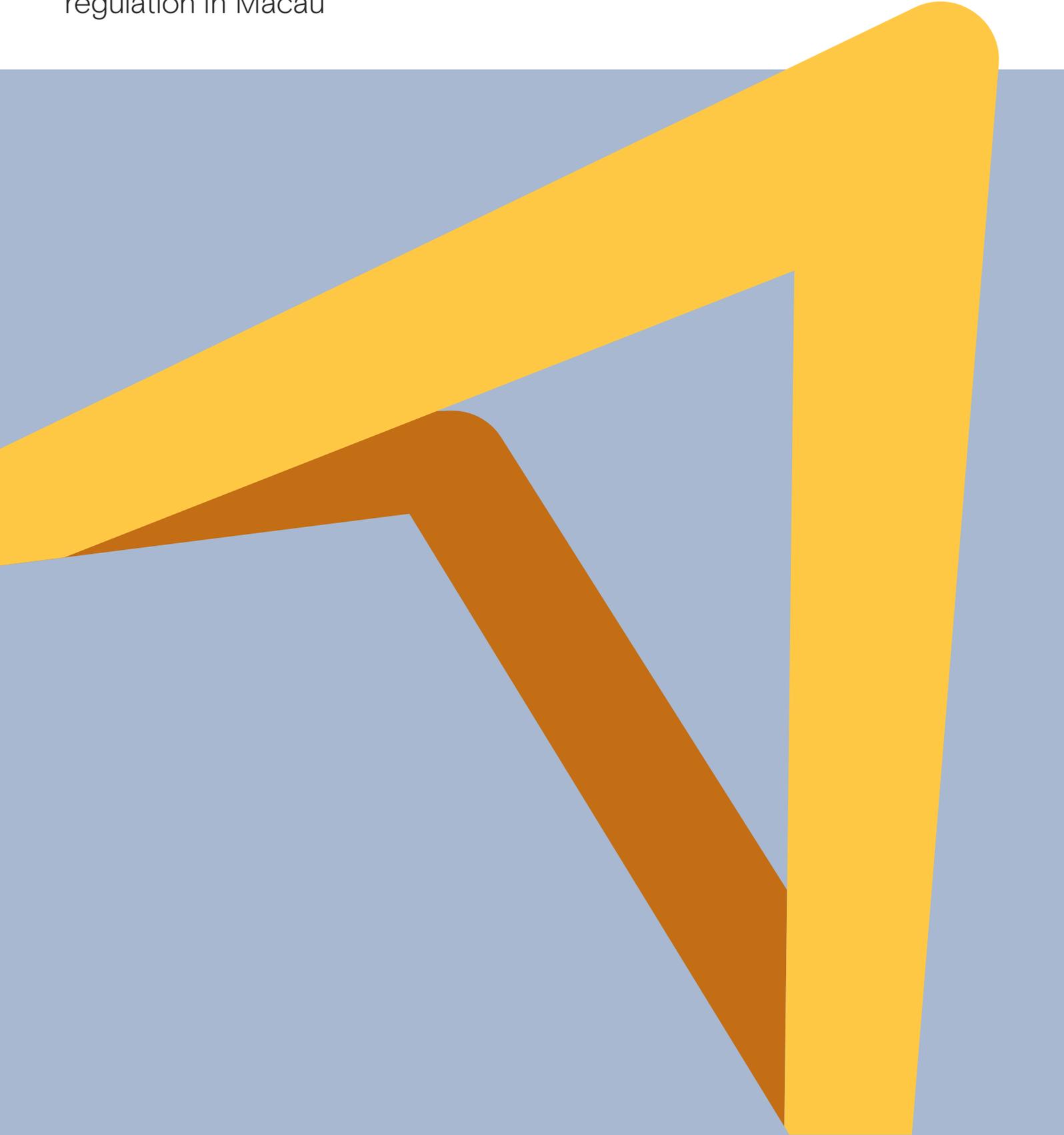


White Paper

Time for change? Examining the impact of anti-money laundering regulation in Macau



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Examining the impact of anti-money laundering regulation in Macau

Situated on the south coast of China across the Pearl River estuary from Hong Kong, Macau has for years been the undisputed gaming hub of the world. It is the only place in China where gambling is legal. Its gambling revenues in 2018 reached nearly GBP 28.87 billion (USD 37.57 billion), a growth of 14% on the previous year.¹

However, revenues dropped at the beginning of 2019, with a smoking ban and the US-China trade dispute deterring big-spending VIP players. The gaming environment in the city has also been strongly criticised and needs change, to both licensing and regulation.

The regulator

Gaming operators in Macau are regulated by the Gaming Inspection and Coordination Bureau (DICJ), which monitors, supervises, investigates and sanctions any infringement against Macau's legal framework, and regulates gaming concessionaires and sub-concessionaires (including shareholders who hold more than 10%), as well as promoters and electronic gaming machine manufacturers.

The main AML framework in Macau includes Law no. 2/2006 (AML Law) and Administrative Regulation no. 7/2006 ("Preventive Measures for the Crimes of Money Laundering and Financing of Terrorism"). The DICJ has introduced new measures for implementing a risk-based approach and enhancing customer due diligence procedures, which predominantly relates to patron identification and the reporting of suspicious transactions.

Any illegal gaming activities are sanctioned according to Law no. 8/96/M, which includes fraud and illicit gaming, as well as loans and credits for gaming purposes.²

Internationally, Macau's image is of a low-tax jurisdiction with a huge focus on gaming, so it is naturally associated with high-risk clients and money laundering. Its AML regime lacks cross-border disclosure, which is a major difficulty for intelligence given the quantity of foreign assets brought into the city. Limited prosecutorial resources, heavy evidence requirements around third parties and low quality policy directives for investigations mean there are few money-laundering convictions. Sentences are also relatively short, from 3-5 years for a money laundering offence. And terrorist financing is not criminalised unless it is directly linked to a terrorist attack. However, the risk of terrorist financing in Macau is low, which could explain the weaker legislation around it.

On the positive side, the regulatory picture has begun to change, with laws enforced in 2017 already leading to more reports of suspicious transactions. More regulations are expected, and being reviewed by government according to Macau Secretary of Economy and Finance Lionel Leong. Macau Chief Executive Fernando Chui has stated that by 2020 the government

¹ GGRASIA, 01.01.2019, *Macau casino GGR posts 14pct growth in full-2018: govt*, <http://www.ggrasia.com/macau-casino-ggr-posts-14pct-growth-in-full-2018-govt/>

² ICLG, *Macau Gambling 2019*, 20.11.2018, <https://iclg.com/practice-areas/gambling-laws-and-regulations/macau>

would review every aspect of the gambling industry, with the goal of perfecting the laws and regulations that govern the industry.³

Additionally, the DICJ is considering tighter regulation of junket operators (licensed gaming promoters) and this focus has led to a decline in the number of operators, from 225 in 2011 to 110 in 2018. Although junket operators are legal in Macau, they are often associated with organised crime. And junket functions are often carried out by companies that are not licensed and hide behind a complicated ownership structure, which raises even more concern around suspicious activity. Chinese President Xi Jinping targeted these businesses in a 2014 campaign against corruption that drove gaming revenues down from GBP 35 billion (USD 45 billion) in 2013 to less than GBP 22 billion (USD 28 billion) in 2016. If stronger measures are implemented, the smaller junkets are likely to either leave the country or consolidate, leading to a smaller number of bigger operators that are able to comply with new requirements.

The operators

Macau currently has six major casino operators, which run casino resorts through a gaming licence. The current Macau gaming law 16/2001 limits licences, but the city is being pressured to revise it and open the market to new operators. This argument is given force by rising competition from Japan, Singapore and other more flexible gaming centres. Licences for current Macau operators expire between 2020 and 2022 and a proposal to amend the existing gaming law has already been submitted and is under review by the regulator.

The government announced in March 2019 that all six of the city's operators would have the expiry dates for their concessions aligned to 26 June 2022, and it extended the terms for SJM Holdings Ltd and MGM China Holdings Ltd to fit this date.

The VIPs

Gross gaming revenue (GGR) for VIP baccarat fell 13.4% year-on-year for the first three months of 2019, and accounted for just 48.86% of Macau's casino GGR for the quarter, compared to 53.32% in the previous quarter.⁴ The smoking ban, which took effect January this year, has taken a toll on VIP presence. The ban includes tableside smoking, which reduces the incentive for non-rolling chip play in VIP rooms. Authors and analysts also believe that the VIP scene was strongly affected by lower-tax competition in the region, including NagaWorld casino resort complex in Phnom Penh, Cambodia, run by Hong Kong-listed NagaCorp Ltd, and Okada Manila in Philippines, promoted by Tiger Resort, Leisure and Entertainment Ltd, a unit of Japan's Universal Entertainment Corp.⁵

³ Devin O'Connor, Casino.org, 24.07.2018, *Proposal to Change Macau Gaming Law Under Review According to Secretary of Economy and Finance Lionel Leong*, <https://www.casino.org/news/macau-executive-says-proposal-to-change-gaming-law-under-review>

⁴ Eric Gubbs, Calvin Ayre, 17.04.2019, *GGR on mass gaming in Macau up, VIP down*, <https://calvinayre.com/2019/04/17/casino/ggr-on-mass-gaming-in-macau-up-vip-down/>

⁵ GGRASIA, 22.04.2018, *Macau VIP to continue weak as mass builds: observers*, <https://www.ggrasia.com/macau-vip-to-continue-weak-as-mass-builds-observers/>

Morgan Stanley analysts, on the other hand, note that the percentage of VIP revenue from other regions has remained fairly stable, while the type of games that are growing overseas are not legal in Macau. In their view, slower growth in Macau cannot be blamed on VIP players leaving for other territories and they predict Macau will recover later in 2019 and be back on track. ⁶

Betting on business diversity

Whether or not Macau's gaming industry gets back on track after the upcoming regulatory changes, one issue remains: diversification. The territory is still highly reliant on casinos, and international organisations are strongly advising that business diversification is long overdue. Macau casinos' non-gaming revenue currently ranges between 1 per cent and 10 per cent of total revenues. Given the city's reliance on gaming, diversification would be a hedge against falling revenues and a chance for Macau to expand into new areas. One of the criteria for choosing casino operators after the current concessions expire is that they develop non-gambling facilities. And in 2016 the government agreed on a 5-year plan to diversify the economy, with a proposed focus on growing the convention and exhibition industry, cultural and creative industries, traditional Chinese medicine and trade in services. This will be a challenge that requires significant collaboration and a strong framework.

This Acuris Risk Intelligence Paper has been co-authored by Nick Parfitt, Head of Market planning & Christophe Barel, Managing Director APAC Region.



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⁶ Erik Gibbs, Calvin Ayre, 07.05.2019, Morgan Stanley expects VIP revenue in Macau to recover in Q3, <https://calvinayre.com/2019/05/07/casino/morgan-stanley-expects-vip-revenue-in-macau-to-recover-next-quarter/>