

## Junkets due diligence and persons of interest process review

### Interview Plan

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**Interviewee:** Joshua Preston, Chief Legal Officer

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**Purpose:** The purpose of this engagement is to review Crown's governance, reporting and due diligence frameworks in respect of the processes for:

- (a) assessing applications by prospective junket operators;
- (b) periodic assessment of existing junket operators; and
- (c) decision-making in relation to whether 'persons of interest' are permitted to enter or play at Crown's casinos or be on Crown's properties.

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**Focus Areas identified for exploration:**

- Interactions with law enforcement
- POI process
- Junket approval process and monitoring
- Broader compliance / control measures

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**Materials:** NA – due to current restrictions/recommendations around Coronavirus this will be delivered remotely over Zoom.

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**Logistics:** The interview will last for one hour

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**Specific questions:**

- General views on the junket program:
  - Key risks
  - Areas of improvement / recent focus / what's going well
  - Best means to balance commercial and compliance/reputational concerns – how does he see them managing things going forward.
- Junket approval process – after Credit Control create the due diligence profile, the Group Credit Manager submits to Executive Team for approval, (Josh, CEO, CFO).
  - What checks occur at this stage of the process? What is the Executive Team looking for when making their decision?
  - What risks is he thinking about? Is the information fit for purpose? What does he do if it's not?
  - Do they reject JTO requests at this stage? What has the rationale been for rejections?
  - One of the controls is around international players arriving in Australia, and checks being conducted by the Department of Immigration and Citizenship. Does Crown collaborate with the Department in this process, either through sharing of information, or providing signed letter / confirmation of junket program etc.
  - Are there instances of junket operators or participants having been denied visa/entry? What follow-up would be conducted in such situations, to review Crown's process?
- Assessment of existing junket operators:
  - What is Josh's involvement in the ongoing monitoring program? What types of issues are escalated up to his attention?
  - Where relationships with PEPs are identified, the recommendation is made to Josh (amongst others, the Operational Execs) to cease the relationship. Would you be able to speak a bit more about this process, with any examples of times when the relationship has either ceased or been allowed to continue?
  - Where does the rest of the team come into the process?

- POI process – there is a GM from Legal on the committee. When the committee can't reach a decision, it is escalated to the Executive sub-group, (Josh, the Crown CEO and the Australian Resorts CEO).
  - We understand this is a new process – how is it working?
  - How does the Executive sub-group maintain oversight of decisions reached by the Committee where escalation was not required?
  - How often are decisions escalated to Josh's level? What are some of the factors that might cause a decision to be escalated?
  - What are the challenges around this process? What could work better?
  - How does this align with the customer risk thresholds and process?
- What interaction with relevant law enforcement / government bodies do they have in relation to their junket and POI processes, including:
  - AUSTRAC
  - VCGLR
  - ATO
  - DICJ or other international bodies
- Who owns these processes/relationships?
- Broader control / compliance for junkets
  - What, if any engagement does Crown have with other casinos / share information as part of its compliance program to manage the risks around junkets?
  - Looking back at previous audits, retention / completeness of information has been noted as an issue in the past. Has Josh had oversight of any work taken to improve systems/information management?]
  - How are staff within the legal department trained to manage risks associated with junkets or POIs?
- Anything we've not covered off that you would expect us to?

## Minutes

### Background on hearing.

Josh: The POI committee has two arms, the less sophisticated where meetings occur, the other is the out of meetings cycle.

Work recently has included other clean-ups, following the volume of summons.

We have been told the inquiry's on hold, and they have committed to giving us a month's notice.

In the meantime the Melco shares have been sold. Stanley Ho passed away yesterday. Laurence has been removed with respect to probity. They will have to revisit the TOR. It will likely recalibrate towards hearing 1 and 3, 1 includes frameworks i.e. junkets.

The background work, enhancements perspective, story on work over last year 3 years should be captured.

The new compliance program, risk framework, all the work on VIP re-shaping, we have incredibly tightened controls.

Identified a few areas to strengthen, refine.

The decision-making process, should we drag it outside of credit and VIP, they still provide their role, goes to an independent person, my view is that is should be the analyst we are bringing into AML. They go over integrity type issues, then goes to group of senior people – Barry, Ken, Joshua. Then what we actually report to risk committee.

### Background on board reporting.

Josh: my thoughts are around expectations vs what's appropriate.

Risk Committee of Crown Resorts Board – got to be careful how much information they do get. Don't give them stuff in the weeds, otherwise expectations go beyond what you'd expect directors to bear, puts them in

a difficult position. Committing to long winded detailed info to a committee for decision making process largely at management level – need to be careful.

In terms of what they do want, they do want detail. The chair is new, Jane is brand new into risk committee in scheme of things, more engaged and sophisticated. Highly focussed on providing commentary. How we temper it is to explain what we are giving to them, and framework of what we are doing and how we approve it. When the heat was on we were committed, particularly those directors more involved from others, Jane from risk perspective, Mike Johnson though long involvement in international business, preparing memo on junket processes and AML frameworks.

I think there's a couple of things. This piece to include:

- Where we're at now
- What adjustments we make to the basis of the framework for decisions
- Why we make those decisions is an explanatory piece to the committee
- As long as we stay within those guidelines, they will get reporting statistics on applications, renewed, approved, denied, and material issues regarding that application process. We need to work through parameters of where do raise issues or not. I would have thought if there was adverse commentary and we continue to do business, we should escalate it.

**Murray: agreed where you are accepting risk, where there's been adverse information, but decision taken to accept and continue, that's a justifiable position for yes we're going to report up.**

Josh: I live in world now where everything I produce becomes a public document. Documentation we prepare, we need to put things into a scale of time, so it becomes a process. I've got a summary of that history, for everyone's benefit they need to see that it's been continuing over a period of time. Reflects updates in regulators expectations. Having that explanation will give directors an appreciation of where that's come from and what's happened in recent times. We've been telling this story since 2017, it's an important to piece to appreciate.

**Murray: with previous discussions with you, the evolution of approach was evident. It had evolved along with a deeper understanding of risk.**

Josh: Also our risk appetite changed dramatically.

**Murray: realistically that's what you expect to see, if risk appetite changes you'd expect a progression in processes.**

Josh: the reality is, albeit POI process applies for everyone, the reality is it's never played a real role in the consideration of junket operators. I say that as there are two parts to a junket operator.

Take Elvin as an example, from an operator perspective.

There are media allegations regarding historic links to triads / organised crime. Well documented, have been so for about a decade.

We've always analysed that on the basis that no charges have been laid, they are media only, we've received nothing from law enforcement. He's coming in and out of Australia on a regular basis. Operates in multiple jurisdictions around the world. How is that considered from a POI perspective?

The other part that hasn't been considered, is the holistic nature of junket operator activity. What happens on the ground? Activity pertaining to the way reps and players have behaved, that have been collapsed into one brief for consideration.

I've been working on a more recent memo, about doing business with Elvin – it's privileged and confidential, going to Barry. As result of enquiry, looking at the story of **Chow Chok Wa**: law enforcement enquiries, the activity of junket.

It's collated into one document with a number of considerations for Barry and Ken. I've also got one for Chow, Song, and two other people who aren't named but I'll explain the relationship. Then there's Pan, he's popped up, Simon Pang was junket operator for this **X Pan**. **Yan To Chan**, is another junket operator who's still active

who's popped up as former shareholder of Neptune Group. A business we stopped doing work with some years ago, pre-2017. There are four live ones that have a relationship somehow to the enquiry that we continue to do business with them. I've taken a look to see whether we still continue to do business, and extra steps we can take.

Glen Ward or Richard might have a word with you about potential parties who could do that kind of work for us.

**Murray: Richard did mention it to me in early days, great idea to keep those separated. Hong Kong based team out of FTI.**

I think that's right. They might just touch base to get your thoughts.

Make sure we're keeping a handle on any area we need to harden, how that factors into any process at the end of the day. Some of them are key commercial people, **Yokai Pan, Megstar**. Reasonable sized operator out of Macau.

Process that needs to be factored in, an Analyst looks at all of the information, processes it, distils it down to areas of risk: e.g. if you've got law enforcement enquiries, you need to escalate it or come up with a framework. It's not an exact science.

**Murray: Ann's just sent draft TOR and decisioning tool for the POI process, one thing that's really important is taking a risk-based approach to it. What is the reliability of information? Where did this come to us? You want to reflect that within decision making process and give some guides around how you rate that. Regulator will say you had all this info, what emphasis did you put on what. When we were looking at due diligence files, there were points when it said yeah there was this anonymous thing, but it doesn't explain what process was followed, what weighting it was given etc. Need to include rationale around that so its defensible.**

Josh: my Local Council, Rowena, I spent a matter of weeks with her interrogating me as preparation, part of it was we've got all this detail, take me through your decision-making process. It was exactly that, three people making decisions, Barry, Mark Johnson, who's been around Crown for a period of time.

Then there's board having not enough involvement to board having a bit of a role, then myself with AML legal, compliance, tightening thing up as much as I can. I can articulate it, what is the most important thing, why I home in on and why.

**Murray: what are the most important things for you?**

Josh: I look at as a starting point in terms of are there any roadblocks? Is there a historical relationship with Crown? Is there a police clearance certificate from them from an institution? Linked to DICJ license. First week of the hearing they bought in experts, one saying you can't rely on that process and police clearance from Macau as they're a bit loose, but it's still a police clearance certificate.

Whether they had gaming activity in other jurisdictions, they would have gone through over controls, border controls.

Then it was adverse commentary about that. Bad debts weren't my focus. I'd ask questions every now and then about it, but would also ask if there was something adverse. If so, I'd want to know the detail of it. Whether that was adverse associations, or media about relationships with organised crime, or charges and convictions.

Then when it came to adverse commentary, I would assess whether it was law enforcement /convictions. If media commentary about convictions, think what was it really? There was one about Song, extortion claims. Only media allegation from China, 2003, no court record. This guy is coming out of Australia. So, the risk radar was somewhat mitigated. If he's such a bad dude, how's he coming into the country and doing business with us, and has been for years.

Whether right or wrong, is not the question. It's a material flaw, that it's really me using my judgment to make these decisions, it's not articulated. That's probably what Barry and Mike were doing as well.

**Murray: all of that is defensible. I don't think the process calls those things out in the way that it could. It doesn't say for example why it looks at whether you can come to Australia? Missing link is to say we're doing that because, it shows they can get entry, which means they aren't on a government watchlist. Pulling that stuff out, documenting how they are considered in process, documenting what weighting that information is given. When the risk is accepted, it's to show this is what we've gone through and this is the rationale. Real need for holistic view of risk. Heartened to hear it is being pulled away from credit, with a holistic view first, then saying that's our risk process, that's our credit process.**

Josh: We've got three or four relevant parts:

- VIP credit – with functionality to draw all third party information and collate it – I don't think that compromises us. They pull that information together, for the purpose of considering junket operators from a due diligence perspective, not credit approval.
- Security, and surveillance, do their part, they should say who's been on radar. Surveillance network, with other operators around the country.
- Compliance manage law enforcement agencies and requests for information.
- Then you've got AML, that can look at in terms of current risk rating from AML perspective, gaming activity. IFTIs, SMRs, they have a holistic picture of all of them. All relevant information.

I still think AML need an analyst who can compress it into a document of sorts, and approving parties have a formula to follow. It's having the information collated in a manner which is organised and deliberate so they can follow that path. People making decisions record the reasons, paper to risk committee, background, current state, recent enhancement, proposed enhancement. Then for the board we give them based on what they agree to, information on a quarterly basis

**Murray: I see it coming down to that process, and having checks and balances post the first visit by new operators. What happened during the visit, the review point to check did anything on that visit raise any flags. Did everything go the way we thought?**

Josh: my only reservation with that is more the volume of junkets we have.

We've got these large junkets, and a lot of small junkets. Instead of just relying on annual junket, we do need trigger points. If there's a ML request, we need to have trigger points which are embedded with people seeing them and recording them, understanding what's to be escalated to the committee. Instead of waiting for 12 monthly review process.

**Murray: do you still have a lot of interaction with Austrac?**

We've had lots. We played a pretty important role in industry wide risk assessment. They've produced a draft report, confidential at the moment. It provided commentary pertaining to inherent risk, not residual risk. Controls to mitigate the risk but these didn't acknowledge that Crown had implemented most of those control, it had a whole range of weaknesses.

The risk assessment team willing to listen. Challenge was that the banks were part of that. They were talking about some typologies that we've never heard of, or seen in our business. We've had a lot of engagement in the risk team. Currently subject to our normally bi-annual AML CTA process assessment. They have a general view of the program and a focus, in last few years we've had junkets as one focus, electronic gaming machines, current focus is high risk and politically exposed customers. Just held back because of covid.

We did two or three presentations for AUSTRAC, one overarching to CEO or deputy manager. Then a dedicated one for the risk team as part of risk assessment process. – the difference will be the general one talked about joint AML program, our enhancements and changes to AML over the last few years. The other one that was more junket specific.

**Murray: what about the decision makers in the process?**

It can't be in VIP, I know that for sure. Historically it was not there. I've written it up as a memo, there are a lot of moving parts – I will track that down, might lack sophistication in presentation.

All of heavy lifting needs to be done by all departments and collated by one group. AML is the right space – if it's going to get stuck anywhere it will be AML, they also have the benefit of overview of SMRs.

The only question I've got is whether Ken should be involved – in a perfect world, whether or not you need him involved. In a perfect world, Executives with cross-border jurisdiction would be in my mind the key areas.

**Murray: depends how it's collated, how it's put to you. Is it in the right format, are key issues surfaced to front of that purpose? Then documentation of how the decision is made. Have you seen what STAR do in their process?**

**They judge risk first before any commercials.**

Josh: I think credit should be dealt with as an aside. I don't look at commercials. Credit's important as has a level of diligence no doubt. I have some reservations about genuine nature of some of the stuff that STAR ask them to do –

**Murray: they get them to make a bunch of disclosures.**

Josh: Interestingly, when the business revisited the process in 16/17 they used the STAR checklist as a base plate. Mary Gioras - can I recommend you ask her that question?

The Start process we need to be careful to how much is genuinely accurate. Risk appetite is very different to ours. Their views of risks are a little bit different.

**Murray: It's about Crown and what's accepted.**

**The disclosures are for due diligence, to build that up. Then if you find a company, they haven't told you about. When you're doing that due diligence, get them to tell you stuff, then you can hang them on a lie.**

Josh: we need to be best of brand. Spending a lot of money trying to fix it up, want to be in an position when we're really defensible. It's of broader community interest now too.

For questions or a more holistic view of who's doing what, feel free to give me a call.