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Hearing on Macau and Hong Kong

Chairman Reinsch, Chairman Shea, and other members of the Commission, thank you for the opportunity to testify. From the standpoint of a gaming regulator in Nevada, I hope to share with you my perceptions of gaming in Macau as it relates to your concerns of money laundering and the implications for the United States.

**Background of Gaming in Macau**

I should start with an overview of gaming in Macau. Beginning in 1962, the right to exclusively control Macau's legal casinos was retained by Stanley Ho Hung Sun and his companies. In 1999, the Portuguese colony of Macau returned to Chinese control as a Special Administrative Region (SAR) under the "one country, two systems" model exemplified by Hong Kong, SAR, PRC. In 2001, the Government of Macau ended Ho's monopoly by opening a tender process allowing bids for a total of three gaming concessions. Numerous gaming companies bid for these concessions, including casino companies licensed in Nevada.

On March 31, 2002, the Government of Macau, granted three gaming concessions to:

- Sociedade de Jogos de Macau, S.A. (SJM) (Stanley Ho)
- Wynn Resorts, Limited
- Galaxy Casino Company, Limited  
in partnership with the Las Vegas Sands, Inc.

Galaxy Casino Company, Limited and Las Vegas Sands, Inc., subsequently sought to dissolve their partnership. As a result, the Government of Macau allowed for this initial gaming concessionaire to conduct a split through means of one "sub-concession." This structure set precedence enabling the other two concessionaires to conduct a split of their gaming concessions. Those concessionaires ultimately sold their sub-concessions to other interested gaming parties as follows:

- In April 2005, SJM sold its sub-concession to a partnership between MGM Mirage and Stanley Ho's daughter, Pansy Ho (MGM Grand Paradise Macau).
- In March 2006, Wynn Resorts sold its sub-concession to Melco-PBL, a joint venture between the Australian media company, Publishing and Broadcasting Ltd. (PBL) and Melco International (Melco). Melco, a Macau gaming company, was initially controlled by Stanley Ho until March 2006, but is now controlled by his son, Lawrence Ho.

As a result, Macau currently has six autonomous licensees which operate approximately 35 casinos. Three of the licensees are subsidiaries of Nevada gaming companies: Wynn Resorts, Limited, Las Vegas Sands, Inc., and MGM Resorts International. Through restructures in recent years, all three of these majority-owned subsidiaries are now publicly-traded entities, listed on the Hong Kong Stock Exchange.

While Macau currently has a population of almost 560,000, the outlying areas surrounding Macau, namely those that include the nearby population centers of Hong Kong and Guangzhou, have millions of residents. The potential visitors' market from the rest of mainland China, however, can reach into the billions. This Commission is more expert than I on Chinese culture, but I think all of us will agree that traditionally the Chinese love to gamble and play gambling games.

Therefore, by 2007, Macau overtook the Las Vegas Strip in gaming revenues, and in 2012, Macau gaming revenue was reported to be US \$38 billion, eclipsing Nevada's gaming revenues of \$10.8 billion.

Working in conjunction with these Macau casino licensees, are VIP Room Operators. These entities, licensed in Macau as "Gaming Promoters," work in combination with the casinos to satisfy a niche market of high-rollers. By most public accounts, this niche is responsible for approximately 75% of Macau gaming profits.

### **VIP Room Operators**

Understanding these VIP Room Operators is paramount in understanding the gaming industry in Macau.

While VIP Room Operators are often referred to as "Junket Operators," they are distinct from how junkets operate in Nevada. Junket Operators in Nevada, called "Independent Agents," act primarily in a capacity of marketing or travel agents who secure customer visits to certain casinos. In Nevada these individuals are registered (not licensed) to bring business to specific casinos. Though the Independent Agent might be the facilitator between the casino and the customer, all transactions are conducted under the purview and control of the licensed casino.

In contrast, Macanese law allows for VIP Operators to participate in casino operations. For example, Stanley Ho's casinos essentially sublease casino space to the VIP Room Operators who operate all gambling functions. In a lesser extension, the Nevada affiliates in Macau maintain control of the gambling game, but still relegate certain cage, cash transactions, reporting, and loan issuance and collections to these third-party VIP Room Operators. Thus, The VIP Room Operators conduct their transactions with the casino, but the VIP Room Operator's customers will conduct their cage transactions with the VIP Room Operator.

Financing these VIP Operations requires substantial capital. While the majority of these VIP Room Operators are licensed as individual operators, analysis confirms the vast majority of these operations are associated with major VIP Room Operator groups via complex corporate structures, financial guarantees, and third-party assignments. These gaming groups are just as prominent in the Macau

gaming scene as are the six licensees. From our perspective, there are seven VIP Room Operator groups of interest which are responsible for the majority of all VIP Room Operations in Macau. Most of these groups are publically traded companies.

## **Niche**

While the casinos still exercise efforts towards the mass market and procuring their own VIP clientele, employing the third-party VIP Room Operators allows for the casinos to participate in a gambling niche that would otherwise be elusive. As imaginative as you wish to be, there are legitimate and illegitimate reasons for various wealthy gamblers to keep a degree of anonymity and relegate trust only to a familiar VIP Room Operator rather than dealing directly with a casino. Further solidifying this niche is that Macanese law allows not only the casino, but also the VIP Room Operators to issue gambling credit to players.

The majority of these high-rollers are from mainland China. Various laws restrict the money transfer out of mainland China as well as hinder incentives to loan gambling funds or exert collection efforts. Chinese citizens are barred from carrying more than the equivalent of about US\$3,000 on any single trip to Macau, and it is illegal to try and collect a gambling debt there. The licensed casinos are highly incentivized to abide by these laws. However, the third-party VIP Room Operators act more autonomously in their decisions to adhere to these laws and they allegedly circumvent these restrictions, or likewise affiliate with parties that can facilitate such transactions.

As a result, the casinos are not necessarily privy of the nefarious reputations, allegations, associations, dispositions and sources of funds transacted by VIP Room Operators.

## **Concerns**

Our analysis indicates that the Nevada affiliated casinos in Macau offer robust compliance with anti-money laundering protocols. That robust compliance, however, is only up to a point. That point is where the VIP Room Operators assume responsibility.

Though VIP Operator transactions conducted directly with the casino are tightly controlled and regulated, criminal transactions are widely alleged to take place just out of the direct purview of the casino. Such activities include back-betting, side-betting, loan sharking, violent loan collections, underground banking, and money laundering.

Furthermore, it is common knowledge, the operation of VIP Rooms in Macau casinos had long been dominated by Asian Organized Crime (AOC), commonly referred to as “triads.” With the evolution of gaming in Macau, the same AOC figures are allegedly still working the VIP Operations; only now they do it behind a façade of “legitimate” public corporations, complex corporate structures, financial guarantees, and third-party assignments. Public media and intelligence sources have affiliated all but one of the seven VIP Room Operator groups of interest with reputed AOC figures. Many of these

associations are linked through documented public records. As such, since March 2010, the industry has been facing an increasing deluge of media scrutiny concerning the Nevada gaming companies' ties to organized crime in Macau.

In its purest form, the operation of VIP Rooms is legitimate and lucrative for all parties. It is only in the ancillary affiliated activities that the model is vulnerable to perpetration of illegitimate activities. For example, VIP Room Operators are in a position to offer money laundering and underground banking transfer "services" for other criminal activities, especially when comingled with legitimate funds.

### **Money Laundering**

A common misconception about money laundering is that to participate, one must help process "dirty" money through a system that makes it "clean." Rather, under US Federal laws, one needs only to accept money suspected of being dirty into the financial system to be a participant in money laundering. Of concern to the United States is that once in the legitimate system, that once dirty money can be moved or used for legitimate or illegitimate purposes.

While transactions facilitated directly with casinos have robust anti-money laundering procedures, a money laundering vulnerability exists whereby illegitimate money enters the system through VIP Room Operator transactions facilitated outside of the casino's purview. In addition, no one can count the methods and means utilized by criminal enterprises to facilitate laundering of money, and indeed, while the concern and the activity exists worldwide, there is a special concern with Chinese officials attempting to bring state money out of the mainland and possibly through casinos or other businesses in order to land it elsewhere for future use.

Our ability to monitor, investigate, and eventually discipline our Nevada licensees for foreign violations is discussed next.

### **Limitations**

From our perspective of regulation in this matter, we have limitations.

The first is evident. We are the Nevada State Gaming Control Board. We regulate gaming within our borders, but have neither the authority nor the desire to regulate gaming in another jurisdiction. The authority we have granted to us in this regard is in our own Foreign Gaming Statute, Nevada Revised Statute 463.720<sup>1</sup>.

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<sup>1</sup> **NRS 463.720 Prohibited practices.** A licensee shall not, in a foreign gaming operation, knowingly:

1. Violate a foreign, federal, tribal, state, county, city or township law, regulation, ordinance or rule, or any equivalent thereof, concerning the conduct of gaming;
2. Fail to conduct the operation in accordance with the standards of honesty and integrity required for gaming in this state;
3. Engage in an activity or enter into an association that is unsuitable for a licensee because it:

Second, jurisdictional requirements dictate that we maintain excellent relationships with our overseas gaming and law enforcement counterparts, as well as the various US Federal agencies, as we investigate issues and allegations that arise. We also place a heavy burden on the Nevada affiliates that operate overseas, as they are held to be acting in the State's best interests in Macau. While we know many of the associations, and understand much of the money flow, we stand in the same position as other law enforcement agencies such as the FBI and DOJ when attempting to investigate nefarious allegations or sources and disbursements of funds facilitated through various parties removed by many degrees of separation in foreign jurisdictions. I must pause here to indicate the excellent working relationships we have overseas, particularly in Asia, with said counterparts, and other American officials, such as those in various Embassies throughout the region.

Third, Macau has a strict data privacy law. The Macanese Privacy Act 8/2005, which took effect February 2006, has varying degrees of interpretation. It essentially forbids businesses there from transferring data on individuals to any other country. In general, therefore, it has precluded us from obtaining information from our operators to the degree we are accustomed to. We have opened a dialogue with the data protection office, but as you know, relationships in Asia are built on foundations of long term trust, and we must continue to nurture that relationship.

Finally, as with most government entities, we are limited in resources. Macau is an ancillary foreign jurisdiction outside of the State of Nevada, and thus outside of our direct oversight. Limitations dictate that resources are best expended towards matters within our jurisdiction. We do not have the manpower to staff agents in Macau, and nor would we ever do so. We do, however, routinely send agents not only to Macau, but throughout all areas of the world as they conduct their investigative activities.

## **Conclusion**

Nevada has long enjoyed a formidable reputation for strict and effective regulation. The globalization of gaming beyond our borders brings challenges, however, as we do not have the authority nor the resources to either regulate gaming or conduct criminal investigations in a foreign jurisdiction.

When Nevada licensees first entered the Macanese jurisdiction, the industry, federal agencies, international regulators, and the Nevada State Gaming Control Board watched with anticipation that the licensees would bring Nevada's standards of gaming to the enclave battling a nefarious reputation of

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- (a) Poses an unreasonable threat to the control of gaming in this state;
  - (b) Reflects or tends to reflect discredit or disrepute upon this state or gaming in this state; or
  - (c) Is contrary to the public policy of this state concerning gaming;
4. Engage in an activity or enter into an association that interferes with the ability of this state to collect all license fees imposed by this chapter; or
  5. Employ, contract with or associate with a person whom the Commission or a court in this state has found guilty of cheating or to whom the Commission has denied a gaming license, or finding of suitability, on the ground of unsuitability.

rampant AOC infiltration. While certain elements of the business model have indeed been “westernized,” in effort to compete; however, the business model of the west has also become somewhat “easternized.” Nonetheless, we feel that the business model itself is not an issue, nor do we believe that the casinos, themselves, are an issue; it is what the business model allows to occur outside of the casino’s purview that may pose problems.

Thank you for the opportunity to testify today.