



UNLAWFUL INTERNET GAMBLING ENFORCEMENT ACT PROGRAM

REGULATION GG

Overview

Regulation GG implements the Unlawful Internet Gambling Enforcement Act of 2006. The act prohibits any person engaged in the business of betting or wagering (as defined in the act) from knowingly accepting payments in connection with the participation of another person in unlawful internet gambling. Such transactions are termed "restricted transactions." The act generally defines "unlawful internet gambling" as placing, receiving, or otherwise knowingly transmitting a bet or wager by any means which involves the use, at least in part, of the internet where such bet or wager is unlawful under any applicable federal or state law in the state or tribal lands in which the bet or wager is initiated, received, or otherwise made. Regulation GG was effective on January 16, 2009, but compliance was not mandatory until December 1, 2009.

Purpose

The purpose of this policy is to prevent unlawful internet gambling businesses from utilizing the banking system. The Board of Directors directs management to established written policy and procedures to screen and prevent unlawful internet gambling businesses (casinos and others) from opening an account at the Bank. Lawful internet gambling businesses will be required to provide extensive documentation at account opening if the Bank decides to allow these types of accounts.

Policy

The rule focuses on screening for unlawful internet gambling businesses at the time of account opening. If unlawful internet gambling businesses are prevented from accessing the banking system, then they will not be able to make or receive payments using checks, credit or debit cards, wires, or ACH payments.

Under the rule, the Bank is not required to monitor or determine whether its customer is a gambler except that it must ensure that unlawful credit and debit card transactions are blocked. It is the responsibility of the card networks to establish policies and procedures to identify and block unlawful transactions. The Bank is relying on MasterCard's written policy and procedures to meet the requirement of blocking any unlawful transactions. The Bank is not required to block ACH, wire, or check payments (payments from its customers' accounts) related to unlawful internet gambling to be in compliance with the Final Rule.

Definitions

In order to implement adequate policies and procedures, bank employees must be familiar with certain key definitions as explained in the regulation.

Designated Payment Systems could be used by participants in connection with, or to facilitate, a restricted transaction:

Automated Clearing House (ACH) systems

- Card systems
- Check collection systems
- Money transmitting businesses solely to the extent they:
 - Engage in the transmission of funds, which does not include check cashing, currency exchange, or the issuance or redemption of money orders, travelers' checks, and other similar instruments; and
 - Permit customers to initiate transmission of funds transactions remotely from a location other than a physical office of the money transmitting business
- Wire transfer systems

Actual knowledge with respect to a transaction or commercial customer means when a particular fact with respect to that transaction or commercial customer is known by or brought to the attention of:

- a) An individual in the organization responsible for the organization's compliance function with respect to that transaction or commercial customer; or
- b) An officer of the organization.

Block means to reject a transaction before or during processing and is not intended to require freezing the funds. Unlike blocking funds in connection with OFAC rules, the funds would remain in or be returned to the original account and could be accessed by the accountholder for other purposes.

Card System means a system for authorizing, clearing and settling transactions in which credit cards, debit cards, pre-paid cards, or stored value cards (such cards being issued or authorized by the operator of the system), are used to purchase goods or services or to obtain a cash advance. The term includes systems both in which the merchant acquirer, card issuer, and system operator are separate entities and in which more than one of these roles are performed by the same entity.

Commercial Customer means a person that is not a consumer and that contracts with a non-exempt participant in a designated payment system to receive, or otherwise accesses, payment transaction services through that non-exempt participant. A consumer is a natural person.

Internet Gambling Business means the business of placing, receiving or otherwise knowingly transmitting a bet or wager by any means which involves the use, at least in part, of the internet, but does not include the performance of the customary activities of a financial transaction provider, or any interactive computer service or telecommunications service.

Participant means an operator of a designated payment system, a financial transaction provider that is a member of, or has contracted for financial transaction services with, or is otherwise participating in, a designated payment system, or a third-party processor. This term does not include a customer of the financial transaction provider, unless the customer is also a financial transaction provider otherwise participating in the designated payment system on its own behalf.

The term "operator" of a designated payment system means an entity that provides centralized clearing and delivery services between participants in the designated payment system and maintains the operational framework for the system and includes an ACH operator as defined in the NACHA rules.

Restricted transaction is any of the following transactions or transmittals involving any credit, funds, instrument, or proceeds that the act prohibits any person engaged in the business of betting or wagering (which does not include the activities of a financial transaction provider, or any interactive computer service or telecommunications service) from knowingly accepting, in connection with the participation of another person in unlawful internet gambling:

- Credit, or the proceeds of credit, extended to or on behalf of such other person (including credit extended through the use of a credit card); or
- An electronic fund transfer, or funds transmitted by or through a money transmitting business, or the proceeds of an electronic fund transfer or money transmitting service, from or on behalf of such other person; or
- Any check, draft, or similar instrument that is drawn by or on behalf of such other person and is drawn on or payable at or through any financial institution.

The term “restricted transaction” would not include funds going to a gambler, and only includes funds going to an internet gambling business.

Third Party Processor is a service provider that:

- In the case of a debit transaction payment, such as an ACH debit entry or card system transaction, has a direct relationship with the commercial customer that is initiating the debit transfer transaction and acts as an intermediary between the commercial customer and the first depository institution to handle the transaction;
- In the case of a credit transaction payment, such as an ACH credit entry, has a direct relationship with the commercial customer that is to receive the proceeds of the credit transfer and acts as an intermediary between the commercial customer and the last depository institution to handle the transaction; and
- In the case of a cross-border ACH debit or check collection transaction, is the first service provider located within the United States to receive the ACH debit instructions or check for collection

A processor providing back-office support to a depository institution is not covered by the final rule, but the board directs management to take steps to ensure that all processors comply with our policies and procedures.

Exemptions

The Bank is responsible for the policies and procedures connected with all commercial customers who may be engaged internet gambling. The following are the specific exemptions as set forth in the rule:

Automated Clearing House Systems

The participants processing a particular transaction through an automated clearing house system are exempt from this regulation’s requirements for establishing written policies and procedures reasonably designed to prevent or prohibit restricted transactions with respect to that transaction, except for:

- The receiving depository financial institution and any third-party processor receiving the transaction on behalf of the receiver in an ACH credit transaction;
- The originating depository financial institution and any third-party processor initiating the transaction on behalf of the originator in an ACH debit transaction; and

- The receiving gateway operator and any third-party processor that receives instructions for an ACH debit transaction directly from a foreign sender (which could include a foreign banking office, a foreign third-party processor, or a foreign originating gateway operator).

Check Collection Systems

The participants in a particular check collection through a check collection system are exempt from the regulation's requirements for establishing written policies and procedures reasonably designed to prevent or prohibit restricted transactions with respect to that check collection, except for the depositary bank.

Money Transmitting Businesses

The participants in a money transmitting business are exempt from this regulation's requirements for establishing written policies and procedures reasonably designed to prevent or prohibit restricted transactions, except for the operator.

Wire Transfer Systems

The participants in a particular wire transfer through a wire transfer system are exempt from this regulation's requirements for establishing written policies and procedures reasonably designed to prevent or prohibit restricted transactions with respect to that transaction, except for the beneficiary's bank.

The Board directs management to implement written procedures to identify and block or otherwise prevent or prohibit restricted transactions.