

An assessment of AML risks linked to accepting crypto-payments in the gambling sector (A regulator's guide)

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Research Objectives

This research is developed to review the following key points:

- a) **A review of the current landscape:** The first section will give an overview of current implementation of new payment technologies across the gambling sector including reference to various cryptocurrencies and stablecoins. It will further highlight the advantages and challenges implementing these new payment technologies.
- b) **Comparative analysis:** The second section of this research will conduct a comparative analysis of the implementation of new payment technologies (of countries and US states) and the associated AML controls and regulation around the acceptance of cryptocurrency in wider gambling sector including reference to land-based casinos, app-based play and online casinos.
- c) **Emerging Trends:** The final section will highlight new and emerging developments across the wider digital payments space and other technology-driven initiatives in the gambling markets.

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Acronyms

ACH	Automated Clearing House (ACH) ¹
AGA	American Gaming Association
AML/CTF	Anti-Money Laundering/Counter Terrorism Financing
ATM	Automatic Teller Machine
APM	Alternative Payment Methods
BSA	Bank Secrecy Act (US)
BTC	Bitcoin Cryptocurrency
CASP/VASP	Crypto-asset Service Provider / Virtual Asset Service Provider
CBDC	Central Bank Digital Currency
CDD	Customer Due Diligence ²
CVC /VC	Convertible Virtual Currency (Isle of Man)
CYSEC	The Cyprus Securities and Exchange Commission
DeFi	Decentralized finance
DLT	Distributed Ledger Technology
EDD	Enhanced Due Diligence
E-KYC	Digital/Electronic Know Your Customer (Due Diligence)
ETHER	Native Cryptocurrency run on the Ethereum Blockchain
EUR	Euro Currency
FATF	Financial Action Task Force
FIAT	Fiat currency is a government-issued currency that is not backed by a physical commodity, such as gold or silver, but rather by the government that issued it.
FINCEN	Financial Crimes Enforcement Network (US)
GCB	Curacao Gaming Control Board (Curacao)
GSC	Gambling Supervision Commission (Isle of Man)
ID &V	Identification & Verification
IOM	Isle of Man
ITAs	Innovative Technology Arrangements (Malta)
KYC	Know Your Customer ³
LOK	Curacao's new gambling law the National Ordinance on Games of Chance, or LOK for short
MGA	Malta Gaming Authority
MSB	Money Service Business
NBA	National Betting Authority of Cyprus
NFT	Non-Fungible Token
NTRC	Northern Territory Racing Commission
PAGCOR	The Philippines Amusement and Gaming Corporation
PEP	Politically Exposed Person
POGO	Philippine Offshore Gaming Operator
TRNC	Turkish Republic of Northern Cyprus
USDT	Tether (Stablecoin)
VA	Virtual Asset
VC	Non-Convertible Virtual Currency (Isle of Man)
VFA	Virtual Financial Asset (Malta)
VIP	Very Important Person
XRP	Ripple (Payment Protocol)

5AMLD/6AMLD – The 5th/6th Anti-Money Laundering Directive issued by the European Union

¹ This is the primary system that agencies use for electronic funds transfer (EFT). With ACH, funds are electronically deposited in financial institutions, and payments are made online.

² KYC and CDD may be used interchangeably in this research.

³ KYC and CDD may be used interchangeably in this research.

Terminology

Crypto-assets may also be referred to as: Virtual Assets (FATF), Virtual Financial Assets (Malta) or CVCs – Convertible Virtual Currencies (Isle of Man) in the context of this paper. There is no consistent global terminology mandated.

Executive Summary

The implementation of cryptocurrencies in the gambling sector is still a new phenomenon where only a select few jurisdictions have sought to regulate these new payments. The volatility of the value of cryptocurrencies like Bitcoin have also prevented a more widespread use of crypto payments across the sector but create space for new types of crypto-assets to be used including the use of stablecoins. Some of the issues associated with the implementation of cryptocurrency payments are not unique to the gambling sector but the wider crypto landscape and the use of crypto as a payment versus as an investment. This research has focused on the emerging trends of how crypto payments are currently used and the potential future iterations of development. The current landscape shows five key methods of using crypto payments:

1. The potential to accept crypto payments via cashless gaming (digital wallets) in land-based casinos
2. The implementation of crypto ATMs on the gaming floor
3. The use of stable-tokens (electronic casino chips)
4. Online wallet to wallet transactions for online gambling
5. The use of third party (crypto) payment providers for online gambling (i.e.: Neteller, Moneywise, etc)⁴

These key methods capture the use of cashless gaming systems and maintaining crypto ATMs on the land-based casino floor, the development of an in-casino currency or stable-token that can be used like casino chips but in electronic form and finally wallet-to-wallet transactions for online gambling and the use of third-party crypto payment processors.

The second part the research conducts an analysis of nine jurisdictions including Cyprus, Kahnawake, the United Kingdom, the Philippines, the US state of Colorado, Malta, Northern Territory in Australia, the Isle of Man and Curacao and studies how these jurisdictions are mitigating money laundering risks associated with accepting these new payment methods. Finally, we consider the role new technologies are playing before concluding with some final recommendations for gaming regulators that are considering accepting crypto payments in the near future. The final recommendations detail (in checklist form) six identified themes for a jurisdiction to consider before implementing crypto payments across the wider gambling sector.

- Theme 1: Prior approval by the gaming regulator is required for additional payment methods.
- Theme 2: Third party (crypto) payment providers used by gambling operators must be regulated.
- Theme 3: Regular AML/CTF controls apply with some additional stipulations.
- Theme 4: Terms and Conditions should be clear from the operator when accepting crypto payments.
- Theme 5: Consider if the regulatory and law enforcement infrastructure is in place.
- Theme 6: Consider the controls required for e-KYC processes and if this is allowable.

Methodology

This research has drawn upon a number of different sources to understand the wider use of crypto-assets across the gambling sector. This includes a review of key jurisdictions Cyprus, Kahnawake, the United Kingdom, the Philippines, the US state of Colorado, Malta, Northern Territory in Australia, the Isle of Man and Curacao to understand how regulators are overseeing the use of crypto-assets and any associated mitigation of AML/CTF risks. These jurisdictions were selected at random but based on the knowledge that they are currently accepting crypto payments or potentially planning to accept crypto payments in the near future. In addition, selected jurisdictions made their policies available and known online, transparent to operators and researchers for analysis. In other cases, discussions and interviews took place directly with the gaming regulator.

⁴ Crypto prepaid cards and debit/credit cards also exist but were not seen as part of this research.

In addition to reviewing key jurisdictions, the associated policies and procedures and AML/CTF requirements, the research has drawn upon key industry experts with special emphasis on gaming operators and distributors, technology companies working on solutions to implement crypto payments and other academic experts. To supplement this work, open-source data was used and cross-verified where possible with additional sources. Finally, experimental research was also used and a number of crypto casinos were visited primarily to understand the types of crypto payments that were accepted and the associated policies that were issued by the operator. We note that in the public domain, there is a lot of information that can be contradictory especially when looking at cryptocurrencies, so every effort has been made to cross-check and verify the information used in this report from open sources.

1: Crypto-assets in the gambling sector

Preliminary research suggests that the Merit Hotel in the Turkish Republic of Northern Cyprus hosted the world's first casino to accept Bitcoin payments.⁵ Media articles suggest that Bitcoin is accepted through digital wallets using the price from Bitstamp, a cryptocurrency exchange based in Luxembourg and allows players to withdrawal BTC casino winnings in fiat currencies.⁶ Furthermore, hotels and casinos in Las Vegas have also accepted Bitcoin but with the exclusion of applying it to gambling activity. The Golden Gate Hotel and Casino and the D Casino Hotel process their payments through BitPay, a company that processes crypto payments via mobile devices.

The gambling markets (both land-based and online casinos) are evolving rapidly to accept cryptocurrency payments, but regulators are struggling to keep pace with the technology changes and put adequate safeguards in place to guard against potential money laundering risks. This research seeks to review the global landscape in relation to the acceptance of cryptocurrencies in the wider gambling sector and provide some insight to gaming regulators considering the adoption of cryptocurrency, how cryptocurrencies can be used and the associated regulatory controls that can be implemented.

How does cryptocurrency work?

Cryptocurrency is defined as a form of virtual asset that uses cryptography to secure financial transactions⁷ and is intended to be used as a new and alternative payment method. Cryptocurrencies run on a distributed public ledger called blockchain which provides a publicly available record of all transactions through the use of public keys. The driving force behind the development of these alternative payment systems was to remove a single point of failure (i.e.: the banks) by using peer-to-peer networks to verify and authenticate transactions on a publicly available blockchain. A transaction is considered verified once a miner solves a cryptographic (mathematical) puzzle. This peer-to-peer verification network enhances the transparency of transactions and theoretically eliminates the need for a central approving authority. Cryptocurrency transactions are supported by wallets (hot or cold) and accompanied by a public and private key. Hot wallets indicate that the users private key is stored online and cold wallets indicate the private key is stored offline.

Cryptocurrency wallets can be housed in a variety of forms, including on a tangible, external device ("hardware wallets"); downloaded as software ("software wallets") onto either a personal computer or server ("desktop wallets") or an application on a smartphone ("mobile wallets"); as printed public and private keys ("paper wallets"); and as an online account associated with a cryptocurrency exchange.⁸

⁵ Giguru, John "Are Land-Based Crypto Casinos a Thing? What You Need to Know in 2022", Crypto news flash, June 2022 <https://www.crypto-news-flash.com/are-land-based-crypto-casinos-a-thing-what-you-need-to-know-in-2022/>

⁶ Ray, Randy, "Can You Use Bitcoin at Land-Based Casinos?" <https://www.gamblingsites.com/blog/bitcoin-at-land-based-casinos-63263/>

⁷ Kaspersky website, "What is cryptocurrency and how does it work?" <https://www.kaspersky.com/resource-center/definitions/what-is-cryptocurrency>

⁸ US DOJ, "Report of the Attorney General's Cyber Digital Taskforce, Cryptocurrency Enforcement Framework", October 2020 <https://www.justice.gov/archives/ag/page/file/1326061/download>

Crypto-assets (also called virtual assets or digital assets) include a wider scope of assets including cryptocurrencies (i.e.: Bitcoin and Ether), tokens (i.e.: NFTs), stablecoins (i.e.: USDT, USDC, DAI) and central bank digital currencies (“CBDCs”). The Financial Action Task Force (“FATF”) defines virtual assets as “*a digital representation of value that can be digitally traded, or transferred, and can be used for payment or investment purposes.*” This research focuses on crypto-assets that can be used as a payment mechanism to deposit and/or withdraw funds for gambling. In the latter part of the paper, we also explore emerging trends in wider technology across the sector.

Blockchain is also an important concept to understand in the context of gambling. Blockchain gambling or blockchain casinos use distributed ledger technology (“DLT”) to track transactions and to ensure the game is set up fairly (with respect to the odds), that the game is secure and transparent. Distributed ledger technology also enables smart contracts which are self-executing based on computer coding logic.

The concept of “tokenisation” – The idea of tokenisation has become an interesting topic for discussion for casinos. Some suggest that traditional casinos already have a “token” process in place (i.e.: you convert currency into casino chips before playing at a casino) which may make the transition easier for casinos to implementing blockchain technologies. This same concept can be applied with blockchain technology where payments are made from a bank account into a digital wallet and converted into a stable-token or casino coin i.e.: Caesar’s Palace could offer Caesar coin to spend across an integrated resort which is transacted through a digital wallet. There is also a parallel in digital payments using tokenization as a way to further securing digital transactions.⁹ Finally, we discuss **money laundering** – the process of converting illicit proceeds into “legitimate” assets. Casinos have historically been popular for criminal groups to deposit cash from illicit sourced like drug proceeds and to receive casino winnings and “clean” funds when cashing out at the casino after gambling. We look at money laundering compliance procedures in the research that operators are required to implement to mitigate against the risks associated with potential money laundering.

Definitions

Cryptocurrency (“Crypto”) is a form of virtual asset that uses cryptography to secure financial transactions. Commonly used cryptocurrencies for online gambling include: Bitcoin, Litecoin, Ether and Bitcoin cash.

Crypto-assets or virtual asset (“VA”) is a digital representation of value that can be digitally traded, or transferred, and can be used for payment or investment purposes. Virtual assets do not include digital representations of fiat currencies, securities and other financial assets that are already covered elsewhere in the FATF Recommendations. (Also referred to as “digital asset” or “crypto-asset”). Also referred to as a virtual financial asset (“VFA”) in Malta.

Stablecoin: a virtual asset backed by currency, commodities or an algorithm. (i.e.: USDT (“Tether”), USDC “USD Coin”)

CBDC: Central Bank Digital Currencies are being developed by many governments as an alternative national currency. (i.e.: China has developed the digital yuan)

VASP/DASP/CASP¹⁰ - These are virtual asset service providers which provide exchange services including the processing of crypto-to-crypto or crypto-to-fiat transactions plus other services, in some cases playing a custodial role.

Blockchain – is the underlying technology used for cryptocurrencies and other use-cases. It consists of a distributed database that maintains a list of ordered records, called blocks. These blocks are linked using cryptography. Each block contains a cryptographic hash of the previous block, a timestamp, and transaction data and is transparently recorded online.¹¹

⁹ Key expert interviews

¹⁰ Virtual Asset Service Providers (“VASP”), Digital Asset Service Providers (“DASP”) and Crypto Asset Service Provider (“CASP”)

¹¹ Synopsys website <https://www.synopsys.com/glossary/what-is-blockchain.html>

Bitcoin public addresses are up to 34 alphanumeric characters long (sometimes slightly shorter) i.e.: LbrZv9q4XMgbuAEusU5JvUSdgVRoHg8Knx. Public addresses are transparent and available online however the difficulties law enforcement can sometimes be presented with include linking this address to a real-world person.

Smart contracts - Smart contracts are code written into a blockchain that executes the terms of an agreement or contract from outside the chain. It automates the actions that would otherwise be completed by the parties in the agreement, which removes the need for both parties to trust each other.¹²

Stable-token – For purposes of this research, a stable token is an in-casino currency that can be used within a casino environment – land-based or online similar to an electronic version of a casino chip. Money is deposited and transferred for the electronic casino chip (stable-token) and used for gambling and wider casino use before cashing out. This is also referred to as a **virtual token** in Malta.

Money Laundering – the process of converting illicit proceeds into seemingly legitimate assets (i.e.: illicit drug proceeds may be deposited within a casino with minimal play and cashed out in cryptocurrency. The funds can then be explained as casino winnings)

Current appetite to leverage crypto-assets in the gambling sector

The gambling community appears to have a very mixed view of implementing crypto payments. Industry discussions have highlighted that Europe and the United Kingdom appear to be more advanced than the US in accepting crypto payments across gambling markets. Many industry experts believe that stablecoins and CBDC's may be a viable solution in the future with many suggesting that Bitcoin and other decentralised cryptocurrencies are in some cases difficult to implement due to the high volatility in the value of the currencies.

Increasing legalisation of US-based sports betting has also introduced crypto payments into US-based markets. A few key US key states have emerged as crypto-friendly in the gambling sector including Colorado, Virginia and Wyoming.¹³ Wyoming law permits sports betting platforms to accept cryptocurrencies provided that the currency can be converted into a cash-based currency.¹⁴ Colorado has also allowed the use of crypto payments whereby the Colorado Division of Gaming assesses each application and its associated risk management plan from an operator prior to approval to transact with crypto payments.¹⁵ Industry commenters have predicted that sportsbooks will partner with crypto exchanges to provide digital wallets and enable betting with digital currencies.¹⁶

In addition, many larger crypto casinos including some of the biggest operators are registered offshore (i.e.: Curacao) and offer gambling services to multiple markets globally. Many of these crypto casinos are operating with little regulation and in most cases, the jurisdictions where crypto casinos are registered are not yet regulating crypto-assets, in general, however the landscape is slowly changing.

How is cryptocurrency and its underlying technology being used across the gambling sector?

The research undertaken suggests there are multiple avenues to use crypto as a payment method in casinos, all at varying stages of development which are detailed below:

Table 1: How crypto is being used in the land-based and online gambling markets

¹² Frankenfield, Jake, “*What are smart contracts on the blockchain and how they work.*”, Investopedia, <https://www.investopedia.com/terms/s/smart-contracts.asp#:~:text=Smart%20contracts%20are%20code%20written,parties%20to%20trust%20each%20other.>

¹³ As at May 2023

¹⁴ Baker, Katherine Guarino “*Will the gaming industry go all in on crypto*”, Nelson Mullins, September 2022 https://www.nelsonmullins.com/idea_exchange/blogs/fintech-nostradamus/fn-in-the-news/will-the-gaming-industry-go-all-in-on-crypto

¹⁵ Baker, Katherine Guarino “*Will the gaming industry go all in on crypto*”, Nelson Mullins, September 2022 https://www.nelsonmullins.com/idea_exchange/blogs/fintech-nostradamus/fn-in-the-news/will-the-gaming-industry-go-all-in-on-crypto

¹⁶ Baker, Katherine Guarino “*Will the gaming industry go all in on crypto*”, Nelson Mullins, September 2022 https://www.nelsonmullins.com/idea_exchange/blogs/fintech-nostradamus/fn-in-the-news/will-the-gaming-industry-go-all-in-on-crypto

	Crypto in the Gambling Sector	Key considerations
Land-based	Cashless gaming (digital wallets)	Blockchain technology can be used for cashless wallets. Crypto could easily become one of the payment methods for land-based digital wallets and is being proposed however we have not yet found evidence of this currently in existence in land-based casinos.
Land-based	Crypto-ATMs on the casino floor	Crypto is converted to fiat before casino play. In some cases (but not all), Crypto-ATMs are covered by the national AML/CTF legislation.
Both	The use of stable-tokens (electronic casino chips)	The conversion of funds into a virtual stable token that can be used as an in-casino currency similar to a digital casino chip. Funds are transferred into the stable-token to gamble and withdrawn as winnings in a closed-loop system.
Online	Online crypto-casinos	Wallet to wallet transactions. Deposits are made from the player wallet to the operator wallet for gambling purposes.
Online	Online casinos with the use of crypto payment processors	Deposits and withdrawals and processed through a third-party payment provider. (i.e.: Neteller, Skrill, MoonPay, etc.) Best practice suggests the exchanges should be regulated in the country that the casino is registered.

1. Cashless gaming in land-based casinos

Cashless gaming works by downloading an app, providing basic identification and due diligence information, loading funds onto the account often via a bank account and using a unique QR code or bluetooth connection¹⁷ to gamble across the casino. With cashless gaming, funding sources may include online transfers from a bank account, credit/debit card or deposit with a cashier within the casino amongst others.

As part of the customer onboarding to open a cashless account, various AML checks are conducted including the identification and verification (“ID&V”) processes. The regulations in Nevada were recently updated to enable electronic “ID&V” whereas earlier a patron would be required to present their ID in person to sign up for the digital wallet (cashless gaming) account.¹⁸ The advantages of cashless include additional player data which can be used to promote responsible gambling (i.e.: with the imposition of limits to promote responsible gambling) and AML (i.e.: with greater tracking mechanisms on customers and often being linked to a bank account for greater transparency on the source of funds). Some additional AML considerations and risks to mitigate in this space include:

- Ensuring that accounts are not shared
- Adequate transaction monitoring processes to flag anomalies
- Ensuring that deposits from one transaction type to another should be strictly limited (i.e.: the deposit method should match the withdrawal method).

For more general KYC/AML checks that are conducted on cashless accounts, the verification of ID can be completed through remote checks (where allowable) along with other standard due diligence checks including reference to potential sanctions list and database checks. VIP patrons will have enhanced KYC procedures over a certain limit often specified by the operator.

Multiple US states have adopted cashless gaming and digital payment options for commercial and tribal casinos to date – Nevada, California, Oklahoma, Pennsylvania, Indiana, Iowa, Ohio, Florida.¹⁹ along with Michigan, West Virginia, Connecticut and Mississippi.²⁰ While this research has not yet found crypto being accepted into cashless wallets for land-based operators, it does have the potential for inclusion in various iterations of cashless gaming

¹⁷ Unique QR code or Bluetooth connection. Unique QR code is only limited to one casino management system (Konami). Others use Bluetooth connections

¹⁸ Bignell, Francis, “Casino Verification Regulations in Nevada Changed by State’s Gaming Commission.”, The Fintech Times, February 2022 <https://thefintechtimes.com/casino-verification-regulations-in-nevada-changed-by-states-gaming-commission/>

¹⁹ Stutz, Howard, “Cashless gaming and digital payments are moving into the casino world.”, The Nevada Independent, September 2021 <https://thenevadaindependent.com/article/cashless-gaming-and-digital-payments-are-moving-into-the-casino-world>

²⁰ Based on interviews with key experts

products. In addition to cashless gaming systems, new technologies such as Orbit²¹ have the potential to enable the use of digital currencies in land-based casinos, primarily by transferring digital currency via USB and other means to gamble at slot machines. These systems will accept digital currencies like Bitcoin, Zerocoin, Primecoin and Litecoin to gamble by accepting digital currency cashing out in fiat.”

It is also worth noting that banks who have been cautious in the past to provide banking services to a perceived “high-risk” industry have played a key role in supporting cashless gaming and wallets and connecting gambling accounts into the banking sector that provides this service. However, US gambling transactions are still considered high-risk merchant categories which have a higher cost of processing transactions.

2. The implementation of Crypto-ATMs on the casino floor

With many casinos advertising that they accept crypto, the reality of these claims often suggest that casinos have installed crypto ATMs on the gaming floor and thus this enables “crypto-gambling.” In this scenario, cryptocurrency first needs to be withdrawn from the ATM as fiat to gamble in the casino. The American Gaming Association (“AGA”) recommends this as best practice for implementing crypto payments in the US as it means that existing laws apply to the gambling activity.²² In Las Vegas alone there are 362 Bitcoin ATMs and a total of 32,598 Bitcoin ATMs in the USA according to CoinATM Radar.²³ Bitcoin ATM operators in the United States have to register with the FinCEN and comply with the Bank Secrecy Act (BSA) Anti-Money Laundering laws.²⁴ This practice has been largely observed in the US, however the scope of this research has not studied other jurisdictions for this approach.

3. The use of stable-tokens

While cashless accounts (digital wallets) are not accepting crypto payments as the norm yet in US land-based casinos, the underlying blockchain technology can be used to create digital wallet structures that enable the use of stable-tokens. These new blockchain-based solutions will allow players to interact via their mobile phone with land-based gaming operators for the purpose of placing wagers, shopping or exchanging funds with other players.²⁵ A US company has partnered with Colorado operators to provide an “in-casino” stable token that can be used across an integrated resort. Players fund their wallet through ACH or debit from their bank account and receive their stable-token i.e.: “Resort X Coin” to use across the resort on gambling, food or entertainment for example. This is a closed-loop system similar to a pre-paid option. The in-casino currency as a stable-token is similar to the way casino chips are used i.e.: funds are cashed into the token/casino chips which are used as cash-equivalent to gamble across various parts of the casino.

4. Online crypto-casinos (wallet to wallet transactions)

Crypto casinos are still a relatively new phenomenon and legislation and regulations are still emerging in many jurisdictions.²⁶ Some casinos, both regulated and unregulated are accepting wallet to wallet transactions for online gambling. With this payment method, a player will send funds from their personal wallet into a wallet that can be used on the gambling website. Generally, a separate wallet will be used for each cryptocurrency being deposited. Once the gambling play is complete, the funds are returned to the original wallet. If a cryptocurrency like Bitcoin is used, warnings to players may be required to ensure players understand the risks of using cryptocurrency, particularly if 1 BTC is deposited and then withdrawn 6 months later, the value of that 1 BTC could be significantly more or less. General rules that apply here indicate that casinos cannot operate as exchanges – this means you cannot deposit crypto and withdraw fiat or a different cryptocurrency for example.

5. The use of third-party crypto payment processors

Many jurisdictions are promoting the use of licenced and regulated third party payment providers as a means of processing a variety of payments including crypto payments in the wider online gambling sector. In many cases,

²¹ <https://patentimages.storage.googleapis.com/f9/37/95/fbcb565ddfb5bb/US11302145.pdf>

²² The American Gaming Association - <https://www.americangaming.org/>

²³ Coin ATM Radar - <https://coinatmradar.com/>

²⁴ Davitian Law - <https://davitianlaw.com/cryptocurrency-defense/bank-secrecy-act/#:~:text=Payment%20systems%20in%20which%20sellers,must%20comply%20with%20the%20BSA.>

²⁵ Fontana, Becky Liggera, “Where to talk blockchain-powered compliance, cashless casino & gaming at ICE 2023!”, Coingeek, February 2023 <https://coingeek.com/where-to-talk-blockchain-powered-compliance-cashless-casino-gaming-at-ice-2023/>

²⁶ Passman, Micah, “Blockchain casino: the future of online gambling or a short-term trend?”, igaming business, April 2022 <https://igamingbusiness.com/company-news/blockchain-casino-the-future-of-online-gambling-or-a-short-term-trend/>

the payment processors will be regulated in the jurisdiction where they offer services and in most cases payment processors are also captured by AML/CTF requirements.^{27 28} In the US not all payment processors are subject to AML/CTF requirements, however, crypto payment processing companies are captured under the BSA and are designated as Money Service Businesses (“MSBs.”) From the information obtained from third party payment providers, the source of funds for crypto payments is often verified via client declarations and some operators also use blockchain explorer tools to trace and identify crypto payments to ensure the funds do not have an illicit source. Due diligence for AML purposes will be conducted by the payment processor and the gaming operator in this instance.

Pros and cons of cryptocurrency as a payment method

Some of the benefits of using cryptocurrency for gambling include:

- Payments are irreversible (there no chargebacks)
- Fees are lower and settlement times are significantly faster
- All transactions are recorded publicly on the blockchain (data transparency)
- Pseudo-anonymity is guaranteed by encryption techniques so a public key will be shown in a transparent way but would need to be matched to a real-world ID to “de-code” the transaction (Confidentiality)
- Security - transactions are more secure due to a decentralised (distributed) peer-to-peer verification. There is no centralised point of failure.

Cons with using crypto as a payment method

With so many potential advantages, there is one large stumbling block for many operators - the volatility in value of cryptocurrencies like Bitcoin and Ether - and this has limited some of the jurisdictions from fully engaging with cryptocurrencies as a payment method. The best example to demonstrate the volatility in values is through the famous “pizza case” where on May 22, 2010, a bitcoin miner offered 10,000 BTC for two pizzas to be delivered with this amount converting roughly to around \$41 at the time. If these 10,000 BTC were sold at the all-time high it would have yielded \$68,990.²⁹ This volatility has led some to consider stablecoins as a less volatile solution, i.e.: using a crypto-asset that is backed by a “real-world” value either through the holding of currency or commodities to retain its value.

2: Crypto payments and the associated regulation (by country)

Regulating crypto-assets at the country level

The crypto landscape is complex with many different types of crypto-assets that have slightly different functionality for real-time payments. Crypto-assets include decentralised assets like bitcoin and ether, stablecoins which can be backed by real-world fiat currency, commodities or complex algorithms, non-fungible tokens and many other variants. The Financial Action Task Force (“FATF”) has led efforts to guide countries on how to include crypto-assets within their AML/CTF frameworks including AML/CTF guidance on obligations of exchange service providers and custodians (i.e.:VASPs) for example. These designated entities are responsible for obtaining key AML/CTF information when buying and selling of crypto-assets occurs. Custodial services provide basic storage and security for those that own crypto-assets and secures/stores digital wallets online.

The AML/CTF regime for crypto-assets focuses on obtaining identification and verification information from a client, obtaining information on the sender and receiver of the transaction along with other standard due diligence procedures (i.e.: verification of the source of funds). In US markets, crypto exchanges are MSBs subject to regular AML/CTF procedures. AML regulations in the European Union like 5AMLD and 6AMLD have recently updated requirements for crypto-assets namely the travel rule – i.e.: the source and destination of the funds data including IDs should be collected by exchanges and intermediaries etc.

²⁷ However, in the US not all payment processors are obliged entities under the AML/CTF reporting regimes

²⁸ Trulioo, “Understanding AML requirements for payment processors.”, Trulioo, August 2022 <https://www.trulioo.com/blog/aml/aml-requirements-payment-processors#:~:text=In%20the%20U.S.%2C%20the%20Bank,subject%20processors%20to%20AML%20requirements.>

²⁹ George, Benedict, “What Is Bitcoin Pizza Day?”, CoinDesk, August 2022. <https://www.coindesk.com/learn/what-is-bitcoin-pizza-day/>

A summary of the FATF guidance is detailed below and demonstrates the AML/CTF burden is largely on the intermediary parties (those that facilitate buying and selling on behalf of clients) i.e.: exchanges or VASPs. A summary of key guidance from FATF of virtual assets is detailed below:

FATF issued guidance on Virtual Assets. (2019)

1. Countries should consider virtual assets as “property”, “proceeds”, “funds”, “funds or other assets”, or other “corresponding value”
2. In line with R1, countries should identify, assess, and understand the AML/CTF risks associated with VAs and VASPs and take a Risk-based Assessment (“RBA”).
3. VASPs should be required to be licenced or registered. Sanctions should be applied to those VASPs operating without a licence.
4. VASPs should be subject to adequate regulation and supervision relating to the implementation of the FATF standards. Supervisors should also have powers for disciplinary and financial sanctions and the ability to revoke, suspend or restrict licences.
5. Countries should have dissuasive sanctions – criminal, civil or administrative for failure to comply with the AML/CTF requirements
6. Preventative measures detailed in R10-R21 apply to VASPs with the exception of R10 where the threshold for VASPs to trigger CDD is USD/EUR 1,000 and R16 suggesting that VASPs must hold specific information relating to the originator and beneficiary of the transaction including provisions relating to the beneficial owner (the travel rule).
7. Promotion of international cooperation between supervisors of VASPs (R37-40)

Source: FATF issued guidance on Virtual Assets. (2019)

To summarise the FATF approach above, virtual assets (crypto-assets) should be treated as equivalent to real-world assets and countries should assess and undertake a risk-based assessment of the potential AML/CTF risks associated with various crypto-assets and the associated crypto-asset service providers (“VASPs”). VASPs should be licenced and are often listed on the regulator’s website for consumers to view and are subject to regulatory oversight including the suspension and revoking of licences. Sanctions should also be available to the regulator for those that don’t register and fail to comply with AML/CTF standards. Standard due diligence applies to those trading in crypto-assets and there is a requirement to obtain customer due diligence information based upon a USD/EUR\$1000 threshold.

A comparative analysis of crypto regulations in the gambling sector

In this next section, we consider the regulatory approaches taken by the selected jurisdictions. A high-level summary is detailed below:

Jurisdiction	Regulator	Current policy on accepting crypto
Cyprus Land-based operator, online and offline sports betting (no online casinos)	Cyprus gaming + casino supervision commission (Est. 2015) National Betting Authority of Cyprus (NBA) (Est. 2012) (<i>Online and offline sports betting</i>)	Online casino services are prohibited in Cyprus under the Betting Law (2012). The land-based casino operator is subject to the AML/CTF requirements. Approval is required prior to the acceptance of any cryptocurrencies ³⁰ Operators are required to assess the risks from products or transactions that favour anonymity and introduce measure to mitigate potential AML/CTF risks.
Kahnawake (Canada) Some land-based activity and interactive gaming licences	Kahnawake Gaming Commission	Operators are subject to the existing AML policy and and AML/CTF reporting regime.

³⁰ Cyprus Gaming and Casino Supervision Commission, AML regulations Version 2.0, <https://www.cgc.org.cy/uploads/AML/c64a36ck7t.pdf>

		Crypto payments are allowed and subject to the existing AML policies regulations. ³¹ However, they cannot be the sole payment method.
United Kingdom	Gambling Commission	Crypto payments must have an adequate risk mitigation plan in place approved by the regulator. ³²
Land-based casinos and remote gambling amongst other gambling		Payment processors and crypto exchanges are both covered entities under the AML/CTF regulations.
Philippines	Philippine Amusement and Gaming Corporation (PAGCOR)	There was no specific policy identified on AML/CTF risks linked to crypto gambling however PAGCOR are monitoring trends to accept crypto payments closely.
Offshore and land-based casinos		
Colorado (US State)	Division of Gaming	Crypto payments are allowed and subject to the existing AML polices and regulations since 2020. They must have adequate AML risk mitigation procedures in place and have prior approval from the regulator. Payment processors are not necessarily subject to the AML/CTF reporting regimes in the US however crypto exchanges need to be fully compliant and are designated as money service business (“MSBs”).
Land-based casinos and online sports betting		
Malta	Malta Gaming Authority (“MGA”)	The MGA created a regulatory sandbox in 2020 and has created new DLT policy in January 2023. ³³ Prior approval is required by MGA before accepting any “virtual financial assets” Gaming operators are registered and subject to the existing AML/CTF requirements.
Land-based and remote gaming		
Australia (Northern Territory)	Northern Territory Racing Commission (“NTRC”)	Crypto payments have been proposed in Northern Territories. Approvals and stipulations have been detailed in a consultation document and detailed below. Gaming operators are subject to the AML/CTF regime.
Sports bookmakers, betting exchanges, novelty markets ³⁴		
Isle of Man	The Isle of Man Gambling Supervision Commission	The Isle of Man issued AML/CTF guidance in 2020 on virtual currencies. ³⁵ The Isle of Man allows deposits in “money or money’s worth” and details two types of virtual currencies – convertible virtual currencies (“CVCs”) and non-convertible virtual currencies (“VCs”).
Land-based gambling operations and online gambling activities.		
Curacao	Curacao Gaming Authority (to be established mid 2023) replacing the Curacao Gaming Board.	Crypto casinos are commonly registered in Curacao including big players like Stake.com and Roobet. Curaçao's new gambling law is called the National Ordinance on Games of Chance, or LOK for short.
Online operators and land-based.		

³¹ Kahnawake Gaming Commission AML/CTF Regulations, June 2021 <http://www.gamingcommission.ca/docs/2021-06-30-RegulationsConcerningAMLandCTF.pdf>

³² UK Gambling Commission, Blockchain technology and crypto-assets, last updated March 2023.

<https://www.gamblingcommission.gov.uk/licensees-and-businesses/guide/page/blockchain-technology-and-crypto-assets>

³³ MGA Policy on Distributed Ledger Technology by Authorised Persons, January 2023. <https://www.mga.org.mt/the-mga-publishes-its-policy-on-the-use-of-distributed-ledger-technology-by-authorised-persons/>

³⁴ The Northern Territory Racing Commission - <https://industry.nt.gov.au/boards-and-committees/racing-commission/definitions>

³⁵ Isle of Man AML/CTF Guidance for Virtual Currencies 2020 v2.0 12/2020 <https://www.gov.im/media/1371388/vc-aml-guidance-2020.pdf>

The law will include a clause permitting the gambling sector to make and receive payments in crypto, until such a time that wider crypto regulations will enter into force, according to the minister.³⁶ (November 2022)

The Republic of Cyprus

The Cyprus Gaming and Casino Supervision Commission (“the Commission”) was set up in 2017 to regulate land-based casinos under the Cyprus Casino Operations and Control Law and associated regulations.³⁷ The Commission license and regulate both the casino operators and individuals working in the casino industry, including casino employees, gaming suppliers, junket operators and those providing test laboratory services. Cyprus have granted a single operator licence to an integrated casino resort with smaller satellite casinos which was awarded to Integrated Casino Resorts Cyprus Ltd which is part of Melco Group. **Online casinos are currently prohibited** however Cyprus regulates online and offline sports betting under the Betting Law 2012, the National Betting Authority (“NBA”). The NBA is responsible for examining applications, and licensing, auditing and supervising prospective betting shops and online betting operators.³⁸

The Prevention and Suppression of Money Laundering Activities Law (the AML Law) in the Republic of Cyprus introduces the casino as an obliged entity with relevant obligations under this legislation. Furthermore, based on paragraph 179 of AML/CTF Direction issued by Cyprus Gaming and Casino Supervision Commission: “*the (land-based) operator is not allowed to engage in crypto assets activities. In case the Operator wishes to engage in crypto assets activities, it should first obtain approval from the Commission.*”³⁹ Furthermore, the (land based) operators are required to assess the risks from products or transactions that favour anonymity and introduce measures to mitigate potential ML/TF risks. Crypto-asset is defined in the AML Law as:

“Crypto Asset” is defined in Cyprus to mean a digital representation of value that is not issued or guaranteed by a central bank or a public authority, is not necessarily attached to a legally established currency and does not possess a legal status of currency or money, but is accepted by natural or legal persons as a means of exchange and which can be transferred, stored, and traded electronically, and it is not a) Fiat currency, or b) Electronic money, or c) Financial instruments, as these are specified in Part III of the First Appendix to the Investment Services and the Activities and Regulated Markets Law.

The Cyprus Securities and Exchange Commission (CYSEC) regulates the cryptocurrency markets and requires crypto-asset service providers to register with the commission. Third party payment providers that operate locally (i.e.: “Revolut”) must obtain prior approval before offering cryptocurrency and digital asset services in Cyprus.

The Kahnawake Mohawk Territory (Canada)

Kahnawake is a first nations reserve in Quebec, Canada that has established a significant online casino licensing presence with a local data centre that hosts and manages many online casinos. The Kahnawake Gaming Commission licences and regulates land-based gaming including poker rooms, raffles and electronic gaming devices and interactive online gaming.⁴⁰ Crypto payments are allowed and subject to the existing AML policies and regulations⁴¹ however, cryptocurrencies cannot be the sole payment method. Crypto-currency is mentioned within the AML/CTF policy in para.28 indicating that any transactions greater than \$10,000 need to be reported and specified if the transaction “involved cash, electronic funds transfer, e-currency or a cryptocurrency”.

³⁶ Lindenberg, Sonja “Curaçao’s new gambling law to allow crypto payments”, iGaming next, November 2022

<https://igamingnext.com/news/curacao-gaming-law-to-permit-crypto-payments/#:~:text=Cura%C3%A7ao's%20new%20gambling%20law%20is,force%2C%20according%20to%20the%20minister.>

³⁷ The Cyprus Gaming and Casino Supervision Commission <https://www.cgc.org.cy/en/law>

³⁸ The National Betting Authority (“NBA”) <https://www.cgc.org.cy/en/sports-betting-and-casino-regulation>

³⁹ Cyprus Gaming and Casino Supervision Commission AML regulations Version 2.0 <https://www.cgc.org.cy/uploads/AML/c64a36ck7t.pdf>

⁴⁰ Kahnawake Gaming Commission - https://www.gamingcommission.ca/home_lb.htm

⁴¹ Kahnawake Gaming Commission AML/CTF Policy - <http://www.gamingcommission.ca/docs/2021-06-30-RegulationsConcerningAMLandCTF.pdf>

The Republic of the Philippines

The Philippine Amusement and Gaming Corporation (“PAGCOR”) is a government-owned and controlled corporation under the Office of the President of the Republic of the Philippines. The state-owned gaming firm was created by virtue of Presidential Decree (PD) 1067-A in response to calls for the Philippine government to put a stop to the growing proliferation of illegal casino operations in various parts of the country. The law creating PAGCOR was later amended and consolidated under PD 1869, otherwise known as PAGCOR Charter. Under its charter, PAGCOR was given a three-pronged mandate:

1. Regulate, operate, authorize and license games of chance, game of cards and games of numbers, particularly casino gaming in the Philippines;
2. Generate revenues for the Philippine government’s socio-civic and national development programs; and
3. Help promote the Philippine tourism industry.

The PAGCOR began regulating offshore gaming operations in November 2016 to curtail the proliferation of illegal online games in the country.⁴² At present, PAGCOR issues licenses to offshore gaming operators and accreditations to their respective service providers. PAGCOR are currently monitoring global trends to implement crypto payments, but no specific guidelines are yet in existence.

US State of Colorado (USA)

Crypto payments have been allowed since 2020 and are subject to the existing AML polices and regulations. The operator must have adequate AML risk mitigation procedures in place and have prior approval from the regulator before accepting crypto payments. Any crypto payment processors need to be fully compliant and are designated as money service bureaus (“MSBs”). FINCEN oversee all US crypto exchanges which are designated as MSBs and subject to BSA requirements. In 2022, FINCEN urged all crypto exchanges to register with them.⁴³

The Republic of Malta

The **Malta Gaming Authority** (“MGA”) regulates land-based casinos and remote gaming companies with a thriving remote gaming business of over 340 operators. The MGA works with the Financial Intelligence Analysis Unit (“FIAU”) on AML/CTF priorities including the issuing of AML/CTF guidelines and targeted inspections of operators. The MGA created a regulatory sandbox structure in 2019 which allowed operators to seek approval for the implementation of digital ledger technology (“DLT”) applications within specific parameters, while allowing the Authority to garner first-hand experience in the regulation of blockchain technologies. This sandbox was participated in by two operators interested in working with the regulator to test the newly implemented framework including an online casino that had an existing regulated payment provider assisting with the processing of crypto payments and secondly a peer-to-peer poker platform that is run on smart contracts. Subsequent to this, MGA issued a new policy in January 2023 on the “*use of distributed ledger technology by authorised persons.*” This policy discusses:

1. The acceptance of virtual financial assets (“VFAs”) i.e.: the acceptance of crypto-assets as a payment mechanism.
2. The acceptance of virtual tokens - i.e.: converting payments into a “casino currency” or stable-token that is used to gamble on the site and is only valid for use with the operator under a closed-loop payments system
3. The use of innovative technology arrangements (“ITAs”) i.e.: any use of distributed ledger technology including the use of smart contracts across a gambling platform.

Operators need to gain **prior approval before implementing any of these new technologies**. The MGA also reserves the right to obtain a legal opinion on the proposed use of the above. A summary of how these technologies are treated is detailed below:

⁴² This was later formalized pursuant to Executive Order No. 13 series of 2017

⁴³ Protos Staff, “*US Treasury urges crypto exchanges to register with FinCEN.*”, Protos, March 2022 <https://protos.com/fincen-crypto-exchanges-must-register-treasury-bank-secrecy-act/>

Asset	Designation	Prohibitions	Approvals
VFA	Designated as a financial instrument as defined in the Investment Services Act (Cap. 370 of the Laws of Malta), or as electronic money, as defined in the Financial Institutions Act (Cap. 376 of the Laws of Malta), may only be accepted as a means of payment if specifically approved on a case-by-case basis by the MGA.	The acceptance of VFAs which have inbuilt anonymisation functions and enable the obfuscation of the address of the sender or the receiver, or the amount being transferred are, by their very nature, incompatible with the requirements of this policy and shall be prohibited.	Approval on a case-by-case basis by MGA.
Virtual tokens (also referred to as “Stable-tokens” in this paper)	Virtual tokens may be acquired directly from the relevant authorised person on its platform. In such a case, the authorised person may allow its registered players to convert fiat currency or VFA into virtual tokens for such players to make use of the virtual tokens on the authorised person’s platform. This must be a closed loop system – i.e.: not available for use outside of the platform. This is also considered to constitute a subset of VFAs	Deposit and withdrawal method – fiat or VFA must be the same. It is prohibited to have different deposit and withdrawal methods (i.e.: deposit in fiat and withdraw in crypto)	Allowable on a case-by-case basis – the exchange rates must be made clear prior to any exchange. Prior approval is required.
ITA	DLT platforms and smart contracts audited by the Malta Digital Innovation Authority. Required to conform to CDD obligations under the AML/CTF requirements. Smart contracts must be deployed in such a manner that they can be revoked or neutered in order to rectify any flaws in the outcomes generated by its code. Alternatively, the authorised person would be solely responsible for compensating players in the event of loss incurred as a result of such a flaw.		Approval by MGA required and granted on case-by case basis.

The policy further stipulates that:

- **Wallet Management:** Policies and procedures relating to wallet management are required to be submitted for approval to MGA prior to implementation. Warnings are required to be published by the operator relating to restrictions in changing a wallet address and funds can be withheld on AML/CTF concerns. Players may have dedicated VFA accounts (wallets) with the operator or segregated balanced. The engagement of third party custodial wallet providers and crypto payment processors will be approved only if they are authorised in terms of applicable legislation (currently the VFA Act) under supervision by the Malta Financial Services Authority. Legal opinions can also be requested.
- **Reporting** is required detailing player funds and listing failed deposits and withdrawals.
- **Terms and Conditions:** The exchange rate to be designated by the authorised person’s VFA exchange and made clear to players prior to any exchange.

AML/CTF statement within the DLT policy: As part of the process to obtain an approval in terms of this policy, authorised persons shall ensure that their policies and procedures are developed and applied in such a manner as

to duly cater for the risks which may arise, or be exacerbated by, *inter alia*, the use of VFAs or virtual tokens as a funding method, the use of custodial wallets by players, and/or the deployment of smart contracts to automate payments, where applicable. Updated policies and procedures which address the integration of DLT (in accordance with the terms of this policy) within the authorised person's operations shall be notified to the MGA as part of the application process for obtaining the relevant approval from the MGA (Refer to Section 6). The use of analytical tools and, or transaction monitoring systems, with pre-designed and, or evolving parameters to detect and identify suspicious transactions and, or behaviour, whether by the authorised person itself or by any third-party service provider engaged by the same, is encouraged and shall be considered to be good practice.

The **Malta Financial Services Authority** ("the financial regulator") brought in regulation for virtual asset providers under the Virtual Financial Assets Act 2018. This law provides for the licencing of organisations that trade with virtual assets (i.e.: exchanges that provide services to convert fiat to crypto and custodial services)

The United Kingdom

The UK Gambling Commission places conditions on gambling operators accepting cryptocurrency and must be satisfied that operators can meet obligations in relation to anti-money laundering and social responsibility. Recent news articles have suggested some outflow of British gamblers who have preferred to turn to offshore crypto gambling platforms online as the KYC burden was too high in regulated jurisdictions including the request for bank statements, pay slips, and tax return statements. Licensees in the United Kingdom are required to inform the UK Commission about any change in their arrangements as to the methods by which, and/or the payment processors through which, the licensee accepts payment from customers using their gambling facilities.⁴⁴ In addition, licensees are required to review their AML risk assessment upon the introduction of new methods of payment by customers. This includes:

- the type of payment method
- the provider
- how the payment method was assessed in the AML risk assessment.

There are two ways to play with crypto payments:

1. Primarily with direct payment from wallet to the casino or
2. Payment via a crypto payment processor.

The operator would be required to understand the risks with each of these scenarios:

- Are crypto-assets being accepted directly or through a third party, if so who?
- If crypto-assets are being accepted directly: how will fluctuations in value (compared to fiat currency) be dealt with?
- What information has been provided to consumers to ensure they are aware of the risks associated with using crypto-assets as a payment method?

Northern Territory, Australia (Proposed acceptance of crypto)

The Northern Territory Racing Commission ("NTRC") regulates gambling in Australia's Northern Territory including sports bookmakers, betting exchanges and racing. The NTRC consulted with licensees in late 2022 on the integration of cryptocurrencies within its regulatory framework.⁴⁵ The proposed policy covers direct gambling with cryptocurrency but does not cover the use of an exchange to convert to fiat prior to gambling which is permitted under the current laws and structures. This proposal outlines that current AML/CTF regulations continue to apply, with an emphasis on some additional controls and safeguards stipulated in the draft policy. Licensees should ensure "*that [they] can operate in a manner that adheres to the requirements of the regulatory framework; meet its obligations in relation to anti-money laundering; able to safely maintain custody of any cryptocurrencies held; and are acting in a socially responsible way.*"

Some of the additional safeguards considered in the proposal include:

⁴⁴ UK Gambling Commission Guidance - <https://www.gamblingcommission.gov.uk/guidance/lccp-information-requirements/Guidance-for-licence-holders-on-the-information-requirements-in-the-LCCP>

⁴⁵ The Northern Territory Racing Commission - <https://industry.nt.gov.au/boards-and-committees/racing-commission/open-for-comment>

- **Customer Verification** – the person must be registered and have completed the customer identification processes and the wallet address must be verified as part of the customer identification procedures.
- **Payments:** Fiat and crypto payments shall be maintained separately and cannot be interchanged, the deposit method must be the same as the withdrawal method and licensees must also maintain logs of failed deposits and withdrawals. Crypto payments would only be allowable on approved online betting platforms, no live events of phone bets.
- **Responsible gambling limits** are applicable in fiat (Australian dollars) regardless of if the payment is made in crypto. Terms and conditions should also be issued by the licensee warning of the risks of using crypto to gambling. Initial guidance would suggest limits of \$2,000 per month. Maximum wager limits are also set at \$5,000 per transaction.
- **Licensee has a requirement** to hold wallets in the cryptocurrencies traded with sufficient funds on hand to pay out any winnings and record the exchange rate at the time of the transaction

All licensees must obtain prior approval from the NTRC before they accept crypto payments. Approval from the NTRC would be made based on the documentation provided to show the licensee can adhere to regulatory requirements including adherence to AML/CTF laws. Finally, the licensees are required to prepare reporting on crypto bets on a weekly basis for the first three months, then subsequent to this on a monthly basis. While this policy is still in proposal stage, the policy has developed some key risk mitigation measures required when using crypto as a acceptable payment method in the wider gambling sector.

Isle of Man

The Gambling Supervision Commission (“GSC”) licenses and has regulatory oversight of land-based gambling operations (casino, amusement and slot machines, betting offices and lotteries) and regulates online gambling activities. The Isle of Man Online Gambling (Amendments) Regulations 2016 made changes to the Online Gambling (Registration and Account) Regulations 2008 to allow operators to accept deposits in money or money’s worth. This includes convertible virtual currencies (CVCs) and non-convertible virtual currencies (VCs).⁴⁶ AML Guidance linked to the use of virtual assets was first published in 2018 with updated guidance in 2020.⁴⁷

The IOM Financial Services Authority provides detailed guidance on the AML/CFT risks associated businesses that provide money service business style products in relation to convertible virtual currencies.

1. Non-face-to-face business relationships
2. Non-centralised “accounts” may be opened by anyone without customer due diligence checks
3. Difficulty in linking an “account” to a real-world identity
4. Lack of expertise to deal with new and rapidly developing technologies
5. Potential use of anonymity software such as coin mixers and IP mixers
6. Difficulties in establishing source of funds and source of wealth
7. Quick and cheap global payments without ability to “chargeback”
8. Lack of AML/CFT controls for CVC/VC in most jurisdictions.

There are four permitted payment models that are detailed in the guidance:

Transaction type	Details of transaction	AML/CTF Guidance
1. Use of a regulated exchange to convert to fiat prior to gambling:	Conversion of VC/CVC to fiat via a regulated exchange	Use a regulated exchange that is subject to AML/CTF requirements.
2. Peer-to-peer play (crypto in and crypto out)	CVC/VC in/CVC/VC out in peer-to-peer play	AML/CTF Risks of peer-to-peer play can include where players fail to pursue obvious advantages against opponents (soft play) and chip dumping, where players seem to deliberately lose to opponents.

⁴⁶ Isle of Man AML/CTF Guidance for Virtual Currencies 2020 v2.0 12/2020 <https://www.gov.im/media/1371388/vc-aml-guidance-2020.pdf>

⁴⁷ Isle of Man AML/CTF Guidance for Virtual Currencies 2020 v2.0 12/2020 <https://www.gov.im/media/1371388/vc-aml-guidance-2020.pdf>

3. Play against the house (crypto in and crypto out)	CVC/VC in/CVC/VC out against the house	No additional AML/CTF risks were noted with a crypto in/out strategy.
4. Using an in-house currency:	CVC/VC in CVC/VC-in, Conversion, CVC/VC-out.	No additional AML/CTF risks were noted with using an in-house currency.

Prohibited models

The guidance also prohibits certain payment methods, i.e.: the operator cannot act as an exchange and cannot deposit with one cryptocurrency and withdraw in another cryptocurrency. You cannot also not deposit in one method and withdraw in another (i.e.: fiat-crypto or crypto-fiat.)

Key requirements for operators:

- A risk assessment for each virtual currency must be performed including the ability for law enforcement to obtain the identity of the user.
- An assessment of the exchange must be performed where it is used including consideration of the geographical location of the exchange: its AML/CFT obligations, the level of regulatory oversight and AML/CFT oversight that it is subject to and any adverse information about the exchange or its owners and controllers.

Further guidance for dealing with CVCs/VCs is detailed below:

AML/CTF Programme	AML/CTF guidelines
Customer Due Diligence (“CDD”)	<p>Standard due diligence Customer identification and verification must be undertaken when the EUR3,000 threshold is met. Checking the address/account for negative information in the public domain Use of block chain analysis tools Matching IP addresses to CDD information supplied Periodic CDD is a requirement to ensure accounts haven’t been hijacked, sold</p> <p>Enhanced due diligence is required for all high risk customers and higher value transactions, including reasonable measures to establish the player’s source of wealth and how it could be corroborated. ⁴⁸ Different wallets used to deposit and withdraw should trigger enhanced due diligence procedures.</p> <p>Customer red flags should be identified and can include: The use of anonymiser software, IP mixers, coin mixers and anonymity enhanced cryptocurrencies IP does not match registration details provided Significant transactions in CVC/VC where the value is unusually high or low; Source of wealth is unclear or cannot be verified</p>
Transaction Monitoring:	<p>Transaction Monitoring Guidelines Transaction monitoring should be conducted on a regular or real-time basis particularly when pay-as-you-go⁴⁹ models are in use. Conversion rates must be up-to-date for value-based thresholds/alerts; Consideration should be given to setting lower thresholds for CVC/VC than for fiat transactions Monitoring should include in-game play, deposit frequencies and transaction patterns rather than focusing only on value in, value out</p>

⁴⁸ For example, if a VC customer explains that their source of wealth (virtual goods) is from in-game play, the operator should consider how this can be corroborated, perhaps from game logs, game history screens or third party websites showing play history.

⁴⁹ Pay-as-you-go gambling can increase AML risks and fraud risks. Accounts can be hijacked. Software must be possible to automatically lock accounts.

Operator requirements:	<ul style="list-style-type: none"> • Operators’ software must be capable of applying an automatic lock on withdrawals once the AML/CFT qualifying payment threshold has been met (currently EUR3,000). • All online gambling operators are required to pay funds to the same account or facility from which a deposit has previously been made or to an account or financial facility that the operator is satisfied will result in the player exclusively receiving the withdrawal. • Restrictions on volume and value should be in place. i.e.: lock on account after multiple withdrawals hit a specific threshold in a pre-defined period. • Peer-to-peer transactions are prohibited and “buy-backs” • Incidental transfers of virtual goods (i.e.: game gold or skins) may be allowed on a case-by-case basis but also considered high risk for AML/CTF purposes. • Operators must be able to lock accounts and prevent further payments where AML/CTF of sanctions issues arise linked to a player.
Record keeping:	<ul style="list-style-type: none"> • Operators must maintain records in EUR and exchanges rates used. • Financial data should be reported quarterly by channel (i.e.: fiat, altcoin, virtual goods gambling) • Typologies should be developed and shared (i.e.: PEP play etc) • Ongoing training for staff is a requirement on CVCs and VCs to recognise the rapidly changing landscape of crypto-assets.

Curacao

The Curaçao Gaming Control Board (“GCB”) is the gaming regulator for land-based casinos, the licensing authority for lotteries, charity bingo, charity bon ku ne and the licensing authority and supervisor for online gaming.⁵⁰ The GCB also has responsibilities (since February 2019 for online gambling) as the supervisor of the Curaçao gaming industry for compliance with legislation and regulation regarding anti-money laundering and countering the financing of terrorism (AML/CFT).⁵¹ The basis of AML/CTF requirements documented by the GCB include: the national ordinance on identification when rendering services (2017, no. 92) and the national ordinance on the reporting of unusual transactions (2017, no.99).

Crypto casinos are commonly registered in Curacao including big players like Stake.com and Roobet. Curaçao has recently proposed a new gambling law called the National Ordinance on Games of Chance (“LOK”). This new law is proposed to include a clause permitting the gambling sector to make and receive payments in crypto, until such a time that wider crypto regulations will enter into force, according to the minister.⁵² (November 2022) It is noted that many crypto casinos are currently registered in Curacao, it appears that the new law will legitimise these payments. As part of the wider AML guidance, Curacao licensed operators must: prohibit multiple accounts per user, prohibit user to user transfers, all users who have reached an aggregate lifetime deposit total of US \$2000 should have their account blocked until they provide proof of who they are (Government Issued Photo ID) and where they live (recently issued utility bill), all users who request a withdrawal of any amount must first provide proof of who they are (Government Issued Photo ID) and where they live (recently issued utility bill) and any transaction exceeding US \$2,500 must be reported to the FIU.⁵³

3: New Technologies

The original Bitcoin whitepaper written by Satoshi Nakamoto proposed Bitcoin as a new peer-to-peer payment system however payments are not the only use-case for distributed ledger technology or the blockchain. On the

⁵⁰ Curacao Gaming Control Board - <https://www.gamingcontrolcuracao.org/>

⁵¹ Curacao Gaming Control Board - <https://www.gamingcontrolcuracao.org/>

⁵² Lindenberg, Sonja “Curaçao’s new gambling law to allow crypto payments”, iGaming next, November 2022 <https://igamingnext.com/news/curacao-gaming-law-to-permit-crypto-payments/#:~:text=Cura%C3%A7ao's%20new%20gambling%20law%20is,force%2C%20according%20to%20the%20minister.>

⁵³ Based on key expert interviews as at May 2023

Ethereum blockchain smart contracts can be used which are self-executing. Smart contracts execute certain code functions in an “if, then” programming logic (i.e.: in simple form - **if** payment has been made, **then** goods can be released and or transferred.) Blockchain-based games use smart contracts to execute commands that allow players to gamble without the need for a central authority or third party. This technology reduces fees, promotes transparency and more control for players. Experts suggest that gaming may be the first real use case for blockchain and how gaming navigates the hurdles will become a case study for other industries considering widespread adoption.⁵⁴

Through the advancement of technology, land-based and online casinos are both implementing new payment technologies with the use of digital wallets in the both the land-based and online environments. Implementing cashless payment systems has numerous benefits for the casino operator including enhancing the overall user experience across various integrated resorts and casinos and notable benefits to promote responsible gambling and greater player transparency for AML/CTF purposes due to additional data availability on player behaviour. Some of the key themes that emerged from interviews and a review of the literature include:

1. Technologies to support crypto payments in land-based casinos (“Cashless Gaming”) and app-based play
2. The use of alternative crypto-assets, – stable-tokens, NFTs, stable coins and altcoins
3. The development of Defi gambling communities, metaverse and web3 casinos

1. Technologies to support crypto payments in land-based casinos and app-based play

Digital wallets and cashless gaming have become an increasing trend for land-based casinos. **Cashless gaming and digital wallets** could potentially add crypto as an accepted payment method (although this doesn’t appear to have happened yet in the US.) In addition, it has been reported that International Game Technology received a patent in 2021 in the US for a system that would enable land-based gamblers to transfer crypto from their accounts into a “gaming establishment account” and pay in BTC, Bitcoin Cash and Ether. This new technology has proposed to accept crypto as a payment method and hold it in escrow, only “settling” any balances when a player has completed gaming activity.⁵⁵ There are also a number of other patents held by various industry players facilitating the use of crypto in land-based casinos which may be implemented in the near term.

The development of app-based gambling has also become increasingly popular with users seeking an easy way to make payment through digital wallet structures. This is popular on the sports betting side. Payment processing in the back-end of the app needs to be completed through a payment processor and/or digital wallet that often accepts multiple payment methods.

2. The use of alternative crypto-assets – stable-tokens, NFTs, stable coins and altcoins

Stabletokens are increasingly being discussed as a technology built on blockchain that supports the development of an electronic casino chip that can be used in an omnichannel environment. Funds deposited in your digital wallet could convert to a dedicated “casino currency” coin that can be used to purchase food and drinks, entertainment and gamble. Roobet, a large crypto casino operator registered in Curacao maintains its own currency called “Roollion” which is pegged to the US dollar when you cash in. This is then stored in your wallet or “iron pouch” to continue play. Further online research suggests CasinoCoin (“CSC”) which has been developed specifically for the gambling industry that uses the XRP ledger for transactions which has the ability to process transactions rapidly for players with lower transaction costs.⁵⁶ Online documentation suggests that CasinoCoin embeds AML controls at the wallet level and operators have access to a pool of vetted players.⁵⁷

Stablecoins could also offer a potential solution as a payment method and don’t have the same volatility in value that traditional cryptocurrencies have. Altcoins generally refer to any other cryptocurrency that is not Bitcoin,

⁵⁴ Toptal research, “*Unblocking Blockchain: Gaming Is the Tipping Point for Mass Adoption*”, Toptal, (no date) <https://www.toptal.com/insights/future-of-work/blockchain-game#:~:text=Experts%20say%20the%20industry%20is,and%20boundary%20blurring%20than%20ever.>

⁵⁵ Sharma, Rakesh, “*IGT Files Patent for Crypto Transfers to Gaming Accounts*”, Investopedia, January 2021 <https://www.investopedia.com/slot-machine-maker-files-patent-for-cryptocurrency-transfers-to-gaming-accounts-5094633#:~:text=IGT%20has%20filed%20for%20a,up%20new%20markets%20for%20Bitcoin.>

⁵⁶ CasinoCoin - <https://casinocoin.im/>

⁵⁷ CasinoCoin Whitepaper - <https://coinprika.com/storage/cdn/whitepapers/160285.pdf>

this can include Ether and other native tokens like MANA that is used in Decentraland, a Metaverse Casino. MANA can be bought and sold for fiat currency or other digital currencies and stored in a crypto wallet and custodian.⁵⁸

Finally, non-fungible tokens (“NFT’s”) are also gaining some popularity. Some websites suggest you can bet with NFTs and win NFTs as bonuses or be issued as bonuses to reward players. **NFTs**, or non-fungible tokens, are digital assets that represent unique and scarce items on the blockchain. They can be anything from art and music to game characters and items. NFTs have gained popularity in the gaming industry, as they offer new ways for players to create, own, and trade their virtual assets. While NFTs may sound like a good gambling option, there are a few recent enforcement cases where casinos have been offering NFTs to the public to raise capital contrary to securities laws. The Flamingo Casino Club linked to Russian interests was issued a cease-and-desist order by multiple state regulators in May 2022 after it was found to be involved in fraudulent selling of NFTs.

3. The development of defi gambling communities, metaverse casinos and web3 casinos

Decentralized finance (“DeFi”) is a term used for financial services that use blockchain technology without a central point of authority and supports peer-to-peer money transfers. DeFi Casinos are decentralized casinos that only accept cryptocurrencies (i.e.:Solana or Ethereum).⁵⁹ These casinos allow deposits and withdrawals your crypto without any limits and in some cases promote “anonymous betting, no KYC checks, quick payouts and exclusive games.”⁶⁰ They also tout benefits of being “provably fair”, meaning that all the gambling odds are transparent on the blockchain and available for public verification, more cost-effective (not paying for intermediaries or third parties) and promoting fast payments without limits. However, the risks of DeFi casinos include the fact that they are relatively new and untested, may be vulnerable to malicious attacks and the potential for liquidity problems for payouts. Metaverse Casinos like Decentraland are also available where users can walk around a virtual casino and use various stablecoins, stabletokens and other payment methods to gamble in the Metaverse. Web3 casinos are built on web3 technologies such as blockchain and smart contracts. Again, these are decentralised platforms that seem to be emerging across the sector.

4: Recommendations to Regulators

From an analysis of nine jurisdictions including Cyprus, Kahnawake, the United Kingdom, the Philippines, the US state of Colorado, Malta, Northern Territory in Australia, the Isle of Man and Curacao, some key trends emerged with respect to AML regulation of crypto payments that may prove useful to gaming regulators. The below “check-list” is intended to provide a checklist of considerations for regulators considering implementing crypto payments across the gambling markets.

Theme 1: Prior approval by the gaming regulator required for additional payment methods:

- 1.1 Gaming regulators require each operator to submit a risk assessment relating to the potential risks with accepting crypto payments as part of the process to accept new payment methods.
- 1.2 An assessment of risk must be conducted for each cryptocurrency as each cryptocurrency or crypto-assets may have distinct features.
- 1.3 Should further information be required, a legal opinion can also be obtained for further security on the risks posed by specific crypto-assets.

Theme 2: Third Party (Crypto) Payment Providers used by gambling operators must be regulated

- 2.1 Where a third-party payment processor is used to process payments for the operator, ensure that this payment processor is regulated by the relevant authority within your jurisdiction – usually the financial regulator.

Theme 3: Regular AML/CTF controls apply with some additional stipulations

⁵⁸ Coinbase price for Mana – native token of Decentraland - <https://www.coinbase.com/price/decentraland>
<https://www.gemini.com/prices/decentraland#:~:text=MANA%20is%20the%20digital%20asset,wallet%20and%20custodian%20like%20Gemini.>

⁵⁹ Defi Casinos - <https://deficasinos.io/>

⁶⁰ Defi Casinos - <https://deficasinos.io/>

3.1 Ensure existing AML/CTF controls are in place with respect to customer due diligence (CDD) and enhanced due diligence (EDD) following existing national requirements.

3.2 Additional procedures for online operators can include:

- Verification of the wallet used by a customer as part of the customer onboarding
- Restricting the use of any additional wallets – i.e.: the same wallet should be used to deposit and withdraw funds
- Ensuring the deposit and withdrawal methods are the same and that crypto and fiat cannot be interchanged or mixed
- The operator must also not act as an “exchange”
- KYC checks could also be considered at on/off ramps when the customer deposits and withdraws funds (where a certain threshold is met).
- Blockchain explorer tools can be used to investigate the source of funds in addition to additional client verifications.
- e-KYC should be encouraged with the appropriate safeguards. e-KYC is the remote processes used to verify customer information and customer details as part of the onboarding and periodic review processes to mitigate money laundering risks.
- Ensuring that accounts are not shared and identification is periodically verified to ensure that the account hasn't be hijacked or sold.
- Adequate transaction monitoring processes should be in place to flag anomalies
- Cryptocurrencies that have “anonymity” features like Monero should be prohibited.
- Matching of IP addresses to CDD information.
- Lower thresholds could be considered for cryptocurrency deposits.

Theme 4: Terms and Conditions should be clear from the operator

5.1 The Operator must warn clients of the risks of using crypto payments including the risks of the conversion rates from fiat-to-crypto-fiat and the volatility in the values of cryptocurrencies.

5.2 Data should be kept and reported regularly by the operator to the regulator in local currency and crypto values

5.3 The operator needs to maintain enough crypto on hand to repay any winnings, operators can also stipulate limits in fiat.

Theme 5: Consider if the regulatory and law enforcement infrastructure is in place

5.1 – Has the financial regulator issued guidelines to crypto payment processors and exchanges for example?

5.2 Is the law enforcement community equipped to investigate should criminal funds be introduced via crypto under a gambling operator?

Theme 6: Consider the controls required for e-KYC processes and if this is allowable

6.1 Are remote identification and verification allowable under various laws and regulations?