). NSWPF holdings indicated that W27 was unemployed during the period considered by the Inquiry.

W27 admitted that the funds they placed into EGMs were proceeds of crime, however, W27 denied using EGMs to launder money.

W27 claimed that they had a serious gambling addiction, likely losing over \$1,000,000 in total to EGMs, and said that they had no assets to show for many years of dealing drugs. W27 claimed that they started dealing drugs to support their gambling addiction. W27 could earn up to \$10,000 a day, which they then spent on EGMs or other forms of gambling.

W27 denied ever using EGM winnings to legitimise funds that were proceeds of crime when questioned by NSWPF. W27 claimed instead that the funds were always legitimate wins.

At the conclusion of the hearing, W27 volunteered that they thought the behaviour of loading in \$5,000 to \$10,000 into an EGM and redeeming a cheque without play was an ineffective way to launder funds, as venues would flag this as not being legitimate gambling behaviour.

W27 used the proceeds of crime to feed a gambling addiction. It is notable that W27 considered the winnings they obtained from EGMs were legitimate gambling wins, despite the fact they had used the proceeds of crime to gamble in the first place.

Case study 2.2-3: CS02

CS02 was identified during a NSWPF investigation into the supply of prohibited drugs in regional NSW. CS02 came to the attention of the Inquiry due to allegations that they were laundering the proceeds of their drug trafficking via EGMs at regional licenced premises. Enquiries undertaken during the NSWPF investigation indicated that CS02 and their associates had put over \$15.5 million into EGMs in a single year before COVID-19. In addition, a review of their bank statements showed that they deposited winning cheques into their bank accounts. This suggested that they were trying to intermingle their proceeds of crime into the mainstream financial system.

The Inquiry's assessment suggested that CS02 is/was a problem gambler, and that they primarily used their proceeds of crime to feed their gambling addiction. CS02's practice of depositing winning cheques into their bank account suggested that they may also have been trying to launder their proceeds of crime via EGMs.

CS02 admitted that they had "a very bad gambling habit". CS02 began gambling as a young adult due to the boredom of being unemployed and living in a small rural town. At the start of the interview, CS02 was quick to point out that they were "never trying to launder money". CS02 admitted that the funds they had received from playing the EGMs and which they had put into their bank accounts would look suspicious to law enforcement but was adamant that they were in fact legitimate wins.

CS02 initially said that the funds they used in the EGMs was money which they received from government benefits, and that they never used the money they had made from selling drugs. CS02 kept their two supplies of cash separate; they would bank the winnings they made on the EGMs, while any cash they made from selling drugs would be stashed in various locations around their house. CS02 later admitted that from time to time they put \$50 or \$100 from a drug deal into the EGMs, but despite this remained steadfast that the money they used in EGMs was not linked to their criminal activity. CS02's claims that they did not gamble using

the proceeds of their offences are unlikely to be true; however, it appears likely that CS02 was not aware of the values with which they were gambling.

CS02 stated that it had never crossed their mind to launder their proceeds of crime via EGMs. When asked about money laundering in general, they explained that it would be smarter to “go somewhere like The Star Casino where no one knows who you are”. In their opinion, there would be no point trying to launder money at hotel in a small town where everyone knows who you are. CS02 offered that if they did want to launder their proceeds of crime, they would have purchased a house and put it in the name of an associate.

CS02 explained that they regularly took photos of their winning tickets and cheques, and that if they were stopped by police, they would use those tickets or photos of their wins to legitimise the cash that they were carrying, even if that cash was the proceeds of crime.

CS02 explained that they had never been approached by staff at the venues where they played the EGMs as everyone there knew them. The staff knew that CS02 would often win, therefore there was no suspicion about where their money came from. Further, CS02 was never offered assistance with regard to their gambling habits.

Case study 2.2-2: CS03

The Inquiry obtained information regarding ‘high rollers’ from a range of different types of registered clubs. CS03 came to attention as one of the most frequent recipients of winnings cheques at one of the clubs. A review of law enforcement holdings showed that CS03 had multiple convictions for low level drug possession, was facing charges for drug supply, and was suspected to be involved in money laundering and dealing with the proceeds of crime through EGMs at multiple venues in NSW and interstate.

The Inquiry’s assessment of CS03’s activities suggested that CS03 was likely dealing with the proceeds of crime through EGMs to fund their gambling. CS03 openly admitted to having a serious gambling habit. CS03 relied on selling drugs to fund their gambling habit.

Case study 2.2-3: CS05

During an investigation into CS05’s drug trafficking activities, NSWPF noted that CS05 spent many hours each day playing EGMs at venues in metropolitan Sydney. An analysis of CS05’s bank statements showed that nearly all the credits were from winning gaming cheques from the venues they attended.

CS05 developed a gambling addiction and borrowed a large sum of money from an associate to fund their EGM play. As their debts mounted, CS05 began dealing prohibited drugs and

used their proceeds of crime (generated by their drug supply activities), as well as previous winnings on the EGMs. CS05 stated that they never used EGMs to launder the proceeds of crime. Rather, CS05 used the proceeds of crime to maintain their addiction to EGMs.

CS05 explained that they favoured venues that were “quiet” to avoid seeing any associates, particularly those to whom they owed money. CS05 also preferred venues in proximity to their home as it provided easier access to the cash (being the proceeds of crime) that they had stored at the location in the event they incurred a loss but wanted to continue playing.

CS05 believed that the staff at the venues at which they played EGMs would have had reason to suspect that they were wagering the proceeds of crime. CS05 stated that they were unemployed, attended the same venues on a daily basis for hours at a time, and often attended with large sums of cash. Venue staff never questioned CS05 about their behaviour or the source of the cash with which CS05 gambled.

CS05 stated that on occasion, CS05 would run out of money and staff (at an unnamed venue) would “lock” the machine they were playing to enable them to leave the venue, retrieve more cash (being the proceeds of crime), and resume play on the same EGM.

When asked about money laundering via EGMs, CS05 advised that they knew of one individual involved in the distribution of prohibited drugs who employed several individuals, CS05 described as “junkies”, to attend various venues in Sydney where the proceeds from the sale of prohibited drugs would be used for EGM play. CS05 assumed that the objective was to launder the proceeds of crime but was not aware of the specific methodology used (i.e., if it was cash in, ticket out). CS05 was not aware if this was a “one off” occurrence or if this individual routinely employed individuals to launder the proceeds of crime via EGMs.

CS05 was, on occasion, approached by link chasers who attempted to “buy” the EGM that they were playing before they cashed out. CS05 stated that these individuals tended to be of Asian heritage and were possibly professional gamblers. CS05 claimed that they had never purchased someone else’s winning ticket, were never offered money for a winning ticket and never used a winning ticket to justify any cash in their possession.

Case study 2.2-4: G02 and V04

V04 is a regional NSW club that forms part of a conglomerate, G02. G02 is licensed to operate between 150 and 250 EGMs.

V04 came to the attention of the Inquiry following allegations regarding the ongoing presence of members of a large Australian OMCG within the venue. It was alleged that the management were aware that the persons were members of an OMCG.

NSWPF holdings showed that there was an ongoing relationship between CS12, a senior member of the OMCG, and management at V04. This included regular meetings at V04 and showed that the management was aware of CS12's membership of an OMCG. CS12 was alleged to spend large amounts of money at V04.

The Inquiry was able to identify CS12 and confirm that CS12 was a member of an OMCG and had been for some time. CS12 has multiple convictions for the supply of prohibited drugs, including commercial quantities of prohibited drugs, and for firearms offences. CS12 is a member of V04 and has maintained a top tier membership at V04. Due to their history, the Inquiry suspects that at least a portion of the funds with which CS12 played at V04 were the proceeds of crime.

V04 has not lodged any reports with AUSTRAC regarding CS12 or other OMCG members attending V04.

The above case studies illustrate the prevalence of the proceeds of crime being used in EGMs and the trend that this was largely unreported by staff. The amount of criminal proceeds placed through EGMs was significant, with a number of individuals indicating that the amount of criminal proceeds that they had placed in EGMs was likely to be in the millions of dollars.

The Inquiry assesses that the behaviour is reflective of an ongoing trend in which EGMs are viewed as a source of recreation by established criminals. The information collected during the Inquiry is consistent with information the NSWCC has identified in its current and historical investigations into organised and other serious crime.

It is acknowledged that almost none of the criminals with whom the Inquiry spoke had the intention of using EGMs to clean the proceeds of their criminal offences, but their activities still constitute spending/dealing with the proceeds of crime for the purpose of the *Crimes Act*.

It is highly likely that there are many other instances similar to those described in the case studies (where people involved in serious and organised criminal activities have used large amounts of the proceeds of crime in EGMs) which failed to trigger the suspicions of staff at these venues. As SMRs only need to be submitted when a venue forms a suspicion, these instances would not be reported to AUSTRAC, which makes detection and investigation by law enforcement more difficult.

Finding 2

The Inquiry's assessment, based on analysis of several large datasets, reviews of law enforcement holdings, information obtained from coercive hearings, and interviews with both industry stakeholders and people involved in organised criminal activity, is that a large amount of 'spending' type money laundering – dealing with proceeds of crime – is occurring across pubs and clubs in NSW.

2.3 Cashless Gaming

Licensed venues like pubs and clubs are one of the few locations in which cash remains a dominant payment mechanism, and therefore, are a location where money laundering can easily occur. The evidence demonstrates that money laundering – particularly ‘spending’ money laundering is widespread and involves significant amounts of money.

If properly designed and implemented, a mandatory cashless gambling card or cashless gambling wallet (collectively, ‘player card’) would overcome many of issues identified by the Inquiry as impacting on the capacity of clubs and pubs to identify and respond to potential money laundering within their venues.

Recommendation 1

Government introduce a mandatory cashless gaming system to minimise EGM related money laundering within pubs and clubs.

The Inquiry recommends aligning a cashless gaming system in NSW pubs and clubs with the recent amendments to the *Casino Control Act*.¹² The new section 71A of the *Casino Control Act* and associated clause 25A of the *Casino Control Regulation 2019 (NSW) (Casino Control Regulation)* together stipulate the requirements for ‘Player Cards’ in casinos, which could be mandated in pubs and clubs.

The features of a cashless gaming system should include:

- customer identification requirements consistent with requirements under the *AML/CTF Act*;
- the ability to record amounts, times, turnover, losses/wins, and types of games played on an EGM against a player card;
- one to one links between player cards and a bank account and limits on changing accounts;
- the maximum amount of cash able to be loaded on to a player card in a single day be no more than \$1,000; and
- systems in place to ensure that only a single player card can be used per person, and that the maximum cash-load limit apply and be monitored across all venues (pubs, clubs, and casinos).

In particular, the requirement in clause 25A of the *Casino Control Regulation* for the player card to be issued in accordance with the *AML/CTF Act* is essential. If the system was not

¹² See details [here](#).

identity linked, there would be the potential for gamblers to circumvent the system by obtaining, and then trading, multiple cards.

The Bergin Report drew attention to the issue of money laundering via EGMs, noting that the introduction of a cashless gaming card would be a “powerful mechanism to assist in combating money laundering.”¹³ Media coverage was given to this topic by public comments by the then Director of Investigations and Intervention from L&GNSW when he asserted that the introduction of a cashless gaming card would “negate the ability for people to walk in with a bag of cash and put \$30,000 into a machine.”¹⁴ This Inquiry concludes that this approach is equally apposite to addressing the problem in pubs and clubs.

A cashless system removes the ability for cash proceeds of crime to be directly placed into an EGM to be cleaned or spent. In this system, larger amounts of cash circulating through EGMs would first need to be deposited into the banking sector then transferred to the player card electronically, with only smaller amounts of cash able to be directly traced to a player. This would allow for a clear electronic trail to be recorded if law enforcement agencies or regulators need to trace the source of the funds used to gamble, and the movement of money back into bank accounts.

The system would also remove the need for the introduction of additional oversight measures, such as a centralised cheque register. At the simplest level, a player card would assist in the detection of individuals engaged in suspicious or illegal gambling behaviour and would close many of the information gaps faced by the Inquiry. In addition, the transactional data captured by the player card would ensure that law enforcement could rapidly discount or confirm claims that cash in the possession of a person was, or was likely to be, the proceeds of gambling winnings.

An effective model, aimed at minimising the risk of money laundering and enhancing opportunities for detection, would allow for only a one-to-one link between the player card and a bank account. This is to ensure that player cards cannot receive money from multiple accounts and to ensure that multiple player cards cannot move money to a single bank account. Allowing multiple connections and/or rapid changes in linked bank accounts would make it easier to layer the proceeds of crime into the legitimate banking system.

Significantly limiting the presence of cash at the venue and restricting a player card from transferring funds to more than one account moves an element of risk from the gaming sector

¹³ [Report of the inquiry under s. 143 of the Casino Control Act 1992 \(NSW\)](#) undertaken by the Hon P A Bergin SC delivered February 2021, p. 620.

¹⁴ Nick McKenzie and Joel Tozer, "[\\$1 billion and counting: Investigator reveals size of poker machine crime](#)," *The Sydney Morning Herald*, 28 November 2021

to the banking sector, which has a more mature regulatory regime around flagging suspected money laundering. This would also address a current vulnerability in EGM data collected by the pubs and clubs.

Currently, there is limited oversight of cash being used in EGMs, and venues are not able to easily track and assess the amount of money a single individual is using. This means they are not able to identify abnormal patterns of behaviour or abnormal activity. A player card would allow for this information to be identified without significant overhaul to the current systems in place in venues. A player card would also enable venues to undertake more accurate transaction monitoring and gain a better understanding of the gambling behaviours of its patrons.

A voluntary or 'opt-in' system would be ineffective as criminals wishing to 'clean' or deal with the proceeds of crime and small business operators seeking to avoid income tax would recognise that a properly designed cashless gaming system would expose them to detection and accordingly they would 'opt-out'.

Risks associated with a hybrid model

A hybrid model, whereby both the player card and cash exist in the same system, will increase money laundering risks as it would introduce new vulnerabilities without reducing existing ones.

Under a hybrid model it would be possible to load a player card with cash and then transfer those funds to a bank account. In this scenario, while the load-up of cash may need to occur utilising an EGM inside a venue, no gaming would need to take place, and a review of the bank account receiving funds would not be able to distinguish between funds that were genuine winnings or a cash deposit.

In a hybrid model, the responsibility for monitoring this sort of activity would rest on the providers of the player card and venues would have no visibility of the transactions taking place. As the player card providers would have comparatively limited information relating to the patrons, they would not be well placed to know whether the amount of funds a patron has is unusual and therefore suspicious. It is also likely the player card providers would not have access to the individuals EGMs gaming data so would not be able to identify if genuine gaming took place.

The Inquiry's recommended system limits the amount of cash able to be loaded into a card (which must be linked to a player's identity) to \$1,000 each day consistent with the measures

in s 73A of the *Casino Control Act*.¹⁵ Given that the Inquiry identified examples of criminals placing up to \$10,000 per day into EGMs,¹⁶ the Inquiry considers that the limitations associated with this recommended system would minimise risk.

Impact of cashless gambling wallets on offending and suspicious behaviour

The introduction of cashless gambling and removal of cash from venues will minimise criminal behaviour associated with EGMs and improve data integrity. Most significantly, it will minimise the ability of individuals to both clean and spend the proceeds of crime via EGMs.

Some of the likely benefits include:

- reducing the value of the proceeds of crime spent in EGMs due to the need to place them into a bank account before they can be used. Making such a deposit would create a clear audit trail, that will improve the ability of law enforcement to identify and prosecute in cases where people claim that the proceeds of crime are the proceeds of gambling winnings;
- removing the need to refine notes (cash in/out) for the purpose of high-speed gambling;
- removing the ability to refine notes for money laundering purposes, including the exchange of counterfeit notes for tickets;
- reducing the incentive for cheque factoring (whether for legal or money laundering purposes) as a patron would need to deposit the funds into a bank account before they could be placed on a player card;
- reducing tax evasion due to the requirement to place money into a bank account before it can be transferred to the player card therefore removing the potential to claim money was the proceeds of gambling winnings; and
- ensuring that, once casinos in NSW introduce mandatory player cards, potential money laundering activity is not displaced from casinos into pubs and clubs by aligning player card requirements with casinos.

¹⁵ [Casino Legislation Amendment Act 2022 No 36](#), Sch 1[62] (not commenced).

¹⁶ See for example W25, W27.

2.4 Calculating how much dirty money is put through EGMs

Issues associated with the use of CMS data to detect suspicious gaming activity

A key system that has been used in NSW by L&GNSW to monitor EGM activity is the Central Monitoring System (CMS).

The CMS was primarily designed as a revenue collection tool; it was not designed or configured to collect information relating to money laundering. As a result, there were difficulties with using it to try to identify suspicious money laundering activity. These include:

- a lack of transaction detail which might reveal the context in which a transaction occurred;
- the lack of identifiers which means that considerable additional work needs to be undertaken to identify the person who conducted the relevant transaction(s); and
- an inability to trace a person moving from machine to machine (which may provide a legitimate explanation for observed behaviours).

The CMS data provided to the Inquiry was a starting point from which to undertake further investigations, but was not, itself, able to be used to identify money laundering.

In July 2022, venues received access to Suspicious Gaming Reports (SGRs) generated from the CMS. Initial feedback received by the Inquiry indicates that venues believe SGRs are returning significant levels of false positives. This concern tends to be supported by the experience of the Inquiry and is highly likely to be due to the attempts to adapt consolidated data used to determine gaming machine tax liabilities to detect suspicious gaming activity or money laundering.

Finding 3

Current detection systems successfully identify only some money laundering, more sophisticated money laundering cannot be detected.

The development of algorithms to detect suspicious gaming activity

In 2021, L&GNSW reviewed the information obtained from the CMS to determine whether it could be used to flag transactions that may be indicative of money laundering. This resulted in the development of series of algorithms aimed at identifying suspicious gaming activity (SGA) and the development of SGRs. The SGR flags potential SGAs which were then able to be reviewed by L&GNSW staff to identify the person or persons involved in the transactions.

Between May and July 2022, *The Daily Telegraph* published elements of a leaked L&GNSW report from November 2021. The leaked report alleged that there were multiple groups linked to organised crime gangs who were suspected to be laundering millions of dollars across 170

venues.¹⁷ The leaked report represented L&GNSW's understanding of its own data at a point in time and before investigations had been undertaken to confirm or refute the intelligence that was being put forward by L&GNSW.

The Inquiry conducted extensive investigations into the matters raised in the L&GNSW report. This included examination of material obtained from law enforcement and regulatory databases, analysis of records produced to the Inquiry, examination of CCTV footage, and the use of the NSWCC's hearing powers. The Inquiry's investigations ultimately did not support most of the findings of the L&GNSW report, instead finding that many of the people of interest identified by L&GNSW were in fact engaging in jackpot chasing. This activity is discussed later in this report in section 2.6.

The Inquiry established that the data collected by the CMS and the algorithm used by L&GNSW could not reliably identify money laundering and resulted in numerous false positives.

Venues often do not have access to the data required to monitor and respond to suspicious gambling activity due to the quality of EGM audit and associated reports. Government should design and implement a purpose-built system for ingesting and analysing gaming data so that it can more effectively identify and flag suspicious activity.

Developing more suitable data collection models, minimum data and data integrity standards for EGMs — including how that data is collected and analysed by L&GNSW — will improve the capacity of venues to identify and report suspected money laundering. It will also enhance the ability of law enforcement to prosecute alleged offending.

While the implementation of **Recommendation 1** will improve the data available, broader investment in improved data collection, quality, and integrity systems will further improve law enforcement's capabilities to combat money laundering.

Recommendation 2

Government, in consultation with industry and regulators, create a legislative or regulatory framework requiring certain standardised data be maintained for EGMs to better flag suspected money laundering.

¹⁷ Linda Silmalis, "[Explosive report details money laundering linked to crime groups at 178 NSW venues](#)," *The Daily Telegraph*, 28 May 2022.

Recommendation 3

Government engage with industry to:

- (a) identify ways that collection and analysis of EGM data could be enhanced for the purposes of money laundering identification at a venue level and to improve evidence available for prosecution;
- (b) explore technical and policy/process solutions to better utilise data collected by EGMs; and
- (c) identify ways of creating real-time alerts for money laundering flags.

Calculation by Inquiry's criminal intelligence assessment

The Inquiry was not able to develop a comprehensive method to calculate the precise value of proceeds of crime placed into EGMs in NSW. However, based on the available information, the Inquiry assesses it is likely that billions of dollars in criminal proceeds are turned over via EGMs each year.

As stated, approximately \$95 billion was gambled in EGMs in pubs and clubs in NSW in the 2020-21 financial year. For that same year, the Australian Institute of Criminology (AIC) estimated that the value of the disposable proceeds of crime generated by a high involvement of serious and organised crime for the whole country was \$53.7 billion.¹⁸ Of that, the AIC estimated that \$12.95 billion in disposable proceeds were generated through prohibited drug supply and illicit tobacco activity. While the Inquiry focused on these crime types as profit generating offences, the Inquiry is also aware of examples of large amounts of money generated through other types of serious criminal offending, such as fraud, being gambled via EGMs.

While NSW represents approximately 31.5% of the Australian population, based on the centrality of Sydney and NSW in the Australian criminal environment, the NSWCC has estimated the NSW proportion of the cost of serious and organised crime to be 40% or above. Based on that estimate, the value of disposable proceeds of crime in NSW would be approximately \$21.48 billion. The total value of money that is laundered through any means in NSW is impossible to quantify but is likely to be in the vicinity of \$20 billion.

Cleaning money via EGMs was not the preferred method of laundering for most organised criminals. Sophisticated criminals successfully launder their money using alternative methods and retain other amounts for spending, including gambling large amounts through EGMs. Due

¹⁸ Smith, R. G., & Hickman, A., (2022) [Estimating the costs of serious and organised crime in Australia, 2020-21, Australian Institute of Criminology](#), Statistical Report 38, p 51.

to the limitations in data and detection methods discussed in this report, there was insufficient data to calculate how much dirty money was *placed* into EGMs or in other words, to calculate what percentage of the likely \$20 billion in disposable proceeds of crime in NSW was disposed of into gaming machines. However, information collected during the Inquiry through witness interviews, analysis of investigation records, venue turnover and the available gaming data, indicates that billions of dollars in proceeds of crime were likely turned over. This includes initial proceeds of crime used and paid out as winnings that were then reused.

Finding 4

It was not possible to precisely quantify the proceeds of crime being laundered via EGMs in NSW, however the Inquiry's assessment of this figure is that billions of the \$95 billion EGM turnover for the 2020-21 financial year was likely the proceeds of crime.

2.5 The (in)effectiveness of laundering money via EGMs

The Inquiry estimates that close to \$20 billion of proceeds of crime is dealt with each year in NSW through some means. While the Inquiry found that a large amount of proceeds of crime are spent in EGMs each year, this is dwarfed by the value of money that is laundered using other methods.

There are several factors that influence how criminals launder money. These include; the sophistication of the criminal group, the value of the money to be laundered, the speed at which the money needs to be laundered, whether the value is to be spent in Australia or moved overseas, and the involvement of professional facilitators.

As explained, money laundering occurs on a spectrum but can be broadly categorised into two types of conduct: spending and cleaning. Spending can involve the use of cash for living expenses and real property improvements, the purchase of luxury goods, or the placing of proceeds of crime into an EGM. Recent seizures by NSWPF of luxury watches, jewellery,¹⁹ and vehicles²⁰ have demonstrated that this practice continues to be popular among criminals wanting to publicly display their wealth.

The more sophisticated 'cleaning' process may involve the transfer of value offshore via the informal value transfer system (IVTS), the use of a business or trade-based money laundering scheme, the establishment of complex trust or corporate structures, or dealing with cryptocurrency – and usually a combination of methods.

The simplest method of cleaning involves the purchase of assets, such as real property, in the name of a trusted third party (family member or associate). The most complex and effective methods rely on professional facilitation and can obscure the source of millions of dollars of dirty money in minutes. As will be outlined below, the spending or cleaning of money via an EGM is comparatively slow and ineffective.

Professional facilitators

Sophisticated, organised criminals who generate substantial wealth from their crimes rarely launder their own money but instead engage professional individuals or organisations to do it on their behalf. The higher the value being laundered and the more sophisticated the criminal group, the more likely they are to need to engage the services of a professional facilitator or money laundering syndicate. Investigations conducted by the NSWCC and its

¹⁹ For example, Caffery, C., [Luxury cars, jewellery, cash, guns and drugs worth \\$4.5 million seized in major operation](#), 7 News, 30 July 2022.

²⁰ For example, Hanrahan, J., [Ferraris and gold-plated Harley Davidson seized as Jean Wimmer arrested in Parramatta drug raid](#), Daily Telegraph, 25 March 2022.

partners have identified lawyers, accountants, financial advisors, and remittance agents knowingly providing services to organised crime groups to facilitate and conceal the organised crime groups' criminal activity.

One example of a sophisticated transnational professional money laundering syndicate is that led by Altaf Khanai that was disrupted following a multinational joint agency investigation in 2015.²¹ More recently, AFP Special Operation Ironside identified people who had been engaged by organised crime groups to launder money on their behalf including a man in his 20s alleged to have laundered more than \$4 million in a two year period for the Comanchero OMCG.²²

Recent amendments to the *Criminal Code Act 1995* (Cth)²³ and to Part 4AC of the *Crimes Act*²⁴ are designed to allow more effective prosecution of the most serious money laundering offences conducted by professionals who distance themselves from the profit generating offending. Most of the cleaning methods of money laundering set out below rely on an element of professional facilitation.

Informal value transfer schemes

Informal value transfer systems (IVTS) are an alternative to, and predate, modern banking systems. Under IVTS, value is transferred between jurisdictions using an off-set arrangement – there is no physical movement of cash between the jurisdictions.²⁵ Though IVTS has legitimate applications, criminal groups have also exploited IVTS structures to allow them to effectively transfer hundreds of millions of dollars in dirty cash in seconds, making the 'cleaned' value available to them in another jurisdiction. The IVTS process generally involves a representative of a criminal group delivering bulk cash to a representative of the money laundering network via a clandestine cash exchange before the equivalent value is made available overseas.

²¹ See for example, Schleibs, M., 8 July 2017, *Australian Intelligence Pinged Global Crime Boss*, The Australian, [Australian intelligence pinged global crime boss \(theaustralian.com.au\)](https://www.theaustralian.com.au); AFP, *Annual Report 2015-16*, [AFP Annual Report 2015-16 | Australian Federal Police](#).

²² See for example Mott, M., 21 September 2022, *Man in his 20s pleads not guilty to charges of laundering \$4m for the Comanchero motorcycle gang*, [Operation Ironside: Young man allegedly laundered \\$4m for bikies](#).

²³ *Crimes Legislation Amendment (Economic Disruption) Bill 2020*, [Second Reading Speech](#), 2 September 2020.

²⁴ Deputy Premier Toole, 21 September 2022, [World-leading legislation introduced to target organised crime](#).

²⁵ See R. McCusker. ["Underground Banking: Legitimate Remittance Network or Money Laundering System?"](#) In *Trends and Issues in Crime and Criminal Justice*. Canberra: Australian Institute of Criminology, 2005. 3 October 2022; D. Rees. ["Money laundering and terrorism financing risks posed by alternative remittance in Australia."](#) In *Research and Public Policy Series*. Canberra: Australian Institute of Criminology, 2010. ; and A. F. Cullen. ["Commission of Inquiry into Money Laundering in British Columbia: Final Report."](#) 5 August 2022.

Two parallel investigations conducted by law enforcement agencies in NSW in 2017 highlighted the scope and threat of criminal exploitation of IVTS.²⁶ Both identified professional facilitators and resulted in the arrests of controllers based in Vietnam who were directing criminal activities in NSW. In one of these investigations, the NSWCC and NSWPF seized over \$8 million in cash, while the movement of over \$100 million in cash was identified.²⁷

COVID-19 made this process of moving cash quickly more complex for criminal groups, resulting in bulk storage of cash²⁸ and in turn, the seizure of larger quantities of illegally generated cash by law enforcement. See for example:

- the seizure of \$32 million in cash in five separate operations by West Australian Police over a six-week period in late 2020 including a single seizure of more than \$13 million cash. It is believed that at least \$13 million of the cash was destined for NSW to be laundered;²⁹
- the seizure of \$7 million cash from under a concrete floor in June 2021 under Strike Force Wolara;³⁰ and
- the seizure of over \$8 million cash in January 2022 under Strike Force Trobriand.³¹

Laundering through trade and business

Trade based money laundering exploits legitimate trade mechanisms for criminal purposes. It can include, but is not limited to, the over or under invoicing of goods and services, payments for goods and services that were not received, and bartering.

Cash intensive businesses can be used as a form of domestic trade-based laundering. Where exploited for money laundering, cash intensive businesses mingle dirty money with legitimate money in the ordinary course of business. These businesses may also pay for their operating expenses in cash and make it appear as if money is paid for services that are never actually provided (false invoicing). Some criminal businesses utilise what is referred to as 'round

²⁶ Hamilton. "[Police smash open money laundering syndicate.](#)" In *The Daily Telegraph*, 24 January 2017. 7 October 2022, A. Benny-Morrison. "NSW ex-cop accused of advising organised criminals how to beat police detection." In *The Sydney Morning Herald*, 27 March 2017; AAP, 28 April 2018, *Four Charged over alleged money-laundering syndicate*, [Money laundering: Four charged in Sydney's west | Daily Telegraph](#).

²⁷ NSWCC, Annual Report 2016-17, p 23.

²⁸ NSWCC, Annual Report, 2020-21, p 27.

²⁹ Shepherd, B., 7 December 2020, [WA Police seize record cash haul of more than \\$13 million from truck in Coolgardie](#), ABC News.

³⁰ White D., 11 June 2021 [Man arrested trying to leave country after \\$7 million in cash seized](#), The Sydney Morning Herald.

³¹ See for example NSWCC, [Strike Force Trobriand Media Release](#), 13 January 2022.

robins' or 'loan backs' – which are schemes in which a person provides money to a business in return for being paid a salary that can then be used as evidence of legitimate income or in which the person provides money to an associate who then returns the money to them in the form of a 'loan' which is not expected to be repaid. This type of money laundering was referred to by a number of people with whom the NSWCC conducted hearings and interviews during the Inquiry as a more effective method than cleaning money through EGMs.

Trade based money laundering can also intersect with IVTS. An example of this in Australia involves the criminal exploitation of daigou networks used by people in China to buy goods such as baby formula and vitamins. One such network laundered an estimated \$59 million in 18-months and was able to move up to \$3 million in value a day.³²

Criminal misuse of trust and corporate structures

Trusts and corporate structures can be misused by criminals to conceal their beneficial ownership of assets making it challenging for the NSWCC and other proceeds of crime authorities to confiscate criminally derived proceeds. Some of these structures are highly complex and can include multiple layers of discretionary, unit, and bare trusts over which no single person has effective control and are near impossible to penetrate.

Cryptocurrency

There is evidence of an emerging trend of people involved in organised crime using cryptocurrencies to launder money. In August 2022, the AFP established a new unit to tackle this threat.³³ During 2021, the AFP investigated a scheme in which individuals were dumping tens of thousands of dollars into ATM terminals at night to facilitate cryptocurrency exchanges and then a transfer of the money offshore.³⁴ The use of cryptocurrencies has particularly been demonstrated in the seizure of crypto wallets in search warrants and the subsequent treatment of these assets in confiscation proceedings. In one matter during the 2020-21 reporting year, the NSWCC seized cryptocurrency that had an estimated realisable value of \$11.5 million at the time of forfeiture and was then sold for \$12.6 million which was deposited into the Confiscated Proceeds Account.

³² Rawsthorne, S., 11 September 2022, [How to wash \\$60m: Inside the shadowy world of money laundering](#) The Sydney Morning Herald.

³³ De Kretser, A., 5 September 2022, [Australian Federal police forms cryptocurrency unit to hit criminals](#), Australian Financial Review.

³⁴ [AFP targets criminals laundering dirty money | Australian Federal Police](#)

EGMs

Using EGMs to efficiently clean the value of proceeds of crime that are seen in high level organised crime enterprises is not possible.

A 2018 Canadian study found that it would take approximately 40 uninterrupted hours to load \$1 million cash into an EGM using a variety of denominations. Consistent with the Canadian study, the findings of the Inquiry show that it is possible to clean low values of the proceeds of crime through EGMs, but cleaning larger values (over \$5,000) via EGMs is time consuming and inefficient. The movement of \$1million of dirty cash via a cryptocurrency dealer can occur within seconds.

The Inquiry spoke to people who had been convicted for serious criminal offences and who were gambling large amounts of money via EGMs. These people said that using EGMs to launder money was both high risk and inefficient and that there were better methods to use. In particular, they stated that cleaning money via an EGM would not be effective due to the time it takes, the amount of money that would be lost, the risk that it would be monitored, and staff at the venue would be able to detect what was happening.

Although the Inquiry found evidence of 'cleaning' money via EGMs, the evidence showed EGMs were being used extensively for spending the proceeds of crime. In these circumstances, because the intent of the exercise was to gamble rather than to obtain clean money, the length of time being taken to place the money into an EGM was not a deterring factor. In some cases, these people said they had used the entirety of their profits from their illegal activities in EGMs. Others reported having become involved in drug trafficking in order to fund their EGM usage.

Some people who initially appeared to have been cleaning money via EGMs were, following further investigation, found to be cleaning via other methods while also spending the proceeds of crime in EGMs.

Case study 2.5-1

CS01 came to attention following allegations that they had laundered tens of millions of dollars, including at least \$1 million through clubs in NSW. CS01 was also linked to a syndicate involved in the illegal cultivation of cannabis. Investigations showed that CS01 was highly likely to be cleaning money, but this was through their association with an IVTS syndicate and involvement in cash dropping and note refinement at casinos. It was assessed that the money that CS01 was spending via EGMs was the remaining proceeds of their illegal activities.

Finding 5

Using EGMs to clean large quantities of dirty money is high risk and inefficient. Accordingly, while it is occurring, it is not widespread.

2.6 What could be mistaken for money laundering via EGMs?

The Inquiry investigated media reports of what appeared to be money laundering. After closer examination, the activities were shown to be either lawful or other types of criminal activity such as tax evasion.

These activities initially appeared to be money laundering because they use EGMs in similar ways to people who are attempting to 'clean' dirty money.

Tax evasion

A common activity that involves putting cash in and cashing out of an EGM without playing, but which does not involve dealing with the proceeds of crime is tax evasion.

The Inquiry received information that people involved in cash intensive businesses, including tradespeople, seek to be paid in cash and convert this via EGMs to avoid the relevant tax liability. Gambling winnings are generally not considered income for the purposes of taxation.³⁵

It was beyond the scope of the Inquiry to investigate the extent of tax evasion via EGMs; however the Inquiry considers it likely, based on the preliminary information available to it, that this kind of conduct is occurring.

Link chasing and jackpot chasing

Link chasing and progressive jackpot chasing can sometimes be mistaken for money laundering. Neither activity is against the law unless dirty cash is being used to fund it.

Link chasing relies on a knowledge and understanding of the mathematics associated with EGMs and how to maximise the chance of winning a linked jackpot. A linked jackpot arrangement exists where the odds associated with winning a jackpot are shared and consistent across multiple linked EGMs, meaning the more linked EGMs that a syndicate plays on, the higher their probability of winning. This requires an awareness of the rates at which the various types of jackpots increase in value and the point at which the different linked jackpots in venues will trigger. Professional link chasing groups often keep detailed records. Link chasing groups employ spotters to advise them of the status of linked jackpots at venues of interest and persons in the group may perform different roles to maximise the potential for a group to win the jackpot.

People involved in link chasing may also be involved in chasing progressive jackpots.

³⁵ Commissioner of Taxation, Taxation Ruling IT 2655, (1991).

A **progressive jackpot** is a jackpot that is due to trigger by a certain dollar value. As the jackpot value approaches the maximum value, it becomes more likely that it will trigger. However, like link chasing, people cashing progressive jackpots need to have a detailed understanding of the rates at which the jackpot accumulates and the ability to establish the odds of winning. This may include performing a cost benefit analysis to determine whether the person or group attempting to win the jackpot can afford to do so.

Media reports relating to this Inquiry were published in late November 2021 on the 60 Minutes program and in related newspapers. In summary, the reporting asserted that there is widespread money laundering by organised criminal entities occurring within pubs and clubs in NSW. The reporting included footage of alleged money laundering at a licensed venue.

The Inquiry tested the allegations and claims made in the 60 Minutes report using the methods outlined above. The Inquiry was able to discount a large portion of the allegations that were made; other allegations have been referred for further investigation.

In particular, the Inquiry investigated the four key groups identified as being involved in organised behaviour and which demonstrated money laundering indicators (particularly cash in/cash out with no or limited play). Reviews of CCTV footage of the groups demonstrated highly suspicious behaviour, including clear hierarchies, organised and directed activities, and money being handed out by a controller.

The investigations found no evidence of money laundering or dealing with the proceeds of crime associated with the groups in question. Rather, the evidence showed that they were involved in link and progressive jackpot chasing. The investigations further demonstrated that the groups were organised and acted in a professional manner. This included the employment of:

- spotters in venues who identify which linked machines or progressive jackpots were reaching the point at which they would be triggered and contact the various link chasing groups with which they are affiliated;
- blockers who occupy machines without playing to limit the potential for persons not in the group to win the jackpot; and
- feeders who place bets to drive the jackpot to its limit.

No evidence was found that the money used by these groups was the proceeds of crime. Rather it appears that existing winnings were being reinvested to produce further winnings. However, there is intelligence available to the Inquiry indicating that some members of these groups have criminal histories. It is therefore possible that some of these groups may have

historically used the proceeds of crime to fund jackpot chasing ventures. There was insufficient information available to the Inquiry to investigate this possibility further.

Case study 2.6-1: Link chasing group one

L&GNSW provided information that a group of up to 15 individuals were suspected to be engaging in money laundering activities via EGMs in NSW venues.

A review of CCTV footage obtained from V05 showed individuals behaving in ways which were suggestive of money laundering, including: sharing cash and tickets; engaging in 'cash-in, ticket-out' activity with little play; and seemingly performing roles (such as feeders or look-outs).

The NSWCC and L&GNSW undertook detailed profiles of the five individuals believed to hold high-level positions in the group. The resulting analysis showed that while some members had historical or familial connections to prohibited drug-related charges, none could be considered linked to or actively involved with established organised crime groups. The identified charges related to low-level offending unlikely to generate the amount of money suspected to have been used to fund the group's EGM activity. There was intelligence relating to suspected money laundering via EGMs, but as shown below, there are alternative explanations for the reported behaviours.

In order to better understand the nature of the group and their EGM activities, two individuals suspected to hold the highest-level positions within the group were summonsed to appear before the NSWCC.

W15 gave evidence that they gambled daily with their focus being to play roulette or chase linked EGM jackpots. W15 primarily attended V05, where they knew many other members (including almost all the individuals identified during the investigation into this group). W15 often talks with those people while they gamble but W15 only played the EGMs on their own. There is no evidence indicating that they are, or ever have been, part of an organised money laundering syndicate.

W16 and their partner regularly attend clubs around Sydney where they play EGMs and try to win linked jackpots. W16 and their partner often arrange for other people at the clubs to help them play the EGMs, to increase their chances of winning the jackpots. W16 explained that they wait for jackpots to reach a certain level, then they share their funds with their associates and give directions to them to all play simultaneously in an attempt to win the jackpot. There is no evidence that W16 is or ever has been, part of an organised money laundering syndicate.

The hearings elicited no evidence to conclude that the persons investigated comprised an organised criminal syndicate using EGMs to launder money.

Case study 2.6-2: Link chasing group two

L&GNSW provided information to the Inquiry that a group of up to 60 individuals were suspected to be engaging in money laundering activities via EGMs in NSW venues. L&GNSW estimated that the group had been in operation for at least eight years.

The NSWCC undertook detailed profiles of 12 individuals believed to hold high-level positions in the group. The resulting analysis showed that, while some members had historical or familial connections to prohibited drug-related charges, none could be considered linked to or actively involved with established organised crime groups. The identified charges related to low-level offending unlikely to generate the amount of money suspected to have been used to fund the group's EGM activity. There was intelligence relating to suspected money laundering via EGMs, but, as shown below and in the earlier case study, there are alternative explanations for the reported behaviours.

In order to better understand the nature of the group and their EGM activities, three individuals were summonsed to appear before the NSWCC. W18 gave evidence that their advanced mathematical skills drew them to gambling and that they apply their skills to identify and play advantages which, they believe, increase their likelihood of winning card games (poker) or EGM jackpots. There's no evidence indicating that W18 is, or ever has been, part of an organised money laundering syndicate.

W19 gave evidence that they and W20 make a living by travelling across Sydney to play linked jackpot EGMs. W19 detailed how they engaged people who frequent clubs to keep a lookout on certain linked EGMs and to advise them when a jackpot is getting close to its expected payout. W19 said that they and W20 give those people cash or tickets (generated using the 'cash-in, cash-out' methodology) to assist the group to win jackpots. Those people are paid around \$20 to \$50 for providing information about a jackpot. There is no evidence indicating that W19 is, or ever has been, part of an organised money laundering syndicate.

W20 gave evidence that they had been conducting what they described as 'advantage play' with EGMs for 40 to 50 hours per week for over 20 years. W20 presented as passionate and proud of what they described as their ability to identify and play an advantage to increase their likelihood of winning on EGMs. W20 detailed their understanding of the mathematics behind identifying when an EGM is about to reach jackpot and determining the optimum time to play that machine.

W20 also gave evidence about how they and W19 engage people to assist them, stating that they would pay up to 5% of the jackpot (if won) to those people. There is no evidence indicating that W20 is, or ever has been, part of an organised money laundering syndicate.

In the two case studies above, there are limited or no connections between the members of the link chasing groups and organised and/or serious crime. The links that were established indicated some of the lower members of the group had had involvement with illicit drugs in the past, but there was no evidence linking them to offending during the period under consideration.

In contrast, other groups contain individuals who have had links to very serious offences, including the importation of prohibited drugs. In some cases, the majority of the members of the groups have either been directly involved in such behaviour or have immediate links to persons involved in serious and organised crime. The Inquiry investigated two groups where links existed or where people with significant criminal histories were part of the group. There was no evidence linking their EGM related behaviour to criminal activity.

Case study 2.6-3: CS06

CS06 has a history of drug and gambling related activity, including multiple charges and convictions for drug possession. CS06 came to the attention of the Inquiry after being connected to a link chasing incident.

CS06 explained that they and their family members were “link chasers” and provided the Inquiry with a general explanation as to the nature of link chasing. CS06 explained that they, like many link chasers they knew, worked in a family group. The reason for working in family groups was a preference to play with people that they can trust, and to enable winnings to remain within the family. CS06 shared that some family groups do work in conjunction with other groups to win larger jackpots, but they mostly keep to their own family.

When asked about using EGMs to launder the proceeds of crime, CS06 stated categorically that they, and their family, only ever use their own money, and have never used proceeds of crime in EGMs. When asked if they have ever used other people’s money to gamble, CS06 stated bluntly that that would be a huge risk, and asked, “Why risk taking money if you don’t know where it’s come from?” CS06 explained that their family started chasing links with a small sum of money (less than \$10,000), and they have continued to play with the winnings they have made from those funds.

CS06 expressed the view that no one would try to launder funds via EGMs as you would always lose too much money, and because EGMs are labour intensive meaning that they were not an efficient method for laundering large sums of cash. In their experience, CS06 noted that those people flushing large sums of cash through roulette EGMs are more likely to be criminals, but added that those people are not trying to clean the money, rather they are “mad gamblers” and “they’re just gambling it all because it’s not real money to them”. CS06 said that in comparison, link chasers had to be disciplined, cannot have a gambling problem, and that “you can’t get emotional when chasing a link”.

Case study 2.6-4: W07

The Inquiry received information regarding suspicious behaviour associated with a group of people at a club in metropolitan Sydney, V01.

L&GNSW obtained CCTV footage of the suspicious incidents. This showed that members of the group were engaging in cash in/out behaviour, and that the group appeared to be operating under the direction of a single individual. That individual was known to the NSWCC due to suspected involvement in the importation of border-controlled drugs, and loan sharking activity.

The CCTV review showed a group member, W07, receiving cash from third parties who appeared to instruct W07 to put money into specific machines and then cash out without playing. A review of W07's player activity reports showed that their apparent gaming expenditure significantly exceeded their declared income. The financial analysis, combined with the CCTV, and investigations associated with the other group members, led the Inquiry to suspect that W07 and other group members may have been laundering money via EGMs. W07 was summonsed to appear before the NSWCC.

W07 denied being involved in money laundering, either individually or on behalf of others including the controller. W07 agreed they knew the other persons identified in this investigation.

W07 explained that they played EGMs using other people's money to assist those people to place multiple bets in different machines simultaneously. This was done in exchange for payment to W07 if the other person won. W07 said that they used their own player card in EGMs which other people were playing to increase the turnover recorded against their card. This allowed W07 to gain rewards from the club, primarily in the form of gift cards, which W07 used to fund living expenses.

W07 claimed that the purpose of the 'cash in cash out' behaviour seen on the CCTV footage was to use poker machines to convert smaller notes into \$100 notes, which were used to place higher-value bets more quickly on other machines, in this case roulette machines, which rotate through a game in around 30 seconds.

The investigation elicited insufficient evidence to conclude that W07 was using EGMs to launder money. Further, while W07 admitted to knowing the other individuals identified in this investigation, there was no evidence indicating that they were an organised criminal syndicate.

W07's behaviour in respect of playing with other people's money was consistent with W07 playing linked machines.

Rewards Programs and manipulation of transaction monitoring systems

One of the forms of transaction monitoring that occurs at venues with loyalty programs is the allocation of clients to different membership tiers. The membership tier to which a person is allocated then dictates the rewards that a person can receive.

The Inquiry found people deliberately attempting to manipulate the rewards programs of venues, to obtain a benefit in respect of a higher status tiered membership and to reduce the potential of coming to the venue's attention. This presents a false image of a patron's gambling.

Rewards programs – Impact of link chasers

Professional link chasers may elect not to swipe their membership cards to limit the amount of information a venue is able to gather regarding their playing history. This may also be to limit the potential of a venue seeking to suspend or cancel a membership; in many clubs, link and progressive jackpot chasing is a violation of the club rules. Evidence obtained by the Inquiry shows that some persons involved in such behaviours have had their memberships cancelled at various clubs. This may also be because of the success of link chasers versus ordinary patrons or because many of the behaviours of link chasing groups often have structured elements, including clear lines of control, which mimic traditional conceptions of money laundering and organised crime.

Failing or refusing to swipe a membership card, where such facilities are available, or allowing others to insert their membership card to claim the points affects the ability of a venue to analyse a patron's gambling transactions in line with transaction monitoring. This then creates a false image of the gambling associated with the patron, which does not reflect their true gambling history.

3. Legislative and regulatory mechanisms to address money laundering via EGMs

The Inquiry has analysed the key issues in the legal and regulatory environment at the intersection between money laundering activity, and EGMs in pubs and clubs to identify potential vulnerabilities within the regulations, and legislation governing gaming machines which could be exploited for the purpose of laundering.

Pubs and clubs in NSW with EGMs operate in a complex legal and regulatory environment. Legislation at both the NSW and Commonwealth level define the legal obligations of venues and determine how they provide services to members and the public. Many parts of this environment don't address money laundering.

3.1 NSW Legislation

Part 4AC of the Crimes Act 1900 (NSW)

It has been difficult to successfully prove money laundering offences (like the offence in s 193B of the *Crimes Act* of dealing with proceeds of crime knowingly or being reckless about whether it is proceeds of crime) because the prosecution must prove that the source of the property or value used, is the proceeds of a specific offence or class of offences. This high threshold was difficult to demonstrate in cases where a person engaged the services of professional money laundering groups or in cases where the person is alleged to be engaged in multiple kinds of offending.

In 2021, the *Criminal Code Act 1995* (Cth) was amended to introduce a proceeds of general crime offence to enable the legislation to respond to modern and emerging types of money laundering, and to overcome issues associated with the prosecution of professional money laundering groups.

On 13 October 2022, the NSW Parliament passed amendments to Part 4AC of the *Crimes Act* to, among other things, introduce the offence of dealing with the proceeds of general crime.³⁶ One of the goals of the amendments was to remove the requirement to prove that dirty money was linked to a specific offence,³⁷ while another was to overcome the practice of “strategic ignorance” where professional money launderers distanced themselves from the offending that generated the proceeds of crime.³⁸ Strategic ignorance means intentionally remaining unaware of the facts or circumstances to reduce or limit liability.

³⁶ *Crimes Amendment (Money Laundering) Act 2022* (NSW).

³⁷ *You Qing Chen v Director of Public Prosecutions* [2011] NSWCCA 205; *R v McKellar (No 3)*.

³⁸ NSW Government, Hansard: Legislative Assembly, 21 September 2022, (2022), p 6–7.

The recent amendments to Part 4AC will increase successful prosecutions of money laundering offences by obviating the need to prove specific linkages between original offences and later uses of the proceeds of those offences where it is obvious that those proceeds are from criminal offending. For instance, if a person who is unemployed or in a low-income job and who has a spouse that is a known OMCG member gives a stranger a shopping bag with \$100,000 in \$100 notes in it to mind or to spend, it would be objectively obvious to that person that the money is the proceeds of criminal offending, even if the person does not know it is the proceeds of a particular criminal offence or class of offence.

Noting the evidentiary barriers to successfully prosecuting money laundering offences, the Inquiry supports the recent amendments to the Crimes Act.

Finding 6

The October 2022 amendments to Part 4AC of the *Crimes Act 1900*, particularly the introduction of a ‘proceeds of general crime’ offence, will support more successful prosecutions of people dealing with proceeds of crime in licenced venues in NSW.

The gaming and liquor legislation in NSW

The “gaming and liquor legislation” in NSW means any of the following Acts (or specified parts of those Acts) and the regulations and other instruments made under them:³⁹

- *Gaming and Liquor Administration Act 2007 (GALA Act)*;
- *Casino Control Act 1992*;
- *Gaming Machines Act 2001 (GM Act)*;
- *Liquor Act 2007*;
- *Registered Clubs Act 1976 (RC Act)*;
- *Gaming Machine Tax Act 2001 (Part 4 and Sch. 1)*.

Criminality in pubs and clubs and the Gaming Machines Act

The *GM Act* does not create offences relating to money laundering or dealing with the proceeds of crime via EGMs. Indeed, there is no reference to “money laundering” in the *GM Act* or the *Gaming Machines Regulation*.

The objects of the *GM Act* include references to “[minimising] harm associated with the misuse and abuse of gambling activities”, “responsible conduct in relation to gambling”, and the “integrity of the gaming industry”. There is no specific reference to detecting and

³⁹ *Gaming and Liquor Administration Act 2007 (NSW) s 4.*

preventing crimes which may be facilitated by or associated with EGM use, such as money laundering or dealing with the proceeds of crime.

One of the recommendations made by the Bergin Report– and accepted by the NSW Government – was that s 4A of the *Casino Control Act* be amended to include an additional object of “ensuring that all licenced casinos prevent any money laundering activities within their casino operations”.

In view of the evidence cited earlier indicating that some pubs and clubs apparently pay scant regard to how EGMs in their venues are used, similar obligations should be placed on the operators of venues with EGMs. Though it was not within the scope of the Inquiry’s terms of reference, it is noted that there could be an additional positive impact on harm minimisation measures.

To ensure that no conflict arises with the *AML/CTF Act*, this could replicate the language of subsections 1.1(2)(c) and (d) of the *Gambling Regulation Act 2003* (Vic) which requires that EGMs and their management be kept “free from criminal influence and exploitation”.

Recommendation 4

The legislative and regulatory frameworks governing EGMs in NSW be amended to clarify that persons/entities with functions associated with EGMs must take steps to prevent money laundering.

Responsible conduct of gambling

It is a requirement for any club or hotel employee whose duties involve the conduct of EGM activities to complete an approved Responsible Conduct of Gaming (RCG) training course.⁴⁰

At present, RCG training courses focus on gambling safety and harm to raise awareness of problem gambling and addiction. Courses are not required to cover topics relating to money laundering or the AML/CTF legislation – however, separate training requirements do apply under that legislation.

A potential vulnerability relates to RCG holders, and the potential for staff within venues to facilitate money laundering, whether deliberately or recklessly. The Inquiry identified multiple examples of gaming attendants assisting people involved in organised crime to gamble large amounts of the proceeds of crime via EGMs.

The Inquiry conducted a data analysis exercise in respect of all current RCG holders in NSW. This exercise sought information regarding criminal histories from the NSWPF. The result of

⁴⁰ *Gaming Machines Act 2001* (NSW), Pt 4, Div. 3A; and *Gaming Machines Regulation 2019*, Pt 3, Div.5.

the data matching exercise showed that approximately 109 RCG holders out of 180,000 had non-driving related criminal convictions resulting in terms of imprisonment or an intensive corrections order. The Inquiry found 36 RCG holders had convictions assessed to be high risk which related to the supply of prohibited drugs, deception, dealing with proceeds of crime, and criminal group offences.

The Inquiry identified a number of people who would pose a risk if they were to continue to use their RCG.⁴¹ This included:

- CS25 is a habitual drug user who is believed to fund their addiction through the supply of prohibited drugs. CS25 has served multiple terms of imprisonment for drug supply and other offences and has been employed by licenced venues between charges;
- CS27 has multiple convictions for drug possession and supply, including terms of imprisonment. CS27 is known to work at a regional hotel that has a gaming room;
- CS29 has multiple convictions, including for drug supply offences, one of which resulted in a three-year term of imprisonment. Since 2019, CS29 is known to have worked at a regional club with a gaming room;
- CS30 has multiple convictions, including for drug offences, armed robbery, and possession of a prohibited weapon. CS30 was sentenced to nearly five-years' imprisonment for the robbery and weapons offences. CS30 is the subject of a firearms prohibition order; and
- CS31 is believed to be a member or an associate of an Australian-based OMCG. CS31 has convictions for the supply of prohibited drugs and dishonesty offences. This included terms of imprisonment.

Finding 7

While only a small number of RCG holders have significant criminal histories including convictions for a prohibited drug, fraud and other high-risk offences, there is no mechanism by which an RCG holder's certification can be cancelled.

Though only a small proportion of individuals have convictions that are likely to pose a criminal risk, the degree of risk posed by these people is such that it warrants the introduction of a mechanism to cancel or revoke an RCG endorsement. This is similar to the existing power of L&GNSW to revoke a responsible service of alcohol endorsement.

⁴¹ Not all RCG holders will continue to use their qualification after encounters with police.

Recommendation 5

Government introduce a mechanism that enables government agencies or venues to recommend the cancellation/revocation of an RCG certification; and a mechanism for the regulator to revoke an RCG certification in appropriate circumstances.

In submissions to the Inquiry, while there was industry support for the introduction of a national police check for RCG holders, particularly for gaming staff and management, concerns were raised regarding the impact of the introduction of such checks on the hospitality workforce supply.

There was general support for employee declarations that the potential employee has no connections with organised criminal groups or persons involved in serious crime. However, it was noted that what amounted to an association would be difficult to define and may penalise people who have criminal associations through family members.

There was broad support for disqualification based on membership of a declared criminal association.

While there is general support for the introduction of national police checks, association declarations, and disqualification based on membership of a declared criminal organisation, the data available shows that given the very small numbers, the administration of such schemes is not a proportionate response to the issue.

National Standard

Pursuant to s 62 of the *GM Act*⁴² the current approved technical standards for EGMs in pubs and clubs in NSW (and other participating jurisdictions) are the “*Australian/New Zealand Gaming Machine National Standard: Revision 11.1*” (the ‘*National Standard*’).⁴³

The *National Standard* provides guidance for the design and manufacture of EGMs, their software and related equipment to ensure that manufacturers meet legal requirements. Each participating jurisdiction may publish its own Appendix to the *National Standard* to indicate requirements which are additional, not required, or different in that jurisdiction. The *National Standard* set various limits and parameters for EGMs, including, among other things, the maximum and minimum return-to-player (RTP) ratios and load-up (credit) limits.

⁴² *Gaming Machines Act 2001* (NSW), s. 62.

⁴³ *Australian/New Zealand Gaming Machine National Standard*, (2022). Revision 11.1.

Centralised monitoring system

Every EGM that is kept in a pub or a club in NSW must be connected to an authorised CMS.⁴⁴ Part 9 of the *GM Act* contains various provisions relating to how the CMS operates, the requirements of venues in relation to the CMS, and the requirements of the CMS licensee. The Minister has the power to grant a CMS licence, provided they are satisfied the applicant “is a suitable person to be concerned in or associated with the management and operation of a CMS”.⁴⁵ At present, Maxgaming Pty Ltd, a subsidiary of Tabcorp Holdings Pty Ltd, holds an exclusive 15-year licence (to expire in 2032) to operate the CMS in NSW.

The Inquiry considered the data collected by the CMS (in particular, the SGRs provided by the CMS licensee to L&GNSW). The CMS gathers data in 15-minute increments regarding the turnover, profit, and loss in respect of each machine. This information is then forwarded through the CMS site controller (a locally installed computer) to the CMS central computer. This information is then used to assess a venue’s gaming machine tax liability and its CMS monitoring fee.⁴⁶ The CMS data collection system is a revenue collection tool and was not designed or configured to capture data that might identify money laundering.

Recommendation 3, which aims to improve the way EGM data is collected and used to identify money laundering will overcome many of the issues identified in this section.

⁴⁴ Gaming Machines Act 2001 (NSW), s. 133.

⁴⁵ Gaming Machines Act 2001 (NSW), ss. 136-136A.

⁴⁶ "[Centralised Monitoring System \(CMS\)](#)" accessed 27 May 2022.

3.2 Commonwealth AML/CTF Obligations

Pubs and clubs with EGMs in NSW are “reporting entities” under the *AML/CTF Act*.⁴⁷ This means that they have AML/CTF compliance and reporting obligations under the *AML/CTF Act* and *AML/CTF Rules* (together, the ‘AML/CTF legislation’).

Aim of the AML/CTF legislation

AUSTRAC is Australia’s AML/CTF regulator and financial intelligence unit, and is responsible for detecting, deterring, and disrupting criminal abuse of the Australian financial system to protect the Australian community from serious and organised crime. AUSTRAC’s regulation hardens regulated sectors against criminal exploitation, while its intelligence generated from reports submitted by reporting entities provides crucial information to national security, intelligence, law enforcement and revenue protection partners.

Venues licensed to operate EGMs must have AML/CTF processes and systems (under an AML/CTF program approved and overseen by the board and senior management) in place that allow them to effectively identify and mitigate the money laundering and terrorism financing (ML/TF) risks they face. They also have specific obligations relating to enrolment (and, in specific circumstances, registration) with AUSTRAC, customer due diligence, ongoing due diligence (including transaction monitoring and enhanced due diligence), record-keeping and transaction and suspicious matter reporting.

The obligations placed on individual pubs and clubs under the AML/CTF legislation differ depending on the types of designated services they provide and the number of EGM entitlements they hold (either individually or with other related reporting entities): venues with 16 or more EGMs have more obligations than those with 15 or fewer where they only provide specific designated services.⁴⁸ Regardless of the extent of the AML/CTF obligations each reporting entity venue is subject to, it must determine how it will meet its AML/CTF obligations, on the basis that reporting entities are best placed to know the unique risks associated with their customers, products, operating structures, and business environment.⁴⁹

The obligations of the two categories of venues licensed to operate EGMs are set out in the table that follows.

⁴⁷ See Table 3 “Gambling services” in s 6 of the *AML/CTF Act*.

⁴⁸ See Chapter 52 of the *AML/CTF Rules*.

⁴⁹ AUSTRAC, *Pubs and Clubs with Gaming Machines: Regulatory Guide*, (Commonwealth of Australia, 2021), p. 5.

AML/CTF obligations according to the number of EGM entitlements ⁵⁰	
15 or fewer EGMs	16 or more EGMs
<ul style="list-style-type: none"> • Enrol with AUSTRAC • Keep enrolment details up to date • Keep certain records • Submit suspicious matter reports 	<ul style="list-style-type: none"> • Keep certain records • Appoint a compliance officer • Conduct and maintain an AML/TF risk assessment • Adopt and maintain an AML/CTF program • Carry out customer due diligence (Know Your Customer) procedures • Implement and maintain ongoing customer due diligence • Undertake regular independent reviews of part A of the AML/CTF program • Submit suspicious matter reports • Submit threshold transaction reports • Submit annual compliance reports

AUSTRAC may issue venues licensed to operate EGMs with infringement notices for breaching these obligations.

The tipping off offence and the power to exclude patrons

Venues and their employees have obligations under the *AML/CTF Act* not to alert anyone that they are required to, or will submit, an SMR to AUSTRAC. The *AML/CTF Act* prohibits a reporting entity (including its employees) from disclosing any information about the report, except in certain limited circumstances. This includes any information from which it could be reasonably inferred that a SMR has been or is required to be submitted. This conduct is known as tipping off and is a criminal offence.

The tipping off offence has caused significant concern to venues licenced to operate EGMs in NSW, particularly clubs, due to the perceived tension with membership rights as set out in the various club constitutions. Where a club has or will submit a SMR and wishes to exclude or revoke the patron’s membership, the club must comply with the prohibition on tipping off, as well as any rights that club members have such as to provide reasons for the revocation of their membership or to respond to appeals of the club’s decision.

⁵⁰ AUSTRAC, Short., p 7–8.

Some venues have used the tipping off offence as a reason not to revoke membership or exclude a patron, and not to undertake customer due diligence and enhanced customer due diligence where a patron is engaging in suspicious activity, and an obligation to submit a SMR to AUSTRAC has arisen. The tipping off offence does not prevent either of these courses of action and AUSTRAC has provided guidance on how reporting entities can manage relationships with patrons without breaching the tipping off prohibition. More fundamentally, club constitutions should not be used to provide criminals with a shield against detection and reporting of suspicious activity that may involve money laundering.

The evidence that dealing with the proceeds of crime through EGMs is prevalent highlights the importance of venues undertaking appropriate, customer due diligence, and enhanced customer due diligence actions to identify, mitigate and manage money laundering risk. This can protect a venue from being misused for money laundering, a finding that they had breached their regulatory obligations under the *AML/CTF Act*, or a finding that they have been reckless to the fact that their customers, and by implication, the venues themselves, have been dealing with the proceeds of crime or property reasonably suspected to be the proceeds of crime.

Case study 3.2-1: V03

CS13 came to the attention of the Inquiry due to apparent involvement in note refining for the purposes of money laundering (likely for the storage or movement of bulk cash). When CS13's membership of V03 expired, V03 made the decision not to accept a request to renew the membership. While this did not prevent CS13 entering the premises as a guest of another member, it did significantly impede CS13's activities. As V03 did not cancel or otherwise revoke CS13's membership, CS13 had no right of appeal and was not able to see information regarding the reasons why V03 had decided not to allow their membership application.

Case study 3.2-2: V13

V13, a regional club that is part of G07, a conglomerate licensed to operate between 750 and 1,000 EGMs, took steps to exclude a patron from V13's gaming areas as they were unable or unwilling to provide information regarding the source of the funds with which they were gambling.

V13 used the provisions set out in s 92 of the *AML/CTF Act* to seek the information and then make a risk-based decision regarding whether to continue to provide a designated service (in this case gambling) or to restrict or limit the provision of the designated service.

The member did not challenge the venue's actions.

These cases illustrate how simple it is to exclude a patron suspected of money laundering without breaching their rights or committing the tipping off offence.

Finding 8

The tipping off offence under the AML/CTF Act is misunderstood by many venues as restricting their ability to exclude patrons or revoke their membership, leading to money launderers not being reported or not being excluded from venues.

There are non-voluntary exclusion and banning powers in both the *Liquor Act 2007* (NSW) and the *Casino Control Act*. The Inquiry sought submissions regarding the development of an exclusion regime for pubs and clubs. Any exclusion regime would work in conjunction with the existing capacity of venues to exclude patrons based on behaviour.

The submissions received by the Inquiry were supportive of legislative change to enable persons to be excluded or banned from venues on suspicion of money laundering grounds. The submissions did raise concerns regarding any exclusion mechanism. These concerns primarily related to privacy concerns if there was a centralised register of banned persons and to issues of procedural fairness.

There was general agreement that the Commissioner of Police should have the power to make banning or exclusion orders, although several submissions noted that the Commissioner of the ILGA should also have the power. Multiple submissions recommended that there should be a centralised register administered by law enforcement to ensure the efficacy of any exclusion.

Both ClubsNSW and the AHA submitted that it was not practical or logical for licensees or staff to have exclusion powers on the grounds that they risk breaching the tipping off offence, and lack the resources and access to information to make those decisions. Pubs and clubs have existing mechanisms to exclude patrons (including common law rights) which can be exercised without breaching the tipping off offence. The Inquiry also notes that the pubs and clubs are uniquely placed to provide information that could result in a patron receiving an exclusion order.

Leagues Club Australia suggested that clubs should have a clear right to exclude people regardless of any perceived operation of the tipping off offence.

The AHA, BetSafe, ClubsNSW, and Leagues Clubs Australia all submitted that bans/exclusions should apply across the whole venue. ClubsNSW extended this and submitted that bans should be State-wide to limit the opportunity to move between venues (displacement).

Leagues Clubs Australia noted that the Commissioner of Police or the regulator should be able to determine from which venues a person should be excluded. A large hotel group supported

the idea of exclusions from gaming rooms only, with the option of broader bans at the venue's discretion.

Although there are common law rights available to any property owner to exclude people, there is no explicit statutory power for licenced venues to exclude patrons (compared, for example, with the exclusion powers set out in Part 5 of the *Casino Control Act*). Clubs can build conditions of entry, and conditions for remaining in the clubs into their constitution. A common example in which venues already exercise these rights is in relation to inebriated patrons abusing other patrons.

Enacting a clear statutory mechanism to exclude patrons will enhance the capacity of law enforcement and licenced venues to limit access of patrons suspected to be involved in money laundering or other serious offences to licenced premises. This will also reduce perceived tension in respect of the tipping off offence.

Recommendation 6

Government engage with industry and regulators to create a legislative or regulatory mechanism to support the exclusion of persons suspected of dealing with proceeds of crime from venues with EGMs, supplementing the existing rights of venues to exclude patrons from their premises.

Implications of AML/CTF non-compliance

Weak AML/CTF compliance can leave a venue vulnerable to misuse for money laundering.

While AML/CTF non-compliance is a serious issue, it does not necessarily mean that the reporting entity is involved in money laundering, including dealing with the proceeds of crime, or organised crime. Rather it may mean that the reporting entity has not adequately considered the money laundering risks present in its operating environment, has not taken steps to address these risks and/or are not operating in accordance with best practice principles.

A robust risk assessment and AML/CTF program will not be effective to mitigate the money laundering risks a venue faces if the reporting entity does not take steps to ensure that staff and the board members implement, follow, and update the processes and procedures under the AML/CTF program, including creating a culture of regulatory compliance.

Venues with 16 or more EGMs, or those who are providing one or more designated services which are not specified in Chapter 52 of the AML/CTF Rules, must have an AML/CTF program specifying how they comply with the AML/CTF legislation and how the venue identifies, mitigates, and manages the money laundering risk of its products. The AML/CTF program

must be appropriate to the level of risk that the business or organisation may reasonably face.⁵¹

The Inquiry reviewed more than 40 AML/CTF programs associated with pubs and clubs. The Inquiry focused on AML/CTF programs associated with clubs due to the proportion that were required to have full AML/CTF programs as they had 16 or more EGMs.

The Inquiry found that the quality and detail associated with the AML/CTF programs varied significantly dependent on the provider that the venue had used. One venue provided information that they had developed their AML/CTF program themselves using the guidance provided by AUSTRAC. AML/CTF programs seen by the Inquiry included 'ready-made' programs that did not appear to be customised to the risks associated with the particular venue, through to programs that included detailed risk assessments, mitigation strategies, and policies and procedures setting out the Board's expectations around AML/CTF issues and how they should be managed.

A number of the programs reviewed appeared to be almost identical with changes relating to the name and the address of the venue. These programs noted that the venue would need to undertake customisation work to ensure that they were appropriate to the risks associated with the venues. As noted below, a proportion of the venues lack the detailed knowledge of ML/TF risks and mitigation strategies to undertake this work themselves.

[ClubsNSW board paper](#)

Claims around a culture of AML/CTF non-compliance within registered clubs, particularly those raised in a May 2019 Clubs NSW board paper, contributed to the establishment of the Inquiry. In particular, media coverage gave prominence to a claim that only 5-10% of clubs were AML/CTF compliant and that the Board of ClubsNSW was aware of this and had failed to take appropriate action. This claim was based on the low compliance rate having been reported to the Board in its May 2019 meeting.

The board paper, which related to ways to enhance ClubsNSW's ClubSAFE program and increase uptake of the service, noted that there were challenges facing the program and AML/CTF compliance in the sector. Specifically, the board paper stated:

Current levels of AML/CTF compliance are at best at 5-10% for the approximately 770 clubs in NSW that are full reporting entities (more than 15 EGMs) under AML/CTF legislation. This is at a time where the regulator (AUSTRAC) have [sic] commenced taking a more proactive

⁵¹ "[AML/CTF programs overview](#)" accessed 1 September 2022.

approach which is expected to mean more enforcement within the pubs and clubs industry. This adds to existing regulatory and reputational risks for the industry.⁵²

While attention has focused on the statement that AML/CTF compliance rates were “at best at 5-10%” for clubs that were full reporting entities, the board paper also claimed that clubs which adopted ClubSAFE Standard (rather than ClubSAFE Premium) were “more problematic as many neither understand AML/CTF compliance or are avoiding meeting the requirements.”⁵³

The Inquiry undertook extensive investigations into the claims around AML/CTF non-compliance set out in the May 2019 board paper. A number of former and current employees of ClubsNSW were summonsed to give evidence to contextualise the allegations of non-compliance in the sector and to answer questions relevant to the Inquiry’s investigations into money laundering and the specific issues within the club sector. To protect the safety and reputation of those witnesses, who may be easily identified, their evidence remains mostly subject to non-publication directions.

In summary, the Inquiry collected evidence indicating that the rate of non-compliance had likely been significantly overestimated and the methodology used to calculate the 5-10% figure was not sound – based, as it was, largely on the subjective assessment that if a venue was using a particular AML/CTF training provider, they were not compliant.

The Inquiry also found that there were variable levels of knowledge around money laundering and compliance obligations within clubs. Some clubs were not aware of money laundering methods and/or had not considered their own risk factors when developing AML/CTF compliance programs. It appears that the board paper triggered ClubsNSW to revise and expand their engagement with and education to ClubSAFE members around AML/CTF compliance issues.

While AML/CTF non-compliance poses serious risk, it is not necessarily indicative of money laundering taking place.

ClubsNSW submitted to the Inquiry that EGMs in clubs presented low-to-moderate risk in comparison to gambling operators such as casinos and online wagering. ClubsNSW further submitted that some of the operating processes of clubs, such as mandatory sign in, extensive CCTV, the membership and not-for profit model, and document verification, reduced some of the risks associated with the venues.

⁵² ClubsNSW, *ClubSAFE Enhancements* (27 May 2018). p 2.

⁵³ ClubsNSW, *ClubSAFE Enhancements*. p 3.

Finding 9

Not all venues with a legal requirement to do so have an AML/CTF program and risk assessment tailored to their circumstances.

AML/CTF knowledge and education

The Inquiry found that the level of awareness of money laundering risks and AML/CTF obligations within venues varied, both in respect of RCG holders and board members. A lack of investment in education and training around these issues, including what is money laundering and what are some of the common money laundering methods, may be impacting on the capacity of the venues to identify, respond to, and report suspicious behaviour.

All reporting entities under the *AML/CTF Act* have obligations to provide compulsory ML/TF risk awareness training for employees. This training must ensure that employees understand the type of risk the reporting entity faces, the reporting entity's obligations under the *AML/CTF Act* and how the reporting entity meets those obligations. Reporting entities should regularly review training programs to make sure it covers any changes to the level of risk faced.

The program for AML/CTF risk awareness training must be a written program that shows how employees are trained on an ongoing basis on ML/TF risk, AML/CTF obligations and implementation of processes and procedures to comply with the AML/CTF obligations. It also must be run at appropriate intervals according to the level of ML/TF risk the reporting entity faces and may consider which employees need training, such as new employees, employees being promoted or transferred, senior managers, consultants and new directors, and what the training intends to achieve.⁵⁴

The Inquiry sought information regarding the level of internal money laundering risk awareness and AML/CTF obligations training undertaken within the sector. Submissions made to the Inquiry were in broad agreement that the level of awareness and understanding within the sector, both at the board level and at the level of AML/CTF compliance officers, were inadequate. This is likely to be due to the differences within the sector, particularly relating to size and resourcing, with some venues delivering a higher level of training than others. While there was concern from the sector about levels of AML/CTF education and awareness, some submissions to the Inquiry highlighted steps taken to address these issues. For example, one large hotel group requires all front-line staff to undertake online AML/CTF training upon

⁵⁴ *Anti-Money Laundering and Counter-Terrorism Funding Rules Instrument 2007*, Pt 8.2.

commencement with a refresher every two years. ClubsNSW provides online training for staff and board members if the club is a member of ClubSAFE.

Finding 10

Many venue staff lack knowledge and training on AML/CTF issues. While industry stakeholders expressed a willingness to comply with AML/CTF obligations, the training these venues deliver to employees and board members does not always provide an adequate understanding and awareness of money laundering, or the associated AML/CTF obligations.

Linked to AML/CTF education is a more general awareness of ML/TF issues and methods. The AML/CTF compliance officers at some venues appear to have a detailed awareness and understanding of the money laundering risks of their operations and the associated AML/CTF obligations. This could be demonstrated through the relatively sophisticated policies and procedures that those venues have in place and the steps that they undertook when they identified potentially suspicious behaviour. In other cases, the level of awareness and understanding was significantly less.

The Inquiry received information which indicated that boards at larger clubs understood the money laundering risks that they faced, but that smaller venues, particularly those run by volunteer boards, had a more limited understanding. The difference in AML/CTF awareness can be seen in the case study below.

AUSTRAC and other bodies provide a range of support to assist venues to comply with their AML/CTF obligations. AUSTRAC undertook significant educational uplift work with pubs and clubs over the 2021/22 financial year. AUSTRAC conducted 77 education visits covering 162 reporting entities in NSW and presented to industry associations and their members. This work has resulted in positive changes in reporting entities' behaviours, including increased reporting to AUSTRAC. AUSTRAC issued a dedicated regulatory guide for pubs and clubs in late 2021 and other materials, including posters and fact sheets, in 2019 and 2020. These specific activities build on AUSTRAC's regular outreach and engagement with the sector.

Case study 3.2-3: AML/CTF officers

During the Inquiry questions arose regarding how the day-to-day AML/CTF monitoring occurs in pubs and clubs with EGMs and how those reporting entities approach their obligations under the *AML/CTF Act*.

- W21 is employed as the AML/CTF Compliance Officer for a corporate group, G01, which owns several licensed venues across Sydney. The venues together hold between 1,000 and 1,500 EGM entitlements.

- W21 said that an external provider produced the AML/CTF programs and training manuals for venues within the corporate group. W21 said they were responsible for updating the AML/CTF training manuals; and that training for gaming staff was delivered by the external provider and the group's HR department. W21 stated that each venue within the corporate group had a manager who would inform W21 of suspicious matters and report those matters to AUSTRAC as required. W21 said that it was not uncommon to see suspicious activity in the venues that they oversaw.
- W21 said that, in their opinion, the software associated with the EGMs at the venues they oversaw did not sufficiently identify money laundering activity or capture information which had been requested by law enforcement agencies. W21 gave evidence that they believe clubs in the group would have problems with banning customers on the basis of suspicious conduct.

W24 is the AML/CTF Compliance Officer of a hotel in the inner suburbs of Sydney. The venue holds between 20 and 25 EGM entitlements.

W24 wrote the hotel's AML/CTF training documents independently utilising AUSTRAC information found online. W24 said they worked closely with all gaming staff at the hotel to train them on their AML/CTF obligations.

W24 confirmed that they were responsible for investigating and reporting issues to AUSTRAC, however, W24 had never submitted an SMR as they had never formed a suspicion that money laundering was occurring in the hotel.

W24 gave evidence about an investigation that the hotel undertook in 2021 relating to a patron who won a large number of jackpots and repeatedly asked to be paid out via cheques for amounts below \$5,000. The hotel performed enhanced customer due diligence on the patron, which revealed that the individual appeared to be a gambling addict. When questioned by staff, the patron had explained that they wanted their gaming credits to be paid by cheque not cash to reduce their gambling expenditure, because it takes time for cheques to clear.

The Inquiry sought feedback about the education needs of venues relating to the awareness of ML/TF risk and AML/CTF obligations. The responses were supportive of enhanced education but there was debate regarding the form that should take, how it should be delivered, and how NSW and Commonwealth requirements might intersect. Almost all respondents, including ClubsNSW supported enhanced education but noted that it should not be delivered through the existing RCG mechanisms. Some respondents, such as the Alliance for Gambling Reform, expressed concern that incorporating education into the existing RCG course would be detrimental as it would come at the expense of RCG education.

BetSafe noted that AML/CTF training should be specific to the procedures of each venue. While the Inquiry agrees that such education should be tailored where possible, the Inquiry also sees the value of more general education around money laundering risks and emphasising to staff on the gambling floor that they should report to their AML/CTF compliance officer anything that they see that does not seem right. BetSafe also recommended that L&GNSW staff and licensing inspectors routinely examine AML/CTF training records when undertaking inspections as this would remind venues of their obligation to provide this education.

Recommendation 7

Government, in consultation with industry, update education requirements to include education on money laundering and increase the frequency of the training provided to venues from internal and external sources to support venues in discharging their obligations under the *AML/CTF Act*.

Recommendation 8

Government work with industry to build the sector's investment in AML/CTF training and education, and secure support for training from external sources.

3.3 Regulatory settings for EGMs in pubs and clubs

NSW has approximately one EGM for every 94 people,⁵⁵ with 86,747 EGMs in use across the state.⁵⁶

As at the end of June 2022, groups licenced to operate three or more clubs held approximately 29% of club-based gaming machine entitlements and operated 28.6% of club-based EGMs. Several conglomerates are licensed to operate more than 1,000 EGMs. One conglomerate is licensed to operate 1,454 gaming machine entitlements and 1,193 EGMs in operation across its five venues⁵⁷.

The Inquiry considered the risk factors associated with larger clubs and conglomerates with high numbers of EGMs, and whether those clubs should be subject to additional regulatory requirements under the *Casino Control Act*. While venues with 16 or more EGMs already have additional compliance obligations under the AML/CTF legislation, it is reasonable to expect that there would be different levels of risk between a venue with 16 EGMs and a conglomerate with over a thousand.

A venue containing a larger number of EGMs is capable of consuming larger quantities of cash and by inference, larger quantities of proceeds of crime. The Inquiry interviewed subject matter experts including compliance staff from both large and small venues and peak bodies, and analysed gaming data from venues of all sizes. The Inquiry gathered no evidence to suggest that clubs with very large numbers of EGMs posed an exponentially higher risk. Many of the money laundering risk factors associated with casinos articulated by the Bergin Report⁵⁸ and the Bell Report⁵⁹ related to methods other than EGMs, for example, junkets, which are unavailable at clubs.

The Inquiry recommends that certain requirements under the *Casino Control Act* should be replicated in the club environment, in particular cashless gaming (see **Recommendation 1**), however, further exploration of the issue of regulation of clubs by the *Casino Control Act*, would extend beyond the terms of reference of this Inquiry but may be something that Government may wish to explore.

⁵⁵ Based on a population figure of 8,172,500 residents as at the December 2020, "[Key facts about NSW](#)" accessed 30 May 2022.

⁵⁶ Liquor and Gaming NSW, Gaming Venues Details (2022).

⁵⁷ Liquor and Gaming NSW, Premises List (2022) and Liquor License Data (2022).

⁵⁸ Report of the inquiry under s. 143 of the *Casino control Act* undertaken by the Hon P A Bergin SC delivered in February 2021.

⁵⁹ Report of the inquiry under s. 143 of the *Casino Control Act* undertaken by A Bell SC delivered in August 2022.

Load-up limits

Load-up limits are limits on the amount of cash that can be loaded into an EGM at any one time. The higher the load-up limit, the more money can be laundered at a time. The maximum load-up limit in any EGM in pubs and clubs is \$10,000.

NSW has the highest load-up limits associated with EGMs in Australia. While the load-up limit for EGMs in NSW is set at \$5,000, this only relates to EGMs manufactured after the current *National Standard* came into effect and only relates to EGMs operating from pubs and clubs.

L&GNSW estimates that:

- 22% of EGMs in NSW have load-up limits of \$5,000,
- 56% have a load-up limit of \$7,500, and
- 22% have a load-up limit of \$10,000.⁶⁰

EGMs with a load-up limit of \$10,000 have been purchased under the 1998 licensing conditions. In NSW, all EGMs in pubs and clubs which were purchased after 1 May 2020 had their load-up limit reduced to \$5,000.⁶¹ Each EGM must be updated manually which is a time consuming and expensive process. This means that outside a legislated requirement, there is no incentive for pubs and clubs to update their EGMs.

Load-up limits are a money laundering vulnerability because they allow for \$5,000, \$7,500, or \$10,000 in cash to go into an EGM at any one time. This makes money laundering more efficient, because higher values can be laundered in a short time period. The shorter time period means less opportunity for money laundering to be detected and reported by the venues.

The Inquiry sought submissions regarding changing the load-up limit in NSW. The responses from industry and gambling harm groups endorsed a reduction in the load-up limit, although there was disagreement regarding what that limit should be. Only two submissions did not support a reduction in the load-up limit: BetSafe did not support the proposal and ClubsNSW indicated that further information was required regarding any proposal before they could provide an informed answer.

The proposed limits ranged between \$20 and \$5,000. The most consistent value put forward was \$1,000 to bring the limit into line with Victoria.

⁶⁰ Liquor & Gaming NSW response to Inquiry Issues Papers 1 & 2, p 7.

⁶¹ Independent Liquor and Gaming Authority NSW, Approved NSW Technical Standards: 'GM Banknote Acceptor Limit' Change, (2019).

A number of the submissions highlighted the costs associated with implementing a change to the load-up limits.

L&GNSW has been gradually reducing the cash input limit from \$10,000 in 2015 to \$5,000 currently. However, these changes have not been grandfathered and have only applied to new gaming machines entering the market. To have a measurable impact on money laundering it would be important to ensure that any reduction in the cash input limit is applied to all EGMs currently installed in NSW.

If it is only introduced to a proportion of EGMs in a venue, players wishing to launder funds could be expected to avoid the machines with lower limits. However, it should be noted that there are technical limitations on older machines and cost barriers to implementation. This is especially the case if the reduced limit is to be imposed on all EGMs, not just new ones.

ClubsNSW indicated that the costs associated with a change to the load-up limits would be “prohibitive” for some venues, that the government should assist if the measure was introduced, and that clubs should no longer have AML/CTF obligations.

Rather than reducing the load-up limit, BetSafe proposed that the onus move to a law enforcement context so that a person who claims cash in their possession is EGM winnings should be required to prove the legitimacy of their initial money and gambling activities.

Due to grandfathering provisions, 78% of EGMs in NSW have limits of \$7,500 or \$10,000. In comparison, the limit in Victoria and the Northern Territory is \$1,000, and the limit in Queensland is \$100. The ACT currently has a limit of \$5,000 but is seeking to reduce that to \$100.

There is evidence that some people travel into NSW purely to gamble. It is unclear whether this is due to the higher load-up limits in NSW or whether it is reflective of broader patterns associated with border communities. The Inquiry analysed membership and high roller data from venues on the Queensland and Victorian borders. The analysis showed that the situation differed significantly between the areas with approximately 33% of members of NSW clubs on the Queensland border and 75% of members of NSW clubs on the Victorian border living interstate. Similar proportions were seen in respect of high rollers. It is possible that the lower proportion of Queensland-based patrons was due to the presence of the casino on the Gold Coast, but this cannot be confirmed. Changes to the regulation of EGMs in NSW may see changes in the movement of patrons from NSW into other states or in the number of people travelling into NSW to gamble.

TABLE 2: AUSTRALIAN EGM LOAD-UP LIMITS

State	Load-up limit February 2022	Venues in which limit applies
NSW	\$5,000	Pubs and clubs
Victoria	\$1,000	Pubs and clubs
Queensland	\$100	Pubs and clubs
ACT ⁶²	\$5,000	Pubs, clubs, and casinos
South Australia	\$99.99	Pubs, clubs, and casinos
Western Australia	N/A	N/A
Tasmania*	\$500	Casinos
Northern Territory	\$1,000	Pubs, clubs, and casinos

*EGMs in Tasmanian pubs and clubs do not accept cash.

Finding 11

NSW has the highest load-up limits associated with EGMs in Australia. This represents a money laundering vulnerability because larger amounts of dirty money can be loaded into an EGM.

The recommended introduction of a cashless gaming system would minimise EGM related money laundering within pubs and clubs, including those associated with currently high load-up limits in NSW.

In the event that there is a delay in the introduction of mandatory cashless gaming (see **Recommendation 1**), the Inquiry would recommend the reduction of the EGM load-up limits in NSW, consistent with neighbouring states. A reduction in load-up limits would reduce the capacity of people to deal with the proceeds of crime via EGMs and would also assist with harm minimisation.

Data from EGMs

The Inquiry received 14 submissions that either directly related to the use of data that could be obtained from EGMs or which touched on the point as one element of the submission. In addition, a number of organisations with which the Inquiry consulted expressed frustration or discontent with the data and reports they were able to access in respect of their EGMs. One stakeholder expressed concern regarding the cost of obtaining customised reports from their EGM providers and noted that the standard reports did not meet their needs.

⁶² Proposed to be reduced to \$100. [ACT Government: Justice and Community Safety Directorate, Discussion Paper: Lowering bet and credit limits for electronic gaming machines](#)

Each EGM captures large amounts of data. This includes, but is not limited to:

- the time and date of each gaming event;
- the type and value of the notes loaded into the EGM;
- the details of any ticket placed into the EGM;
- the details of any ticket produced by the EGM;
- whether the customer inserted a membership card into the EGM;
- the membership number associated with any membership card used in the EGM;
- reward points accumulated by a customer;
- the type and value of notes dispensed by the EGM;
- the bets made by the customer; and
- the turnover.

Venues can use the data captured by their EGMs to undertake transaction monitoring, assess the reward status of a member, and to generate EGM audit reports. However, it is unclear whether venues leverage the full benefits associated with the data captured by their EGMs.

The Inquiry reviewed multiple EGM audit reports. The review of the reports showed a great deal of variance between the information that was being accessed by different venues. Some reports provided a large amount of detail that meant that it was possible to gain an understanding of the transactions that occurred and the relationship between different transactions and different EGMs.

For example, in the case of V02, the data provided enabled investigators and analysts to identify a POI, identify the number and types of notes that were inserted into a machine, follow the POI from machine to machine, identify the relationships between certain transactions, and determine whether the POI had obtained a ticket and then used it elsewhere. This evidence assisted in demonstrating that the POI was involved in suspicious gaming activities. By contrast, audit reports obtained from G01 reflected the consolidated data provided to the CMS and could not be used to assess gambling transactions in order to identify potential money laundering.

Finding 12

Some EGM audit reports and player gambling histories lack the detail needed to identify suspicious behaviour.

Acknowledging the capacity of POIs to manipulate some of the data to present a false image in respect of their player profile, the data that can be generated by an EGM represents a valuable information source that could be used by law enforcement, regulators, and venues to identify and respond to suspicious gaming transactions and trends. Better use of this data

would be in line with the NSW government's aim to implement improved digital capabilities (see **Recommendation 3**).

EGM Tickets

EGMs in NSW can accept EGM tickets. The *Gaming Machines Regulation 2019* (NSW) prescribes the information that must be printed on a ticket issued by a pub or club.⁶³ Tickets must be clearly printed and contain the following information:

- the value of accumulated credits not otherwise redeemed in the course of play;
- the unique identification number of the gaming machine ticket;
- the name of the hotel or registered club issuing the ticket; and
- a notice regarding assistance for problem gambling.

Tickets are used to redeem gambling winnings.

The Inquiry sought feedback on potential changes to tickets. The responses to the questions raised were mixed with one of the questions frequently raised relating to how implementation could be achieved.

The Gaming Technologies Association noted that there are issues of practicality in respect of identifying patrons (which goes to the anonymity of tickets being a vulnerability) and that ticket printers in existing EGMs could not be retrofitted due to hardware and firmware issues. Both the AHA and ClubsNSW raised concerns around the implementation and the impact on the venues, including the associated costs.

L&GNSW indicated that these changes are not feasible under the current gaming machine ticket-in ticket-out framework. Tickets record the details of the credits left on a machine, but it does not track the play of a person. A player may operate a machine for hours, inserting money into the machine multiple times during that play. The gaming machine has no way of knowing if it is the same player undertaking these transactions or if the difference between the input of cash and the extraction of a cash amount is due to money laundering or legitimate game play.

To track the value of bets placed, money won/lost, and other similar measures, significant enhancements would need to be made to both the ticketing framework and gaming machine subsidiary equipment currently installed in gaming machines across the State. This would have significant cost implications.

⁶³ Part 7 *Gaming Machine Regulation*.

The AHA, whose members face a different operating context than the clubs, noted that they believed that introducing a requirement for patrons to identify themselves before being able to cash a ticket would:

- create potential privacy issues, and
- require additional cash to be held on venue with potential work health and safety impacts related to increased armed hold-ups.

The AHA told the Inquiry that they had undertaken research into armed hold-ups at pubs. This research showed that the number of armed hold-ups had reduced following the introduction of tickets and cash redemption terminals. The AHA suggested that in order to prevent tickets being used to claim that cash in the possession of a person was the proceeds of gambling, a valueless ticketing system be introduced. The Inquiry notes that this may have some benefit, but would also face the implementation issues associated with hardware and firmware.

BetSafe suggested that any changes to tickets be made through the *National Standard* and existing EGMs be exempt due to the implementation issues. ClubsNSW recommended further consultation before any recommendations were made regarding tickets.

By contrast, the Gambling Impact Society supported changes to tickets and suggested that by failing to disclose how much money had been put in or lost, patrons were not aware of how much they had lost, which may be contrary to consumer law relating to receipted money exchanges. The Inquiry found that many of the people who were dealing with the proceeds of crime were not aware of the extent of their gambling.

The Alliance for Gambling Reform suggested that the issues associated with the anonymity of tickets could be addressed through the introduction of card-based gambling.

If there is a delay in the introduction of mandatory cashless gaming (see **Recommendation 1**), the Inquiry would recommend that interim measures be implemented to enhance the information on gambling tickets to enable better monitoring of suspicious gambling activity.

4. Methodology of the Inquiry

The Inquiry applied standard criminal intelligence methodologies: collecting, collating, and analysing data from a range of sources and testing hypotheses before forming conclusions. The Inquiry used traditional methods applied in proactive criminal investigations, as well as the statutory powers available to the partner agencies.

Some of the methods the Inquiry used included the following:

Environmental scanning

The Inquiry reviewed publicly available, open-source material including academic research into alleged money laundering via EGMs. The Inquiry did not identify many relevant articles: most focused on gambling related social harms, money laundering through casinos, and money laundering through emergent gaming technologies.⁶⁴

The Inquiry identified approximately 190 cases through a review of case law in which EGMs were referenced in the context of money laundering. Of these, the Inquiry identified 37 judgments which were of relevance either because the defendant was alleged to be involved in laundering the proceeds of crime via EGMs, the defendant claimed that money in their possession was winnings from EGMs, or the judgment or sentencing decision addressed claims made in confiscation proceedings about EGM winnings.

The Inquiry closely monitored media allegations about money laundering taking place through EGMs in NSW and explored each allegation to the extent possible.

Law enforcement holdings

Reviewing law enforcement and regulatory holdings, particularly the holdings of the NSWPF, the NSWCC, and AUSTRAC, were useful to the Inquiry and illustrated key points raised by other data sources. The NSWCC was able to draw on its holdings relating to current and historical money laundering investigations to provide insights into behaviours identified by the Inquiry and to expand its evidence base.

The Inquiry collected information from other LEAs through direct access to their databases or through issuing requests for information.

⁶⁴ June Buchanan and Yun Shen, "[Gambling and marketing: a systematic literature review using HistCite](#)," *Accounting & Finance* 61 (2021),.; June Buchanan and Gregory Elliot, "Gambling, Citizens, Industry and the Government: A Review of the Gambling Literature," *The International Journal of Interdisciplinary Social Sciences* 5, no. 11 (2011).

Matching datasets across multiple agency holdings identified lines of inquiry that were subsequently progressed using investigative powers and supported the Inquiry’s assessments based on the data.

Investigative powers

With the assistance of NSWPF, the Inquiry conducted proactive investigations of people and groups suspected to be involved in laundering via EGMs, including the use of physical surveillance, CCTV review, search warrants, and other investigative techniques. Some investigations have been referred or are ongoing.

Agencies involved in the Inquiry have access to a range of statutory powers. These powers enable the agencies to issue notices requiring the production of information, documents and things, and in the case of the NSWCC, to require people to answer questions at private hearings and to obtain telecommunications material. The powers exercised by the partner agencies during the Inquiry are outlined in the table below.

TABLE 3.3-1: USE OF STATUTORY POWERS

Agency	Legislation	Section and purpose	Number
NSWCC	<i>CC Act</i>	s 28: to obtain information or documents and things from a NSW government agency pertaining to an investigation by the NSWCC	2
NSWCC	<i>CC Act</i> <i>GALA Act</i>	s 29: to obtain documents and things pertaining to an investigation by the NSWCC s 21: to obtain information and records relating to any matter arising from or in connection with the gaming and liquor legislation	268
NSWCC	<i>CC Act</i>	s 24: to summons a person to give evidence pertaining to an investigation by the NSWCC	27
NSWCC	<i>TIA Act</i>	s 178: historical data authorisations	142
NSWCC	<i>TIA Act</i>	s 180: prospective data authorisations	38
NSWCC	<i>TIA Act</i>	s 46: telecommunications interception warrant	1

Information produced pursuant to notices included but was not limited to gaming data, audit reports, financial data, membership lists, high roller lists and AML/CTF programs. The Inquiry is grateful to the recipients of notices for the efforts that they made to produce sometimes voluminous material in accordance with the Inquiry’s timeframes.

Use of the NSWCC’s power to compel evidence in private hearings provided a powerful mechanism for the Inquiry to obtain information while also affording protections to the witnesses – who ranged from persons suspected to be involved in money laundering via EGMs

to industry professionals. The Inquiry also interviewed people, including convicted criminals, outside of the hearings.

Expert knowledge

Consultation with subject matter experts within academia, industry, law enforcement and regulation commenced at the environmental scanning phase and continued throughout the duration of the Inquiry.

This engagement was supplemented by the call for public submissions in respect of the Inquiry's terms of reference in December 2021 and followed by a call for responses to three issues papers in July and August 2022. These submissions informed the understanding of the Inquiry team. The Inquiry is grateful to all that made a submission.

4.1 Limitations

There were some limitations associated with the research and investigations undertaken during the Inquiry.

Scope

The scope of the Inquiry was confined to examining the matters set out in the terms of reference. Specifically, the Inquiry did not examine issues of gambling related harm except where these issues intersected with money laundering and dealing with the proceeds of crime or where they highlighted a vulnerability that could be exploited to launder money. This is because the NSWCC does not have jurisdiction to investigate non-criminal social harm.

Research and investigative limitations

Many of research limitations reflect known issues with historical data sets and ways in which data has been gathered in the past.

Effective use of law enforcement and regulatory databases requires the data to be in a readily extractable form: historical databases are often only searchable in respect of particular fields meaning that much of the rich information that may be held cannot be retrieved.

The NSWPF capture extensive information regarding the incidents to which they respond. In some cases, this can include information regarding associated factors. However, this information is often in free-text fields and is not easily searchable on a large scale.

The ways in which the Inquiry was able to identify matters for potential investigation or exploration meant that there is a bias towards venues that have done the right thing: these are venues that make reports regarding their concerns about behaviours that they have seen. This does not mean that these venues are the only venues at which examples of potential money laundering have been detected, merely that they are the venues that took steps to report the issues. There is likely to be significant under-reporting of incidents of suspected money laundering or suspected dealing with the proceeds of crime.⁶⁵

A final limitation relates to the volume of data and the size and diversity within the sector. There are over 2,300 venues in NSW which, as at 30 June 2022 were licensed to operate 97,445 EGMs and had 86,747 in operation.

⁶⁵ Mary Alice Young, "The dark figure of money laundering," *Journal of Financial Crime* 22, no. 4 (2015).

Abbreviations and definitions

Abbreviation	Meaning
ACIC	Australian Criminal Intelligence Commission
AIC	Australian Institute of Criminology
AML/CTF	Anti-money laundering counter terrorism financing
<i>AML/CTF Act</i>	<i>Anti-Money Laundering-Counter Terrorism Financing Act 2006 (Cth)</i>
AUSTRAC	Australian Transaction Reports and Analysis Centre
Bell Report	Report of the Inquiry under section 143 of the <i>Casino Control Act 1992 (NSW)</i> , dated 31 August 2022 by Adam Bell SC into the suitability of the Star to hold a Casino licence in NSW
Bergin Report	Report of the Inquiry under section 143 of the <i>Casino Control Act 1992 (NSW)</i> , dated 1 February 2021 by the Hon P A Bergin SC into the suitability of Crown to hold a Casino licence in NSW
<i>CC Act</i>	<i>Crime Commission Act 2012 (NSW)</i>
CMS	Centralised Monitoring System
COPS	Computerised Operational Policing System
<i>Crimes Act</i>	<i>Crimes Act 1900 (NSW)</i>
EFT	Electronic Funds Transfer
EGM	Electronic Gaming Machine
<i>GALA Act</i>	<i>Gaming and Liquor Administration Act 2007 (NSW)</i>
Gaming and liquor legislation	Defined in s 4 of the <i>GAL Act</i> as: <i>GAL Act, Casino Control Act 1992 (NSW), Gaming Machines Act 2001 (NSW), Liquor Act 2007 (NSW), Registered Clubs Act 1976 (NSW), Gaming Machine Tax Act 2001 (NSW)</i>
Gaming machines in operation	This refers to the number of gaming machines authorised and operating in NSW. As of 1 July 2022 this was 86,747.
Gaming machine entitlements	Thus, this refers to the maximum number of gaming machines that is licensed/authorised to be operated in NSW pubs and clubs. As at 1 July 2022, the gaming machine entitlements were 96,178 for pubs and clubs.
<i>GM Act</i>	<i>Gaming Machine Act 2001 (NSW)</i>
GMT	Gaming machine tax
GTA	Gaming Technologies Association
ILGA	Independent Liquor and Gaming Authority (NSW)
Inquiry	The EGM Inquiry
L&GNSW	Liquor and Gaming NSW
LEA	Law enforcement agency
ML/TF	Money laundering and terrorism financing

Abbreviation	Meaning
Money laundering	A criminal offence of dealing with the proceeds of crime contrary to Part 4AC of the <i>Crimes Act 1900</i> and Division 400 of the <i>Criminal Code Act 1995</i> including receiving, possessing, concealing, disposing of or engaging directly or indirectly in a transaction with proceeds of crime. Money laundering includes both “spending” the proceeds of crime and “cleaning” them, the latter being a process by which illegally derived funds are turned into assets that seem legitimate.
Money laundering flag Money laundering indicator	Money laundering flag and money laundering indicator are used interchangeably in this report. They both refer to information or actions that should trigger further investigations, such as enhanced customer due diligence and transaction review, to determine whether behaviour is suspicious and may amount to money laundering. Money laundering flags and indicators may be data/transaction or behaviour driven.
<i>National Standard</i>	<i>Australian/New Zealand Gaming Machine National Standard</i>
NSWCC	NSW Crime Commission
NSWPF	NSW Police Force
OMCG	Outlaw Motor Cycle Gang
POI	Person of interest
Predicate offence	The offence generating the proceeds of crime in respect of which a person is attempting to use the money laundering cycle
<i>RC Act</i>	<i>Registered Club Act 1976 (NSW)</i>
RCG	Responsible conduct of gaming
Registered club	A club registered under the <i>Registered Clubs Act 1976 (NSW)</i>
RSA	Responsible service of alcohol
SGA	Suspicious gaming activity
SGR	Suspicious gaming report
SMR	Suspicious matter report being a report to AUSTRAC by a reporting entity regarding a suspicious matter pursuant to Part 3 Division 2 of the <i>AML/CTF Act</i>
TIA Act	<i>Telecommunications (Interception and Access) Act 1979</i>
Ticket	A ticket or voucher issued in accordance with Part 7 of the <i>Gaming Machines Regulation 2019 (NSW)</i>
Venue	A venue, being a club, hotel, or casino, licensed under the <i>Gaming Machine Act 2001 (NSW)</i> or the <i>Casino Control Act 1992 (NSW)</i> to operate EGMs, including ETGs

Coding of case studies

The Inquiry presents case studies throughout this report to illustrate findings.

These were developed throughout the course of the Inquiry, including from evidence given by witnesses summonsed to appear before the NSWCC. The key to the coding of case studies is as follows:

Code	Meaning
CS	Developed following discussions with persons who had information or evidence relevant to the Inquiry and the review of documents and data available to the Inquiry, including submissions to the Inquiry. In cases where the case study was based on discussions with persons or organisations or on confidential submissions made to the Inquiry, the Inquiry heard from the relevant parties before determining whether the case study should be made public.
W	Individuals who appeared as a witness before the NSWCC. Evidence given before the NSWCC was cross-referenced with other data sources and the case studies represent a combination of different evidence sources. All witnesses whose evidence is referred to in a case study in this report were provided with the information that was proposed to be made public and the opportunity to be heard in respect of the proposal. In cases where the witness agreed, the NSW Crime Commissioner then authorised the publication of the anonymised case studies. The NSW Crime Commissioner considered the potential impacts of the publication of excerpts of the evidence in accordance with the <i>CC Act</i> prior to authorising its inclusion in anonymised form.
V	Specific venues.
G	Conglomerates and/or corporate groups.

List of submissions

	General submission	Issues paper 1	Issues paper 2	Issues paper 3
Alliance for Gambling Reform	X	X	X	
AML Sanctions		X	X	
Association of Certified Anti-Money Laundering Specialists	X	X	X	X
Australian Hotels Association	X	X	X	X
BetSafe	X	X	X	X
Markus Blackwell	X			
Dr Tony Brown	X			
Yau Hang Chan		X		
ClubsNSW	X	X	X	X
Endeavour Group	X	X	X	X
Gambling Impact Society	X			
Individual 1 (anonymous submission)	X			
Individual 2 (confidential submission)	X	X	X	X
Individual 3 (anonymous submission)	X			
Individual 4 (confidential submission)	X			
Gaming Technologies Association			X	
Initialism	X	X	X	X
Leagues Clubs Australia				X
Liquor & Gaming NSW		X	X	X
Monandia Consulting			X	X
NSW Police Force	X			
Organisation 1 (confidential)	X			
Organisation 2 (confidential)		X	X	
Sutherland District Tradies Club		X		
TabCorp	X			
Jon Tran	X			
Twin Towns				X
United Workers Union		X		
Organisation 3		X	X	
Andrew Wilkie MP	X			

