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# JUNKET TOUR OPERATIONS IN AUSTRALIA

MONEY LAUNDERING AND TERRORISM FINANCING RISK ASSESSMENT

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This risk assessment is intended to provide a summary and general overview; it does not assess every risk relevant to junket tour operations. It does not set out the comprehensive obligations under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act), the *Anti Money Laundering and Counter Terrorism Financing (Prescribed Foreign Countries) Regulations 2018* (AML/CTF Regulations) or the *Anti Money Laundering and Counter Terrorism Financing Rules Instrument 2007 (No. 1)* (AML/CTF Rules). It does not constitute nor should it be treated as legal advice or opinions. The Commonwealth accepts no liability for any loss suffered as a result of reliance on this publication. AUSTRAC recommends that independent professional advice be sought.

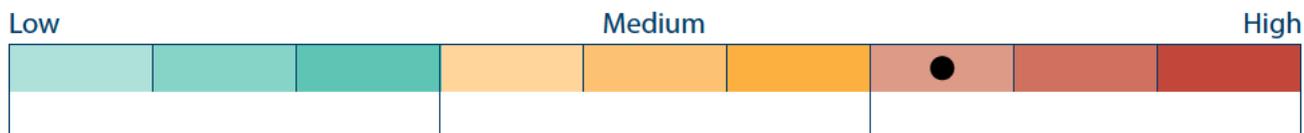
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# EXECUTIVE SUMMARY

## OVERALL RISK RATING



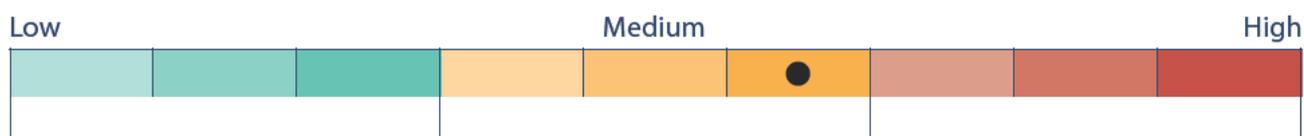
AUSTRAC assesses the overall money laundering and terrorism financing (ML/TF) risk associated with the junket tour operations sector to be **high**. This rating is based on assessments of the criminal threat environment, the vulnerabilities present in the sector and the consequences associated with the criminal threats.

Not all junket tour operations are the same, and the level of risk associated with each operation varies depending on many factors, including but not limited to the domicile of junket tour operators

(JTOs) and players, and the effectiveness of the risk mitigation systems applied by casinos.

This assessment draws upon a range of information and intelligence held by Australian government agencies. While efforts have been made to convey the classified findings for a public audience where the intelligence has been classified as sensitive, some of the information relied upon to support AUSTRAC's conclusions cannot be released publicly.

## CRIMINAL THREAT ENVIRONMENT



AUSTRAC assesses that junket tour operations are associated with a **medium** level of criminal threat.

Some junket tour operations have been exploited, and in some instances infiltrated, by serious and transnational criminal entities, including by individuals reported to be engaged in activities that could possibly be regarded as foreign interference.

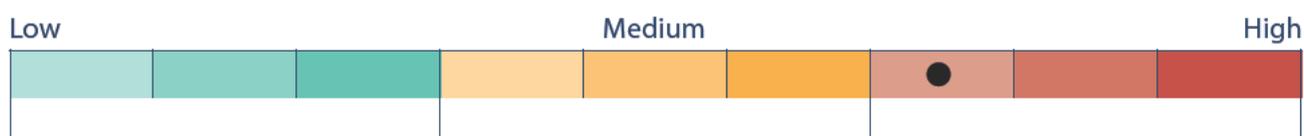
The use of offsetting arrangements used by some junket tour operators to facilitate junket-related funds flows is highly likely to be exploited by criminal entities, and in being conducted can

circumvent international funds transfer reporting requirements and facilitate the laundering of domestically-generated proceeds of crime.

Some junket tour operators have been identified as having been associated with a range of illicit activities including instances of tax evasion, visa misuse, links to sanctioned entities and possible corruption.

AUSTRAC did not identify any links between junket tour operations and terrorism financing.

## VULNERABILITIES



AUSTRAC assesses that junket tour operations are exposed to a **high** level of ML/TF vulnerability.

At a sector level, the junket model has a number of money laundering vulnerabilities. A key vulnerability is the lack of transparency and level of anonymity created by the pooling of all players' funds and transactions under the name of the JTO, and that the financial arrangements between the JTO and junket players are not disclosed to the casino. There is also a long and complex value chain associated with junkets' funds flows that makes it difficult for a single reporting entity to understand the purpose of transactions or the beneficial owner/ultimate beneficiary of value moved.

A number of JTOs and JTRs have been identified as having criminal or foreign political associations.

JTOs' casino accounts are being used to facilitate the storage and movement of significant amounts of money, both domestically and internationally. On a per-transaction and per-customer basis, the junket tour operations sector is also significantly exposed to the risks associated with high-value cash activity. The destination of large cash withdrawals from JTO accounts remains a key intelligence gap.

Inherent to the junket tour operations sector is exposure to some higher ML/TF risk jurisdictions, with 95 per cent of junket players over the reporting period being foreign nationals. There is a particular vulnerability associated with jurisdictions with currency flight and gambling restrictions in place as these measures create demand for covert money remittances which can be exploited by criminal groups.

Collectively, these elements can undermine the robustness of due diligence and enhanced due diligence efforts. In accordance with existing regulatory obligations and good practice, casinos have implemented a range of measures to help mitigate the risks posed by junket tour operations, including:

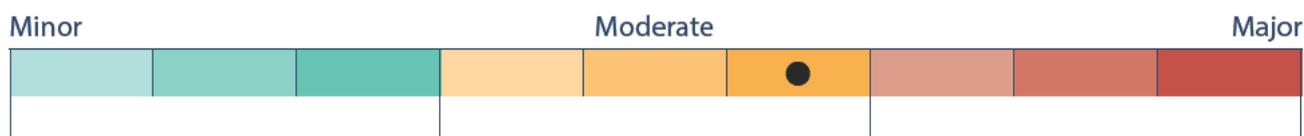
- systems and controls to monitor transactions, lodge suspicious matter and other transaction reports
- conducting due diligence on persons applying to be JTOs
- collaboration with state-based regulatory and law enforcement agencies.

It is recognised that Australian casinos compete in a highly competitive junket market, both locally

and internationally. AUSTRAC encourages casinos to review the robustness of their risk mitigation and management processes, having regard to the threats and vulnerabilities identified as being associated with junket tour operations, in order to better protect their businesses from criminal exploitation.

For example, AUSTRAC considers there is scope for casinos to enhance their risk mitigation systems, having regard to their tolerance for higher-risk JTOs/ JTRs and large cash transactions, implementing more effective systems to exclude third-party transactions on junket accounts, and reducing their reliance on due diligence performed by third parties. In particular, AUSTRAC considers casinos should review the reliance they place on the visa grant process to ensure that JTOs, JTRs and players are of sufficiently good character to play on junkets.

## CONSEQUENCES



AUSTRAC assesses the consequences of criminal abuse and exploitation of the junket tour operations sector to be **moderate**.

Individuals are likely to be affected by some crimes associated with the sector, such as persons suffering from dependence on illicit drugs.

The casino sector has recently been the subject of adverse media relating to alleged criminal activities associated with junket tour operations. As has been observed to date, criminal exploitation of junket tour operations may decrease VIP patronage, increase regulatory scrutiny and heighten public expectations concerning the operations of the casinos sector. It may also make casinos' relationships with their private sector partners, such as banks, more difficult.

The Australian community and economy is also impacted by criminality in this sector. Money laundering allows criminals to profit from their crimes, enabling further crimes to be committed. Further, any decline in the operation of junket activity will have implications for the taxation revenue of the states that host junkets.

Actions that may contravene visa conditions to facilitate junket tour operations undermines the integrity of Australia's migration system.

Widespread criminality through the junket sector would also be likely to impact on Australia's international AML/CTF reputation and attractiveness as a place to do business.

The exploitation of junkets by foreign interference entities can undermine and compromise Australia's national security and broader public confidence in our institutions.

### IMPACT OF COVID-19 ON CASINO OPERATIONS

Like many Australian businesses, casinos have been profoundly affected by the COVID-19 pandemic. The data and insights analysed during the development of this report predate the pandemic, and this risk assessment examines the risks of junket tour operations in a fully operational environment.



## PURPOSE

As JTOs and JTRs are not captured as reporting entities under the AML/CTF Act and therefore not regulated by AUSTRAC, this assessment's primary aim is to assist casinos to identify, mitigate and manage the risks of ML/TF enabled through the conduct of junket tour activity.

This assessment may provide additional insight and understanding to other regulated businesses including financial institutions and remittance providers which provide financial services to casinos, JTOs or junket participants. It will also assist JTOs, law enforcement and regulatory agencies to better understand the ML/TF risk associated with junkets, in order to consider potential responses.

### **FINTEL ALLIANCE-ENHANCED RISK ASSESSMENT PROGRAM**

In September 2018, Australia's Minister for Home Affairs, the Hon Peter Dutton MP, announced nearly \$5.2 million in funding to AUSTRAC to work with industry partners on additional targeted national money laundering and terrorism financing (ML/TF) risk assessments for Australia's largest financial sectors – the banking, remittance and gambling sectors.

This report represents one of two risk assessments on Australia's casino sector that are being completed under this program of work. The other risk assessment will review non-junket casino operations.



## BACKGROUND

### WHAT IS A JUNKET?

For the purpose of this report, a junket is an arrangement between a casino and a junket tour operator to facilitate a period of gambling by one, or a group, of high wealth player(s) at the casino.<sup>1</sup> In return for bringing the player(s) to the casino, the casino pays the JTO a commission based on the collective gambling activity of player(s) on the junket. Junket tour operations are an element of international tourism business for Australia, generating both gaming revenue (and associated taxes), employment and indirect revenue in the economy. Casinos have negotiated with state and territory governments to levy a lower gaming tax rate, in order to remain competitive in the global market and thereby attracting players from interstate and foreign jurisdictions.

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<sup>1</sup> Some junkets operate for a finite number of days, but some casinos allow perpetual or “rolling” junkets that do not end, and players are added and removed from the junket at the request of the JTO.

Players may prefer to participate in junkets over individual play for several reasons:

- junkets are often organised as holiday entertainment for tourists, and can involve complimentary transport, accommodation, food and beverages provided by the casino. JTOs can organise tours to casinos across the world, and the customer only has to liaise with one entity
- junket players will generally be accompanied by a JTO or JTR who may be able to see to their needs in a manner beyond that which could be facilitated by the casino
- the JTO or JTR is responsible for conducting all financial transactions with the casino, enabling players to focus on their gambling activity
- JTOs often offer financial incentives to players, such as a portion of the commission the casino pays the JTO
- JTOs often offer credit to players to gamble with, meaning the player only has to be able to pay for their losses, and
- players can play in a group of their peers and pool their funds which may be more enjoyable.

Junkets are also attractive to casinos for several reasons:

- JTOs are often foreign nationals who have greater capacity to identify and attract players from foreign jurisdictions, and pursue them for gaming debts
- the JTO is the primary customer of the casino, therefore, it is logistically more convenient to administer a financial arrangement with one person than it is to administer several arrangements with several people, and
- JTO business models rely on repeat access to the same casinos, making them more likely to repay their debts.

Australian casinos operate in a highly competitive global environment in terms of junket tour operations, predominantly from South East Asia casinos. Eight of the thirteen licensed casinos in Australia conducted junket programs during the reporting period, with over two-thirds of junket programs being conducted by two casinos. There were in excess of 1,000 junket programs at Australian casinos in the assessment period with estimates of transactional activities associated with those junket tours in the multi-billion dollars.

## HOW DO JUNKETS OPERATE?

The operation of junkets is different between state and territory jurisdictions and can vary further depending on the casino, the JTO, and the arrangement made between the two in respect of each individual junket program. Operations may also differ based on the regulatory requirements in the state in which the casino is located. Broadly speaking, however, junkets work in the following way:

### Step 1:

The casino conducts a range of due diligence and credit checks on a prospective JTO (and their nominated representatives) and, if deemed suitable to operate a junket, the casino and the JTO enter into a written agreement setting out the terms of the arrangement between the two parties.

### Step 2:

The JTO will identify prospective junket players who will generally be residents of a foreign country. The junket players enter into an arrangement directly with the JTO to either provide an amount of front money to, or more likely by entering into a private funding arrangement with the JTO which may include borrowing front money from, the JTO. The casino is not privy to any financial arrangement between the players and the JTO.

**Step 3:**

Once the JTO has identified all the players who will participate in a specific junket program, and the total amount of front money for gambling purposes, the JTO will enter into an agreement with the casino for that specific program. The agreement will set out whether the JTO will provide the front money for all the players from their casino account, or whether the casino will provide the front money to the JTO as a line of credit or via cheque cashing facility. The agreement will also set out:

- the relevant terms of any credit or cheque cashing facility negotiated with the casino (if applicable)
- the amount of front money/turnover expected of the players
- the amount of commission payable to the JTO by the casino (having regard to the amount of front monies and/or turnover of the junket), and
- what, if any, “complimentaries”<sup>2</sup> will be provided by the casino as part of the agreement.
- The casino does not enter into an arrangement or agreement with the junket players.

**Step 4:**

Players arrive at the casino and their identities are verified by casino staff. The casino provides the JTO or JTR with specialised chips up to the equivalent dollar amount of the front money provided.<sup>3</sup> The JTO then distributes these chips amongst the players as privately agreed by the JTO and the players. The amount of funds available for gambling purposes can be increased by agreement between the JTO/JTR and the casino as the program progresses, and this may result in revisions to the agreement. The JTO (or their JTR) is responsible for financial transactions with the casino while players determine their own gaming and betting activity.

**Step 5:**

Players gamble using the specialised chips for the duration of the junket. These chips cannot be exchanged for cash or the equivalent value. In some circumstances, individual junket players may leave the program before it ends, settling privately with the JTO, and new players may be added to a program while it is progressing.

**Step 6:**

At the end of the program, players return all chips either won or not used to the JTO. The casino calculates turnover, to determine whether the junket won or lost, in turn determining the amount of tax payable to the state government, the commission payable to the JTO and any liability the JTO may have to the casino. For example, in the event of a loss where front money was advanced to the JTO via a line of credit or a cheque cashing facility.

The casino pays out any winnings and commission as instructed by the JTO.<sup>4</sup> This may be by paying all monies to the JTO, who will then distribute the funds as privately agreed to the players. This distribution will often occur offshore. In other circumstances, the JTO may instruct the casino to disburse funds directly to the players, or, in some cases, to third parties. If the junket loses, the JTO is liable for paying the amount of the loss to the casino, irrespective of which players’ bets contributed to the loss.

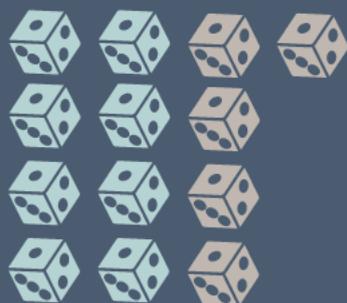
<sup>2</sup> “Complimentaries” refers to incentives such as food and drinks packages and free/subsidised accommodation, transport and/or entertainment.

<sup>3</sup> These chips are only for junkets and are used to help calculate the amount of state gaming taxes and the commission payable to the JTO. These chips cannot be used on the main gaming floor or redeemed at the cage for cash and must be returned to the casino for junket settlement.

<sup>4</sup> The JTO or their agent must formally sign the settlement arrangements with the casino.

# JUNKET TOUR OPERATIONS IN AUSTRALIA 1 APRIL 2018 - 31 MARCH 2019

**8 out of 13**  
casinos  
conducted  
junket  
programs<sup>5</sup>



More than  
**two-thirds**

of junket  
programs held  
at **2 casinos**

## ACTIVITY ON JTO ACCOUNTS AT CASINOS

**387 SMRs**  
with a value of  
**\$130.4m**

**651 IFTIs**  
INCOMING  
**\$352.9m**  
OUTGOING  
**\$104.5m**

**4,638 TTRs**  
INCOMING  
**\$81.1m**  
OUTGOING  
**\$165.2m**

## NON-JUNKET PLAY ACTIVITY BY JTOs AND JTRs AT CASINOS

**153 SMRs**  
with a value of  
**\$107.1m**

**31 IFTIs**  
INCOMING  
**\$15.6m**  
OUTGOING  
**\$760,886**

**1,401 TTRs**  
INCOMING  
**\$29.7m**  
OUTGOING  
**\$38.5m**

## ACTIVITY OF JTOs OR JTRs OUTSIDE OF CASINO SECTOR

**95 SMRs**  
with a value of  
**\$125.6m**

**880 IFTIs**  
INCOMING  
**\$164.5m**  
OUTGOING  
**\$46.3m**

**321 TTRs**  
INCOMING  
**\$5.0m**  
OUTGOING  
**\$5.1m**

**Each year in  
Australia**



**1,000+**  
junket programs  
at casinos

**500+**  
individual junket tour  
operators or representatives

<sup>5</sup> One casino that offered junkets over the time period has ceased its junket operations.



# METHODOLOGY

The methodology used for this risk assessment draws on Financial Action Task Force (FATF) guidance that states that ML/TF risk can be seen as a function of criminal threat, vulnerability to exploitation, and consequences of exploitation. According to this methodology:

- **Criminal threat environment** refers to the nature and extent of ML, national security and relevant predicate offences in a sector.<sup>6</sup>
- **Vulnerability** refers to the characteristics of a sector that make it attractive for ML/TF purposes, including features of the sector that can be exploited, such as customer types, products and services, delivery channels and the foreign jurisdictions with which the sector deals. Vulnerability is also influenced, and in certain circumstances minimised, by the risk mitigation strategies the sector has implemented.
- **Consequence** refers to the impact or harm that ML/TF activity through the sector may cause.

This assessment considered 19 risk factors across the above three categories. An average risk rating was determined for each category, and the average of each category determined an overall risk rating for the sector.

Further information on the methodology and how it was applied to the sector is in [Appendix A](#).

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<sup>6</sup> For ML/TF risk assessments, predicate offence refers to an offence which generates proceeds of crime, or other related crimes such as identity fraud.

Four main intelligence inputs informed the risk ratings within this assessment:

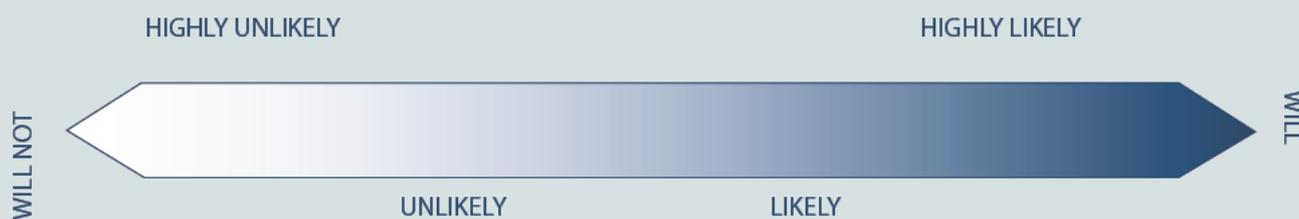
- analysis of transaction reports submitted during the reporting period, as well as other AUSTRAC information and intelligence
- reports and intelligence from a variety of state and Commonwealth government agencies, including intelligence, law enforcement and regulatory agencies
- feedback and professional insights offered during interviews and consultations with a range of casinos, banks and regulatory and

law enforcement bodies at the state and Commonwealth levels, and

- qualitative and quantitative information about the scale and nature of junket operations carried out in Australian casinos between 1 April 2018 and 31 March 2019. Casinos provided this information voluntarily and in response to two notices issued to them under section 167 of the AML/CTF Act.

The information and intelligence held by AUSTRAC or partner agencies used to inform this assessment was for the period up to 19 November 2019.<sup>7</sup>

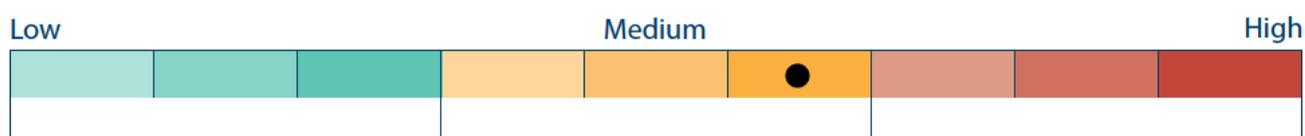
## ESTIMATIVE LANGUAGE



Certain words are used in this assessment to convey confidence and analytical judgement regarding the probability of a development or event occurring. Judgements are often based on incomplete or fragmentary information and are not fact, proof or knowledge. The figure above describes the relationship of the terms to each other.

<sup>7</sup> AUSTRAC acknowledges various adverse allegations about the activities of junkets have been reported in the public domain. AUSTRAC cannot comment on the nature or extent of any investigations into these allegations.

# CRIMINAL THREAT ENVIRONMENT



The criminal threat environment refers to the nature and extent of ML/TF and other national security and predicate offences that are associated with junket tour operations in Australia.

AUSTRAC assesses that junket tour operations are associated with a **medium** level of criminal threat. This assessment is based on suspicious matter reports (SMRs) submitted by reporting entities indicating suspect criminal activities associated with junket tour operations and service providers,<sup>8</sup> ongoing analysis and referral of intelligence by AUSTRAC, and intelligence and information collected from Australian Commonwealth and state-based government agencies, banks and casinos.

## SUSPICIOUS MATTER REPORTING RELATING TO JTOs AND JTRs FROM 1 APRIL 2018 TO 31 MARCH 2019:<sup>9</sup>

- **635 SMRs** were submitted by **15 reporting entities** in the casino, banking and remittance sectors.
- The **total value** of transactions reported in SMRs was **\$363.1 million**, including a cash component of \$64.7 million.
- **Seven casinos** submitted **540 SMRs**.<sup>10</sup>
- **Seven banks** submitted **94 SMRs**.
- **One** remittance provider submitted **1 SMR**.
- **Two casinos** accounted for over two-thirds of the SMRs submitted.

<sup>8</sup> Service providers refers to JTO and JTRs.

<sup>9</sup> This dataset consists of SMRs identified by casinos as relating to activity on junket accounts, SMRs lodged by any reporting entity that involved a junket tour operator or representative identified by casinos as operating from 1 April 2018 to 31 March 2019, SMRs in which the industry/occupation of a party referred to "junket", and SMRs that had "junket", "JTO" and/or "JTR" in the Grounds for Suspicion field of the SMR. False-positives were manually excluded from the dataset.

<sup>10</sup> One casino submitted an SMR about a JTR despite the casino not offering junket programs during the reporting period. Two in-scope casinos did not submit any SMRs during the sample period.

## SUSPECTED THREATS AND METHODOLOGIES REPORTED IN SMRs



Percentage amounts sum to more than 100 because some SMRs were assigned more than one threat type/described more than one activity.

Potential money laundering was the key threat indicated in SMRs, with 47 per cent of SMRs indicating suspicion in relation to possible money laundering activity. A small number of SMRs were in the "other threat type" category, and included suspicions relating to corruption, counterfeit currency and money lending.<sup>11</sup>

Fifty-one per cent of SMRs were not assigned a threat type. This is because activity described in the SMRs, while unusual, was not indicative of a specific criminal or related offence. For example, 31 per cent of SMRs in the dataset were reported as a result of domestic electronic funds transfers, international funds transfers or transfers within the same casino group to/from third parties whom the casino noted were not participating in the relevant junket and 15 per cent were reported because players had large or frequent gambling losses.

<sup>11</sup> Counterfeit currency and money lending are not assessed as being significant threats and are not discussed further in this risk assessment.

## SMRs PLAY A CRUCIAL ROLE IN SUPPORTING LAW ENFORCEMENT

Under the AML/CTF Act, reporting entities have an obligation to report suspicious matters to AUSTRAC. A reporting entity must submit an SMR if they form a suspicion on reasonable grounds that a transaction they have facilitated or been asked to facilitate may be relevant to the investigation or prosecution of a crime. The full range of circumstances in which an SMR must be submitted is set out in [section 41 of the AML/CTF Act](#).

SMRs submitted by reporting entities provide valuable intelligence to AUSTRAC. Working with its partner agencies, AUSTRAC pieces together intelligence from a range of sources to develop a picture of criminal activities and networks. Many of AUSTRAC's partner agencies – including the Australian Federal Police (AFP), Australian Criminal Intelligence Commission (ACIC) and the Australian Taxation Office (ATO) – have access to SMRs in order to generate leads and conduct further analysis and investigation.

While the submission of SMRs is a central obligation for reporting entities, there is a range of other measures required to be undertaken to identify, mitigate and manage their ML/TF risk. Submission of an SMR should not be seen by reporting entities as the only necessary or final response to suspicious activity or behaviour by customers.

## MONEY LAUNDERING

AUSTRAC considered the nature and extent of the money laundering threats associated with junket tour operations, and assesses the risk to be high. Money laundering through junket tour operations has been identified as being associated with:

- the misuse of offsetting, often relating to the evasion of international funds transfer instruction (IFTI) reporting and laundering of domestically-generated proceeds of crime
- the onshore supply of large volumes of cash for unknown purposes
- extensive cash, remittance and gambling-related transactions by JTO/JTRs through bank accounts, indicating use of banks to further layer funds and obscure financial activity, and
- involvement of international criminals and organised crime groups.

## OFFSETTING

The assessment found that some junket tour operations use offsetting arrangements as a means of transferring value between jurisdictions. Broadly speaking, offsetting involves a financial credit and debit relationship between entities in different countries. Organisations that facilitate offsetting arrange for money debited from an entity in one jurisdiction to be credited to (sometimes the same) entity in a second jurisdiction. This requires the offsetting facilitator to have access to funds in both jurisdictions.

There is a range of legitimate reasons for the existence of this approach to money transfer, including:

- cheaper and faster remittances
- cultural preferences
- inconsistent availability of formal banking services in some areas
- lower confidence in banking systems.<sup>12</sup>

However, the fact that offsetting enables the movement of value internationally without the use of the formal banking system also makes it attractive to people who wish to move money between jurisdictions without having the transaction reported to authorities. This is because they may wish to:

- evade currency controls and international sanctions
- evade taxation obligations
- transfer or conceal criminal proceeds.<sup>13</sup>

AUSTRAC assesses the offsetting arrangements used to facilitate the movement of funds for junket activity have, in some circumstances, been targeted and exploited for the purpose of evading capital flight restrictions, and for money laundering.

<sup>12</sup> [www.fatf-gafi.org/media/fatf/documents/reports/Role-of-hawala-and-similar-in-ml-tf.pdf](http://www.fatf-gafi.org/media/fatf/documents/reports/Role-of-hawala-and-similar-in-ml-tf.pdf)

<sup>13</sup> Ibid.

## HOW OFFSETTING WORKS FOR JUNKETS

In relation to junkets, a typical offsetting scenario involves a prospective junket player making money available which may include depositing money into an offshore account controlled by the entity providing the offsetting service.

That money remains in the offshore location, and when the player arrives in Australia to gamble, an agreed amount of value is made available to them from the funds the JTO has access to, either through the casino or through their own source funds. Simultaneous demand for informal outgoing and incoming remittances means money can be offset in both directions, and illicit funds can flow both into and out of Australia without detection.

Offsetting does not necessarily indicate that the money being moved is illegitimately sourced or that Australian laws are being broken. However, AUSTRAC and partner agencies consider it highly likely the offsetting activity facilitated in relation to junkets is being exploited by some people in order to circumvent IFTI reporting obligations and launder domestically-generated proceeds of crime.

## SHARES IN FOREIGN COMPANIES

One of AUSTRAC's partners is aware of a potential methodology whereby money to fund players' junket activity is raised by directing the player to purchase shares in a foreign company, rather than simply depositing the money into an offshore bank account. While more complex and sophisticated, this is essentially the same process as the offsetting model described.

## ILLICIT CASH

There is a high likelihood that funds held in some JTOs' casino accounts to offset against money in accounts held overseas is partially derived from onshore individuals known as "cash collectors" moving money from domestic serious organised crime groups (SOCGs) to JTO casino accounts.

During consultations, partner agencies indicated the proceeds of drug sales to be the likely source of illicit cash deposited into JTO accounts. One partner agency indicated cash may also be derived from trade at brothels and entertainment venues - likely as a means to evade tax.

## DOMESTIC SOURCES OF FUNDING FOR JTO ACCOUNTS

AUSTRAC identified 25 SMRs totalling \$5.6 million in the reporting period that related to cash deposits made into 18 JTO accounts by persons who were not recorded by the casinos as players on the junket or operating as the JTO/JTR.<sup>14</sup> A total of 10 SMRs indicated that 13 JTOs were transferring cash domestically between one another. A further 45 SMRs indicated 28 JTOs were electronically transferring funds domestically between each other, and 187 SMRs indicated funds were being deposited into 35 JTOs' accounts via domestic electronic transfer.

Further, information provided by casinos demonstrates the majority of front money for junkets is provided to the JTO by the casino as a line of credit or via a cheque cashing facility.

The domestic source of funds or lines of credit used to gamble by predominantly foreign players supports AUSTRAC's finding that some JTOs use offsetting, whereby the funds paid to the JTO by players are collected and remain offshore, and the JTO offsets these with domestically-sourced funds to meet their financial commitments to the players and/or the casino.

## PROVISION OF CASH

There is evidence that some junket tour operations provide cash to players and third parties while they are onshore.

Industry reported 64 SMRs concerning 33 JTOs during the reporting period that related to large cash withdrawals from junket accounts with a total value of \$23.6 million. These SMRs described JTOs providing large cash amounts under a range of circumstances, such as persons who were losing, persons withdrawing large amounts of cash and then immediately leaving the gaming floor, and junket staff providing cash to individuals who were not players on the junket.

The ultimate use of much of the cash provided by junkets remains an intelligence gap. While some of the cash is very likely used for tourism and retail purposes, there is some indication it may be used to pay for goods and services (including illicit goods and services) supplied onshore. In some cases JTOs and JTRs may also be retaining the cash themselves, in order to avoid taxation obligations.

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<sup>14</sup> These transactions may be indirect. For example, cash deposits may have been made by a third party into their own casino account and then transferred to a junket account even though they were not playing on the junket. In other reports, casino staff observed a third party giving cash to a JTO/JTR, who made the actual deposit into the account.

## ACTIVITY OF JTOs/JTRs ON BANK ACCOUNTS

The assessment identified SMRs lodged by banks in relation to JTOs and JTRs that describe extensive gambling-related transactions. These SMRs indicate a number of JTOs/JTRs have Australian bank accounts on which they transact outside of the casino environment, including for additional gambling-related activities. In itself, this may not be unusual or suspicious, however given the account and remittance facilities offered by casinos, extensive gambling transactions on personal bank accounts can indicate efforts to layer or further obfuscate financial activity.

Such activity can also indicate attempts to disguise the origins of funds by spreading activity across several reporting entities. One partner agency emphasised the difficulty for banks and law enforcement when customers make deposits of monies that originated at a casino, because source of funds can often be justified as winnings even if it was not actually won.

These bank accounts are also used by JTOs and JTRs to receive incoming funds transfers, and SMRs demonstrate significant cash activity, including structuring and possible cuckoo smurfing.<sup>15</sup> Accounts are also used to send international funds transfers and purchase high-value assets such as real estate and luxury vehicles.

## PURCHASE OF HIGH-VALUE ASSETS

The purchase of high-value assets is an established money laundering method. High-value assets may be the final destination of the proceeds of crime, or may be on-sold by the money launderer, inserting another transaction between the wealth and its illicit origins.

SMRs reported by banks in relation to JTO and JTR activity describe trade in high-value assets in Australia - \$500,000 in luxury motor vehicles and \$3 million in property. A key indicator of this activity was the purchase of large bank cheques issued in favour of lawyers, real estate agents, property developers and luxury car dealers. Activity on the personal bank accounts of the JTO/JTR in these SMRs also often included incoming and outgoing transactions with casinos, and large cash deposits. AUSTRAC identified that one of the JTRs operating in Australian casinos is also a real estate agent, magnifying the money laundering risk associated with that particular JTR.

AUSTRAC and partner agency intelligence also links the criminal infiltration/exploitation of junket tour operations with the purchase of high-value assets, notably real estate, in Australia.

15 As defined in the Glossary in [Appendix B](#), cuckoo smurfing is a money laundering process in which non-complicit beneficiary customers of international remittances have the proceeds of crime deposited in their bank accounts, in consideration for the legitimate funds sent to them from offshore.

## OCCUPATION OF JTOs AND JTRs

In submitting SMRs relating to junket activity, casinos regularly report the occupation of the JTO and/or JTR accordingly. However, it is not uncommon for JTOs/JTRs to have additional employment which serves as their primary or secondary income, which is unrelated to junket play. Suspicious matter reporting from banks about these entities indicates they are supplying secondary occupations as their source of funds when dealing with the banks.

Consultations with banks indicated that customers employed in junket provision may be considered higher risk, or even entirely outside the bank's risk appetite. Some transaction patterns observed in SMRs that may assist banks to identify JTOs or JTRs are:

- incoming IFTIs followed by transfers or bank cheques to casinos
- incoming transfers from casinos, the value of which is then transferred to multiple third parties, including third parties located offshore
- incoming transfers from one casino, followed by transfers to another casino
- large and frequent transfers between casinos and individuals who do not appear to have occupations that support their financial activity (e.g. student, retired, unemployed, home duties)
- lower-value cash deposits, possibly indicating remuneration for services being paid in cash.

## JUNKETS AND DOMESTIC AND TRANSNATIONAL SOCGs

AUSTRAC assesses the junket tour operations sector is exposed to infiltration by transnational and serious organised crime groups (SOCGs), with partner agency intelligence indicating that:

- Several international JTOs are or were linked to organised crime groups.
- Overseas-based transnational serious and organised crime (TSOC) groups exploit junkets in order to move money to Australia and launder the proceeds of crime through Australian casinos. Given the use of offsetting practices to transfer value into Australia for use by a number of junkets, overseas TSOC groups are effectively creating an opportunity for domestic SOCGs to launder illicit cash by arranging for it to be deposited into junket accounts at casinos as a means to balance the domestic side of the offsetting ledger.
- Some junket tour operations have links to Asian crime groups.

## NATIONAL SECURITY

AUSTRAC assesses that junket tour operations present a medium threat from a national security perspective.

### TERRORISM FINANCING

AUSTRAC did not identify any links between junket activity and the financing of terrorism. AUSTRAC notes one partner agency observed that the anonymity facilitated by the junket business model makes it impossible to assess whether junkets pose a risk in relation to terrorism financing because the source and beneficiary of transactions is obscured, and the transactions of individual targets cannot be assessed against actual gaming.

### FOREIGN INTERFERENCE

For the purposes of this assessment, foreign interference includes covert, deceptive and coercive activities intended to affect an Australian political or governmental process that are directed, subsidised or undertaken by (or on behalf of) foreign actors to advance their interests or objectives. In contrast, foreign influence, is commonly practiced by governments and is lawful when conducted in an open and transparent manner.

The seriousness of this activity means that even a small number of entities engaging in this activity through a sector represents a significant risk to Australia.

The junket business model facilitates the transfer of large amounts of foreign funds or value into Australia, often outside the formal banking system and with the potential to obscure the purpose of, and beneficial ownership of the source of funds. Further, and as described in the **Vulnerabilities** section below, junkets are facilitated by and involve play by individuals who may also be classified as foreign politically exposed persons (PEPs). The involvement of foreign PEPs in junket tour operations increases the vulnerability of this sector to exploitation for the purposes of foreign interference because these individuals are inherently more likely to hold political ideologies, wield political power and have access to government funds.

AUSTRAC has identified a small number of links between junket tour operations and possible foreign interference activities. Transactions indicate that entities who may be of concern from a foreign interference perspective could be using money held in casino accounts to make political donations with a link to foreign interference. The provision of political donations in itself is not illegal, however the unusual source of the funds, involving potentially covert international money movement, raises concerns for potential foreign interference.

## INDEPENDENT COMMISSION AGAINST CORRUPTION (ICAC) INQUIRY INTO POLITICAL DONATIONS – OPERATION AERO<sup>16</sup>

Open source information indicates that a \$100,000 cash withdrawal from a junket funded by an entity may have donated to a NSW political party in a manner contrary to political donation laws.<sup>17</sup>

The entity was:

- one of the key figures in the 2019 ICAC inquiry into political donations
- the subject of extensive suspicious matter reporting by banks and casinos
- heavily involved in Australian property development
- noted in open source information as being involved in corruption in both Australia and his country of origin.

Open source information further indicates this entity has been excluded from re-entering Australia due to concerns over his association with foreign influence activities,<sup>18</sup> and that his assets have been frozen at the request of the ATO, which is pursuing him for over \$100 million in unpaid tax.<sup>19</sup>

<sup>16</sup> [www.icac.nsw.gov.au/investigations/current-investigations/2019/political-donations-operation-aero](http://www.icac.nsw.gov.au/investigations/current-investigations/2019/political-donations-operation-aero)

<sup>17</sup> Australian Broadcasting Corporation – 'ICAC hears \$100,000 cash withdrawn from The Star casino days before same amount banked by NSW Labor' (<https://mobile.abc.net.au/news/2019-12-12/icac-cash-withdrawal-from-star-casino-before-labor-banked-money/11794496>).

<sup>18</sup> The Sydney Morning Herald - 'Dodgy donations and influence peddling: explosive allegations to be investigated by ICAC' ([www.smh.com.au/politics/nsw/dodgy-donations-and-influence-peddling-explosive-allegations-to-be-investigated-by-icac-20190802-p52d9g.html](http://www.smh.com.au/politics/nsw/dodgy-donations-and-influence-peddling-explosive-allegations-to-be-investigated-by-icac-20190802-p52d9g.html)); The Guardian – 'Packer sold share of Crown Resorts to tycoon who was director of 'banned' company' ([www.theguardian.com/australia-news/2019/aug/08/packer-sold-share-of-crown-to-tycoon-who-was-director-of-banned-company](http://www.theguardian.com/australia-news/2019/aug/08/packer-sold-share-of-crown-to-tycoon-who-was-director-of-banned-company)).

<sup>19</sup> The Sydney Morning Herald – 'ATO seeks to bankrupt Huang Xiangmo over \$140 million bill' ([www.smh.com.au/national/ato-seeks-to-bankrupt-huang-xiangmo-over-140-million-bill-20191017-p531ll.html](http://www.smh.com.au/national/ato-seeks-to-bankrupt-huang-xiangmo-over-140-million-bill-20191017-p531ll.html)).

## PREDICATE OFFENCES

AUSTRAC assesses that some junket tour operations are associated with a medium level of threat in relation to predicate offences, perpetrated at both the player and JTO/JTR levels.

### TAX EVASION

Taxation obligations in relation to junket activity are complex and will differ according to a range of different criteria. However, partner agency information does indicate a level of non-compliance with Australian taxation laws in relation to junket activity.

Risks to Australia's taxation base arising from junkets include:

- JTOs incorrectly treating the three per cent foreign resident withholding (FRW) tax paid on their behalf by casinos as a final tax, and failing to declare income earned through junkets on income tax returns
- application of the FRW rate (which is based on a flat corporate tax rate) to individuals who should be subject to marginal tax rates
- casinos inadvertently applying the FRW rate to resident JTOs (to be eligible for the FRW, JTOs need to have an ABN and be foreign residents for taxation purposes)
- JTOs failing to register for pay-as-you-go withholding in relation to their remuneration of JTRs, and JTRs failing to submit income tax returns/declaring the income they earned as part of their JTR duties on income tax returns

- JTRs receiving taxable income in the form of cash or "in-kind" remuneration – such as in accommodation, transport or entertainment – which is easier to conceal from the ATO
- JTOs and JTRs with relevant turnover failing to register for GST, and, relatedly, casinos claiming GST credits in relation to GST that is never paid to the ATO by the JTO/JTR, and
- given the international reach of many junket tour operations, personal income/commissions paid to JTOs/JTRs in relation to work done in Australia may be said to have been derived in another jurisdiction for the purposes of taxation law. This may have implications for Australia's ability to tax that income.

One of AUSTRAC's partner agencies assessed that a resident JTO had set up complex arrangements to avoid their taxation obligations, including using their junket accounts to anonymously purchase assets, and distribute profits from the junket to family and friends.

### WORKING AGAINST VISA CONDITIONS

It is highly likely some JTOs and JTRs are working in contravention of visa conditions. Data matching with partner agency holdings indicates approximately one-third of the JTOs and JTRs on junkets that occurred over the reporting period were on tourist or bridging visas, which are unlikely to allow the holder to work except in some cases of financial hardship.

AUSTRAC notes that casinos are likely to require JTOs (but not JTRs) to have an ABN so that they meet that part of the FRW test. However, a person with an ABN can be a foreign resident for tax purposes (hence their ability to meet the second part of the FRW test) and does not necessarily have to have work rights.

## VISA ENTITLEMENT VERIFICATION ONLINE

Consultations with casinos indicate many of them subscribe to Visa Entitlement Verification Online (VEVO), which allows them to check customers' visa statuses. The Department of Home Affairs, which maintains the database, states VEVO allows visa holders, employers, education providers and other organisations to check visa conditions.<sup>20</sup> The ATO further advises in relation to FRW, that it is business' responsibility to check if foreign resident workers can legally work in Australia.<sup>21</sup>

Therefore, AUSTRAC encourages casinos to use VEVO to understand the visa conditions of their foreign national JTOs and JTRs so they can satisfy themselves the junket tour operations they are facilitating are only provided by persons who have relevant rights to work in Australia.

## CORRUPTION

AUSTRAC identified SMRs from a bank in relation to a customer who acted as a JTR for a casino over 2017-18. The bank reported the customer for multiple cash deposits, collectively in excess of \$150,000. Bank records indicated the customer was unemployed, but open source information led the bank to identify that the customer was in fact a politically exposed person who had been implicated in a corruption probe in their home country.

Further review of the customer's transaction reports in AUSTRAC's database revealed significant TTR activity with casinos, SMRs from casinos in relation to significant losses on junkets, as well as a residential property purchase which is likely to have been funded at least in part with a significant amount of cash.

It can be difficult for reporting entities to identify transactions related to corruption in real time. However, the higher exposure of junket tour operations to foreign PEPs increases the risk of corruption being facilitated through the sector.

<sup>20</sup> [immi.homeaffairs.gov.au/visas/already-have-a-visa/check-visa-details-and-conditions/check-conditions-online](https://immi.homeaffairs.gov.au/visas/already-have-a-visa/check-visa-details-and-conditions/check-conditions-online)

<sup>21</sup> [www.ato.gov.au/Business/International-tax-for-business/In-detail/Australian-income-of-foreign-residents/Withholding-from-a-foreign-resident/](https://www.ato.gov.au/Business/International-tax-for-business/In-detail/Australian-income-of-foreign-residents/Withholding-from-a-foreign-resident/)

## SANCTIONS

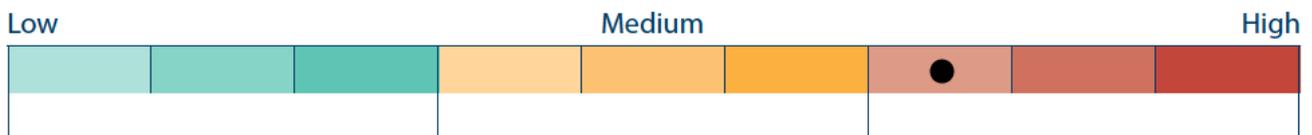
AUSTRAC has received intelligence that a person who was the subject of a United Nations travel ban participated in junkets in Australia, both during and subsequent to the ban. AUSTRAC is aware that the junket tour operation with which the travel ban subject played was still operating in Australian casinos as at 2018. One partner agency assessed that it was likely that the subject of the ban was laundering the proceeds of crime as a junket participant in Australia.

## NON-GAMBLING ACTIVITIES OF JUNKET PARTICIPANTS

AUSTRAC is aware of information indicating that some junket participants engage in illegal recreational activities while in Australia, such as the purchase and consumption of illicit drugs and unregulated sexual services. AUSTRAC is also aware that one of the JTRs operating in Australian casinos is alleged to have been associated with a brothel operation, itself implicated with exploiting vulnerable women by forcing them into sexual servitude.

AUSTRAC recognises the harms that these activities cause in the Australian community, however, they are outside of the scope of this report as they do not involve the provision of gambling services by casinos.

# VULNERABILITIES



Vulnerability refers to the characteristics of a sector that make it susceptible to criminal exploitation. AUSTRAC's assessment of vulnerabilities falls into five categories: customers, products and services, delivery channels, exposure to foreign jurisdictions and level of implementation of risk mitigation strategies.

Overall, AUSTRAC assesses the junket tour operations sector is subject to a **high** level of ML/TF vulnerability. While individual casino mitigation systems may reduce the level of vulnerability associated with their junkets, AUSTRAC makes this assessment on the nature of the vulnerabilities at a national level, and it will be open to reporting entities to determine the extent to which their risk mitigation measures address their exposure.

## CUSTOMERS

AUSTRAC assesses that the customer base associated with junket tour operations poses a medium level of vulnerability. The size of the customer base is very small compared to other sectors assessed by AUSTRAC, but the average transaction value is relatively high, and the customer base is associated with several higher-risk attributes that increase vulnerability.

## SIZE OF THE CUSTOMER BASE

AUSTRAC assesses the size of the junket tour operations sector's customer base to present a low level of vulnerability. Information provided by casinos indicates the numbers of JTOs, JTRs and players combined amount to a very low exposure in terms of numbers. However, the transactional activity relating to junkets is relatively high.

AUSTRAC recognises junket tour operations may be unique in some of the services they offer, and the types of customers they have, as well as the fact it is not unusual for junkets (or casinos more broadly) to be associated with higher levels of cash transactions than may be typically observed in other sectors, as stated in the **Products and Services** section. However, the relatively high transactional activity associated with junket tour operations increases the vulnerability level above what would generally be assessed for a customer base of its size.

## HIGHER-RISK CUSTOMERS

Although not all customers are high-risk, AUSTRAC assesses that the general risk profile of persons involved in junkets is high. Under current arrangements, it is not possible to clearly determine beneficial ownership and control of the funds while the use of cash increases anonymity. Under the junket arrangements, the primary customer of the casino is the JTO while the relationship between the casino and the junket players is more opaque.

### **THE "CUSTOMER" OF THE CASINO AND OWNERSHIP OF FUNDS**

Consultation with AUSTRAC's partner agencies highlighted concerns arising from the obscuring of the ultimate beneficiary of activity on junket accounts, identifying it as a key vulnerability associated with the sector, in terms of criminal exploitation of the casino as well as the intelligence gaps faced by law enforcement.

Under the AML/CTF Act, a reporting entity is required to conduct due diligence on its customers proportionate to the level of ML/TF risks they pose.

When a transaction occurs on a casino junket account, the customer of the casino is the JTO (or any JTRs who may be acting as agents of the JTO).

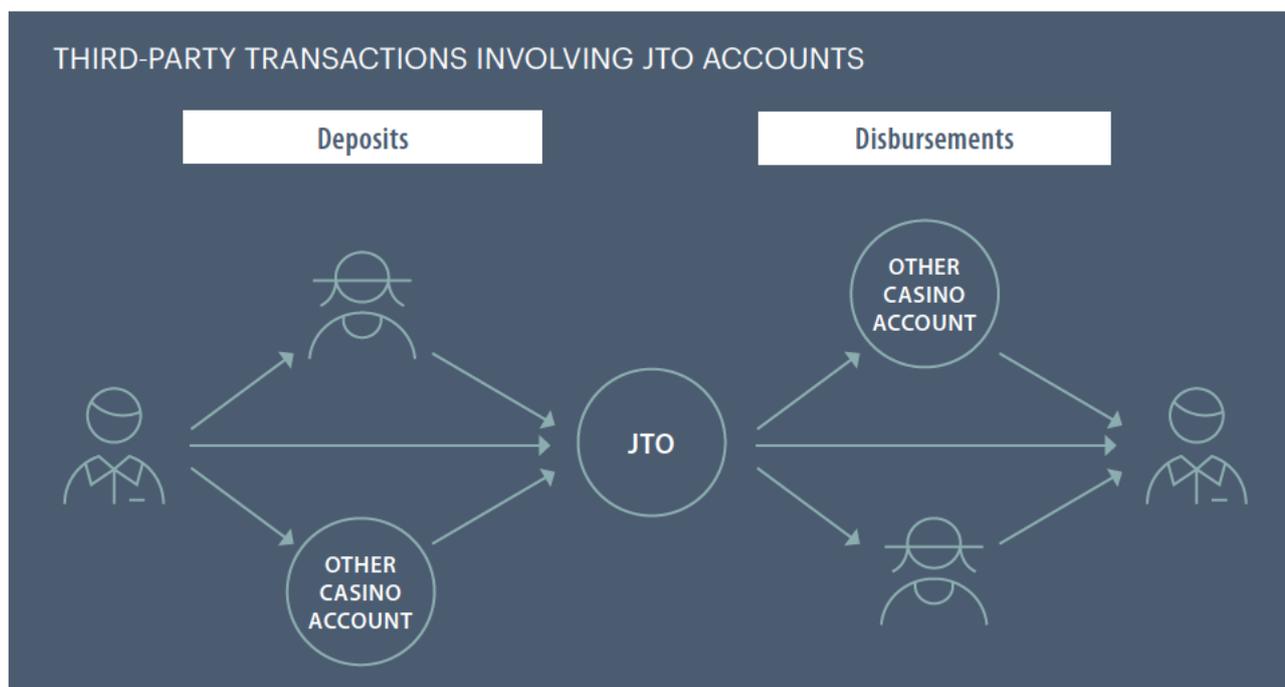
However, the funds being deposited in, stored in or withdrawn from the JTO's account may not be in practice owned by the JTO, because it is credit the JTO has extended under arrangement to the players and for the use of the players. In fact, it would be assumed for the purposes of the junket that much of the money stored in the JTO's account would be, in effect, associated with players.

This arrangement causes two significant vulnerabilities. First, the pooled nature of the funds in junket accounts makes it more difficult for the casino and law enforcement to link transactions made by the JTO/JTR to specific junket players. Second, transaction reports submitted to AUSTRAC about transactions requested by players are likely to be reported under the JTO's name (with the JTR as agent) rather than under the player's name. This obscures the true actor and makes it difficult for AUSTRAC and its partners to understand who is causing what transactions to occur, who or where the funds come from, and where they go.

To add a further layer of complexity, SMRs assessed by AUSTRAC reveal that junket accounts are also used by persons who do not appear to have any direct association with the conduct of the junket.

AUSTRAC identified 193 SMRs in the dataset that reported that a third party was depositing money into a junket account. Some of these SMRs indicated indirect deposits - for example, cash deposits may have been made by a third party into their own casino account and then transferred to a junket account even though they were not participating in the junket. In other reports, casino staff observed a third party giving cash to a JTO/JTR, who made the actual deposit into the account.

## THIRD-PARTY TRANSACTIONS INVOLVING JTO ACCOUNTS



Of the 193 SMRs indicating third-party deposits,

- 156 SMRs indicated that \$37.0 million was deposited by domestic electronic funds transfer (EFT) or transfer within the same casino group into 27 JTO accounts<sup>22</sup>
- 25 SMRs indicated that \$5.6 million was deposited in cash into 18 JTO accounts
- nine SMRs indicated that \$6.2 million was deposited by IFTI into eight JTO accounts, and
- three SMRs indicated that \$380,000 was deposited in chips into four JTO accounts.

A further 61 SMRs described funds in junket accounts being disbursed to third parties. Some of these SMRs indicated indirect withdrawals or disbursements – for example, cash withdrawals from a junket account may have been made by a JTO/JTR and then handed to a third party.

Of the 61 SMRs indicating disbursements to third parties,

- 34 SMRs indicated that \$25.8 million was disbursed via domestic electronic funds transfer or transfer within the same casino group from 28 JTO accounts<sup>23</sup>
- 23 SMRs indicated that \$4.9 million was disbursed in cash from 15 JTO accounts
- two SMRs indicated that \$639,200 was disbursed by IFTI into three JTO accounts,<sup>24</sup> and
- two SMRs indicated that \$214,000 in chips was disbursed from two JTO accounts to third parties.<sup>25</sup>

This level of transacting on junket accounts by persons identified by the casino as not being related to the junket is consistent with AUSTRAC's finding that junket accounts can be used for purposes other than junket activity. One partner agency indicated its concern that transactions from junket accounts to third parties may be going towards the purchase of Australian real estate.

<sup>22</sup> AUSTRAC acknowledges that casinos are unable to prevent electronic deposits into casino accounts.

<sup>23</sup> Some SMRs described activity on more than one JTO account.

<sup>24</sup> *ibid.*

<sup>25</sup> AUSTRAC acknowledges it is difficult for casinos to decline to process some withdrawal transaction requests, given it would constitute denying customers access to their own funds.

## MULTIPLE PARTIES DEPOSITING CASH INTO A JTO CASINO ACCOUNT

AUSTRAC identified a JTO whose account received over \$14 million in cash deposits of \$10,000 or more from 32 individuals over the reporting period. However, only 15 of these depositors were registered JTRs. Over \$1.5 million dollars in cash was deposited into this JTO's account over the relevant period by persons who were not the JTO or a JTR. One \$100,000 cash deposit was made by a second JTO.

This demonstrates that the casinos' practice of only allowing JTRs or the relevant JTO to transact on JTO accounts can be inconsistently applied. Further, this JTO has 80 separate JTRs listed over the time period, presenting potential challenges in managing and understanding the scale of transactions on the JTO account.

AUSTRAC cautions that too large a number of JTRs allowed to transact on JTOs' accounts may diminish effective control over transactors.

### TREATING JTOs AS INDIVIDUALS RATHER THAN CORPORATE ENTITIES

Consultations with casinos indicate they often consider JTOs to be individuals and transact with them on that basis. However, it is clear some JTOs operate as part of large commercial operations that are often international businesses.<sup>26</sup> Differences in treatment between a JTO as an individual or a business would likely lead to the different application of due diligence which would increase the vulnerability associated with understanding of beneficial ownership and control.

The diversification of junket tour operations into a range of different business lines increases opportunities for comingling, and presents difficulties for banks in understanding the origin of funds. One partner agency expressed the view that the financial significance of large corporate junket operations to casinos may increase the likelihood to persuade or influence casinos' operations.

### FOREIGN NATIONALS

Information provided by casinos indicates that 95 per cent of players on junkets over the relevant period were foreign residents, which is consistent with the expected demographic breakdown of junket tour operations. However, at a general level, a customer base composed predominantly of foreign residents can increase a sector's vulnerability in several ways. For example, it can:

- increase the sector's attractiveness and accessibility to TSOC groups because it increases the global reach of the sector
- obscure the source and destination of funds, because entities and governments have more limited visibility of financial activity in other jurisdictions, and
- make information relating to customers' criminal and financial history and associations difficult to access, because it is held by foreign governments.

Partner agencies indicated that these vulnerability factors have been exploited or observed in the junket tour operations sector.

Consultations with casinos highlighted that as part of their customer due diligence processes, some casinos were of the view that the granting of a short-term tourist visa to enter Australia and participate in a junket tour includes an assessment of a person's probity. Partner agencies confirmed that the granting of these short term visas does not include consideration of the criteria relevant to the customer due diligence obligations.

In addition, AUSTRAC acknowledges that foreign residents may have the right to work and live in Australia for a significant portion of the year. However, dual residency can bolster people's networks and sphere of influence and capacity to arrange and facilitate exploitation of funds flows between their countries of residence so increases, rather than diminishes, their risk.

<sup>26</sup> AUSTRAC acknowledges that states and territories' regulation of junket activities differs, including in respect of the entity-types that can be registered as JTOs. However, this does not negate the requirement under Commonwealth AML/CTF regulation to undertake applicable customer identification processes based on entity-types contemplated in the AML/CTF Act.

## RELIANCE ON VISA GRANT PROCESS

When describing their player due diligence procedures, many casinos indicated they relied heavily on the fact that the player had been granted a visa by the Australian government to satisfy themselves the player was of sufficiently good character to play on junkets. AUSTRAC considers it likely that this approach misunderstands visa grant criteria and processes which are tailored to meet foreign policy obligations, not to meet the customer due diligence (CDD) requirements under the AML/CTF Act.

AUSTRAC encourages casinos to review their CDD processes, and while continuing to leverage third party information, also employ in-house processes that validate inputs within the assessment of the player's suitability in high stakes junket activity.

## FOREIGN POLITICALLY EXPOSED PERSONS (PEPs)

Consistent with the nature of the activity, high net worth foreign nationals are the primary target market for junkets, which exposes junkets to patronage by foreign PEPs. Use of a service by PEPs can increase a reporting entity's vulnerability to dealing in the proceeds of corruption or exposing the business to foreign influence or interference. As a reflection of the ability to manage the risks posed in a business relationship with foreign PEPs, the AML/CTF framework requires reporting entities to conduct enhanced customer due diligence (ECDD) whenever they provide a designated service to a foreign PEP, including seeking senior management approval to establish and continue the business relationship.

AUSTRAC has identified circumstances where a foreign PEP not only participated in junket activities, but also operated as JTOs and JTRs.

AUSTRAC also notes a target market of foreign nationals also increases junket tour operations' exposure to internationally sanctioned entities.

For more information on the corruption vulnerabilities caused by foreign PEPs, see AUSTRAC's strategic analysis brief: *Politically exposed persons, corruption and foreign bribery*.<sup>27</sup>

## CRIMINAL ASSOCIATIONS

As described in the **Criminal Threat Environment** section, some junkets have been infiltrated by criminals including Asian crime group members and transnational money laundering operations. Data-matching with partner agencies identified 16 per cent of JTOs and JTRs that operated over the reporting period were associated with entities known to be partner agency targets, even if not actual targets themselves.

<sup>27</sup> [www.austrac.gov.au/business/how-comply-guidance-and-resources/guidance-resources/politically-exposed-persons-corruption-and-foreign-bribery-strategic-analysis-brief](http://www.austrac.gov.au/business/how-comply-guidance-and-resources/guidance-resources/politically-exposed-persons-corruption-and-foreign-bribery-strategic-analysis-brief)

## ADVERSE MATCHES ON OPEN SOURCE DATABASES

AUSTRAC undertook data matching between the names of the JTOs and JTRs that operated over the twelve month period<sup>28</sup> and a publicly available database that many reporting entities use when conducting due diligence on their customers. This publicly available database uses three broad categories as reflected below.

Results<sup>29</sup> revealed:

- **62** matches under the category that broadly includes:
  - persons accused, investigated, arrested, charged, indicted, detained, questioned, or on trial for crimes, but not yet convicted
  - individuals appointed to a PEP position (as opposed to elected)
  - individuals appearing on regulatory, law enforcement, or global sanctions watch lists such as Office of Foreign Assets Control (OFAC), disqualified directors or Interpol, and
  - immediate relatives or close associates of primary PEPs.
- **45** matches under the second category indicating the subject had been convicted of, pleaded guilty to or been sentenced for crimes including financial crime, organised crime and narcotics-related crime.
- **Four** matches under the third category that includes:
  - persons currently holding or having held a political position
  - persons who have been elected to a government or PEP position
  - individuals in a country where cabinet ministers, state secretaries and the like are appointed and not elected (e.g. kingdom or military state), and
  - leaders of a political party.

The JTO that was the subject of the greatest number of SMRs over the period matched under two of the above three subcategories, and appears to have been sentenced to a period of imprisonment in a foreign country for illegal gambling activities.

Given casinos subscribe to this or similar databases to discharge their customer due diligence obligations, it is likely some, if not all, of this information was available to casinos when they agreed to allow these people to provide junket services. This would suggest that casinos have a high risk tolerance in terms of who they will allow to provide junket services.

AUSTRAC encourages casinos to consider all matches on whichever database they use to conduct customer due diligence as triggers to conduct ECDD.

## HIGH-RISK CUSTOMER EXAMPLE

AUSTRAC identified a JTR who is a close business associate of a former junket player recently arrested and who has been the subject of extensive adverse media attention in relation to international crime, support of a foreign government as well as links to domestic government officials.

AUSTRAC received an SMR describing a large cash deposit made by this JTR into an account held for a law firm. The SMR indicated the cash deposited by the JTR was converted by the law firm into a bank cheque to a construction company – possibly indicating the purchase of Australian property. An SMR lodged by a casino the day after the deposit was made into the law firm's account indicated the cash may have originated from a JTO's casino account.

28 There are over 500 JTOs/JTRs engaging in junket programs each year.

29 The total number of individuals matched with open source databases was 75, however several individuals returned matches for more than one category.

## PRODUCTS AND SERVICES

AUSTRAC assesses the products and services associated with junket tour operations to present a high ML/TF vulnerability.

Gambling is globally recognised as being a key channel for criminals looking to launder proceeds of crime.<sup>30</sup> There are several reasons for this:

- Money deposited and then withdrawn with minimal gaming activity will appear to have a legitimate origin, even though very little money was actually risked. Further, any losses sustained can give the incorrect appearance that the customer is engaging in genuine gaming activity.
- Value washed through gambling services is highly liquid, and can be easily transferred between fiat currency and gaming chips, or transferred to another player, another gambling establishment, or a domestic or foreign bank.
- Recreational gambling winnings are not taxable in Australia, meaning that if pre-tax income is turned-over, source of funds can be justified as winnings and go untaxed.
- It is possible to win very large amounts of money from a relatively small outlay, so it is difficult for banks that hold the accounts of gamblers to form a suspicion based on transactions being inconsistent with their claimed income source.

These vulnerabilities associated with gambling in general can apply to a greater or lesser extent depending on the context of the gambling activity. Given the much higher average transaction value and the higher personal wealth of most players (making illegitimately obtained wealth harder to identify), AUSTRAC considers the gambling services associated with junkets to be relatively high risk.

## FRONT MONEY PROVIDED BY CASINOS

A key harm minimisation measure in Australian casinos is the prohibition of the use of credit (in particular the use of credit cards) for gambling purposes.

This prohibition is generally restricted to local residents. Some states and territories have, however, provided exemptions to this obligation by allowing high net worth gamblers who are domiciled in a foreign jurisdiction access to casino credit or cheque cashing facilities under specified terms and conditions.

Casinos consulted for this risk assessment indicated the vast majority of front money used for junkets is provided to the JTO by the casino as a loan or via a cheque cashing facility in accordance with the terms and conditions relevant to that jurisdiction. The money is gambled by junket players, and at the end of the junket, the JTO directs the disbursement of any winnings, or pays the casino for any losses.

The nature of this funding model for junket tour operations significantly diminishes the amount of money JTOs need to have onshore to balance front money provided offshore by players. Without access to credit or cheque-cashing facilities offered by casinos, AUSTRAC considers it would be more difficult for JTOs to source sufficient front money without involving the financial services sector.

A further vulnerability related to casinos' provision of front money is that it diminishes the opportunity for the casino to understand which players are responsible for what amount of front money. Hypothetically, if casinos were to require front money to be directly credited to the casino by individual players, they would likely be better able to understand source of funds, compare front money amounts with betting activity and settlement instructions, and monitor for transactions inconsistent with the players' profiles.

<sup>30</sup> For more information on the money laundering risks associated with gambling in general, please see AUSTRAC's [Money Laundering in Australia report 2011](http://www.fatf-gafi.org/media/fatf/documents/reports/Vulnerabilities%20of%20Casinos%20and%20Gaming%20Sector.pdf), [www.fatf-gafi.org/media/fatf/documents/reports/Vulnerabilities%20of%20Casinos%20and%20Gaming%20Sector.pdf](http://www.fatf-gafi.org/media/fatf/documents/reports/Vulnerabilities%20of%20Casinos%20and%20Gaming%20Sector.pdf), [news.gov.bc.ca/files/German\\_Gaming\\_Final\\_Report.pdf](http://news.gov.bc.ca/files/German_Gaming_Final_Report.pdf) and [www.dia.govt.nz/pubforms.nsf/URL/AMLCFT\\_Casino-Sector-Risk-Assessment\\_April-2014.pdf/\\$file/AMLCFT\\_Casino-Sector-Risk-Assessment\\_April-2014.pdf](http://www.dia.govt.nz/pubforms.nsf/URL/AMLCFT_Casino-Sector-Risk-Assessment_April-2014.pdf/$file/AMLCFT_Casino-Sector-Risk-Assessment_April-2014.pdf).

## USE OF CASH

From a money laundering perspective, cash is inherently high risk because it is anonymous, readily exchangeable and untraceable.

Cash exposure in casinos is typically higher than in other sectors regulated under the AML/CTF framework because state regulations impose harm minimisation standards prohibiting the use of some non-cash means to fund gambling activity (such as credit cards).

The incidence of cash transactions associated with the junket tour operations sector is high, with over 85 per cent of the JTOs that operated over the period studied being the subject of TTRs submitted by casinos. While many of these transactions are likely to be legitimate, and simply indicative of the convenience of using cash to transact or move value between casinos, they make illegitimate cash transactions less conspicuous and harder to identify.

AUSTRAC assesses the high incidence of large cash transactions in the junket tour operations sector increases its vulnerability to money laundering, in particular to a known money laundering methodology of comingling illicit and legitimate funds.

## TTRs RELATING TO JUNKET ACTIVITY SUBMITTED BY CASINOS DURING THE PERIOD 1 APRIL 2018 – 31 MARCH 2019:

- 4,638 TTRs involving a total cash value of \$246.3 million and an average cash value of \$53,107:
  - 1,160 incoming TTRs with a total cash value of \$81.1 million in relation to 78 JTOs
  - 3,477 outgoing TTRs with a total cash value of \$165.2 million in relation to 116 JTOs.<sup>31</sup>

All in-scope casinos submitted at least one TTR and one casino accounted for over half of the TTRs submitted.

### Incoming versus outgoing TTRs

The intelligence and suspicious matter reporting studied by AUSTRAC for this risk assessment focused predominantly on suspicious cash deposits. Casinos indicated they held less concern about cash withdrawals than deposits, because the source of funds for withdrawals was clearer to them, and because players may request large cash withdrawals as a way of moving funds between casinos.

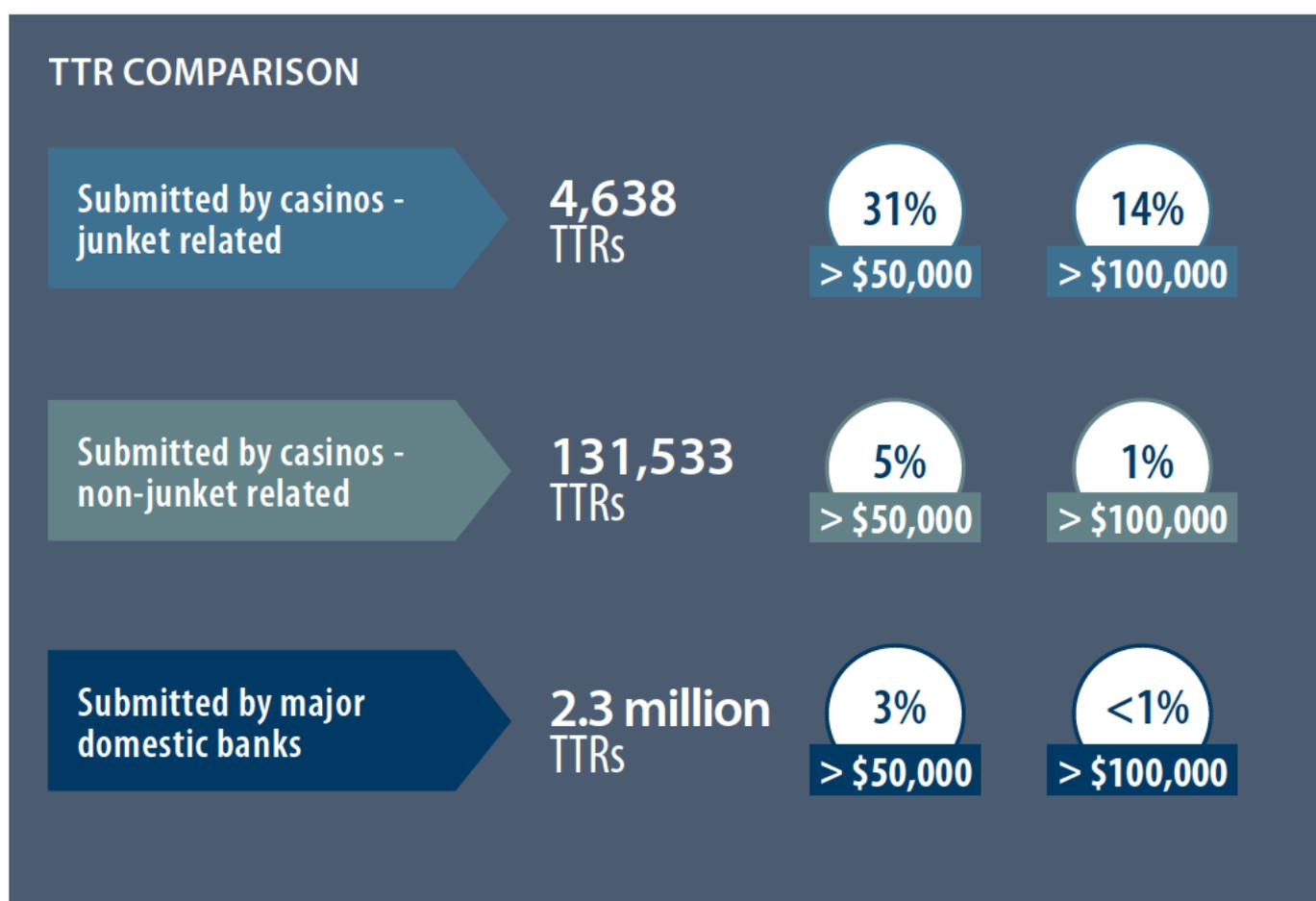
This approach is reflected in SMRs, in that casinos lodged 129 SMRs that described \$37.5 million in cash deposits, but only 87 SMRs describing \$28.3 million in cash withdrawals. SMRs indicate a key concern held by casinos in relation to cash deposits was the way large cash deposits were presented, rather than the large cash deposits themselves. In particular, casinos are less likely to find cash deposits suspicious if the cash appeared to have been issued by a casino (with casino straps), than if the cash were presented in loose notes and/or varying denominations.

However, threshold transaction report data demonstrates that, both in number and value, large cash activity in the junkets sector is actually heavily skewed towards withdrawals, not deposits. As described in the **Criminal Threat Environment** section, the ultimate destination of these large cash withdrawals is an intelligence gap. One bank consulted for this risk assessment indicated large cash withdrawals would likely end up being deposited into bank accounts, increasing banks' exposure to the risks associated with junket activity.

31 Total incoming and outgoing TTRs sum to 4,637 because the direction of one TTR was unspecified.

To illustrate the relatively high exposure of junket tour operations to large cash transactions, AUSTRAC has compared threshold transaction reporting percentages for these higher value transactions from casinos that do not relate to junket activity, and TTRs from the four major domestic banks for the purposes of illustrating the cash intensive nature of junket activity.

While acknowledging the typically higher use of cash in the gambling sector, major banks facilitate significantly more cash transactions, as do casinos outside of their junket activities, the below figures highlight that junkets have a substantially higher exposure to singularly large cash transactions, than casinos or the major domestic banks.<sup>32</sup>



<sup>32</sup> TTR figures from the major domestic banks include all TTRs, not just TTRs relating to transactions by individuals. AUSTRAC acknowledges that some cash deposits into casino accounts may be identifiable by the casino as having been previously withdrawn from that casino (because it was strapped and dated by the casino upon withdrawal).

## CASH DEPOSITS MADE DIRECTLY INTO CASINO BANK ACCOUNTS

In addition to making cash deposits directly into the JTO account at the casino, cash for junkets can be deposited into casinos' bank accounts. These cash transactions are reported by the bank rather than the casino, meaning that the above summary of TTRs reported about junkets by casinos understates the cash exposure created by the subsector.

Given many banks' extensive branch networks and systems to facilitate easy cash deposits below the threshold amount, casinos accepting cash deposits for patron accounts through banks is highly susceptible to cuckoo smurfing and constitutes a further means of facilitating the domestic transactions required for offsetting.

## ABILITY TO STORE AND MOVE FUNDS OR VALUE

AUSTRAC assesses junket tour operations to be highly exposed to the risks posed by the ability to store and move funds.

### GAMING ACCOUNTS

Casinos reported 419 junket-related SMRs over the reporting period that related to the use of gaming accounts. Casino gaming accounts operate much like an account held with a financial institution, offering a safe place to store large amounts of money and the ability to deposit and/or withdraw funds using various means, including cash, chips, personal and bank cheques,<sup>33</sup> transfers within the casino/casino group and domestic electronic transfers.<sup>34</sup>

Combined with the high degree of anonymity associated with transactions on junket accounts described above, and the risks associated with the depositing of funds by third parties with no association to the conduct of the junket, AUSTRAC considers junket accounts at casinos to be highly vulnerable to the storage and movement of potentially illicit funds.

<sup>33</sup> Personal and banks cheques can only be used for deposits.

<sup>34</sup> Ability to transfer funds internationally is considered in the **Foreign Jurisdiction** section.

## DELIVERY CHANNEL

### LEVEL OF CUSTOMER CONTACT

AUSTRAC assesses that the level of customer contact involved in the provision of junket tour operations creates a medium level of vulnerability. Junket tour operations generally require the physical presence of all players and at least one JTO or JTR in an Australian casino, which all have sophisticated security and monitoring systems. Casinos therefore have significant scope and means to observe players' and JTOs'/JTRs' behaviour for suspicious activity.

However, the account through which junket transactions are made is registered under the name of the JTO, who is the casino's primary customer in relation to transactions on their accounts. Yet, the JTO is frequently not present in person, particularly in circumstances in which the JTO is an international operation, thereby leaving all engagements to be facilitated by their authorised JTR/s.

In many ways, JTO accounts operate as an intermediary between the casino and the participants. This increases the distance between the casino and the underlying customer, in turn increasing the obscurity of the source and purpose of transactions on the account.

Similarly to bank accounts, casinos allow gaming accounts, including JTO accounts, to receive funds via international and domestic electronic transfers, which allows for third parties, with whom the casino has no face-to-face contact, to transact.

### COMPLEXITY OF SERVICE DELIVERY ARRANGEMENTS

AUSTRAC assesses the complexity of the service delivery arrangements associated with the provision of junket tour operations to create a high level of vulnerability.

As described throughout this assessment, the traditional casino gaming model involving the interposed position of the JTO between the casino and the player, and the further interposed involvement of JTRs, complicates casinos' service delivery in a manner that increases vulnerability. In particular, it increases the distance between the reporting entity and the underlying customer, making it difficult to assign beneficial ownership to transacted funds, or to assess the rationality of particular transactions.

Moreover, the extent to which casinos are able or willing to influence the procedures or risk appetite of JTOs is likely to vary across casinos and JTOs. JTOs are often not in the country when a junket is progressing, reducing their ability to manage the procedures of the onshore JTRs. Partner agency intelligence indicates that exploitation of junket operations may be conducted by JTRs without the knowledge and/or support of the overarching JTO.

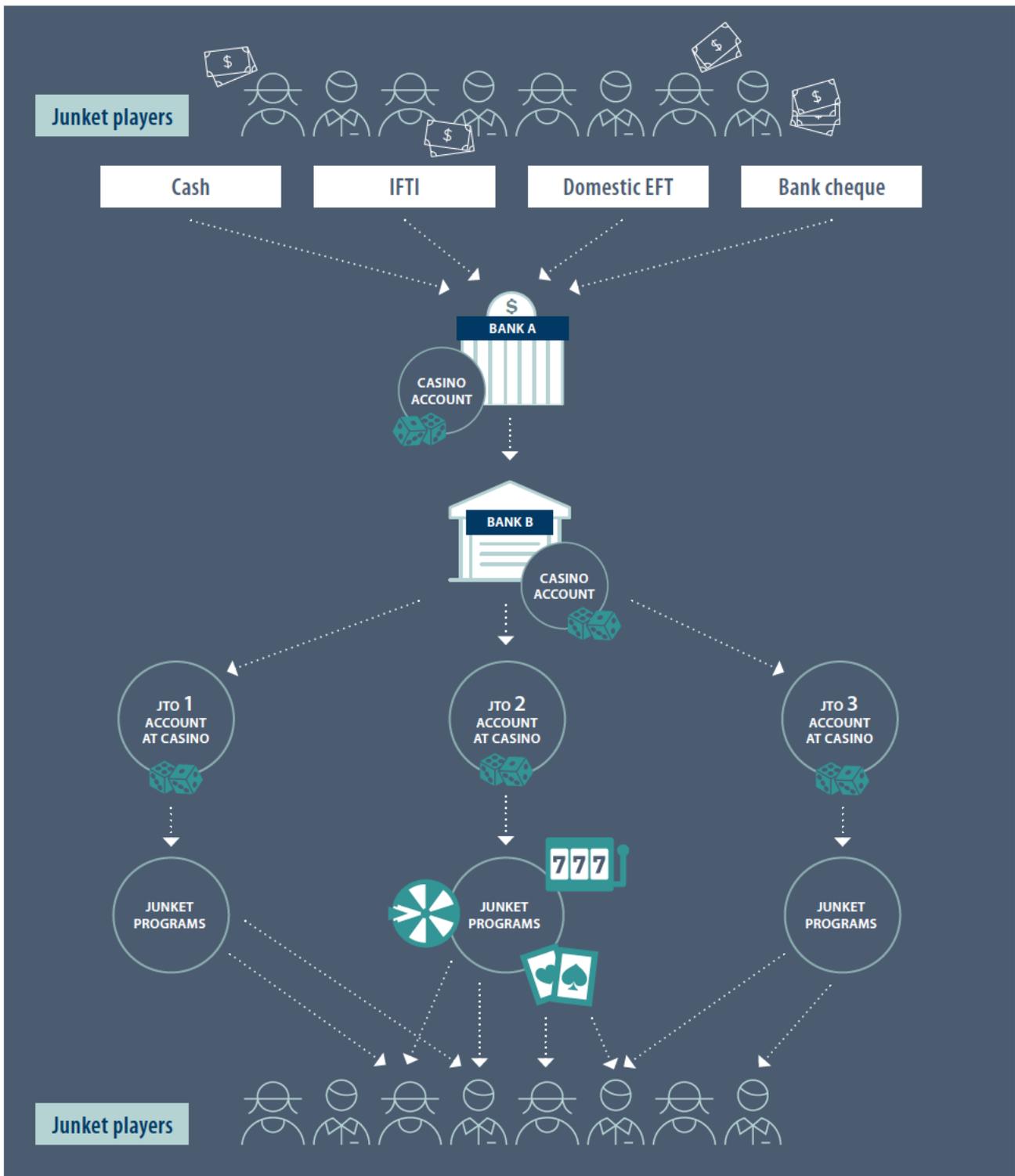
## CASINO ACCOUNTS WITH BANKS

Casinos also hold accounts with banks (sometimes several accounts across multiple banks), which receive incoming transfers or cash deposits relating to both junket customers and non-junket customers. It is noted that in some states and territories, the casino requires the approval of the regulator to open and operate a bank account.

Banks consulted for this risk assessment indicated the junket business model made it more difficult to assess the purpose and legitimacy of transactions on the casino accounts they held. This assessment by banks is compounded by movements of funds between casino accounts held with different banks, as it severs individual banks' oversight of funds flows. Banks also noted the inability to isolate junket-related transactions from other casino transactions presented obvious challenges in terms of transaction monitoring and analysis.

## AN EXAMPLE OF THE JUNKET VALUE CHAIN

The length of the value chain and pooling of various parties' money in the same accounts causes difficulties for casinos' due diligence and for banks' transaction monitoring activities, particularly if incoming funds are transferred between different banks before being made available to the junket.



## FOREIGN JURISDICTION

AUSTRAC assesses junket tour operations to be subject to a high level of vulnerability in relation to foreign jurisdiction exposure. The ability to move funds between Australia and other jurisdictions increases Australia's vulnerability to transnational money launderers, terrorism financiers, foreign interference entities, transnational tax evaders and the purchase or sale of illicit goods internationally. In this context, while casinos are exempted from registering on the Remittance Sector Register, they do remit funds overseas and are required to report IFTIs.

However, given 95 per cent of junket players over the reporting period were foreign residents gambling money in Australia, AUSTRAC assesses there is a high exposure to the risk posed by international funds flows. These risks are likely to be exacerbated in situations where:

- the JTO has operations in several countries, increasing the risk of offsetting between accounts held at casinos in different jurisdictions, and
- where the casino itself is part of a group that operates casinos internationally.

## MOVEMENT OF FUNDS OR VALUE INTERNATIONALLY

### *UNDERSTANDING THE INTERNATIONAL MOVEMENT OF FUNDS*

This assessment has found that much of the movement of value associated with junket activity is unlikely to have been reported as IFTIs to AUSTRAC due in part to the nature of some of the offsetting processes described above, or because there is no obligation to report an IFTI.

Further, casinos' IFTI data is unable to provide a quantitative representation of the foreign jurisdiction exposure associated with the junket tour operations sector for various reasons, including but not limited to:

- use of loans or cheque cashing facilities as front money, meaning
  - front money to be gambled may not have actually crossed the border
  - repayments to the casino for losses incurred during the junket paid from offshore do not attract an IFTI obligation for the casino, and
- much of the IFTI activity that relates to junkets appears to be facilitated through JTOs' and JTRs' personal bank accounts, rather than through casino accounts.

## IFTIs REPORTED BY BANKS

In order to provide a picture of the sector's exposure to foreign jurisdictions, AUSTRAC extracted the international transactions reported by banks in relation to the casino bank accounts in which junket monies are received into and disbursed out of.

### *Incoming IFTIs 1 April 2018 to 31 March 2019 – top five source countries (by \$ amount)*

Source country	Total amount (AUD)	No. of IFTIs	Average amount per IFTI (AUD)
Hong Kong	\$201,349,353	326	\$617,636
Macau	\$172,782,695	90	\$1,919,808
Indonesia	\$130,172,769	525	\$247,948
Singapore	\$129,364,007	331	\$390,828
Taiwan	\$30,225,925	59	\$512,304
<b>Total</b>	<b>\$663,894,749</b>	<b>1,331</b>	<b>\$498,794</b>

### *Outgoing IFTIs 1 April 2018 to 31 March 2019 – top five destination countries (by \$ amount)*

Destination country	Total amount (AUD)	No. of IFTIs	Average amount per IFTI (AUD)
Macau	\$34,496,300	3	\$11,498,767
Singapore	\$26,415,331	57	\$463,427
Hong Kong	\$12,541,891	28	\$447,925
United Kingdom	\$5,351,210	12	\$445,934
Philippines	\$3,280,527	1	\$3,280,527
<b>Total</b>	<b>\$82,085,258</b>	<b>101</b>	<b>\$812,725</b>

## TRANSACTIONS WITH HIGHER-RISK JURISDICTIONS

AUSTRAC assesses the transactional activity and customer domicile associated with the junket tour operations sector in Australia poses a high level of ML/TF vulnerability.

AUSTRAC and its partner agencies assess that a significant proportion of junket players and funds ultimately originate from jurisdictions in which gambling and currency restrictions apply. As described in the **Criminal Threat Environment** section, restrictions on the movement of currency create a market for the covert movement of value, even if the wealth were derived legitimately. The covert movement of funds is also attractive to criminal syndicates in Australia who have a surplus of domestically-generated cash proceeds of crime that can be used to fulfil the onshore portion of the covert movement of funds.

Blanket gambling restrictions can also make jurisdictions high-risk sources of junket players, because gambling debts are not enforceable in those countries so junket operations may be associated with criminal networks that enforce debts extra-judicially.

Further, jurisdictions in which transnational serious and organised crime groups, money laundering organisations and triads operate and can exploit opportunities arising from international funds flows associated with junkets in Australia and elsewhere, can be considered higher risk for junkets.<sup>35</sup>

Various other jurisdictions – which may act as conduits for such funds flows – may themselves, pose a higher risk due to the associated factors involved in facilitating money movements which increases exposure to money laundering, corruption or other serious crimes.

## DETERMINING HIGHER-RISK JURISDICTIONS

There is no one-size-fits-all list of high-risk jurisdictions. Reporting entities should adopt a risk-based approach when determining which jurisdictions to consider high-risk for their business. AUSTRAC encourages the use of a range of sources that assess jurisdictions on different AML/CTF factors, including but not limited to their regulatory frameworks, threat environment, and domain-specific vulnerabilities.

Some reporting entities may choose to use off-the-shelf solutions that risk rate jurisdictions. If doing so, reporting entities should consider their own risk profile and be able to override default risk ratings. For example, a casino with significant exposure to a high-risk industry in a specific jurisdiction might need to increase the default rating of that jurisdiction.

In line with this approach, AUSTRAC has made its own determination about which jurisdictions are considered higher-risk for this report. This takes into account Australia-specific factors – such as top source or destination jurisdictions for higher-risk financial flows – as well as global factors, such as the strength or weakness of a jurisdiction's AML/CTF regulatory regime. Open sources AUSTRAC has leveraged to inform these decisions include:

- FATF's high-risk and other monitored jurisdictions list
- European Union's high-risk third countries with strategic deficiencies in their AML/CFT regimes list
- US State Department's International Narcotics Control Strategy Report
- Transparency International's Corruption Perception Index
- European Union list of non-cooperative jurisdiction in taxation matters.

<sup>35</sup> Chapter 3, p34-35 - [https://news.gov.bc.ca/files/German\\_Gaming\\_Final\\_Report.pdf](https://news.gov.bc.ca/files/German_Gaming_Final_Report.pdf)

### ***Features of junket operations that make them higher risk***

Not all junket tour operations have the same risk profile. Each casino may implement different controls to mitigate and manage the ML/TF risks of their junket operations, and they may also implement different procedures with respect to different JTOs that operate in the same casino.

Generally speaking, AUSTRAC considers that the more of the following features that apply to a specific junket tour operation, the higher its risk in terms of its vulnerability to money laundering and related financial crime:

- JTOs/players are from higher-risk jurisdictions
- casinos accept large cash deposits to make up front money or repay debts
- casinos allow large cash withdrawals
- casinos allow movement of funds between casino accounts
- JTOs are PEPs or have criminal associations
- casinos extending credit/cheque cashing facilities to JTOs for front money
- casinos allowing non-junket related transactions on JTO accounts, including:
  - exchange of cash/“negotiable” chips
  - allowing any deposits or withdrawals during a junket
  - allowing any non-winnings funds stored in junket accounts to be used for purposes other than gaming
  - allowing transactions to or from third parties.

While none of these features in and of itself demonstrates that a particular junket is being exploited, each constitutes a vulnerability that can make an operation more attractive to money launderers and other criminals.

In responding to the features above, each casino may implement different controls to mitigate and manage the ML/TF risks of their junket operations, and they may also implement different procedures with respect to different JTOs that operate in the same casino.

## IMPLEMENTATION OF RISK MITIGATION STRATEGIES

AUSTRAC assesses the level of implementation of risk mitigation strategies in the junket tour operations sector poses a high level of vulnerability. Risk mitigation strategies include **both** measures that are mandatory under AML/CTF legislation and other measures that go towards mitigating ML/TF risks.

AUSTRAC consulted all of the casinos that offered junkets over the relevant period. Casinos outlined a range of practices used to mitigate the risk of criminal exploitation of junkets, including a combination of the following:

- Implementing an AML/CTF program and framework which includes policies and processes concerning employee due diligence, transaction monitoring, systems to report suspicious matters, threshold transactions and IFTIs, and AML training for staff members.
- Conducting due diligence on JTOs, generally including an application process, identity verification procedures, sanctions and PEPs screening, obtaining international police clearance certificates, credit checks and open source database screening. Due diligence may also be informed by activities conducted by third parties such as law enforcement and regulatory agencies (for example, the approval or refusal of visas).
- Notifying state gaming regulators of JTOs/JTRs and junket participant names. In Queensland, JTOs/JTRs are required to undergo an approval process administered by the gaming regulator.
- Requiring that JTOs enter the country at least once per year, to ensure they are still deemed suitable for the granting of a visa.
- Retaining detailed records of gaming activity of all junket players.
- Authorising that only JTOs/JTRs can transact on the relevant junket account. As described above, SMRs demonstrate this expectation can be compromised when unknown third parties hand cash to the JTO/JTR, who deposits it on their behalf, and when unknown third parties deposit money electronically.

- Only allowing remittances from the junket account to be sent to the JTO or players in the junket.
- Attempting to establish a link between a JTO/JTR/player and the beneficiary of any requests for outgoing funds transfers.
- Recording all gambling activities.
- Using CCTV surveillance footage to identify the context behind suspicious transactions.
- Screening higher-risk customers daily, to ensure any adverse changes are noted.
- Conducting ECDD on higher-risk customers including junket players and JTOs/JTRs.

AUSTRAC considers that these measures (or a combination of these measures) contribute to mitigating and managing the ML/TF risks associated with the conduct of junket activity, particularly in terms of the transaction and suspicious matter reporting casinos undertake. However, the relatively high number of JTOs/JTRs with adverse findings in open source databases, combined with the level of criminal exploitation of the sector, indicates these systems could be significantly strengthened.

AUSTRAC encourages casinos to develop industry-leading practices in the application of their ML/TF risk mitigation policies, systems and processes, with emphasis on the robustness of these efforts in order to better protect their businesses from criminal exploitation.

For example, during the development of this risk assessment AUSTRAC noted a number of areas in which casinos could consider further strengthening their systems and controls, to better mitigate the risk to criminal exploitation faced by junkets.

### **TOLERANCE FOR LARGE CASH TRANSACTIONS**

AUSTRAC considers that casinos have a high-risk tolerance in relation to large cash transactions, increasing their vulnerability in terms of accepting the proceeds of crime, or providing cash that may be used for illicit purposes. AUSTRAC is aware that large cash transactions are not unusual for casinos, but that does not, in and of itself, indicate they are not suspicious. AUSTRAC encourages casinos to review their risk appetite in relation to large cash transactions, and, in particular, to heighten their scrutiny of the likely origin/use of cash before deciding whether to proceed with the transaction.

### **TOLERANCE FOR HIGHER RISK JTOs**

As previously described, AUSTRAC has identified a large number of JTOs and JTRs with adverse records on publicly available databases.

One casino stated during consultations for the risk assessment that *“police and state based casino regulators have the powers to exclude customers, including junket operators, representatives and players, from the casino.”* Although various competent authorities have, and may use, such powers, this does not lessen the opportunity for casinos to proactively identify and use identified information as a basis to collaborate with law enforcement.

In particular, given the difficulties faced by law enforcement in sharing information that is not on the public record, casinos’ vulnerability to criminal exploitation would be significantly lessened if they accepted adverse information beyond charges or convictions as sufficient to reconsider relationships with specific JTOs.

Overall, AUSTRAC encourages casinos to reconsider their risk appetites in terms of the JTOs and JTRs they allow to operate, irrespective of law enforcement actions.

### **SOURCE OF FUNDS ACTUALLY TRANSACTED ON JUNKET ACCOUNTS**

Casinos conduct due diligence on junket players to establish their source and level of wealth, to ensure they genuinely have access to the money they bet. However, it is not clear casinos have robust systems to fully assess the source of the funds actually used in junkets, given the:

- foreign residence of most junket players
- pooled nature of junket funds that are often domestically sourced, and
- the large amounts of cash deposited into junket accounts.

It is not clear casinos have robust systems to fully assess the source of the funds actually used in junkets. It is possible for a person to be legitimately wealthy and to be utilising physical or electronic wealth that has illicit origins. AUSTRAC encourages casinos to consider the legitimacy of the source the funds transacted in practice on junket accounts, in addition to satisfying themselves the player has access to that amount of wealth.

### **RELIANCE ON THIRD PARTIES**

Casinos place significant reliance on the due diligence conducted on junket players, JTOs and JTRs by the Australian government when assessing visa applications. It should be noted this process may not fully align with the context and purpose of the due diligence required of casinos under AML/CTF legislation in relation to junket players, JTOs or JTRs.

During consultations, a casino indicated that a key vulnerability in relation to casinos accepting smuggled cash is the Australian government failing to identify the cash at the point of entry, and a second suggested that it was the government’s responsibility to identify JTOs without work rights through the ABN application process. AUSTRAC considers it is unreasonable for casinos to overtly defer risks to third parties which are within their due diligence, transaction monitoring and contractual management of junket tour operations.

### *TRANSACTIONS BY THIRD PARTIES*

Several transactions on junket accounts studied for this risk assessment were clearly unrelated to junket activity. Casinos' willingness to accept transactions that do not have a clear relationship with a current, recent or imminent junket increases the likelihood that junket accounts will be used for illicit purposes. AUSTRAC encourages casinos to improve the systems they use to prevent third parties, directly or indirectly, transacting on junket accounts, and to ensure all transactions relate directly to past, current or future junkets. This may require casinos to separate accounts operated by JTOs for junkets from those for their personal use.

### *COLLABORATION WITH BANKS HOLDING ACCOUNTS*

Consultations for this risk assessment indicate that increased collaboration between casinos and banks would benefit both cohorts in terms of mitigation of ML/TF risk. In particular, improved understanding between banks and casinos would allow each to implement more tailored and robust systems and controls that would result in more comprehensive transaction reporting and better mitigation outcomes, in respect to:

- the purpose of the casino's account with the bank
- who the ordering and beneficiary customers for transactions are, and
- what due diligence and AML/CTF reporting each does in relation to activity on accounts.

### *ACTIVITY BY JTOs AND JTRs*

Finally, AUSTRAC identified that some casinos allowed:

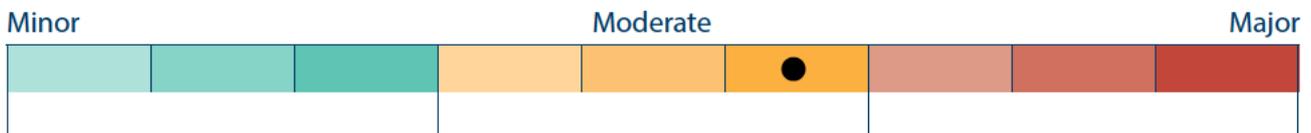
- JTRs to simultaneously work for more than one JTO, essentially meaning JTOs could transact on each other's accounts without being detected/prevented
- JTRs to work for both the casino and a JTO, which may present a conflict of interest, and
- JTOs to play on their own junkets.

In fact, AUSTRAC identified an SMR in which the JTO was the only player on their junket. This may have been simply so the JTO could benefit from the commission on their own turnover, however, JTOs playing on their own junkets makes it easier for them to conduct non-junket related transactions on their JTO accounts without raising suspicion.

AUSTRAC encourages casinos that allow these practices to consider whether they are appropriate in the context of the purpose of junket activity and the high ML/TF risk of junkets.

AUSTRAC will continue to engage with the casinos sector, to understand the complexities of their operations, assess compliance with their obligations under the AML/CTF Act, enhance the collective understanding of ML/TF risks and vulnerabilities of the sector, and provide casinos with information to support best-practice approaches to identifying and mitigating ML/TF risk.

# CONSEQUENCES



The consequences of ML/TF activity in the junket operations sector are assessed as **moderate**. Consequence refers to the potential impact or harm that ML/TF and other financial crimes may cause. Financial crime in the junket tour operations sector has consequences for a range of stakeholders.

## INDIVIDUALS

AUSTRAC considers the consequences of the criminal exploitation of junket tour operations for individuals to be **moderate**. The individual victims of the money laundering offences associated with junket tour operations, can suffer substantial harm as a result of criminality associated with junkets. Unlike other sectors AUSTRAC regulates that are subject to offences against individuals like fraud and scams, the junket sector is unlikely to perpetrate predicate offences itself – it is more likely to be used to launder the resultant proceeds.

## JUNKET TOUR OPERATIONS SECTOR

AUSTRAC considers the consequences of systemic criminal exploitation of junket tour operations for the sector to be **major**.

As described above, gambling services are recognised globally as being vulnerable to criminals and criminal exploitation, and the casinos which are providing the services are subject to a high level of public and media scrutiny. Casinos operate in a highly competitive global market and competition to attract junkets is intense. Sustained actual or perceived criminal exploitation of junkets may cause reputational damage which, without remedy, is likely to extend to include competitive disadvantages affecting the casino licence, loss of revenues through decreased patronage and/or difficulties in casinos' relationships with private sector partners like banks.

By extension junket tour operations could face exclusion from a particular market undermining legitimate business operations.

Casinos are subject to significant oversight at the state and Commonwealth levels in terms of ensuring the integrity of casino operations and any failure to effectively manage and mitigate against criminal exploitation may expose a business to regulatory action.

Not only may criminal exploitation of junket tour operations indicate non-compliance with legislative requirements in some situations, exposing casinos to disciplinary action, but it may also lead to a review of the effectiveness of the regulatory framework and an increase in regulatory burden. Increased regulatory burden or increased scrutiny of operations may make Australian casinos less attractive to junket players and JTOs, who may, for ease of operation, take their business to competing jurisdictions.

## AUSTRALIAN FINANCIAL SYSTEM AND COMMUNITY

AUSTRAC assesses the consequences of criminal exploitation of junket tour operations on Australia's financial systems and community to be **moderate**.

Some junkets are used by serious organised crime groups to move and otherwise launder money, supporting the continued profitability of underlying offences that affect the Australian community.

Where junkets are used to facilitate income tax evasion, they erode Australia's revenue base.

Where JTOs and JTRs may contravene visa conditions, they undermine the integrity of Australia's migration system.

Were criminality through junkets to be widespread, there would also be an impact on Australia's international AML/CTF reputation, which may in turn affect Australia's attractiveness as a place to invest and otherwise do business. Adversely, criminality facilitated through Australian junkets may also make Australian casinos more attractive to money launderers.

Finally, if widespread criminality in the junkets sector were to result in significantly decreased patronage of Australian junkets, this would have consequences for international and domestic tourism, the taxation revenue of states and territories, and the share price of ASX-listed companies.

## NATIONAL SECURITY AND INTERNATIONAL CONSEQUENCES

AUSTRAC assesses the potential consequences of foreign interference activities facilitated through junket tour operations to be **moderate**. Not only does foreign interference have the capacity to influence decision makers to act in a manner inconsistent with, or even contrary to, Australia's national interest, but it is also likely to undermine confidence in government and Australia's political process.

# APPENDIX A: RISK ASSESSMENT METHODOLOGY

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The methodology used for this risk assessment follows Financial Action Task Force guidance, which states that ML/TF risk at the national level should be assessed as a function of criminal threat, vulnerability and consequence.

This risk assessment considered 19 risk factors across the above three categories and each risk factor was assessed as low, medium or high, as per the table below. These assessments were based on quantitative and qualitative intelligence inputs, including analysis of SMR and other reporting data, intelligence assessments from partner agencies, and feedback from industry.

The average scores of the criteria provides the total risk score for each category, and the average of the three risk scores for each category provides the overall risk rating for the sector.

## CRIMINAL THREAT ENVIRONMENT

Low	Medium	High
Minimal variety of money laundering methodologies. There is a low level of involvement by SOCGs and other higher-risk entities.	Money laundering methodologies are moderately varied. There is a medium level of involvement by SOCGs and other higher-risk entities.	Money laundering methodologies are highly varied. There is a high level of involvement by SOCGs and other higher-risk entities.
Low amount of money laundering intelligence, investigations and cases involving the sector, and low associated values.	Moderate amount of money laundering intelligence, investigations and cases involving the sector, and moderate associated values.	High amount of money laundering intelligence, investigations and cases involving the sector, and high associated values.
Methodologies for terrorism financing offences (or other national security offences) are relatively invariable, or are easy to detect. None or a very small number of actors, financiers, associates and facilitators utilising the sector.	Methodologies for terrorism financing offences (or other national security offences) are somewhat varied, or can sometimes be difficult to detect. There is a small number of actors, financiers, associates and facilitators utilising the sector.	Methodologies for terrorism financing offences (or other national security offences) are highly varied, or are often difficult to detect. There are several actors, financiers, associates and facilitators utilising the sector.
Very few instances of terrorism financing offences (or other national security offences) in the sector, with negligible or very low associated values.	Some instances of terrorism financing offences (or other national security offences) in the sector, with low associated values.	Multiple instances of terrorism financing offences (or other national security offences) in the sector, with moderate or high associated values.
Minimal variety of predicate offences that are easily detected. There is a low level of involvement by SOCGs and other higher-risk actors.	Predicate offences are moderately varied and may sometimes be difficult to detect. There is a medium level of involvement by SOCG and other higher-risk actors.	Predicate offences are highly varied and are often difficult to detect. There is a high level of involvement by SOCG and other higher-risk actors.
Low number of predicate offences in the sector, and low associated values.	Moderate number of predicate offences in the sector, and moderate associated values.	High number of predicate offences in the sector, and high associated values.

VULNERABILITIES		
Low	Medium	High
Few higher-risk customers.	A moderate number of higher-risk customers.	A high number of higher-risk customers.
Sector has a small customer base.	Sector has a medium customer base.	Sector has a large customer base.
Provision of product/service rarely involves cash, or involves cash in small amounts	Provision of product/service sometimes involves cash, or involves cash in moderate amounts.	Provision of product/service often involves cash, or involves cash in large amounts.
Funds and/or value are not easily stored or transferred.	Funds and/or value can be stored or transferred with a small amount of difficulty.	Funds and/or value are easily stored or transferred.
Product/service is provided predominantly through direct contact, with minimal remote services.	Mix of direct and remote services. <sup>36</sup>	Predominantly remote services, with minimal direct contact.
Sector tends to have simple and direct delivery arrangements.	Sector tends to utilise some complex delivery arrangements.	Sector tends to utilise many complex delivery arrangements.
Funds and/or value are generally not transferred internationally.	Moderate amount of funds and/or value can be transferred internationally.	Significant amounts of funds and/or value are easily transferred internationally.
Transactions rarely or never involve higher-risk jurisdictions.	Transactions sometimes involve higher-risk jurisdictions.	Transactions often involve higher-risk jurisdictions.
At a sector level, significant systems and controls have been implemented to mitigate vulnerabilities.	At a sector level, moderate systems and controls have been implemented to mitigate vulnerabilities.	At a sector level, limited systems and controls have been implemented to mitigate vulnerabilities.

<sup>36</sup> This risk factor assesses the extent to which service delivery is face-to-face. As described in the **Delivery Channel** section, while the physical presence of players at the casino may indicate that the risk is low, the fact that transactions with the casino are always facilitated by the JTO/JTR creates obscurity and mitigates the benefits of having players on-site.

CONSEQUENCES		
Minor	Moderate	Major
Criminal activity enabled through the sector results in minimal personal loss.	Criminal activity enabled through the sector results in moderate personal loss.	Criminal activity enabled through the sector results in significant personal loss.
Criminal activity enabled through the sector does not significantly erode the sector's financial performance or reputation.	Criminal activity enabled through the sector moderately erodes the sector's financial performance or reputation.	Criminal activity enabled through the sector significantly erodes the sector's financial performance or reputation.
Criminal activity enabled through the sector does not significantly affect the broader Australian financial system and community.	Criminal activity enabled through the sector moderately affects the broader Australian financial system and community.	Criminal activity enabled through the sector significantly affects the broader Australian financial system and community.
Criminal activity enabled through the sector has minimal potential to impact on national security and/or international security.	Criminal activity enabled through the sector has the potential to moderately impact on national security and/or international security.	Criminal activity enabled through the sector has the potential to significantly impact on national security and/or international security.

# APPENDIX B: GLOSSARY OF TERMS

Name	Description
<b>AML/CTF program</b>	A document that sets out how a reporting entity meets its AML/CTF compliance obligations.
<b>Beneficial owner</b>	An individual who owns 25 per cent or more of, or otherwise controls the business of, an entity.
<b>Casino account</b>	An account held by an individual (for example a JTO) with a casino. Funds can be deposited and withdrawn from these accounts can be funded in many ways including by domestic electronic funds transfer, international funds transfer, cash deposit, and exchange of chips.
<b>Cheque cashing facility</b>	An arrangement whereby the casino accepts a cheque from the JTO as a substitute for front money. The cheque will only be cashed after settlement if the junket program loses, so the JTO does not need to actually provide the front money amount to the casino.
<b>Cuckoo smurfing</b>	A money laundering process in which non-complicit beneficiary customers of international remittances have proceeds of crime deposited in their bank accounts, in consideration for the legitimate funds sent to them from offshore.
<b>Enhanced customer due diligence (ECDD)</b>	Enhanced customer due diligence is the process of undertaking additional customer identification and verification measures in certain circumstances deemed to be high-risk.
<b>Fiat currency</b>	National currency, the coin and paper money of a country that is designated as its legal tender. It is customarily used and accepted as a medium of exchange in the issuing country.
<b>Financial Action Task Force (FATF)</b>	The Financial Action Task Force is an inter-governmental body focused on fighting money laundering, terrorism financing and other related threats to the integrity of the international financial system, by ensuring the effective implementation of legal, regulatory and operational measures.
<b>Front money</b>	The amount of money available to the junket players in a program to bet. This is likely to be extended via credit or cheque cashing facility by the casino, but is sometimes raised by the JTO and deposited into their casino account. The front money amount for a specific junket program can be increased during the program.

<b>International funds transfer instruction (IFTI)</b>	An international funds transfer instruction (IFTI) involves either: <ul style="list-style-type: none"> <li>• an instruction that is accepted in Australia for money or property to be made available in another country, or</li> <li>• an instruction that is accepted in another country for money or property to be made available in Australia.</li> </ul>
<b>Integration</b>	The final stage of the money laundering cycle, in which illicit funds or assets are invested in further criminal activity, 'legitimate' business or used to purchase assets or goods. At this stage, the funds are in the mainstream financial system and appear to be legitimate.
<b>Junket program</b>	A discreet junket "tour" – a group of players with a set arrival and departure date and pre-determined front money amount, at the conclusion of which settlement occurs between the casino and the JTO. Junket programs differ from "rolling junkets" which are ongoing 24/7 and have players arriving and leaving without pre-determined dates.
<b>Junket tour operator (JTO)</b>	This is the person with whom the casino enters into an arrangement to provide junket services to the JTO's customers.
<b>Junket tour representative (JTR)</b>	An agent of a junket tour operator, who has authority to transact on the JTO's casino account.
<b>Layering</b>	The second stage of the money laundering cycle, which involves moving, dispersing or disguising illegal funds or assets to conceal their true origin.
<b>ML/TF</b>	Money laundering/terrorism financing.
<b>Offsetting</b>	A practice which enables the international transfer of value without actually transferring money. This is possible because the arrangement involves a financial credit and debit (offsetting) relationship between two or more entities operating in different countries.
<b>Politically exposed person (PEP)</b>	<p>A politically exposed person (PEP) is an individual who holds a prominent public position or role in a government body or international organisation, either in Australia or overseas. Immediate family members and/or close associates of these individuals are also considered PEPs. PEPs often have power over government spending and budgets, procurement processes, development approvals and grants.</p> <p>The AML/CTF Act identifies three types of PEPs:</p> <ul style="list-style-type: none"> <li>• Domestic PEP – someone who holds a prominent public position or role in an Australian government body.</li> <li>• Foreign PEP – someone who holds a prominent public position or role with a government body in a country other than Australia.</li> <li>• International organisation PEP – someone who holds a prominent public position or role in an international organisation, such as the United Nations (UN), the World Trade Organisation (WTO) or the North Atlantic Treaty Organisation (NATO).</li> </ul>

<b>Placement</b>	The first stage of the money laundering cycle, in which illicit funds first enter the formal financial system.
<b>Predicate offence</b>	For the purpose of this risk assessment, predicate offence is any offence which generates proceeds of crime.
<b>Suspicious matter report (SMR)</b>	A report that must be submitted by a reporting entity under the AML/CTF Act if they have reasonable grounds to suspect that a transaction may be related to money laundering, terrorism financing, tax evasion, proceeds of crime or any other serious crimes under Australian law. An SMR must also be submitted if the reporting entity has reasonable grounds to suspect the customer or an agent of the customer is not who they say they are.
<b>SOCG</b>	Serious and organised crime group.
<b>Structuring</b>	<p>Structuring is where a person deliberately:</p> <ul style="list-style-type: none"> <li>• splits cash transactions to avoid a single large transaction being reported in threshold transaction reports</li> <li>• travels with cash amounts in a way that avoids declaring cross border movements of the cash.</li> </ul> <p>Structuring can be a money laundering technique and is against the law under the AML/CTF Act.</p>
<b>Transaction monitoring program (TMP)</b>	Part A of a reporting entity's AML/CTF program must include a risk-based transaction monitoring program that comprises of appropriate systems and controls to monitor the transactions of customers and identify suspicious transactions.
<b>TSOC</b>	Transnational serious and organised crime.
<b>Threshold transaction report (TTR)</b>	A report submitted to AUSTRAC about a designated service provided to a customer by a reporting entity that involves a transfer of physical or digital currency of A\$10,000 or more or the foreign currency equivalent.



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