



## COMMONWEALTH CASINO COMMISSION

Commonwealth of the Northern Mariana Islands  
P.O. Box 500237  
Saipan, MP 96950



### MINUTES January 30, 2017

#### I. PRELIMINARIES:

##### A. Call to Order.

Chairman Juan M. Sablan welcomed IPI representatives and members of the public, and called the meeting to order at 10:05 A.M. on Tuesday, January 30, 2016, at the Joeten-Kiyu Public Library (Technology Room) in Susupe, Saipan.

##### B. Roll Call.

Commissioners present at the meeting were: Juan M. Sablan (Chairman), Joseph C. Reyes (Vice Chairman), Justin S. Manglona (Secretary), Alvaro A. Santos (Treasurer) and Martin DLG. San Nicolas (PA & MR Officer). Also present were the Executive Director ("Director"), Edward C. Deleon Guerrero, the Executive Assistant to the Commission, Ruth Ann P. Sakisat, the Legal Counsel, Michael L. Ernest and the Executive Secretary Carmen Ann B. Sablan.

##### C. Adoption of Agenda.

Vice Chairman Reyes offered a motion to adopt the agenda and was seconded by Commissioner Santos, and was put to a vote and was unanimously approved.

##### D. Adoption of the Minutes. December 20, 2016 and December 28, 2016

Vice Chairman Reyes made a motion to adopt the Minutes of December 20, 2016 and was seconded by Commissioner Santos. It was put to a vote and was unanimously approved.

Vice Chairman Reyes made a motion to adopt the Minutes of December 28, 2016 and was seconded by Commissioner Santos.

Discussion: Commissioner Manglona pointed out a minor correction on the Minutes for December 28, 2016, page 2, second paragraph, line 8, to remove his name as he was not present at the Emergency Meeting.

It was put to a vote and was unanimously approved.

## II. REPORTS

### A. Report by the Chairman

Chairman Sablan thanked Vice Chairman Reyes and Commissioner Manglona for taking care of the office activities while he was away on personal leave and on official business attending a Title 31: Anti-Money Laundering Conference in San Diego, California along with seven other CCC staff. He informed the Commission of the significance of the conference in the Commission's decision to impose an order that the Licensee must adhere to all AML requirements everyone in the casino is involved. He stated that it is in the best interest of the licensee to comply with Title 31 in its entirety because any violation may shut down the casino as some have been in the United States. Chairman Sablan said that altogether, the CCC's participation in the Title 31 Conference was a good learning experience. He mentioned that the Commission's Audit Manager, Mr. Charlie O. Atalig, recommended that the Commission revisit the regulations to include a section requiring all Casino Junket Operators to receive Title 31 training as he emphasized that there are no exceptions for anyone working on or operating any activity from the casino floor. The Chairman advised the licensee to invest in educating their staff in Title 31 as he believes that it serves as a protection for everybody, and will only benefit everyone in the long run.

Chairman Sablan informed the Commission that the Attorney General's Office will be sponsoring a US Attorney Law Enforcement Specialized Training from February 6-10, 2017, and encouraged all CCC staff especially those from the Division of Enforcement and Investigations to participate.

Chairman Sablan turned the floor over to Vice Chairman Reyes to report on the CCC activities that took place during his time as acting Chairman. Vice Chairman Reyes informed the Commission that he wrote a letter to the newly formed legislative committee on gaming chaired by former House Speaker, Representative Joseph P. DeLeon Guerrero, of precinct 1. Vice Chairman Reyes said that his letter basically invited the Gaming Committee Chairman and members of the committee to visit the CCC not only to meet the staff, but also to share and discuss ideas on how the Gaming Committee could better assist the Commission. He said that he wanted the Gaming Committee members to be familiarized with what goes on in the casino industry on a daily basis. He further reported that he made arrangements to meet with the Chairman of the new Gaming Committee to discuss the pending CCC bill so that hopefully it gets out of the review committee and unto the house floor. Vice Chairman Reyes congratulated Special Assistant to the Commission Ms. Ruth Ann P. Sakisat for her hard work as acting Executive Director.

Ms. Sakisat informed the Commission that the new House Committee on Gaming and its members will be visiting the CCC office on February 2, 2017 at 1:30 P.M. Vice Chairman Reyes made a clarification that the Commissioners who will attend the orientation for the new gaming committee members will not be meeting to discuss any CCC issues or concerns as the meeting will be more of an introduction to the gaming industry.

Legal Counsel Michael Ernest informed the Commission that the Open Government Act

requires the Commission to publish Commission meetings if three or more Commissioners will be present. Chairman Sablan said that the Commission will send out a Public Notice tomorrow as there is still ample time to meet the 72 hours required by the OGA. Mr. Ernest said that if the Commissioners refrain from discussing CCC issues or concerns, then there would be no need to publicize the meeting, but he shared his concern that members of the Gaming Committee may have numerous questions for the Commission that must be answered. Executive Director Edward C. DeLeon Guerrero said that a notice will be sent out to inform the public that members of the legislature will be visiting the Commission to discuss gaming operations and that the Commissioners will be present.

**B. Report by the Executive Director**

The Director informed the Commission that he returned from medical leave just yesterday, and thanked Ms. Sakisat for acting as Executive Director during his absence. He also thanked the Commission’s legal counsel and all the division managers for all their support and hard work in performing the Commission’s regulatory duties. He further thanked Chairman Sablan for the time off to have his body re-examined and be assured that he is healthy.

**1. Personnel Matters** - The Director informed the Commission that so far, the Commission has renewed 35 employees up to December 31, 2017. He stated that a couple of contracts are still in flux as he and Mr. Ernest’s contracts are coming up. He reported that the Commission newly hired Mr. Mark Diestro on January 23, 2017 as Enforcement Officer I to replace Mr. Nokki Saralu who was recently promoted to Enforcement Officer II. The Director informed the Commission that Mr. Felipe A. Litulumar was promoted to fill the position of Enforcement Agent II in response to the Job Vacancy Announcement (JVA) that the Commission published last December 2016. He reported that interviews for the positions of Permit & Licensing Clerk, Compliance Agent, and Compliance Technical Specialist have been completed, and that a selection will be forthcoming. He said that the Commission has decided to hold off on the Administrative (Procurement) Officer position as the Commission awaits the outcome of its new proposed bill that would create a true autonomous agency.

**2. Financial Standing** - The Director happily informed the Commission that it finally has full access to the JD Edwards System, and that the Commission is doing well financially. He reported the following financial standing:

	<u>Account No.</u>	<u>Balance</u>	
a)	7170:	\$655,646	(Original \$1M from CLC)
b)	7170A:	\$2,873,997	(\$3M Regulatory Fee)
c)	7171:	\$543,223	(License & Investigative Fees)

**3. Office Rental** - The Director informed the Commission that its 2-year office lease will expire on March 31, 2017, and that the Commission has not started on the renewal of the rental agreement as it is awaiting word on the office expansion with Springs

Plaza. He reported that the Commission is currently occupying 4,000 square feet of space; however, the CCC needs about 8,000 square feet of office space. The Director stated that the possible expansion of the CCC office would either be to acquire the office space by the Bank of Hawaii or by SM Store.

**4. Car Lease** - The Director informed the Commission that the car lease for the white Kia Rio will expire on March 31, 2017. He said that the Commission is currently looking into the provisions for purchasing options to see how much it would cost the CCC.

**5. Training** - The Director informed the Commission of the following upcoming training for Commissioners and the CCC staff:

a) **World Game Protection Conference** in Las Vegas, Nevada from February 21-23, 2017. He reported that the Commission will be sending Enforcement & Investigations (E&I) Manager, Mr. Edward "Chief" Cabrera, Sr. Special Agents, Mr. JB Cepeda and Mr. Patrick Sablan, Enforcement Officers, Mr. Nokki Saralu and Mr. Felipe Litulumar, Information Technology (IT) Manager, Mr. Ian Morrell, and Vice Chairman Joseph C. Reyes to represent the Commission. The CCC team will depart Saipan on February 18, 2017 and return home on February 26, 2017. All Travel Authorizations (TAs) have been approved, and their conference registration forms along with the check payment have been mailed out.

b) **Casino Auditing for Regulators Program at the University of Nevada in Las Vegas (UNLV)** in Las Vegas, Nevada from February 28-March 2, 2017. He reported that the Commission will be sending Division of Audit (DOA) Manager, Mr. Charlie O. Atalig, Sr. Auditor, Mr. Eleuterio "Jun" Palacios, Financial Auditor, Ms. Jolene D. Benavente, and Division of Compliance (DOC) Compliance Officer, Ms. Angelita H. Mamaril to represent the Commission. He said that the TAs will be processed on Tuesday.

c) **U.S. Attorney Law Enforcement Specialized Training** at the 3<sup>rd</sup> floor of the Horiguchi Building in Saipan, CNMI from February 6-10, 2017. The Director stated that this training is sponsored by the U.S. Attorney's Office, and that space is limited. He recommends that all E&I staff participates.

d) **International Game Technology (IGT) Operations Training** at the 4<sup>th</sup> floor of the Bank of Guam Building has been ongoing for the past month or so. The Director informed the Commission that members of the CCC's Audit, Compliance and Enforcement & Investigations have been participating in this training for the past few weeks. He said that they were able to go through most of the IGT modules and learned the system's capabilities, report type generators, and module interface. The Director stated that this training helped to expand the division's knowledge of the casino management system's mechanics and limitations.

**6. Audit Division Observation** - The Director informed the Commission that on December 29, 2016, the CCC Audit staff conducted an unannounced audit observation of the drop and soft count process as well as a cage count observation, which is part of the Audit Division's random quarterly observations. He explained that this exercise will assist the Commission in obtaining direct records of the cash and currencies at the

casino floor and chip inventory valuations at that time. The Director noted that there were no issues found during the audit observation.

**7. CCC Anti-Money Laundering (AML) Training Field Survey** - The Director informed the Commission that the CCC's Audit Division conducted a badge inspection of CCC issued identification (IDs) cards before administering the AML Training Field Survey, Form QN-10. The badge inspection was for insurance purposes in case an employee was unwilling to complete the survey; the Commission would have the employee's information for a write-up. Of this inspection and survey, the DOA staff sampled 46 IPI employees were able to gather the pertinent results as follows:

- a) 100% of surveyed employees stated that they were aware of AML/Title 31 reporting requirements;
- b) 100% stated they have received AML/Title 31 training with IPI;
- c) 87% stated that they have received AML training prior to working with IPI, however, this figure might not be as accurate as several employees assumed that the question was asking whether they have received training by IPI prior to starting on the floor, but the survey question was meant to inquire whether they have received AML training prior to working with IPI;
- d) 100% stated that they attended at least one AML training;
- e) 100% stated that the training was at least an hour long, but their answer varied between one and four hours; and
- f) 82% stated that they were trained by Ms. Gemma Chong from IPI's Compliance Department; the other 18% employees were unsure of the AML training instructor's name.

**8. AML/Title 31 Training for Junket Operators** - The Director informed the Commission that the CCC's Audit Division is working on a training deck for CCC licensed Junket Operators to ensure that the individuals the Commission is licensing are aware of the Federal and CCC and reporting requirements. The Audit Division is currently researching further clarification on the classification of junket operators as it relates to the definition of financial institution for purposes of AML/Title 31. In addition, the Director stated that new CCC regulations may be needed to require junket operators to establish an AML program and forward reports to the Commission.

**9. IPI's Reorganization** - The Director informed the Commission that Mr. Mark Brown is no longer the CEO for Imperial Pacific International (CNMI), LLC (IPI), and that Mr. Yiu Ling Kwong is now the new CEO for IPI. He said that he has asked IPI's legal counsel, Mr. Charles McDonald, to provide a written notification to the Commission; however, as of today, the Commission has not received anything in writing. The Director then reminded IPI that the Commission requires a written notification of all changes in IPI's upper management and that it should be submitted to the Commission as soon as possible. The Director acknowledged that IPI informed the Commission of the changes

in management orally, but emphasized the significance of having it documented for recording purposes. The Director reported that he was informed by an outside source that Mr. Mark Brown is now the Chairman of the Board for IPI. He stated that the Commission should not be learning such information from outside sources as these sort of information should be reported to the Commission directly from IPI. The Director stated that the Commission must re-examine the level of scrutiny for Mr. Kwong as the new CEO and all other changes key personnel in upper management positions for suitability purposes.

10. **VIP Rolling Volume** - The Director informed the Commission that the December 2016 rolling volume was a record-breaking \$6.1B which is a 258% increase month over month as compared to the \$1.7B rolling volume in November 2016. He commended IPI for their achievement and encouraged them to continue their efforts further in the future. He reported that the current monthly average for the VIP rolling volume since October 2016 is \$2.4B which is inclusive of December's record high.

11. **Gross Gaming Revenue Summary** - The Director informed the Commission that the December 2016 revenue expectations from the Commission's gross gaming revenue calculations increased by 733% month over month to \$70.3M from a prior total of \$8.5M. He said that the Commission is still waiting for a copy of the December 2016 BGRT to reconcile its gross gaming revenue expectations. The Director reported that the total 2016 calendar year business gross revenues were \$882.4M with BGRT at \$44.1M.

### III. PUBLIC COMMENTS

Mr. Dave Guerrero, VP (Acting) of Compliance for IPI, asked the Commission for clarification as the Agenda states under section VII. MISCELLANEOUS MATTERS: 6. Anything raised in Public Comments, if an issue is raised in section III. PUBLIC COMMENTS, whether it can be moved and approved in section VII. MISCELLANEOUS MATTERS?

Chairman Sablan addressed Mr. Guerrero's inquiry by informing him that section III. PUBLIC COMMENTS was meant to address the public's concerns about the casino industry, and not intended for IPI or the licensee to discuss issues or activities for the Commission's consideration or approval.

Mr. Charles McDonald, VP of Legal for IPI, said that he has one matter that he would like to bring to the Commission's attention for discussion during section VII. MISCELLANEOUS MATTERS which is the junket operator application for Ms. Xiang Hong to which he hopes would be approved by the Commission.

#### IV. OLD BUSINESS

##### A. Casino Surveillance and Monitoring

Ms. Sakisat informed the Commission that she included item A. Casino Surveillance and Monitoring under section IV. OLD BUSINESS because this subject was discussed at the last meeting in executive session, however no action was taken.

The discussion was to change the number of days to store surveillance footage before deletion from 14 days to the following for specific areas: 1) Mass Floor and General Areas - surveillance footage shall be retained for 30 days; 2) VIP Room - surveillance footage shall be retained for 30 days; and 3) Cage - surveillance footage shall be retained for 90 days.

The Director asked IPI's VP for Surveillance, Mr. Eugenio Sousa, if his department is capable of retaining video camera surveillance footages for the number of days mentioned for each specific area to which he replied "No." Mr. Sousa explained to the Commission that the 90 days suggested retention for Cage surveillance footage would take up a very large amount of space on their archive servers. He reported that 15-30 days surveillance footage retention period is standard practice in the casino industry.

According to Mr. Sousa, all surveillance footages of any unusual, suspicious or criminal activity or incident that transpires anywhere on the casino premise will be stored permanently as there are no set limitations to the number of days that such recorded video footages will be stored regardless of the specific location in which such unusual or criminal activity takes place.

Chairman Sablan asked Mr. Sousa once more whether IPI would be able to comply with the suggested changes for the Casino Surveillance and Monitoring requirements. Mr. Sousa answered stating that his department would not be able to comply due to the lack of space on their current archive servers to accommodate the amount of surveillance video footage that the Commission is suggesting. Mr. Sousa informed the Commission that the amount of space needed to store the suggested surveillance footages is six (6) times greater than what his archive servers are currently capable of storing.

According to Mr. Sousa, 30-45 days would be sufficient time to comply should the Commission decide to require IPI to increase the number of days to store surveillance video footages as it takes approximately 30 days for the shipment of additional servers to arrive on island.

Taking into consideration that the lease agreement between IPI and DFS - T Galleria will be expiring in April 2017, the Chairman deferred discussion and/or action on this matter until the further notice.

**V. NEW BUSINESS:**

- A. Casino Key Employee - (1-year) Provisional License: 1) HE, Jiahao "Rex"
- B. Casino Key Employee - (2-year) Regular License: 1) LAU, Hio Ian "Candy"
- C. Casino Vendor - Provisional Licenses: (1) Triple J. Saipan, Inc. (2) Triple J. Rentals (Micronesia), Inc. (3) Ceri Pacific Investment LTD (4) Certis Security (Macau), Limited (5) Docomo Pacific (Saipan), Inc. (6) VSR Industries, Inc. (7) RCL-Guam Technologies (8) Gold Mantis Construction Decoration (CNMI), LLC (9) H3C Technologies Co. Limited (10) Agilysys NV, LLC. (11) Inhesion (Asia) Ltd.
- D. Casino Service Provider - Provisional Licenses: (1) CMC Trading Engineering (International) PTE. LTD. (2) In Systems (Macao) Limited (3) Paltronics Australasia Pty. Ltd. (4) PCCW Solutions Limited (5) Rypax Furniture Limited

Vice Chairman Reyes made a motion to approve items A & B under section V. NEW BUSINESS, and was seconded by Commissioner Manglona. It was put to a vote, and was unanimously approved.

Items C and D were included in the agenda for notification purposes only.

Chairman called for a 5-minute break at 11:52 A.M. He called the meeting back to order at 12:00 pm at which time Commissioner Santos motioned to recess for lunch, seconded by Commissioner Manglona. It was put to a vote and unanimously approved. The meeting will reconvene at 2:00 pm.

Chairman Sablan called the meeting back to order at 2:05 pm.

**E. Rebate Options for Junket Operators - Discussion**

The Director announced that the letter requesting the Commission's approval of IPI's proposed Rebate Options for Junket Operators came from IPI's Counsel Chuck McDonald, therefore the Commission should allow Counsel McDonald to explain the request.

Counsel Michael Ernest offered his opinion that the proposal was not properly before the Commission because the request did not come from the Chief Executive Officer ("CEO") of record which is Mr. Mark Brown. Furthermore, he explained that Counsel McDonald is IPI's attorney whose duty is to offer a legal opinion and to advocate on the matter. He added that the letter from Counsel McDonald was the actual request and not a legal opinion on the proposed request. He advised the Commission that a change in this magnitude should come from the CEO and not the Legal Counsel.

The Chairman agreed with Counsel Ernest's advice and asked Counsel McDonald if he had anything in writing that authorizes him to make such request. Counsel McDonald stated that to his understanding this type of request is not required to be made by the CEO, therefore, it was properly before the Commission. The Director recommended deferment of this agenda until such time written notification is received from IPI Board or Mr. Brown stating that Counsel McDonald



is the actual official representative authorized to make this request.

Chairman Sablan noted that the Commission is not questioning Counsel McDonald's authority because it is known that he only speaks on behalf of the company, however, there is a difference with management and legal issues. The request before the Commission is a management issue as it involves a request for a change in policy, he noted. Counsel McDonald asked the Commission if the proposed Rebate Options for Junket Operators can be entertained with a condition that another letter signed by either Mr. Brown or Mr. Kwong be submitted to the Commission. He explained that he was unaware that his signature on the letter would be a problem as the Commission accepted the letter and even placed the item on the agenda. Had he known, he would have had the time to resubmit the letter before the scheduled meeting with the signatory being requested, he elaborated.

The Chairman then pointed out that while he was out of the Commonwealth, he was informed by the Acting Director about the change in positions at IPI but that there was no written notification provided to the Commission. The Acting Director informed him that a written notification could not be provided yet due to the Hong Kong Stock Exchange policies. The Chairman reminded IPI that formality is very necessary and important and that the policies in Hong Kong is entirely different from the policies in the CNMI. He stressed that a written notification should have already been provided to the Commission and that the Commission should not have to be kept waiting.

After a lengthily discussion, the Commissioners agreed to defer any action on this matter for the reasons stated during the discussions above.

Note: During discussions on item E, Counsel McDonald pointed out that he was in fact authorized by regulations to submit the letter requesting for approval on behalf of the company on the proposed Rebate Options for Junket Operators. He cited sections 1005 and 1045 of the regulations.

The Director reminded the licensee how important it is for them to always cite on their letter what section of the regulations or the MICS their request is in reference to, especially when it comes to requests of substantive issues. Their letter should also state that the request has been reviewed by the Legal Counsel, he stressed. He said that Mr. Mark Brown and Mr. Kwong are both aware of this procedural requirement and that it was being practiced before but has once again disappeared.

The Commissioners agreed to allow Counsel McDonald to present the proposal on the rebate options for junket operators. Counsel McDonald explained that the request is to have alternative fee structures or ways to compensate the junket operators for bringing prime network players to the casino. He stated that if the Commission approves one or all of the fee structures, the particular fee structure will be incorporated in the compensation section of the approved junket agreement. He stressed that this proposed fee structures are in no way giving out

ownership. He explained that fees vary depending on the type of player brought to the casino whether he is a whale or a regular player and that junket operators are attracted to jurisdictions that provide the most reward for bringing in the player.

Counsel Ernest asked Counsel McDonald to point out what other jurisdictions offer the fee structure they are proposing since he indicated that it was common. Counsel McDonald replied that to his knowledge only Macau offers such a fee structure. He further commented that the biggest part of the industry is in Macau and that they set the trends for gaming worldwide. He believed that following the industry leader will prove very prudent and that's what IPI wants. He stressed that most of the junkets will come from Macau and most of the big players will come through Macau junkets. The company's goal is to attract more junkets to come to the CNMI so that more money can be raised which will benefit the CNMI, he stated. Counsel McDonald pleaded for the Commission's approval of the alternative fee structures for junkets as it is the key driver of their growth as the company moves into the new property.

The Chairman asked the Commissioners to look at this request very seriously and prepare to act on the matter by the next meeting. At the same time, he asked the Commission staff to review this request and to share their thoughts and recommendations on it. He noted that the construction of the Grand Mariana is nearing completion and that a decision will have to be made soon.

The earlier decision to defer action on this matter still remained. The Chairman reminded Counsel McDonald on the importance of complying with the Commission's requests. He commented that it should not take a month to respond to the Commission's requests. He added that the Commission does not like imposing orders but are sometimes forced to due to non-compliance. He stressed the need for IPI to respond on a timely manner what is being requested by the Director.

The Director also noted that with this type of profit sharing concept, the junket operator should expect to go through a more intense vetting process and must also prepare for additional conditions to be incorporated in the junket agreement. The final agreement would have to be scrutinized in its entirety by the Commission's Legal Counsel, he said.

E. Consideration and adoption of proposed Order regarding required Anti Money Laundering training and policies and other IPI Trainings

Chairman Sablan announced that he and Commissioner Manglona and six staff recently attended an Anti-Money Laundering Seminar in San Diego, California. This is the second AML training he attended and the contents of the proposed order is what he learned from the AML trainings. He stressed that it is very important for the casino operator to comply with the requirements of Title 31. It is for this reason that he asked Counsel Ernest to draft the order, he added.

Commissioner Santos recommended that number 4 of the draft Commission Order No. 2017-001 be deleted in its entirety and replaced with verbiage that the Commission must review and approve the trainer's credentials and qualifications and that the curriculum must be submitted to the Commission for record purposes.

The Director shared that his earlier concern is that the proposed order may be a redundancy because the Anti-Money Laundering is already a required component of IPI's Internal Control and the MICS. IPI is also required to be audited once a year by an independent third party auditor regardless of the order, he said. However, he stated that it won't hurt to duplicate it as the Anti-Money Laundering is so vital to the success of the industry.

Chairman Sablan commented that he understands the Director's concern but felt that this matter is of the utmost importance well worth duplicating and emphasizing in any and every way.

Commissioner Manglona shared a little about what he learned from the San Diego AML Seminar. He stated that the seminar was very informative and that he learned a lot from it. Based on the seminar, he said that it is his understanding that casinos can file between 4,000 to 7,000 Currency Transaction Reports (CTR) and the Suspicious Activity Reports (SAR) per month in comparison to IPI's less than 50 CTRs per month. He noted that he is very concerned with the low number of filings considering that there are many patrons who are millionaires. Mr. Don Browne, IPI's VP of Operations explained that the 4,000-7,000 reports are most likely the numbers combined between commercial and Native American casinos in the US and not per property. He added that a large commercial property would normally have filings of less than a hundred CTRs and SARs, he shared. He also mentioned that due to transactions of mostly credit, CTRs are rarely filed, however SARs must be filed at all times, even with credits. Mr. Browne welcomed any audit as he is confident that the company is in compliance with Title 31.

The Director asked Mr. Browne how the AML is addressed when a credit is issued in Macau and collected in Macau as it does not trigger a CTR from IPI. He noted that he is aware that there are present cases of this practice which is a blatant violation of the regulations. All gaming revenues including receivables should be deposited in a CNMI bank, he stated. Furthermore, the regulators do not have the capability to track if the high amount of receivables have already been paid in Macau as there are no records being provided.

Mr. Browne explained that credits have separate rules and that markers are not reportable transactions. He assured the Commission that when it comes to cash in and cash out transactions, Title 31 requirements are being followed. He apologized that he did not know how the Macau counterparts handle credit issuance and collections at their end. Mr. Browne also pointed out that IPI has been trying to find a bank in the CNMI that would work with them but to no avail. The local banks have limitations and there are also limitations on the player's ability to transfer money, Counsel McDonald injected. He asked the Commission to be mindful of the nature of IPI's operations being that it's an international

company with international players. In his opinion, he stated that as long as the records can be reconciled, proper accounts are documented, all monies and transactions are accounted for, the CNMI is protected. He further stated that the company is following the right procedures and that it's been proven by a world class auditor that they are not engaged in money laundering in response to the Bloomberg article.

Mr. Dave Guerrero, Acting VP of Compliance, added that it's an international standard to have reports of CTR for transactions above ten thousand for currency received out of Macau or Hong Kong. He explained that the Financial Action Task Force (FATF) is an international body that puts out recommendations for every country to follow. In Macau and Hong Kong, a CTR is required to be filed by the bank that receives the money, he said.

Commissioner Santos made a motion to adopt Commission Order 2017-001 with the amendment to delete the content of item number 4 as earlier discussed. Counsel Ernest will update the order by inserting a narrative that the Commission must first review and approve the trainer's qualification and credentials and that a copy of the curriculum must be submitted to the Commission for record purposes. The motion was seconded by Commissioner Manglona and was put to a vote and unanimously approved.

Commissioner Santos moved to amend the agenda as follows: VI. Miscellaneous Matters followed by VII. Executive Session, seconded by Commissioner Manglona. It was put to a vote and unanimously approved.

## **VI. MISCELLANEOUS MATTERS:**

### **A. Updates from IPI:**

#### **1. Opening Date of the Initial Gaming Facility**

Mr. Eugenio Sousa, VP of Security, handed out a report that was prepared by MK Lee on the construction update and the egress plan layout. He apologized that MK Lee was unable to attend and that he will be covering the construction update on his behalf.

Mr. Sousa reported the following:

- The targeted opening date for the gaming floor is mid-March.
- 23 days of rainfall was recorded in December causing a delay in the structured steel for the tower.
- Construction of the gaming floor is ongoing.
- Equipment are being tested at the test bed.
- IPI will soon provide training instead of just testing of equipment.
- IPI is working on getting all the necessary permits.
- IPI is waiting on approvals from Zoning and are also waiting for other permits
- CUC power was connected on January 6, 2017 and the building is now

with power.

- The pictures provided were taken on January 9, 2017.
- Cameras are presently being installed.
- Doors are being installed since a week ago and locks are being installed in the back side.
- The backbone and the servers are being installed.
- IPI is waiting on stabilized power to get everything up and running.
- All the basement areas will be open. This includes the staff area, staff canteen, uniform system, parking area and most of the generators.
- On the plan, there are two egress routes highlighted in blue, construction area is marked in orange, prohibited areas are marked in red and the areas to be opened in Phase I are marked in gray.
- Page 3 is the first mezzanine, everything in green will open in Phase I. This area includes the security, marketing, surveillance offices, the electrical room and the data center. Everything in orange will open in Phase II as it will still be under construction.
- 2<sup>nd</sup> floor will hold the Commission's Office which will also open in Phase I.

## 2. Status of the Bond or Other Financing

Counsel McDonald reported that IPI was able to raise \$70 million in US Dollars. The funds were already received and will be dedicated towards the completion of Phase I of the construction and the casino is opened on time. The funds are enough to get the casino opened and operational, he said.

Chairman Sablan asked where funding will come from to complete the entire facility. Counsel McDonald explained that once the casino opens, they will do another round of bond offering. He added that a portion from the casino income will subsidize the ongoing construction. He stated that another 100 million dollars is needed to complete the entire project.

The Director inquired if the 70 million dollars will satisfy the Department of Public Land (DPL) requirement. Counsel McDonald informed the Commission that the licensee submitted a proposal to respond to the lease section that concerns the financing requirements. In the proposal, the cost of construction was reduced by lowering the number of rooms to be constructed. He announced that he has not heard from DPL on their proposal but believes that the licensee has met the lease requirement. IPI has also provided notification to the Zoning Office of the change in the number of rooms, he added. He informed the Commission that the number of rooms was lowered to 250 from 373 as originally requested. As funds become available, the number of rooms could eventually be increased back up to 373, he noted. Counsel Ernest noted that should the licensee go into another bond offering, a new consent should be required.

Chairman Sablan commented that it would be a good idea for IPI to issue a press release to clarify the negative article in the Marianas Variety on the story about the bond's collapse, the downgrade and the uncertainty of the project

completion. By doing so, the public will feel a little at ease, he said. Counsel McDonald stated that one of the factors of the downgrade in the bond is the question on whether the licensee has the ability to attract junkets and to have them licensed. He further noted that in issuing a rating, a study of the investor environment is done. The people doing the rating look at the company's repayment ability and how they will perform on the bond, he explained. He emphasized further on how important it was for the licensee to receive the Commission and the government's support in helping the company grow the industry and succeed. He informed the Commission that he will discuss with Management the Chairman's recommendation about issuing a press release.

The Director asked Counsel McDonald if he anticipates any problem in obtaining an occupancy certificate considering that construction will be ongoing at the new facility. Counsel McDonald responded that he foresees problems and that the company was already made aware that the Attorney General is questioning the authority of the Department of Public Works Secretary to issue a partial occupancy permit. Counsel McDonald assured the Commission that the casino will not be opened if there's a safety issue.

The Director inquired what would happen if the Phase I is not completed by April. Counsel McDonald explained that they will need to continue operating Best Sunshine Live at the T-Galleria in which case the license agreement would have to be amended to extend the lease with DFS. He shared that communications have been initiated with DFS and they are agreeable to an extension of the lease. He noted that they are however pushing to open the new casino as it will be very detrimental to the government if the operations cease and the CNMI loses revenues that it relies upon.

### 3. Workforce Development

Ms. Bertha Leon Guerrero, Director of Human Resources, provided the Commission a report which included information on Human Resource section. The report opens with highlights of what happened in the year 2016. She summarized the report in the following way:

- The licensee's major challenge is the cap on CW. The company has dealt with this challenge, learned from it and have moved forward.
- In 2016 to present, there's still a lack of US local workers with gaming experience. Therefore, IPI's dealer training classes are continuing.
- The improvements in 2016 include the trainings, partnership with other educational institutions, recruitment efforts, and outreach efforts in Las Vegas, Puerto Rico, and Hawaii.
- The cap has once again been reached and will reset on October 1, 2017.
- There are presently 1,304 employees comprising of 51% non-US and 49% US workers.
- There are 112 new hires, 12 separations, 4 involuntary separation, 4 promotions, 2 transfers, all in the month of December 2016.
- The non-gaming side are aggressively recruiting and have even gone to

Micronesia to conduct job fairs.

Chairman Sablan asked Ms. Leon Guerrero to talk to management to see if local workers can be offered housing just as they do with contract workers. He said this benefit might be a good idea to entice locals workers and possibly even residents of Rota, Tinian and the FSM, who are willing to relocate. He noted that it's only fair to provide compatible benefits between a CW and a local worker. Chairman Sablan also recommended that Ms. Leon Guerrero go on the local radio talk show to reach out and share that there are employment opportunities with IPI.

#### 4. Changes in IPI Upper Management

Chairman Sablan shared that he is concerned about the changes in upper management in which notification was not provided to the Commission. He heard that the Mr. Leo Chan, Chief Financial Officer (CFO) has resigned. Counsel McDonald confirmed that Mr. Chan did resign and a replacement has not been identified. The Director pointed out that the position of CFO is very critical and that a replacement should immediately be identified. Counsel McDonald shared that Mr. Robin Lu who is also CFO will assume Mr. Chan's duties in the listed company. For IPI, he shared that Mr. Lucas Wong is the CFO who replaced Richard Chan.

Commissioner Manglona raised a concern about the large number of subsidiaries now versus 5 months ago when there were only 14. He shared that the number at present is 37 subsidiaries under IPI and asked if they're all real estate companies. Counsel McDonald replied that majority of the subsidiaries are property holding companies. It's part of the investment into the CNMI, he noted. The Director asked Counsel McDonald if any of the 70 million dollars obtained from the bond will be funneled into the subsidiaries. He replied "No" as it will affect the funding needed to complete the construction and to open the new casino which is estimated at 50 million dollars. Funneling any funds will jeopardize the opening of the new facility, he stressed.

The Chairman mentioned that he wrote a letter to the company a few months back informing IPI that all revenues should be reserved for the completion of the Grand Mariana project. He felt that the diversion of funds for all other unnecessary expenses such as the subsidiaries and public relations is a great concern. Priority should be the Grand Mariana, he said.

Commissioner Manglona said he is very curious if some of the high rollers are partners with the company in some of the subsidiaries. Counsel McDonald replied that he is unable to give a budget answer but added that it is very common to have partners and investors in a business venture. Mr. Browne explained that most of the investment into subsidiaries are for short and long term leases on apartments for employee housing.

## 5. DPAC Status

Counsel Ernest asked Counsel McDonald if the company is planning on filing an application for occupancy permit without giving it to DPAC first.

Counsel McDonald responded by asking the Commission to refer to the license agreement where it states that no element of the licensee development requirements shall be submitted for permitting without submission for review by DPAC. He felt the initial gaming facility is not a development requirement. He believes the DPAC should be activated only for the Phase I project and not the initial gaming facility.

Counsel Ernest argued that in amendment 2 of the license agreement, which created the live training facility, it is clearly stated that permit applications have to be submitted to DPAC. Counsel McDonald pointed out that the structures associated in the initial gaming facility shall not be considered in evaluating the licensee's efforts towards meeting the licensee development proposal requirements. He believed due to this provision, the licensee can proceed to submit applications for permits without DPAC. He further believes that they are not in breach of the license agreement by doing so. He informed the Commission that the DPAC agreement is now with the Governor's Legal Counsel for review.

Commissioner Santos asked Counsel Ernest if DPAC, once formed, has the authority to go back and review all construction plans from the beginning of time. Counsel Ernest shared that that is one of the issues being negotiated between the licensee and the Governor which is the cause for the delay of the DPAC formation. He stated that he can comment further about the issue under executive session.

Counsel McDonald pointed out that the licensee wants the DPAC on board as well but would object if DPAC will act as another regulatory agency. He elaborated that DPAC's functions, based on the license agreement, is to assist the licensee facilitate the project, track implementation, advise the Governor and discuss any issues with other government agencies and the fee agreed upon on the license agreement is for not more than \$400,000.00. He informed the Commission that he will provide an update once he hears back from the Governor's legal counsel.

## 6. Anything raised in Public Comments

Counsel McDonald mentioned that during public comments, he asked the Commission if the junket operator license application for Ms. Hong Zhang can be entertained. He provided the Commission a packet containing documents and asked for their indulgence in going through it as he explains the contents.

Counsel McDonald provided a brief summary on the application:

Ms. Zhang's application is complete and is before the Commission for



consideration for a junket operator provisional license. In reference to the regulations, all three requirements to qualify for a provisional license are met: 1. Fees payed, 2. All forms submitted, 3. Current License for a substantially the same activity in a US jurisdiction. On Exhibit 2, the definition of a junket operator in the regulations is substantially similar to the definition of an independent agent in Las Vegas, therefore, qualifying Ms. Zhang for a provisional license.

In Exhibit 1, the junket due diligence report was provided. This report includes a global central check, a world check, internet search and all have come back clean. A police clearance was also submitted from her home town in China. Verification was also done on her independent agent status in Las Vegas which was found to be current (refer to Exhibit 7). Ms. Zhang also holds a valid CNMI Business License. She also hold a CNMI Limited Liability Company (LLC) form and is represented by Mr. Ben Petersburg who is a local counsel.

Chief Ed Cabrera explained to the Commission that the document being referenced by Counsel McDonald as a junket license is merely an independent agent registration out of Las Vegas. Ms. Zhang's activities in Las Vegas is more of a travel agent in nature. Ms. Zhang did not have to go through the necessary financial suitability vetting that is required of a junket applicant as per the CCC Regulations as the type of independent registration she is holding does not authorize her to issue credit. Chief Cabrera informed the Commission that at this time, Ms. Zhang does not meet the requirement for a junket operator provisional license. Additionally, he commented that he is not comfortable in recommending a finding of suitability without first going through a background investigation of Ms. Zhang.

The Chairman informed Counsel McDonald that the Commission is not ready to decide on Ms. Zhang's junket operator provisional license application. He stressed that the Commission needs to do its investigation on the applicant whether it be through an independent third party investigator. He acknowledged Counsel McDonalds earlier statement that junkets are very important and necessary for the industry to succeed. However, he added that at this time, the Commission is not ready to render a decision as procedures still need to be followed which includes the proper vetting. The Chairman shared that further discussion on this matter could be taken up in the next meeting.

Commissioner Santos asked Chief Cabrera if he anticipates being able to give his recommendation by the next meeting. Chief Cabrera replied that the application, in its current form, still needs to be thoroughly reviewed. In additional, he noted that his division does not have the ability to vet the applicant which is his reason for recommending the Commission obtain a thirty party investigator get involved.

Commissioner Santos agreed with Counsel McDonald that one reason for IPI's

downgrade is the lack of junket operators. He too believes that junkets are very important to the industry. He recommended the Commission revisit the action taken at the last meeting on the Request for Proposal (RFP) for Investigative Services and reconsider making an exception at this time to take a route on sole-sourcing in order expedite the processing of junket applications. He noted that the other factors mentioned in the downgrade are beyond the Commission's control but the movement of the junket applications are. An RFP would prolong this process, he stressed.

Chairman Sablan informed the Commission that he is not comfortable with issuing a sole-source for this project. He stated that the Procurement Regulations are very clear that this type of necessity can be obtained through an RFP which is the fairest way to all interested vendors. He stated that a few months ago, Chief Cabrera informed him that there was a company can provide this service. He noted that he will not agree to sole-source as his name will be on the line as he will be held liable. He is also concerned how the Commission will look when it comes to being audited.

Commissioner Santos informed the Chairman there are exceptions to the rule depending on the urgency of the need and the circumstances, and that it's not only based on the expertise available. Counsel McDonald offered a solution to the Commission's issues on the limitations and the lack of expertise to do the vetting and the delays in the RFP process. He inquired if the Commission would consider for IPI to work directly with the vendor to accelerate the vetting process while the RFP is pending and while the Commission builds its expertise in vetting. He noted that the bottom line is that junkets are crucial to the growth of the company and the process is moving very slowly. He pleaded for the Commission support in this manner.

The Chairman acknowledged Counsel McDonald's proposal and commented that the Commission may be amicable to his proposal. Counsel McDonald then asked the Commission that an understanding has to be reached that once the vetting report comes back clean, the Commission will grant the junket applicant a full junket operator license.

The Director informed Counsel McDonald that the Commission will thoroughly review all documents submitted on behalf of Ms. Zhang and a determination will be made hopefully by the next scheduled Commission meeting. The Chairman informed Counsel McDonald that should IPI decide to do their own vetting of the applicant, the Commission will need to review the vetting findings and determine whether to issue a provisional or a regular junket operator license. He advised Counsel McDonald to get with the Director to review the documents he will present at the next meeting.

**SESSION:**

- A. Report by the Legal Counsel
- B. Personnel Matters


The were no items discussed under the executive session.

**VIII. ADJOURNMENT:**

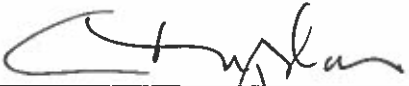
Commissioner Manglona moved to adjourn the meeting, seconded by Commissioner Santos. It was put to a vote and unanimously approved. The meeting was adjourned at 5:31 p.m. on January 30, 2017.

Prepared by:  Date: 2/13/17  
Carmen Ann B. Sablan  
Executive Secretary

and  Date: 02/13/17  
Ruth Ann P. Sakisat  
Executive Assistant to the Commission

Concurred by:  Date: 2/13/17  
Justin S. Manglona  
Commission Secretary

APPROVED AND ADOPTED ON: 16<sup>th</sup> day of February, 2017.

 Date: 2017  
Justin S. Manglona  
Commission Secretary