



Australian Government

AUSTRAC

# ON-COURSE BOOKMAKERS >>>

MONEY LAUNDERING AND TERRORISM  
FINANCING RISK ASSESSMENT

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## OVERALL RISK RATING



## KEY FINDINGS

AUSTRAC assesses the overall money laundering and terrorism financing (ML/TF) risk posed by Australia's on-course bookmaking sector to be **low**.

AUSTRAC assesses the **criminal threat environment** associated with the on-course bookmaking sector to constitute a **low** risk.

There has been a significant decline in the criminal misuse of the on-course bookmaking sector since 2008, when the Lewis Report found money laundering was prevalent in the Victorian thoroughbred racing sector.<sup>1</sup> The decrease in criminal activity in the sector can largely be attributed to:

- the marked reduction in patronage and revenue for on-course bookmakers due to the rapid increase in popularity of online and other corporate wagering businesses
- a greater level of compliance and integrity-related requirements established by state- and territory-based licensing bodies.

However, the true extent of criminality in the sector is difficult to establish given the low level of criminal intelligence relating to on-course bookmakers' services, as well as the extremely limited lodgement of suspicious matter reports (SMRs) and threshold transaction reports (TTRs) by the sector.<sup>2</sup>

In addition to SMRs reported by the sector, AUSTRAC analysed SMRs that were reported *about* on-course bookmakers by other reporting entities. The majority of these SMRs related to suspected money laundering and tax evasion, suggesting a small number of on-course bookmakers are actively involved in low levels of illegal activity.<sup>3</sup>

Despite limited reporting by the on-course bookmaking sector, AUSTRAC found the services provided by on-course bookmakers are likely to facilitate low-level money laundering and tax evasion.

1 Office of the Racing Integrity Commissioner, *Report on Integrity Assurance in the Victorian Racing Industry (Lewis Report)*, 2010, <https://www.racingintegrity.vic.gov.au/news-publications/publications/report-on-integrity-assurance-in-the-victorian-racing-industry-lewis>

2 On-course bookmakers enrolled with AUSTRAC reported four SMRs and 13 TTRs in the two-year sample period between 1 August 2015 and 31 July 2017.

3 Banks and other gambling service providers submitted 35 SMRs in the two-year sample period where an on-course bookmaker was a customer.

AUSTRAC assesses that the **vulnerabilities** associated with the provision of on-course bookmaking services constitute a **medium** risk. On-course bookmakers have increased vulnerability where they:

- have a higher turnover
- accept large cash bets and/or make large cash payouts
- accept bets from agents acting on behalf of customers
- provide customers with betting accounts and/or online and telephone betting services
- undertake minimal or no due diligence in relation to the source of funds their customers use for betting.

During the development of this risk assessment, AUSTRAC noted the failure of some on-course bookmakers to implement anti-money laundering and counter-terrorism financing (AML/CTF) systems and controls. AUSTRAC identified that:

- a significant number of licenced on-course bookmakers are not enrolled with AUSTRAC
- many cash transactions of \$10,000 or more have not been reported to AUSTRAC as TTRs
- it is highly likely there has been significant under-reporting of SMRs by on-course bookmakers.

The absence of adequate AML/CTF systems and controls is a key vulnerability for this sector.

AUSTRAC assesses the **consequences** of the ML/TF risks associated with on-course bookmakers to be **minor**, because of the relatively low and declining turnover in the sector. The sector itself is likely to suffer the most as a result of criminal misuse, which is likely to cause reputational damage, increased scrutiny and a further decline in patronage.

## PURPOSE

The purpose of this report is to provide information to on-course bookmakers about the ML/TF risks they face.<sup>4</sup> This report is relevant for on-course bookmakers working at thoroughbred, greyhound and harness racing events. AUSTRAC engaged extensively with the on-course bookmaking sector and government partner agencies at both the state and Commonwealth levels to develop this report.

AUSTRAC expects on-course bookmakers to use the information contained in this report to harden their operations against criminal misuse, and increase their understanding of and compliance with their AML/CTF obligations.

## RISK RATING METHODOLOGY

This report considered 26 factors across three categories of risk: **criminal threat environment, vulnerability and consequences**. An average risk rating was determined for each category, and these averages were used to determine an overall risk rating. The risk ratings are based on: engagements with a variety of partner agencies; feedback and professional insights offered by industry stakeholders; and analysis of transaction reports submitted to AUSTRAC.

See the Appendix for further information on the methodology.

## FOREWORD

In compiling this risk assessment, AUSTRAC conducted analysis of the on-course bookmaking sector in late 2017 to early 2018. Since then, AUSTRAC has engaged with the sector as part of a targeted enrolment campaign to improve enrolment numbers. This risk assessment does not capture the complete outcomes of that campaign or examine the reporting behaviours of any recently enrolled on-course bookmakers.

This report forms part of AUSTRAC's ML/TF Risk Assessments Program. Publications to date are available on the [AUSTRAC website](#).

This report should not be considered comprehensive, nor does it constitute 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 in relation to the matters arising in this report.

### Feedback

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<sup>4</sup> For the purpose of this report, an on-course bookmaker is an entity who carries on a business of a bookmaker at a racecourse, under a licence from a competent state-based licencing authority.

# CRIMINAL THREAT ENVIRONMENT



AUSTRAC assesses there is a **low** level of criminality associated with the on-course bookmaking sector in Australia. No substantial criminal intelligence relating to on-course bookmakers has been recorded by AUSTRAC's partner agencies in recent years. There have also been only four SMRs submitted by on-course bookmakers to AUSTRAC in relation to suspected criminal activity being facilitated by or through the sector over a two-year period.

In 2008, an independent review on integrity assurance in the Victorian racing industry (the Lewis Report) found evidence of money laundering in the on-course bookmaking sector, stating 'criminal activity was rampant'.<sup>5</sup> Recent engagement with industry and partner agencies suggests this widespread criminality has reduced substantially. This reduction is likely driven by enhanced scrutiny of the sector by state- and territory-based licensing authorities, and significant movement of gambling activity away from on-course bookmakers to online corporate wagering providers.<sup>6</sup>

Despite this, it is likely the on-course bookmaking sector continues to be exploited for money laundering and predicate offence purposes, albeit at lower levels compared with other, larger regulated sectors. For example, analysis of threshold transaction data identified one customer, with known links to illicit drug supply in Australia, making a very large cash bet with an on-course bookmaker. There is a significant risk the cash used to make this bet originated from proceeds of crime. Further, the four SMRs submitted to AUSTRAC by the sector over a two-year period indicate suspected money laundering and tax evasion. The SMRs were submitted based on the following suspicious indicators:

- customers structuring cash bets to fall below the \$10,000 reporting threshold with multiple on-course bookmakers on the same day
- customers refusing to provide identification
- customers using agents to anonymise bets.

Industry engagement also indicated some professional gamblers were likely to be evading tax by failing to declare winnings from bets made with on-course bookmakers, as taxable income to the Australian Taxation Office.

AUSTRAC did not discover any terrorism financing activity associated with the on-course bookmaking sector.

## AUSTRALIA'S ON-COURSE BOOKMAKING SECTOR

There are 292 on-course bookmakers enrolled with AUSTRAC.<sup>7</sup>

State	No. of on-course bookmakers
ACT	5
NSW	101
NT	4
QLD	64
SA	11
TAS	5
VIC	82
WA	20
<b>TOTAL</b>	<b>292</b>

In order to operate, on-course bookmakers are required to be registered and licensed with their respective state/territory-based gambling regulator and licensing body.

<sup>5</sup> Office of the Racing Integrity Commissioner, *Report on Integrity Assurance in the Victorian Racing Industry (Lewis Report)*, 2010, <https://www.racingintegrity.vic.gov.au/news-publications/publications/report-on-integrity-assurance-in-the-victorian-racing-industry-lewis>

<sup>6</sup> The Lewis Report focused on the Victorian racing industry; however, the report had consequences in other states/territories and the greyhound and harness racing codes.

<sup>7</sup> This information was extracted from AUSTRAC's database on 5 September 2018.

In addition to the SMRs reported by the sector, AUSTRAC analysed the 35 SMRs submitted in the two-year period in which 25 individual on-course bookmakers were reported as customers or parties in transactions.

SMRs about on-course bookmakers were lodged by entities such as banks and other gambling service providers. The majority related to suspected money laundering and tax evasion, with the following red-flag indicators:

- structured and large cash deposits and withdrawals, often involving third parties
- funds transfers to/from online wagering businesses
- funds being sent to/received from third parties
- multiple cheque deposits/withdrawals
- high-value cheque deposits followed by rapid movement of funds
- transactions conducted in close succession at different branch locations
- third parties refusing to show identification when conducting transactions on on-course bookmakers' accounts
- betting accounts being operated by more than one person
- business activity being conducted on on-course bookmakers' personal accounts.

A small number of SMRs were submitted on suspicion of credit card fraud, identity fraud and welfare fraud, with the following suspicious indicators:

- fraudulent credit card deposits
- opening multiple betting accounts with fraudulent identification
- cyber-enabled betting account takeovers using fraudulent identification
- a large cash withdrawal linked to a customer receiving a government allowance.

The grounds for suspicion in the fraud-related SMRs indicate the on-course bookmakers were suspected of being the perpetrators of the fraud, as opposed to the victim. The SMRs submitted by other gambling service providers note there was minimal or no betting activity on betting accounts to justify the transactions described above, suggesting the activity was conducted for purposes other than betting.

Comparison between state-based licencing data and AUSTRAC enrolment information demonstrated several of the on-course bookmakers about whom SMRs were lodged are not enrolled with AUSTRAC.

## SUMMARY

It is the view of AUSTRAC, as well as the partner agencies and industry representatives engaged for this risk assessment, that criminal exploitation of the on-course bookmaking sector has decreased significantly since the Lewis Report was released. However, it is AUSTRAC's view that the extent of criminal exploitation is likely to be greater than indicated in the SMRs reported by on-course bookmakers, due to the sector's under-reporting of SMRs. The analysis of SMRs lodged by other reporting entities about licenced on-course bookmakers also suggests some on-course bookmakers are themselves involved in low levels of illegal activity.



# VULNERABILITIES



AUSTRAC assesses the ML/TF vulnerability posed by Australia's on-course bookmaking sector to be **medium**. 'Vulnerability' refers to the characteristics of a sector that make it attractive for ML/TF purposes.

## CUSTOMERS

AUSTRAC assesses the ML/TF vulnerability posed by customers of on-course bookmakers to be **low**. The main reason for this is that the majority of on-course bookmakers' customers are individuals placing bets on their own behalf. Interviews with the sector suggest bookmakers generally have a larger number of retirees in their customer base.

Individuals who gamble on their own behalf pose a lower risk of ML due to face-to-face contact with an on-course bookmaker, who is well-placed to assess whether the customer or transaction is suspicious. However, the fact that on-course bookmakers do not generally question the source of funds or report SMRs, reduces the benefit of the lower-risk customer type.<sup>8</sup>

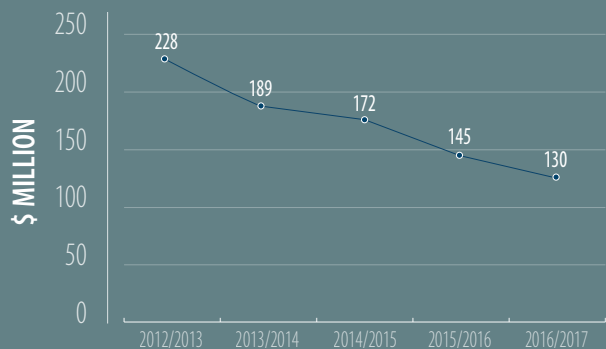
Industry engagement also revealed that betting syndicates and high-value gamblers often place bets with on-course bookmakers via agents, allowing them to remain anonymous and allowing customers to bet across multiple locations and gambling channels simultaneously. While industry advised that only a small proportion of customers used agents, the use of agents presents a significant money laundering vulnerability as it allows betting activity to occur without the bookmaker knowing the ultimate source or beneficiary of the bet.<sup>9</sup>

There was no evidence that customers of on-course bookmakers were politically exposed persons,<sup>10</sup> non-individual businesses or trusts.

## DECLINING SIZE OF THE CUSTOMER BASE

The use of on-course bookmakers has been declining in recent years due to a shift in customer demand towards larger, online corporate bookmakers, totalisators and other gambling service providers.<sup>11</sup> Given the different record-keeping practices between state-based administrative bodies, AUSTRAC was unable to obtain turnover data specific to on-course bookmakers at the national level. However, the decline in turnover for Victorian on-course bookmakers is illustrated below.

### GROSS TURNOVER IN THE VICTORIAN THOROUGHBRED RACING INDUSTRY<sup>12</sup>



Engagement with industry bodies in New South Wales and Queensland indicates that on-course bookmakers operating in those jurisdictions have seen a similar downward trend in turnover. The low and declining turnover and customer base limit the vulnerability the sector faces from large-scale money launderers, because significant transactions would be conspicuous and potentially reported.

<sup>8</sup> Source of funds and SMR reporting is discussed in the 'Source of funds and wealth' and 'AML/CTF systems and controls' sections below.

<sup>9</sup> Partner agency intelligence indicated that this issue relates to betting agencies. However, AUSTRAC assesses that the risk is still relevant to on-course bookmakers.

<sup>10</sup> Politically exposed persons' are defined in Part 1.2 of the AML/CTF Rules.

<sup>11</sup> IBISWorld Industry Report R9209, *Horse and Sports Betting in Australia*, January 2017,

<https://www.ibisworld.com.au/industry-trends/market-research-reports/arts-recreation-services/horse-sports-betting.html>

<sup>12</sup> This data was obtained from Racing Victoria Limited.

## SOURCE OF FUNDS AND WEALTH

AUSTRAC considers the sector's general lack of knowledge regarding customers' source of funds poses a **medium** level of ML/TF vulnerability.

Industry engagement across multiple states indicates on-course bookmakers are generally reluctant to ask a customer, or agent of a customer, to clarify the source of funds used to make bets. Reasons for this include:

- concerns that enquiries will cause the on-course bookmaker to lose the customer's business
- loyalty between on-course bookmakers and their clients – in some cases, bookmakers may only have a very small client base and may not want to jeopardise their relationship with their customers by enquiring as to their source of funds
- concerns that the bookmaker may face threats of violence from the customer if they enquire into their source of wealth.

Additional reasons for the vulnerability associated with source of funds are outlined in the 'Operational vulnerabilities' and 'AML/CTF systems and controls' sections below.

## PRODUCTS AND SERVICES

AUSTRAC assesses that on-course bookmakers' acceptance of bets, and payouts of winnings in respect of bets, present a **medium** level of ML/TF vulnerability. The provision of betting accounts in addition to receiving and paying out bets creates a higher level of vulnerability.

**ACCEPTING BETS:** Accepting bets exposes on-course bookmakers to risks associated with the *placement* stage of money laundering, in which criminals seek to introduce illicit funds (often cash) into the legitimate economy.

On-course bookmakers offer customers fixed dividend betting at race meets, allowing customers to place bets with a high degree of certainty on the size of their payout should their bet be successful. On-course bookmakers may also accept bets on the outcomes of races taking place at multiple locations. Bet types that provide a return when a horse does not win outright (such as place, each way and concession bets) are likely to be more attractive to money launderers because they reduce the risk of losing the entire betting outlay.<sup>13</sup>

### WHY WOULD A MONEY LAUNDERER RISK THEIR MONEY BY MAKING UNCERTAIN BETS?

Money launderers know they will have to pay to have their money cleaned, and accept they will lose a certain margin of their criminal proceeds to have the bulk successfully integrated into the legitimate economy. Money launderers also often work in organised networks, and may be offsetting their bets with one bookmaker against associates' bets with other bookmakers at different sites, or even with online bookmakers or totalisators.

**PAYING OUT WINNINGS:** Where a customer places a bet with an on-course bookmaker face-to-face, they are given a betting ticket detailing the nature and type of their bet, the amount wagered, and the agreed dividend amount. The ticket does not, however, contain the customer's name. Where the bet is successful, the customer must return to the bookmaker and exchange the ticket for their win payout (providing the bookmaker with the opportunity to fulfil their customer due diligence requirements where the payout is \$10,000 or more, as discussed below).

Since betting tickets do not record customer names, money launderers could legitimise illicit cash by purchasing winning betting slips from a legitimate customer and presenting the ticket themselves to the bookmaker.

Consultation with industry and partner agencies indicates 'ticket buying' activity no longer occurs on the scale outlined in the 2008 Lewis Report. The decline in this type of activity is largely due to enhanced requirements imposed on the on-course bookmaking sector by state and territory authorities, such as the mandatory use of monitored computers and phones to record betting activities, and reporting all betting activity to the relevant state- and territory-based racing code. Moreover, the conspicuous nature of ticket buying activity in an environment of limited patronage, and the use of closed circuit television in betting arenas, make ticket buying less attractive to money launderers. However, AUSTRAC considers the anonymous nature of betting tickets is a key contributor to the ML/TF vulnerability of on-course bookmakers' business model.

<sup>13</sup> While different in terms of outlay and results, 'place' bets and 'each way' bets provide a payout when a single horse comes first, second or third. A 'concession' bet provides a payout when a horse wins outright, with an option to refund the bet where the horse comes second or third.

**BETTING ACCOUNTS:** Some on-course bookmakers provide betting accounts to customers who wish to place bets over the phone or online. In general, the customer funds their betting account via an electronic funds transfer from their bank account, credit card or other payment type, and then uses the funds in the account to make bets on the outcome of a racing event.

Accounts are balanced once race results are announced. On-course bookmakers generally act on a customer's instruction to move funds at the end of the race event, or on the day of the instruction if it is a non-race event. Furthermore, on-course bookmakers will release funds to betting accounts held with corporate bookmakers. Therefore, money can be moved in and out of betting accounts easily and flexibly.

As demonstrated in the Federal Court proceedings relating to contraventions of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act) by the Tabcorp Designated Business Group, betting accounts are highly vulnerable to criminal exploitation.<sup>14</sup> Betting accounts can be used online and allow the rapid and easy movement of funds between betting accounts and bank accounts. This creates a vulnerability that the betting account can be used to facilitate the 'layering' stage of money laundering, where illicit funds have already been placed in the formal banking sector and are then distanced from the illegitimate source. Betting accounts, like bank accounts, also provide a convenient and safe store of funds.

Where bookmakers accept cash deposits into a betting account, they are also vulnerable to the 'placement' stage of money laundering.

Partner agency intelligence has identified concerns with betting accounts that can be linked to more than one bank account and can therefore facilitate money laundering and/or the movement of funds between different parties.<sup>15</sup>

Industry engagement and partner agency intelligence also indicate some individuals offer a service whereby they set up betting accounts in their name, and then allow third parties to transact on the account. These accounts, known as 'bowler' accounts, allow gamblers to anonymise their betting activity, overlaying the risks associated with betting accounts with the risks associated with agents. Some bets conducted through bowler accounts are legitimate: since some on-course bookmakers may reject bets from professional gamblers who often make successful bets, professional gamblers may use bowler accounts and/or agents to anonymise legitimately-funded betting activity, to ensure their bet is accepted by the on-course bookmaker offering the best odds. However, this does constitute customers deliberately obfuscating their identities, which undermines the integrity of on-course bookmakers' systems and controls.

#### DIFFERENT CUSTOMER IDENTIFICATION OBLIGATIONS FOR ONLINE BETTING ACCOUNTS

There is no below \$10,000 exemption from customer identification in relation to betting accounts. Interviews with industry indicate it is an accepted practice for bookmakers to identify customers when they attempt to withdraw funds held in online betting accounts, in accordance with their obligations under the AML/CTF Act and Part 10.4 of the AML/CTF Rules. However, AUSTRAC reminds the sector that bookmakers must perform customer identification within 90 days of the account being created, *regardless of whether any funds have been withdrawn from the account*. On-course bookmakers should also be aware that amendments to reduce the length of the 90-day customer identification period are currently being considered as part of the National Consumer Protection Framework for online wagering.

<sup>14</sup> *Chief Executive Officer of Australian Transaction Reports and Analysis Centre v TAB Limited* (No 3) (2017) FCA 1296

<sup>15</sup> Partner agency intelligence indicated that this issue relates to betting agencies. However, AUSTRAC assesses that the risk is still relevant to on-course bookmakers.

## DELIVERY CHANNEL

The dominant delivery channel for betting services provided by on-course bookmakers is face-to-face. Where this is the only way that a bookmaker engages with a customer, the delivery channel vulnerability associated with that bookmaker's services is **low**.

However, some on-course bookmakers maintain an office in addition to the physical customer-facing stall at the track. This enables them to accept bets from customers by phone and internet with minimal or no face-to-face engagement. Industry consultation indicates that individuals subject to law enforcement exclusion orders that prohibit them from attending race events, are still able to place bets via online and telephone facilities offered by some bookmakers. Therefore, where bookmakers provide services online and/or by telephone, their vulnerability to criminal misuse and the risk posed by their delivery channels increases.

There are approximately 90 on-course bookmakers on the Australian Communications and Media Authority's register of licensed interactive wagering services.<sup>16</sup>

## FOREIGN JURISDICTIONS

AUSTRAC considers the on-course-bookmaking sector's exposure to foreign jurisdictions presents a **low** level of ML/TF vulnerability. Industry engagement indicates overseas-based customers are far more likely to use online corporate bookmakers than on-course bookmakers to place bets on Australian race events, and that on-course bookmakers facilitate few, if any, transactions with foreign jurisdictions for their customers.

Well-known race events such as the Melbourne Cup may attract betting from international tourists. This will create a foreign jurisdiction risk for some on-course bookmakers, particularly the larger, city-based businesses that operate at these events.

## USE OF CASH

AUSTRAC assesses the use of cash in the on-course bookmaking sector represents a **medium** level of vulnerability. The higher the cash bets accepted by individual on-course bookmakers, the higher their vulnerability to being exploited by criminals.

The majority of bets made with on-course bookmakers are cash bets, which are high risk for money laundering, as proceeds of crime are often derived in cash. However, consultation with industry indicates that individual cash bets are usually very small—between \$50 and \$100—significantly limiting the money laundering risk these transactions represent. Moreover, the overall amount of cash flowing through the sector has decreased as a result of the diminishing size of the customer base and turnover in the sector.

Threshold transaction reporting also indicates that large cash transactions are rare in the on-course bookmaking sector. On-course bookmakers nationwide submitted just 13 TTRs to AUSTRAC over a two-year period, valued at \$301,005. However, it is highly likely that the number and value of large cash transactions in the on-course bookmaking sector is greater than current reporting to AUSTRAC indicates. This is detailed further below.

### STRUCTURING

There is scope for individuals to launder money by 'structuring' several bets, possibly among several bookmakers, so they fall below the \$10,000 reporting threshold. Structuring is a criminal offence. Customers may also structure their betting activity so the potential payout will fall below the customer identification threshold. On-course bookmakers should be aware of these risks, and submit an SMR if they form a suspicion that a particular customer is structuring their bets in an attempt to avoid formal identification or being the subject of a TTR.

<sup>16</sup> Australian Communications and Media Authority, *Register of licensed interactive wagering services*, Australian Government, 2018, viewed 18 December 2018, <https://www.acma.gov.au/theACMA/register-of-licensed-interactive-wagering-services>

## OPERATIONAL VULNERABILITIES

AUSTRAC assesses there is a **medium** level of operational vulnerability associated with the on-course bookmaking sector in Australia.

A key vulnerability for the sector stems from a licensing requirement in NSW, Victoria, Queensland and Tasmania that on-course bookmakers must accept bets up to a certain amount, known as 'minimum bet liabilities'.<sup>17</sup> Failure to accept such bets can lead to complaints to, and formal investigation by, racing stewards and state and territory licensing bodies, to determine whether the refusal breached the rules of racing or state licensing requirements.

AUSTRAC is aware some exclusions exist under state-based regimes to ensure that conditions for minimum bet liabilities do not conflict with the AML/CTF Act. However, AUSTRAC considers it likely that minimum bet liabilities inadvertently undermine the AML/CTF framework by creating a disincentive for on-course bookmakers to refuse bets that appear suspicious. Relevantly, SMRs must be reported in relation to all bets that are suspicious, even if the bet is refused.

The second key operational vulnerability in the on-course bookmaking sector derives from the need for bets to be placed and accepted quickly and often very shortly before a race. This constrains the capacity of on-course bookmakers to assess a customer's legitimacy or source of funds before accepting the bet, making it difficult to identify suspicious customers and report their activity to AUSTRAC.

## AML/CTF SYSTEMS & CONTROLS

### LEVEL OF OBLIGATIONS

On-course bookmakers are exempt from undertaking customer identification when they receive or accept bets of any amount, or make payouts of less than \$10,000. The exemption *does not* apply if the on-course bookmaker's enhanced customer due diligence program is triggered, or if they provide a betting account to a customer.<sup>18</sup>

### WHAT AML/CTF OBLIGATIONS APPLY TO ON-COURSE BOOKMAKERS?

- Enrol with AUSTRAC.
- Maintain records in accordance with Part 10 of the AML/CTF Act.
- Adopt and maintain an AML/CTF program to identify, mitigate and manage ML/TF risks, including procedures for:
  - › collecting and verifying customer identity information when paying out winnings that meet or exceed \$10,000
  - › ongoing customer due diligence, including enhanced customer due diligence and transaction monitoring.
- Report TTRs for cash bets and payouts of \$10,000 or more.
- Report SMRs to AUSTRAC where a suspicion is formed that:
  - › a customer/proposed customer, or their agent is not who they say they are
  - › information held may be relevant to tax evasion or an investigation or prosecution of a Commonwealth, state or territory offence
  - › information held may be relevant to laws relating to the recovery of proceeds of crimes
  - › information held may be relevant or preparatory to money laundering or terrorism financing.
- Suspicious matter reporting obligations apply to all bets or payouts, whether accepted or rejected, and regardless of the amount.
- Submit AML/CTF compliance reports to AUSTRAC.

17 Minimum bet liabilities were introduced to ensure wagering operators did not refuse any bets to win up to a nominated amount, including instances involving punters with a successful record.

18 Enhanced customer due diligence (ECDD) is in Part A of an on-course bookmaker's AML/CTF program. It sets out the additional measures that an on-course bookmaker will undertake if, for example, they provide services to a high-risk customer, or a customer about whom they have submitted an SMR. For more information about when ECDD is required, please see the 'Ongoing customer due diligence' section of the AUSTRAC compliance guide, <http://www.austrac.gov.au/part-amlctf-program#ongoing-cdd>.

## LEVEL OF IMPLEMENTATION

AUSTRAC assesses the on-course bookmaking sector as a whole has implemented limited systems and controls to mitigate criminal threats, and that many on-course bookmakers may not even be aware that systems and controls are required.

Deficient AML/CTF systems and controls constitute the highest level of vulnerability for this sector. AUSTRAC has raised concerns in relation to the following four broad areas of AML/CTF non-compliance:

- **Enrolment:** A significant number of licensed on-course bookmakers are not enrolled with AUSTRAC. AUSTRAC has commenced a compliance campaign to work with the on-course bookmaking sector to improve enrolment figures. This campaign has reduced the number of unenrolled on-course bookmakers, but a significant number of licenced on-course bookmakers remain unenrolled.
- **SMRs:** There is systemic non-reporting of SMRs by the on-course bookmaking sector. In a two-year period, only one on-course bookmaker submitted SMRs to AUSTRAC, and many on-course bookmakers may not even be aware that SMR obligations exist. While criminality in the bookmaking sector has decreased, the sector is not free from criminal misuse. It is critical that the on-course bookmaking sector submit SMRs to AUSTRAC to enable early and proactive identification of criminal activity in the sector.
- **TTRs:** There is significant non-reporting of TTRs by the on-course bookmaking sector. Over a two-year period, only 13 TTRs were submitted to AUSTRAC by the sector. However, in Victoria alone, on-course betting data supplied to AUSTRAC for the same two-year period indicates that 69 TTRs with a total value of almost \$1 million *should* have been submitted to AUSTRAC in relation to large cash betting activity.<sup>19</sup>
- **Engagement:** The on-course bookmaking sector has a high level of disengagement with AUSTRAC and the AML/CTF regime.

## CONSEQUENCES



AUSTRAC has assessed the consequences of the ML/TF activity facilitated through the on-course bookmaking sector to be **minor**. 'Consequence' refers to the potential impact or harm that ML/TF and other crimes may cause.

Money laundering and tax evasion are intrinsically harmful as they support the profitability and continuation of crime, and erode the government's revenue base. While opportunities for crime continue to exist in the sector, the shrinking customer base and volume of betting activity reduce the impact of financial crime on individual customers, the broader Australian economy and national security.

The sector itself is likely to suffer the most as a result of criminal misuse, which is likely to cause reputational damage, increased scrutiny and a further decline in patronage.

<sup>19</sup> Victorian on-course betting data notes a total of 17 cash bets (over \$10,000) placed with a total value of \$230,800, and 61 cash bet payouts (over \$10,000) with a total value of \$880,400 over the sample period. This data relates to Victorian thoroughbred racing events.

# APPENDIX: METHODOLOGY

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 26 risk factors across the above three categories. Each risk factor was assessed as low, medium or high, as per the tables below. An average risk rating was determined for each category, and these averages were used to determine an overall risk rating.

## CRIMINAL THREAT ENVIRONMENT



Unsophisticated tactics and methods used	Some sophisticated tactics and methods used	Highly sophisticated tactics and methods used
Low volume of cyber-enabled criminal activity	Moderate volume of cyber-enabled criminal activity	High volume of cyber-enabled criminal activity
Minimal targeting by serious and organised crime groups and/or foreign criminal entities	Some targeting by serious and organised crime groups and/or foreign criminal entities	Widespread targeting by serious and organised crime groups and/or foreign criminal entities
Low volume of money laundering	Moderate volume of money laundering	High volume of money laundering
Very few instances of raising and/or transferring funds for terrorism financing	Some instances of raising and/or transferring funds for terrorism financing	Many instances of raising and/or transferring funds for terrorism financing
Low volume and/or limited variety of other offences	Moderate volume and/or some variety of other offences	High volume and/or large variety of other offences

**VULNERABILITIES**




<b>CUSTOMERS</b>		
Simple customer types, mostly individuals	Mixture of customer types, with some complex companies and trusts	All customer types represented, including large numbers of highly complex companies and trusts
Minimal involvement of agents acting for customers	Moderate involvement of agents acting for customers	Significant involvement of agents acting for customers
Small customer base	Medium-sized customer base	Very large customer base
Very few politically exposed persons	Some politically exposed persons	Many politically exposed persons
<b>SOURCE OF FUNDS AND WEALTH</b>		
Source of funds/wealth can be readily established	Some difficulty in establishing the source of funds/wealth	Source of funds/wealth difficult to establish
<b>PRODUCTS AND SERVICES</b>		
Product/service does not allow a customer to remain anonymous (ownership is transparent)	Product/service allows a customer to retain some anonymity (ownership can be obscured)	Product/service allows a customer to remain anonymous (ownership is opaque)
Small volume of transactions	Moderate volume of transactions	Large volume of transactions
Movement of funds cannot occur easily and/or quickly	Movement of funds can occur relatively easily and/or quickly	Movement of funds is easy and/or quick
Transfer of ownership of product cannot occur easily and/or quickly	Transfer of ownership of product can occur relatively easily and/or quickly	Transfer of ownership of product is easy and/or quick
<b>DELIVERY CHANNEL</b>		
Regular face-to-face contact, with minimal online/telephone services	Mix of face-to-face and online/telephone services	Predominantly online/telephone services, with minimal face-to-face contact



<b>FOREIGN JURISDICTION</b>		
Very few or no overseas-based customers	Some overseas-based customers	Many overseas-based customers
Transactions rarely or never involve foreign jurisdictions	Transactions sometimes involve foreign jurisdictions, or a high-risk jurisdiction	Transactions often involve foreign jurisdictions, or high-risk jurisdictions
<b>USE OF CASH</b>		
Provision of product/service rarely involves cash, or involves cash in small amounts	Provision of product/service often involves cash, or involves cash in moderate amounts	Provision of product/service usually involves cash, or involves cash in very large amounts
<b>OPERATIONAL VULNERABILITIES</b>		
There are very few operational factors that make the sector susceptible to criminal activity	There are some operational factors that make the sector susceptible to criminal activity	There are many operational factors that make the sector susceptible to criminal activity
<b>AML/CTF SYSTEMS AND CONTROLS</b>		
Sector is subject to all or most AML/CTF obligations	Sector is subject to partial AML/CTF obligations	Sector is not subject to AML/CTF obligations
At a sector level, significant systems and controls have been implemented to mitigate against criminal threats	At a sector level, moderate systems and controls have been implemented to mitigate against criminal threats	At a sector level, limited systems and controls have been implemented to mitigate against criminal threats


**CONSEQUENCES**



MINOR	MODERATE	MAJOR
Criminal activity results in minimal personal loss	Criminal activity results in moderate personal loss	Criminal activity results in significant personal loss
Criminal activity does not significantly erode the sector's financial performance or reputation	Criminal activity moderately erodes the sector's financial performance or reputation	Criminal activity significantly erodes the sector's financial performance or reputation
Criminal activity does not significantly affect the Australian economy	Criminal activity moderately affects the Australian economy	Criminal activity significantly affects the Australian economy
TF activity has minimal potential to impact on national security and/or international security	TF activity has the potential to moderately impact on national security and/or international security	TF activity has the potential to significantly impact on national security and/or international security



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