

Junkets due diligence and persons of interest process review

Interview Plan

Interviewee: Nick Stokes, Group GM AML

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.

Focus Areas identified for exploration:

- Due diligence
- POI process
- Junket approval process and monitoring
- Broader compliance / control measures

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

Logistics: The interview will last for one hour

Specific questions:

- General views on the junket program:
 - Key risks
 - Areas of improvement / recent focus
 - Best means to balance commercial and compliance/reputational concerns – how is this currently working.
 - General views on junkets – how well do you think Crown's processes meet the AML risks? Any concerns?
- Junket approval process
 - What is AML's role in the junket approval process?
 - What do you see AML's role should be in the process?
 - How does AML collaborate with Credit, Security & Surveillance, and other teams as part of this process?
 - What information does Credit escalate to AML? I.e. if there's a hit on Dow Jones etc. What is the process for AML in these cases?
 - Noticed that businesses the JTO is involved with as Director or Shareholder are listed on the application form. What checks are done on these? Is AML involved in this?
 - Does AML advise about when EDD is required? What is the process for this?
- Assessment of existing junket operators:
 - Currently standard review is every 12 months. Are there trigger points that action more regular reviews / repeat DD?
 - How is this working? Are these well documented and standardised or more ad-hoc?
 - The AML team view junket agents and players are viewed as higher risk under the framework – how is enhanced DD managed by the AML team? What information does AML get pre-visit?
- Training and support
 - How does AML support the credit team with their due diligence responsibilities? How is awareness raised around red flags or risk areas?

- How is the importance of DD and their role in relation to the integrity program communicated to credit staff?
- Transaction monitoring and probity during visits
 - AML has holistic overview of IFTIs and SMRs – how is this information fed back to the business? How is it used to mitigate risks regarding junkets?
 - AML consider risk level attributed to JTO, Junket Representative or Junket players, and adjust in accordance with AML/CTF programme. Could you speak a bit about this, how it is working, what you are doing to ensure robustness of this process?
 - How are findings and feedback of reviews communicated to the business?
- Sentinel
 - How does the ML / TF risk register include and speak about junket risks?
 - Are these built into the rules for the Sentinel program?
 - How is this working? Positives, challenges, areas for improvement.
- POI Process
 - How does AML contribute to the POI process?
 - How is it working? Positives, challenges, areas for improvement.
- What is your team's role in reporting to the board on either the POI or junket programs? What information gets feed up, through what forums and how frequently?
- What information do you think the board needs to know about this?

Nick – extensive experience in AML, financial services

Adam – on and off for best part of 20 years, AML for past 12 months and primary legal and corporate governance

Nick's looking to make a few amendments as new in role

What do you see as general risks associated with junkets?

Nick – a few things, take a couple of steps back. Prior to me joining, AML team's role in all of this has been surprisingly light. There's obviously some historic reasons for that – foremost is not so long ago the team was only one.

Operators and reps are offered designated service, so from compliance perspective they are identified and we look at their activity.

From a DD perspective they are associated persons, so that context fits under, there is a compliance perspective, there is an ABC policy, but the way junkets are managed under that isn't as strong as it could be. We've done Austrac assessment, relates to vulnerabilities and options for enhancing control. A lot of opportunity for applying a three lines of defence model. The paper we've put forward on possible enhancements has gone up, not as formal as it could be but under pressure to get our response back to Austrac.

We're doing a lot of things in the background, transaction monitoring, data analytics, investigation function. A lot of moving parts, not as coordinated as it could be. Partly because there are multiple stakeholders involved, but in terms of first, second, third line, those roles and responsibilities could be more clearly articulated.

The business owns the risk. It's a business relationship. Across a typical three lines of defence, we would get business to do some DD, onboarding, screening, negative/adverse media, based on risk assessment more EDD done. Casino, all of that is done up front. Before you take risk of onboarding customer you know quite a lot about them.

In junket it's quite different, both a customer and a business partner. In terms of visibility in junket space around transactions they have, that's not often known to casino.

We have a program in place already, probably a bit junket lite, but looking to see where roles and responsibilities will land.

I see our role as monitoring, oversight, testing, SME on adverse media and things, be proactive and looking for unusual activity and assessing that through our process.

Hired Chinese speaker, doing masters of translation. Reliant on her for our DD process. At the moment it hasn't formalised roles and responsibilities,

Adam – historically, AML involvement in junket space was basically a transaction monitoring point of view. Maybe a deeper dive into some sorts of files – potentially PEP, sanctions, adverse media. In last six months getting more involved in enhanced DD, get more proactive, proactive transaction monitoring and deeper dives. It all leads back to EDD, knowing where the moneys coming from. Looking at ways the stuff we think is perhaps potentially suspicious, trying to limit our exposure to that. Things like third party transfer.

What do you see as key challenges or pain points to change process?

Nick – **it's mindset**, culture. 3 lines signed off by board last year, but very little embedding of program in my space. Embedded it more to program, underlying policies and procedures. Looking to push a lot of work back to first line. Data quality checks.

I've gone a bit of a full circle in my journey, one extreme they had no idea of three lines of defence, I've battled that half of my career. European/British banks was a bit more defined.

Now a different space. Casino business here is more domestic. Not as connected as it was in past, other countries like US where regulators are a bit more savvy to 3 lines of defence and how that's evidenced.

Mindset, culture – change management difficult.

You don't want to have remediation, look down barrel of a gun. You want to be proactive, get on the front foot. Crown, being a great employer, people have stayed with Crown for decades. Has a lot of positives, but on the flipside, you get people who are set in the ways – we've always done it this way.

Come to the role, primarily from banking. In the US, casinos are treated as financial institutions, that's what I'm trying to bring to this role. That's what AUSTRAC expects.

There's a lot of room for improvement. Really takes tone from the top.

Getting commitment and buy in from the top now.

DD Process for junkets as they stand now. What is your team's involvement?

At the moment, three months ago we were going to get some hiring underway. Extending proactive role around EDD, intensive monitoring. Role was put on hold for obvious reasons. Passage of time, for person we were going to hire, looking at joining industry susceptible to being stood down, risks of hospitality. We've come across with a bit of head wind.

All of this comes down to resourcing. Historically team has been very lightly resourced. It's been a regulatory compliance function, a reporting function. FTRA, predominantly just KYC and AUSTRAC reports. That's what it's been up until 3 years ago. Desire to bring team into modern age through recognition from Josh and senior management. Evolution from senior mgt now is needing to grow team, get some expertise. It's probably one of the biggest risks the business faces right now.

It comes down to resourcing. We're going through a hiring process at the moment. Once we get resources on board, set out roles and responsibility, have IT resources to boot, we'll be able to achieve it quite easily. It's getting that framework right up front.

We've given our feedback on weaknesses, some of them have been rolled up. Restricting cash, more on junkets across the board. It's really around agreeing to what the framework looks like.

To the extent that you're able to share those, I'd like to reflect those in the review. Pointless to recommend something you're already doing.

A lot of it's been put on hold too, we're looking to get back on track with that. Small group of people called up to put discussions through for that. That document is still in draft form. Would form part of what framework looks like.

Put in separate paper on enhanced controls from senior management perspective.

We wait for AUSTRAC to release final paper.

What was your take on progress so far?

Last time I checked, at national manager level review. Crown gave an extensive amount of feedback on it. We gave them that information from our perspective. They get a lot of feedback from partner agencies, we don't have access to that.

Big effort from us to improve our information flow with law enforcement.

What enhancements do you want to see in terms of intel sharing?

Had this discussion with the APG group secretaries in Sydney. There's an expectation to pick up activity and report good SMRs to law enforcement. Standards of typologies is poor or unusable by industry, so sanitised it becomes guesswork. Or comes in from Egmont members, they're calling it a typology but really only seen once.

We were seeing that in Austrac report.

Is that tracking staff up in Macau? SMR talking about these issues, how they're going to be limited further?

I was involved in a junket workshop in Macau, probably 12 years ago with AUSTRAC. Was a one-week workshop, and the exact same issues were being discussed as they are now. Literally that was 2007.

What's your view, junket risk assessment is done in credit. One of the key things is DICJ registration. Really influences to what level the process registers them as risk?

I think the current process, from what I've seen of it, is very lite in understanding true risks behind operator. We don't have enough information on who their reps are, who their employees are. Operator probably doesn't have a lot of dealings with casino on a regular basis, or oversight of their reps. Reps come and go. No process that tracks activities of reps themselves. No recognise of risk reps pose just by being on the premises, without having been through DD themselves. Whatever visa they come on doesn't matter, but we just don't know who they are.

To me that strikes me it's not a significant area of focus. Considering those guys hold purse strings.

Adam – especially the bigger junkets, they are corporates. But our customer on our books is the individual. Sun City, our customer is not Sun City it's Alvin Chau. Alvin Chau, how often is he in Australia – not often. Does he even know who his reps are, or what they're doing when they're here.

Nick – thing a lot more could be done on end to end analysis of program. We had a huddle before we closed. In terms of knowledge of certain vulnerabilities or risks or red flags, wasn't much recognition of that could pose, particularly cash withdrawals. So much cash going in and out, but not much oversight particularly from AUSTRAC perspective, how much are we willing to invest to see what's going on. Particularly third party. A lot to have more oversight of what each rep is doing, from a program perspective. Room for further analysis and looking at the data.

Analyse and evaluate and work out what's possibly going on. Some of the figures were extraordinarily high around cash withdrawals. AUSTRAC, according to international from TTRs, withdrawals data was significantly higher.

We need to really analyse more data relating to junkets.

Currently DD sits alongside commercial relationship / credit?

There is a pro-forma DD that goes up, primarily by credit. AML doesn't have a role in that.

Adam – now, we really mind that we get included on final DD cover page. The only time that AML is historically involved in process at all, if there was a media hit, they would have asked us for Scott or my opinion on this – has this been approved by senior management. There's been no, we've got this DD report can you review it. Some of those reports, reviewed under different lens, dived deeper into economic, reputation, media, people connected, away from source of wealth lens.

Nick - you have to look at it as corporate entity. Do due diligence on office holders and known associates. Chinese speaker looking at media as well, have found additional pieces of info in Chinese. We're not involved in approvals, we should be. We need to look at DD reports they're getting, quality of those reports.

Couple of examples, one of vendor's reports, not credible as to source of wealth of particular person, paid a bit more money for a full report got a completely different picture which changed view on risk.

Too focussed on wealth and not enough on risk. Process doesn't get right people around table to form a holistic view on risk. Role for AML definitely needs to be strengthened. Looking at reps is such a glaring gap.

All those points have been raised in the paper to Josh and Senior Management. I'm surprised Josh hasn't shared this.

We'll chase it up through Ann.

It's an internal doc, we looked at risk. Let's say if we received a report similar to this what vulnerabilities or control weaknesses can we glean from it. In an ideal world, we came up with a few ideas in that paper. It wasn't formalised to point where it was going to be presented to board. Something we did in parallel to AUSTRAC process.

It could be reasonably informative to you if you haven't seen it.

It's really around decision making, approvals, re-evaluation of junkets.

I was very surprised that AML didn't have a bigger role in it.

Adam – in the last six to 12 months, involvement even just with VIP management team and credit control team has grown exponentially, 2 or 3 years ago other than getting IFTI paperwork there was no comms there. We trying to increase presence, profiles, relationships. Keep in mind what they should see and escalate.

Nick – the biggest gap I see coming from outside is reporting of management information and risk metrics up. Banks are being kind of a committee paper could 120, 200, 300 pages. So much MI / risk metrics management can't possibly go through it. It's a matter of sifting through noise, what's a good representation of data and risk.

There's so much data in casino business, so many dots to connect, so little risk metrics being looked at and discussed. Unless you've got data is pointless having a discussion. There's a lot of room for improvement looking at correct data or risk metrics to put up.

Simple crude example, meeting – discussion about possible cash thresholds to look at from EDD perspective. Rather than turn up to that meeting with an opinion, analysed 12 months of data with standard deviation. Had

an opinion based on that analysis, but still some rather strong individuals who thought that was too little as a threshold. I know the battle, mindset culture is like that.

Pretty significant change in last seven months. Things are starting to shift. I want our report to help push that down the role moving forwards.

It's our opportunity to get it right. A lot of studies have shown very compliant businesses are the ones that are successful in the long run.

If you upset intelligence/partner agencies, you're not taking that bit seriously.

In terms of junket process, and connection with AML. What do you see the future? Junket, players and representatives, given a high risk in AML framework. Are they treated differently in any other way?

I think due to our light touch approach from an AML perspective, we need to get more connected in understanding program to program.

From my perspective, in terms of risk rating them, we can land in the right place in terms of risk. It's around having more visibility, syncing up data so we can have visibility in transactions, looking holistically at whole picture in terms of credit – what facility they have, flows in relation to program, treating that a bit more of a cycle, with more data to understand that process.

Maybe doing DD from each program if that's possible. We don't have tech or infrastructure to be able to do that using a system. Monitoring we're doing is based on reports we're generating manually. Around IFTIs, losses, cash – there's a few other red flags.

We've been going through our automation draft rules. At the moment they're quite lite as to junket specific transactions.

Adam – it's something, yesterday and most of this morning, we were going through our rules and thinking about different ways we can capture junket and junket specific transactions. Junket players, are coming here on a program on a minimum front money, likelihood is they're going to lose a portion of that money, likely large sums. From AML view – is a junket player losing 100k or more, is that suspicious? Maybe not Where is that money coming from? How is it being repaid and coming through our business?

Creating rules, for us it will trigger ECDD when we do see that. The risk rating model and what ECDD that will result in was very one dimensional in the past. We're trying to make ECDD required for different junkets, the level of ECDD is going to be different for different segments, junkets, local players – make each aspect of ECDD different in our risk methodology.

Nick - Controls in cash, third party, including internal transfers. A lot of junket operators transfer money between themselves through crown deposit accounts. Historically, third party payments coming in through people we couldn't work out through they were. We have a filing obligation there. A lot of ways we can attack it

Unfortunately we're seeing a mindset this is driven by AML – sure its AML concerns or risks, but whenever ask to introduce further controls. Ideally initiated by business, we get called up and said this is AML idea. We're here to opine on control and control effectiveness.

Decision to impose a particular control is a business one. Business is responsible and accountable for risk.

Concept may not be that well embedded in mindset of business.

Adam – bigger challenge – certainly culture change.