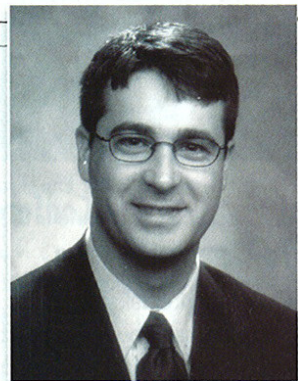


Know Your Customer

Gaming suppliers must examine every transaction to remain in regulatory compliance

by Robert R. Russell



If you ask any president, CEO or general manager whose company sells products to the casino gaming industry, they will tell you that having a license from a jurisdiction's regulatory body is one of the first barriers to entry.

Many industries across the globe require licenses to perform a business service or gain access to a marketplace, but the laws and regulations that govern the licensing process of vendors/suppliers of the casino gaming industry is very unique. These licensing standards include the background, financial wherewithal, licensing history and suitability of a company and its key officers. In addition, gaming control boards that enforce these licensing standards look at who a company does business with, and the processes that a licensee or applicant has in place to ensure that it transacts business in legal jurisdictions and *with suitable parties*.

The purpose of this article is to outline key compliance steps that every company doing business with the casino gaming industry should incorporate into its business structure. Doing so will allow a company to ensure that it knows with whom it is transacting business, to prevent it, or an affiliate, from doing business with an unsuitable party—and, consequently, heading off an adverse licensing determination.

As a result of the high standard of integrity that gaming laws and regulations require from the industry suppliers, it is important that these businesses have adopted a compliance policy.

The large majority of established businesses working in the casino gaming industry within the United States, as well as internationally, have developed and adopted a "compliance policy" and have compliance procedures in place to properly vet current and prospective business partners. However, many businesses involved with the industry need to improve their efforts in this regard, as failure to do so could result in licensing problems, and costly investigations, fines, or worse yet, license suspension or revocation.

NFC Global, LLC specializes in assisting governmental entities with their investigation efforts into potential licensees, as well as working with industry suppliers seeking to ensure the suitability of potential business partners. William Kisby, partner and executive vice president, says jurisdictions do indeed look at who prospective or renewing license applicants work with when determining whether to license a company.

Kisby notes that any company holding a privilege gaming supplier license should ensure that all affiliations that it enters are properly vetted, and if problems are identified, that there are policies in place to ensure that these business relationships are terminated or avoided. He says the company's compliance policy and manual should, at a very minimum, require that all prospective key business partners complete a background disclosure form, and that the company have an independent background check completed by an investigative firm that specializes in gaming compliance.

According to Kisby, gaming regulators do not look favorably on companies that operate under a philosophy of "sales before compliance."

Ben McMakin, former deputy director of the Michigan Gaming Control Board's Licensing Division, says, "One of the most important factors to

consider in evaluating a contractual relationship is who the people are behind the company you are considering an affiliation with."

McMakin says that, other than the salesperson or customer representative you are dealing with, what you do really know about the company and its owners is fundamental. One major "red flag" in determining whether a business affiliation is wise would be a company's inability to obtain verifiable information about the owners of the business, to confirm the backgrounds of these individuals.

Kisby notes that businesses seeking to work in the licensed gaming industry must embrace a culture of compliance, and develop a strong track record to develop a reputation that ensures gaming regulators that, even if a problem mistakenly occurs, the company did have policies in place on the whole to prevent such events from being commonplace.

McMakin says that regulators do take into account the limits to which a supplier should be expected to probe when conducting its due diligence, or how deeply the "problem" was buried or concealed from the supplier. "If the due diligence failed to identify a problem that was a matter of public record," he says, "or the supplier failed to follow its own due diligence protocol, the regulators will likely conclude that supplier was deficient in its due diligence efforts."

The regulators will then, most likely, look at a sampling of other due diligence investigations by the supplier to see if similar deficiencies are present.

The gaming industry is fueled by innovation of the industry suppliers and their business affiliations, and the incorporation of the unique creations of different businesses is key to this process. However, as a result of the high standard of integrity that gaming laws and regulations require from the industry suppliers, it is important that these businesses have adopted a "compliance policy," and that this policy is embraced by the culture of the company. Failure to do so could jeopardize the innovation that business owners and investors have fought to create.

Therefore, it is important that if your company is licensed in the gaming industry, and you do not have a current or enforced "compliance policy" that examines business affiliations, you should seek to consult with an appropriate professional to develop such a policy—and quickly so as not to jeopardize one of your most valuable assets, the gaming supplier license.

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