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Memorandum

HARD FILE NO: INV -

To: Tim Leddra, Manager, Compliance

From: Tim Bryant, Team Leader, Compliance

Subject: Investigations file Crown China suitability – s26 considerations Date: 2 April 2018

Purpose

1. To provide a report regarding requests and demands issued to Crown pursuant to s26 of the Casino Control Act 1991 ('the ACT') and the possible breach of same. For completeness and context this memo details initial requests not issued under s26 of the Act and information provided during the course of interviews with Crown executives.

Background

2. On 15 October 2016, open source media outlets reported that Crown Resort Limited (CRL) employees had been detained in mainland China on suspicion of contravening Chinese anti-gambling regulations.

On 17 October 2016, CRL released a media statement that *'In relation to media reports on the weekend, Crown Resorts Limited believes that Crown's Executive Vice President VIP International, Jason O'Connor, is one of 18 Crown employees that have been detained by Chinese authorities.'*

On 10 July 2017, Crown Melbourne Limited (CML) advised the VCGLR that four licensed employees (Casino Special Employees) had been convicted by the Shanghai Baoshan District Court of contraventions of the Criminal Law of the Peoples Republic of China.

The VCGLR commenced an investigation as a result of those arrests and convictions.

Initial requests for information pertaining to arrested individuals

3. On 19 July 2017, the Compliance Investigation Team first requested information from Crown regarding the matter. An email was to Michele FIELDING requesting documents pertaining to the reasons/sentencing remarks re those arrested in China and any available English translations. No demand under authority was made. **(Attachment A)**
4. On 20 July 2017 a response was received by FIELDING that no written verdict/reasons for decision have been made public.

5. On 24 July 2017 the Compliance Investigation Team sent an email request to FIELDING 'in accordance with Chapter 10 Part 5 of the Gambling Regulation Act 2003 requesting Crown Melbourne, or its associated companies..' provide the following documentation for the four arrested individuals. Employment details/position description, employment contracts, last two years of performance reviews/plans, employees code of conduct signed and reviewed. **(Attachment B)**
6. On 11 August 2017, the Compliance Investigation Team requested further particulars and/or documentation in relation to each employer listed in accordance with Chapter 10 Part 5 of the GRA by 18 August. **(Attachment C)**
7. On 14 August 2017 the Compliance Investigation Team email a request clarifying that certain info is not available and for Crown to review and advise. **(Attachment D)**. On 19 August 2017 FIELDING email advising that additional information has located and provided on a 'commercial in confidence basis.' **(Attachment E)**

First request for 'risk' and China material

8. On 25 September 2017, the Compliance Investigation Team requested the 'Crown group provide the following;-'
 1. *Minutes from Crown Resorts Board and sub-committee minutes regarding the assessment of Crown's business operations within mainland China.*
 2. *Crown's Risk Management Committees;-
Formal charter
Risk Management Plan
Risk Management Policy
Outlining its duties and responsibilities, in particular, the setting out of the framework for reporting, mitigating and monitoring of identified risk associated with Crowns overseas operations including recruitment of foreign patrons into the Crown Melbourne Casino*
 3. *All documented communications between the Crown group and its international staff concerning the importance of limiting their activities to low-key marketing of small groups and publicity in China, including the instructions to Crown's staff to conduct themselves whilst in China in a manner which would not involve breaching Chinese anti- gambling laws.*
 4. *The Crown Group's Risk Management Committee's report in relation to the detention of South Korean employees in 2015.*

No deadline or Demand authority was made with the request. **(Attachment F)**

Request for additional 'risk' and China material

9. On 5 October 2017, the Compliance Investigation Team made a further request for additional information.
 1. All minutes from Crown Resorts Board and sub-committee minutes regarding the assessment of Crowns business operations within mainland China post 1 July 2016
 2. All version of the Crown's Group Risk Management Committee's Charter, Management plan and Management Policy post 1 July 2016
 3. Advice received from Wilmer Hale and Mintz regarding China operations
 4. Any information received by the Crown group addressing it's China operations in particular advice addressing concerns to mitigate Article 303 and 25 of the Criminal Law of the People's republic of China. **(Attachment G)**

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10. On 27 October 2017, the Compliance Investigation Team made a request to FIELDING *'Can I please request you provide an overview of an estimated completion time for Crown to provide these materials.'* regarding the requests on 25 September and 5 October 2017
11. On 8 November 2017, an email was sent to FIELDING in response to a voice message left by her that the material should be available by the end of November 2017 and possibly the first week of December 2017.
12. On 27 November 2017, Joshua PRESTON (PRESTON) Chief Legal Officer Australian Resorts provided the requested material albeit certain information was not provided because Crown does not intend to waive privilege in respect of certain legal advice. **(Attachment H)**

4 January 2018 demand issued to Crown Resorts Limited/Crown Melbourne Limited

13. On 4 January 2018, a demand was issued to Crown Resorts Limited/Crown Melbourne Limited *'In accordance with powers appointed under Part 4 of the Victorian Commission for Gambling and Liquor Regulation Act 2011 and pursuant to section 26(1) of the Act.'* The demand including material such as Crown's 'Premium Gaming Strategy' and all correspondence between Mintz and Crown entities. It was required that the documents be produced by 19 January 2018. **(Attachment I)**
14. On 19 January 2018 Joshua Preston responded and provided material. He also advised that *'Please note that we have made all reasonable endeavours to search our databases and records in the relatively short time period provided to respond. Should any further documentation come to light we will forward it to you accordingly.'*

Of interest are the following two points

'Crown does not have a 'Premium Gaming Strategy' document. We assume your request is directed towards reports that were made to the board of Crown Resorts Limited concerning the strategy for the VIP international business. Redacted copies are available for inspection by the VCGLR at Crown's premises.

and

'The enclosed USB contains correspondence between Crown and Mintz Group which we have located to date. We are still reviewing our database to identify whether there are further emails falling into this category and, if there are, we will supply them later.' **(Attachment J)**

7 February 2018 'additional' material subject to demand located and provided.

15. On 1 February 2018 (letter dated 1 February but provided 7 February) Joshua Preston provided additional material that Crown had located as alluded to in their correspondence of 19 January 2018. (Attachment J) Some of this material is important in the context of risk assessment of operating in China **(Attachment K)**

2 February 2018 demand issued to Crown Melbourne Limited

16. On 2 February 2018, a demand was issued to Crown Melbourne Limited 'In accordance with powers appointed under Part 4 of the Victorian Commission for Gambling and Liquor Regulation Act 2011 and pursuant to section 26(1) of the Act.' for material including; -

'Any other records which contain information regarding any identification, assessment or treatment of risks conducted by Crown Melbourne Limited and/or Crown Resorts Limited and/or Crown Resorts Pte Ltd (Hong Kong) regarding operations within mainland China from 1 January 2015 to the present, excepting any records or documents which have already been provided to the Commission.'
(Attachment L)

17. On 16 February 2018, a response was received from Josh Preston that including the following response to this demand

'Any other records which contain information regarding any identification, assessment or treatment of risks conducted by Crown Melbourne Limited and/or Crown Resorts Limited and/or Crown Resorts Pte Ltd (Hong Kong) regarding operations within mainland China from 1 January 2015 to the present, excepting any records or documents which have already been provided to the Commission.'

We have been unable to locate any documents that contain information about Crown Resorts, Crown Melbourne or Crown Singapore's identification of risks attaching to the operations being conducted by their employees in China save for

- (a) Documents that have previously been provided to the VCGLR and*
- (b) Documents that record legal advice that is subject to legal professional privilege which Crown does not intend to waive.*

Addition materials

For the sake of completeness, we otherwise note that Crown is in the process of restoring a number of back up tapes, which may contain materials that are required to be discovered in the Class Action that has been commenced against Crown in connection with the China detentions. The technological aspect of this restoration process will take considerable period of time (months)

It is possible that, in the course of reviewing further materials (as back up tapes are restored), that Crown may identify further documents that fall within the scope of the Notice (and/or earlier notices issued by the VCGLR under s26 of the Act. If this is the case, we will let the VCGLR know, and can supply a copy of the identified documents.' (Attachment M)

8 March 2018 interview with Jason O'Conner, the Group Executive General Manager overseeing the International VIP Department

18. On 8 March 2018 Jason O'Conner, the Group Executive General Manager overseeing the International VIP Department was interviewed by the Compliance Investigation Team. In relation to business planning, specific to the identification of risk he stated that;-

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The strategies would have been documented at a high level in our annual or during our annual business plan process. We would capture them in our departmental strategic business plan on an annual basis. That was then consolidated across Crown Melbourne, um, condensed, of course, and the Crown Melbourne strategic business plan would - would address many of the key strategies that we had made.

The document it was in would have been the 'Crown Melbourne Annual Strategic Business Plan. So our department would prepare one, that addressed just our department, and we'd submit that, and Crown Melbourne would then draw from the departmental strategic business plan the key initiatives and the important aspects of our plan in line with the consolidated plan that addressed not just our department but the other departments as well.' In relation to the strategic business plans containing a risk assessment component, 'I can't recall - I do recall that they were - they - they probably had been in some but I think it would be fair to say that not every year but some years.

VIP International did not have a risk register 'but we - no, but we provided input to the Crown Melbourne risk register. That was prepared to address - identify risks across the entire business. So we had our part.' And how would you provide that input? Well, the previous year's risk register would be circulated, and each department either would be asked to revisit it, refresh it, identify any required modifications. Can you recall contributing risks in relation to what I would call the crackdown in China in 2015?

I don't think - I don't think so. I don't think that made it to that risk management schedule. I do believe that we identified that risk in our annual business planning process. When you say annual, is that VIP international annual business planning process? Yes, yes, yes. I think we were - for more than one year, I think we would have identified that as a potential risk, that we're not sure what this crackdown means, we're not sure what the impact will be on our customers and therefore we're not sure what the impact will be on our business.

I'm talking about our departmental annual strategic business plan, and I'm largely responsible for authoring that document, so - drafting of the document. It's a lengthy document. That gets presented to a larger management team and forms the input to the document you showed me earlier, which was the consolidated - it's the Crown Melbourne business plan. The second answer to your question relates to Crown's more formalised risk management procedures and the documents that are produced via that process, and my input there would be, as I said before, the previous year's register is shared across the executive team. It's usually done after a meeting, so I'm not sure what the guy's title is, but he calls a meeting every year, brings the executive team together. He'll talk to the risk register and highlight what he thinks are pertinent points. He'll highlight any changes that he thinks are required and he'll ask us to then take away and consider that document, the identified risks, how they're rated, consequence, you know, likelihood of consequences kind of process, and revert with any necessary updates that we would believe are required for that register.

19. As a result of these responses, Crown were requested to provide documents as below;-

Okay. I think this is a question we might ask Josh to put on notice to get copies of those business planning documents at that level. I know we've asked at the high level, and I thought we would have covered off on that level that Jason's talking about now. Any - what was the document you described? The VIP international, your own --The VIP international, your own --It's a departmental business plan. INSPECTOR BRYANT: The departmental business plan, the VIP division. All right..

14 March 2018 interview with Rowen Craigie, the CEO of Crown Resorts

20. On 14 March 2018, an interview was conducted with Rowen Craigie, the CEO of Crown Resorts at the time of the arrests of the Crown employees in China. In short, as per some of Craigie's answers it is clear that 'lower' level planning documents are part of Crown's risk assessment framework.

"The impact on Crown Melbourne's performance from political actions in a country from which a significant volume of international business is derived; e.g. Chinese central government policy, restricting one or more currency movement, real estate development, international travel of politicians and dignitaries. It is treated as significant risk with controls being detailed as annual strategic planning and business planning process including monitoring and review of premium gaming strategy."

What input did you have into that risk assessment? At the risk management committee level you would be reviewing back assessment. So VIP would do an assessment, that would go to Barry as the Head of Crown Melbourne, Crown Melbourne Risk Assessment Committee and then to the Crown Resorts Risk Committee.

So if I wanted to drill down into the details? - - - And it was shown as significant Yeah, so if I want to drill down into the details of risk assessment, I'd have to go to VIP international business planning to feed into that? A. Yeah, but it's not a surprising score given the size of Crown's VIP business relative to its total operation.

I understand. So even if - even if it scored a middle score on likelihood, the impact is always going to be high. It's a consequence of being high just because of the size of the business, whereas if it was a car park or something it's probably the other way round.

Yeah, okay. I understand. So the control in the annual strategic planning and business planning processes, including monitoring and review of premium gaming strategy, would that then happen at that business level? Yeah, but that obviously gets rolled up because it's an important part of the business, it's a major section of the Crown Melbourne business plan which in turn is a major section of the Crown Resorts business plan. But it starts at that departmental level and gets rolled up.

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21. On 27 March 2018, material was provided by MinterEllison on behalf of Crown as requested at interview. The covering letter stated that *'During the course of the recent compulsory examination of Mr Jason O'Connor, the VCGLR requested that Crown supply the VCGLR with copies of VIP International Strategic Business Plan presentations that O'Connor referred to in his examination.'* **(Attachment N)**

The documents provided are:-

'F16-F20 Strategic Business Plan Executive Review VIP International'. **(Attachment O)** This includes at page 4 the comments:-

'The most recent development was an announcement that authorities are taking a stand against foreign casinos seeking to attract business out of China. This announcement was made about 1 month ago (and likely contributed to the softer than expected CNY period). and

These policy statements have been underlined by a series of high profile arrests and executions.'

'VIP International F14 Business Plan (Follow up presentation Crown Melbourne 3 April, 2103)' **(Attachment P)**

'F15-F19 Financial Plan Executive Review VIP International.' This document includes the heading *'Critical Issues and Business Strategies'* detailing a *'Critical Issue'* under Brand Awareness as *'Legal constraints prevent us from marketing gaming in most of Asia.'* with *'Business Strategies'* including *'Drive awareness and stimulate interest'* and *'implement regular junket/subagent/key player roadshows'* and *'Executive travel continued.'* **(Attachment Q)**

F17 Strategic Business Plan Executive Review VIP International. This document includes in the Executive Summary *'After an extended period of growth the global VIP market has rapidly declined.'* and *'Junket model is under pressure. Now is the time to focus on premium players.'* **(Attachment R)**

'VIP International F14 Business Plan Presentation for Melbourne and Perth' **(Attachment S)**

Issues/Comments

22. In general terms, it could be considered that Crown have not provided material requested by the VCGLR in a timely manner. The initial requests for 'risk' type material on 25 September and 5 October 2017 were for material that would appear to have significantly informed the presentation made by Crown to the VCGLR Commission earlier in August 2017 **(Attachment T)**. The material was finally provided on 27 November 2017.
23. Specifically, Crown provided important risk assessment correspondence between themselves and Mintz on 7 February 2018 **(Attachment K)** after it had been first requested (not demanded) on 5 October 2017 (paragraph 9).

24. Crown appear to have placed significant effort on the retrieval of documents in relation to their class action (paragraph 17) however it does not appear that they placed the same importance or priority in complying with VCGLR requests and demands.
25. The material demanded on 2 February 2018 (paragraph 16) included

'Any other records which contain information regarding any identification, assessment or treatment of risks conducted by Crown Melbourne Limited and/or Crown Resorts Limited and/or Crown Resorts Pte Ltd (Hong Kong) regarding operations within mainland China from 1 January 2015 to the present, excepting any records or documents which have already been provided to the Commission.'

The material referred to at interview, and subsequently provided by Crown on 27 March 2018, would appear to meet the criteria of the 2 February 2018 demand.

The material includes the statements;-

'The most recent development was an announcement that authorities are taking a stand against foreign casinos seeking to attract business out of China. This announcement was made about 1 month ago (and likely contributed to the softer than expected CNY period). and

'These policy statements have been underlined by a series of high profile arrests and executions.'

These statements would obviously have been directly relevant to put to Crown executives at interview.

From interviews with Crown executives, it is clear that Crown placed the important risk assessment considerations at the level of those 'on the ground' responsible for operating in China ie Michael CHEN in his role in the VIP International area.

Of concern is that critical business planning documents directly relevant to risk at that level, have not been provided despite the 2 February 2018 demand. In addition, they have not been provided until after the interviews of key Crown executives.

Recommendations

1. That consideration be given to including details of this memo in the final report regarding the arrest and conviction of Crown's employees in China. This is in the context of the timeliness and completeness of Crown's provision of material to the VCGLR.
2. That the memo be forwarded to VCGLR Legal for consideration of a breach of s26 of the Act.

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