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TRANSCRIPT IN CONFIDENCE

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**VICTORIAN COMMISSION FOR GAMBLING
AND LIQUOR REGULATOIN****MR R. KENNEDY, Chair**
MS H. VERSEY, Deputy Chair
MR D. POWELL, Commissioner
MS D. McMILLAN, Commissioner**MS CATHERINE MYERS, CEO**
ROBERT CHAPPELL, Project Director
SCOTT MAY, General Counsel
AMY, Senior Legal Officer
MIRIAM HOLMES, Project Team**CROWN MELBOURNE LTD (COMMISSION MEETING)****BARRY FELSTEAD**
JOHN ALEXANDER, Executive Chairman
RICHARD MURPHY, Senior Partner Minters Ellison
JOSH PRESTON, Group General Manager (Legal)**MELBOURNE****3.03 PM, TUESDAY, 26 JUNE 2018**

MR KENNEDY: Good afternoon.

MR FELSTEAD: Good afternoon, your Honours.

5 MR KENNEDY: Very well. Thank you. We're just transcribing proceedings this afternoon.

MR FELSTEAD: Yes.

10 MR KENNEDY: So there will be a record of the conversation. For our part, all commissioners are here, with the exception of Deirdre O'Donnell. Unfortunately, she's interstate but she will, obviously, be appraised of the transcript and the conversation. Probably, at the outset, it might be useful to introduce everybody so we all know who's who. I've got Commissioner Dina McMillan, Commissioner Des
15 Powell, Commissioner Helen Versey, our CEO, Catherine Myers, Robert Chappell, the project director for the casino review, Scott May, our general counsel, Amy, our senior legal officer, and – help me.

MS HOLMES: Miriam.

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MR FELSTEAD: Miriam.

MR KENNEDY: Miriam from the project team.

25 MR FELSTEAD: And from our side, Barry Felstead. So I look after the Crown Resorts. John Alexander is our executive chairman. Richard Murphy is senior partner with Minters, and Josh Preston is our group general manager, legal.

MR KENNEDY: Okay. So we've read everything that has been presented by
30 Crown by way of written submissions and taken all that on board. We haven't settled a final position on any matter that has been the subject of correspondence at this stage, however, we're approaching a deadline where we must report to the minister after 30 June. So our way forward is to hear anything further that Crown might wish to put to the Commission today. We will then meet as a Commission
35 with all Commissioners present on Thursday – on the morning of Thursday, where we would expect to arrive at a final position on all matters and adopt a final report.

That final report for transmission to the minister will be provided to Crown on
40 Thursday afternoon for its response and transmitted to the minister, hopefully, by the following Monday. So that's the timetable we've set for ourselves, but for today it's over to you.

MR FELSTEAD: No, that's great. I certainly appreciate your time, as we all do.
45 We know this has been fairly short notice, and thanks to Catherine for arranging this and, also, for accommodating our executive chairman, who was actually doing some travel. So we do appreciate your time and all the time of the members of the board.

So, look, I've got a few notes here which I will talk to, if that's okay with the group. Obviously, thank you for, as I said, meeting us. Myself and John are mainly going to focus our comments on section 25.

5 In relation to the China matter, we're going to – primarily it will be Richard and Josh because there's some legal issues from our perspective there. So John and I will mainly focus on non-China matters. I guess, we've had 20 recommendations made. In summary, we certainly accept those recommendations. We're not here to argue the recommendations, that's not our point. Our issue is – and I should point out that
10 some of those recommendations are quite challenging, as we would have expected, but we're not in a position to say that we're arguing any of those recommendations. So they're all fine from our perspective.

15 What our – I guess, what our – probably, primary issue is around some of the commentary in section 25 which we want to talk about today, which we have spoken to you about in print. So I do want to talk about some of that in – verbally as well. So it mainly is around commentary, not the actual recommendations per se. So three areas we want to address. RSG, risk and governance and general commentary. RSG, the report, as probably expected, creates a – contains – there's considerable
20 focus on Crown's responsible gaming framework and initiatives, and I would say at the outset, Crown is very proud of what we've done in the responsible gaming field over many, many years, and we would like to think that we are a leader in that field.

I think the report doesn't reflect that, and, once again, this is all view, of course.
25 What's interesting in the previous review, included in the Commission's finding, the three things. That:

30 *Crown had robust and detailed systems and processes in place to deal with RG issues. Crown treats its obligations seriously in relation to detecting persons breaching their exclusion orders.*

And:

35 *Crown's self-exclusion revocation processes – procedures are adhered to and are robust.*

So that was straight out of the previous review. So we're of the belief that those findings remain true today. We don't think we've diverted from any of that. We think they are true, and the two main concerns in the report are mainly around the
40 following statements. The first one, it said:

There has been no step change in Crown's approach to responsible gaming.

That's the first one. The second one is:

45 *The descriptions of Crown's approach to responsible gaming is reactive and self-referenced.*

- 5 We think they're subjective and, with respect, we don't think they're accurate. So they're our two concerns in relation to the RG. The first comment around step change, we have made improvements to our framework over the period. I think that's – I think that has been evidenced in the report. And we are certainly of the belief that there was no need for a step change. We have been improving that as we go along. A couple of examples would be in relation to joint property exclusions. We've done some work around data, so we've also done a lot of work around facial recognition. So we think we have made changes in relation to that.
- 10 The second comment was around us being reactive and self-referenced. We don't think that reflects the variety and the number of people that have – we have had through the centre that we have helped over the years. We think we're ahead of the gaming industry in Victoria. By a long way in Victoria and we certainly think we are ahead of our peers in – from an Australia perspective. Now, there's two other
- 15 properties that actually do thing slightly differently. So New Zealand has an off-the-shelf product. They've had that for some years. South Australia, as Mr Chappell would be well aware, they also have a different form of monitoring than we do, and that is – I think it would be fair to say that's probably in its infancy only.
- 20 We are committed to our RG program. We always are looking to improve it. So this is not – we're not saying that it's perfect. We're not saying that no further work needs to be done. We always are looking to do that, and we have done for many, many years, but it has got to be based, in our view – with due respect – on research and expert opinion. So they're the two things that we want to focus on when we look
- 25 at our RG program. So in terms of that, I guess, one of the things that we would respectfully suggest a change could be, in terms of wording, is around something that says:

30 *There is an opportunity for a refresh and advancement of Crown's RG framework.*

- And we think that would certainly take into consideration the work we have done over the past period and where we're looking to head with our RG programs. So in relation to governance and risk, you know, I think it's fairly obvious that certainly
- 35 myself, John, both the Crown Melbourne board and the Crown Resorts board, we take this incredibly seriously and we have done for many, many years. You know, we are very, very privileged to hold a licence and we don't make any – you know, we would never debate that.
- 40 I think – and this is the view of this group here, is we are of the view that we think the report has been fairly heavily focused on the three disciplinary actions that have occurred over the period. Obviously, one was the blanking plates. The other one was in relation to the junket disciplinary action, and the other was into Play Safe in the early days. So reading the report, we think that has been coloured. We think the
- 45 report has been coloured by those three DAs. Now, what's interesting from our perspective is there has been about 1500 reviews over the period – over the last five years – VCGR reviews and audits over the five-year period – and we've had less

adverse findings in this five-year period than we have in the previous five-year period.

5 So that, to me, would suggest that certainly there is no ongoing culture or ongoing environment of us not taking regulatory obligations seriously. There were three. There were three, as we have acknowledged, but I do think that has been slightly coloured throughout the report by those three – by those three issues. I think comments in relation to cultural issues, I think they are fairly harsh. I don't think there is a cultural issue at Crown. I don't think that's accurate, in our opinion. Some
10 of the comments that have come up that we would – that we did have an issue with, it's underlying the two matters in relation to junk et DA and blanking buttons DA was:

Insufficient sensitivity to the requirements of the regulatory regime.

15 I certainly don't think that's true at all. You know, we are intimately aware of the requirements of the regulatory regime, and we do respect and understand the regulated nature of our business. You know, we know what field we operate in. We know what has to be done and we do comply with that. We think they're isolated
20 matters. We don't think there's any link between the three. One was in relation to paperwork from a junket; the other was in relation to an interpretation of an approval; and the third one was completely not related to either of those two. So we don't think there's any common link there. And, once again, I think comments such as that, I think that does reflect unfairly on Crown.

25 The second one was in:

Three disciplinary actions taken in the review period raised questions as to the existence of a culture conducive to compliance. The relative recency of the last disciplinary action means that that is a work in progress, but it is clear that Crown is taking decisive steps to address organisational weaknesses in gaming compliance.

30 So, once again, we're talking about three isolated, unrelated incidents. We don't think, in our view, that they can be, in any reasonable definition, lead to a conclusion that there's organisational weakness. I think that is a fairly long bow, from our perspective. And the third part is:

40 *Its organisational approach to regulation has not generated great success in the review period.*

45 Well, we would take a slightly different view on that. We would take a very different view, for that matter. We think our approach to regulation has provided strong success during the review period when one considers the number of approvals, review, audits and spot checks against the complexity of the highly regulated business. You know, we – as I said earlier, we've had 1500 reviews of the regulator

and we have nowhere near the number of issues raised in this five-year period as opposed to the previous five-year period.

5 In relation to culture, you know, it's interesting because that does involve the entire organisation, and, you know, we certainly are of the view that a lot of these issues have come down to human error. You know, we don't think there's anything wrong from a cultural perspective with our organisation for the simple reason there's not a significant number of major events that occur. They are fairly isolated, and we do address them in a timely and appropriate fashion. You know, we don't let things
10 happen. We don't sit there on our hands. We are constantly trying to improve our business and when things go wrong, we do take decisive action. We don't wait for someone to tell us to.

15 We do take decisive action. We have done that for quite a long period of time. Any disciplinary measures that come up, you know, we do work hard to rectify them. You know, we don't want these things to occur and no one sets out to make errors, but errors do occur, unfortunately, and I think, from our perspective, is it's how we approach it. So do we sit back and let it happen? No, we don't. Do we take action when it occurs? Yes, we do. Do we learn from our previous mistakes? Yes, we do.
20 And I think there's certainly plenty of evidence of that.

What's also interesting is the PricewaterhouseCoopers' report. That shows that we provide – that was independent commentary on the point, which clearly indicates, in their perspective, a strong risk framework. They spent four and a half days at
25 Crown. They interviewed a variety of people – senior management, two executives, frontline staff. They reviewed our risk framework documentation. The findings came out as strongly in support of our framework, so I think that was done from the independent perspective, and I think that certainly shows us in a better light than the actual section 25 report does in certain areas.

30 We would certainly – we would certainly expect that if it's either referred to more fulsomely in the report or, indeed, a copy of the PwC report is provided to the minister, because I think that does certainly balance it out. So, once again, the draft report, in our view, it doesn't identify any specific flaw in our risk management or
35 government processes which justifies the general observations in the executive summary. The same could be said of the gratuitous comment on page 3 of the executive summary that:

40 *Crown's risk management is apparently mechanistic in operation.*

I think that's obviously a criticism. I think, in our view, that should be deleted because we don't think it's a fair description of our processes, particularly in light of the positive assessment of our risk framework by PwC.

45 The last component is in relation to suitability. The one we were certainly scratching our heads on is why was there a comment in relation to suitability of the licensee in five years time? We think that's an unfair comment, and that certainly, in our view,

5 if published, would have negative consequences for a publicly listed company. The plain reading of this is that we may not be seen as suitable in five years time, and that, in our view, is certainly an unusual comment to throw in there. The simple point is that we have been found to be suitable under this five year review, for the sixth review, and I think we think it should probably stand at that.

So in terms of that particular one, we would request that the reference to suitability be removed. What we think would be suitable – appropriate, in our view, would be:

10 *The VCGR will be working with Crown on the 20 recommendations and be closely following the progress of their implementation.*

15 We think that's certainly a more balanced view because, you know, we are concerned by the connotations of the previous statement. So from section 25, that's my commentary. As I said earlier, you know, we are not to debate the 20 recommendations. We accept those. Like I said, some of them are challenging but we certainly accept them. It's more about elements of the language that is scattered throughout the report. So on that note, thank you.

20 MR KENNEDY: Just – right.

MR FELSTEAD: Yes. Thanks for hearing me out. Yes.

25 MR KENNEDY: Just before we leave that, Barry.

MR FELSTEAD: Sure.

30 MR KENNEDY: You've spoken about the three disciplinary actions. There has been some thought given to whether, for the purposes of completeness, we should append the reasons for decision in each of those actions to the review report. A question on notice. I don't expect an answer right now.

MR FELSTEAD: Yes.

35 MR KENNEDY: But you might turn your mind to that. See what Crown's position would be to that proposition.

MR FELSTEAD: Sure. Okay.

40 MR KENNEDY: Perhaps you could let us know tomorrow.

MR FELSTEAD: All right. No, we can do that, definitely.

45 MR KENNEDY: Thank you.

MR FELSTEAD: So, like I said, thank you for your – thanks for hearing me out on that, and, you know, obviously, any questions, I'm more than happy to answer them. But did you want to add anything to that, Josh? Anything that we've said there.

5 MR PRESTON: Off the cuff, depending the reasons for decision, that would be highly unusual to make them public, which was – I'm not sure, in my experience or what I've been told, that has ever occurred before.

MR KENNEDY: There's nothing to stop it being done.

10

MR PRESTON: No, I'm not suggesting that.

MR KENNEDY: But it hasn't been a practice in the past, no. It's just that the reasons are detailed, they're comprehensive, and they do give a sense of where the
15 Commissioners' concerns lay in each instance.

MR PRESTON: Yes.

MR KENNEDY: As I say, not looking for an answer on the spot.

20

MR PRESTON: Yes. And, look, I think the point that is to be re-emphasised – and we've said ad nauseum, but these issues we take incredibly seriously. It's not a concept of us having a debate about it with our longwinded written position that we're challenging the concept of importance of regulation and compliance, and the
25 like. We took the opportunity to respond in a detailed manner with, certainly, the junket DA, as I understand it, and also the blanking buttons, and that was because there was debate about it.

MR KENNEDY: Yes.

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MR PRESTON: And, you know, in respect of the position that was put from Crown's perspective, ultimately we adopted the position from the regulator. Listened carefully, made changes in advance of decisions that were being made by the regulator, in terms of determining the matter, because that's how serious we take
35 it. And I can assure you from board down and from frontline up, everyone takes it very seriously, and I'm sure that that was made abundantly clear to the staff who interviewed the frontline staff, right through to when the senior management execs and some directors were interviewed.

40 It was quite clear as to how important all of the regulatory environment was. Whether it be compliance, risk, RSG, AML, they all spoke to – they were all – they were all interrogated about it and they all answered pretty strongly.

MR KENNEDY: Yes.

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MR PRESTON: So we've certainly – we've certainly got great confidence within the business, so we shouldn't lose sight of that because of the debate regarding the DAs.

5 MR KENNEDY: Yes, appreciate that.

MR ALEXANDER: Thank you, my turn. And as Barry said earlier, I would like to thank the Commission collectively for accommodating my travel challenges today. I had a meeting with a different branch of a different government, and it's one of those things, it's impossible to do. And I was unsure if I would get here by 3 o'clock and I made it, so I really - - -

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MR KENNEDY: But you did.

15 MR ALEXANDER: I really do appreciate it. Thank you so much. I would like to, shortly, turn to Richard to give you a very fulsome commentary on what we're uncomfortable with in terms to the references to China in the section 25 report. I think, in a broad sense, we're uncomfortable because the matters – the investigation itself is incomplete, and we don't think until that is complete that there should be any commentary whatsoever. Secondly, it breaks with historical practice for a matter like China to be included in the review.

20

We think the language – the commentary – is quite sensitive and could have a material impact – the way its currently phrased could have a material impact on Crown, both financially and reputationally. And you mentioned earlier, Ross, about how there has been a very short – everybody is under time pressure here. We don't think we've been given quite the time of – the length of opportunity to be heard in length on the issue. Richard will go into that in detail shortly. There are some specifics which we're particularly uncomfortable with. The fact that – the idea that the detentions were perceivable. We don't believe that. We don't agree with that.

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30

The fact that the – and this is a very important one – that the guilty pleas should be taken to reflect guilt of our staff. I don't think there's anybody in this room who – unfortunately, who might be caught up in China on something and then is advised to plead guilty because that's the only way to deal with that particular system. And the last one is, basically, that the independent advice that we relied on in the years leading up to the detentions of our staff was somehow wrongly based or the wrong advice was received. We don't agree with that at all. So, look, without further ado, I would like Richard to take us through the report.

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MR KENNEDY: Thank you, Richard.

MR MURPHY: Mr Chairman. Yes. So, perhaps, if I just step through a couple of those points that John has just mentioned. The first is that the investigation is still ongoing. We or Crown has prepared a comprehensive response to the draft summary report of the compliance division staff, which, I believe, has been lodged today or is in the process of being lodged.

45

MS HOLMES: No, we've received it.

MR MURPHY: It has been received, good. So, naturally, as a matter of fairness and proper process, that needs to be duly considered. This is not the time to go into
5 detail on the response but suffice it to say that Crown, of course, agrees with the central conclusion that the China episode doesn't affect Crown's suitability to operate the Melbourne casino. And Crown also accepts that the process that the compliance division staff have adopted, including the preparation of a summary report, is appropriate to support the conclusion of suitability. But Crown,
10 fundamentally, disagrees with much of the adverse commentary in the draft report for the reasons that are set out in detail in Crown's response.

And, in particular, as John mentioned, the draft report has taken the convictions of the persons detained at face value, and, on that basis, has assumed that they were –
15 the staff were contravening Chinese law at all relevant times. And that is wrong in law and practice to accept that in that way. The convictions, as you're probably aware, resulted from guilty pleas, and the guilty pleas were made under duress to secure the earliest possible release of the people detained. So if the conduct of the Crown staff and, by extension, Crown itself is to be criticised, then there needs to be
20 much closer examination of what each of the staff were actually doing and whether in fact that was in breach of the relevant Chinese law, both on a proper construction analysis of that law and, also, on the basis of how that law was reasonably interpreted at the time.

25 So if the Commission itself is being urged to adopt the views that staff have expressed in the draft report, then significantly more needs to be done to ensure that the process of examination of the relevant facts and the evidence and the legal analysis underpinning those conclusions – or any conclusions with the Commission might be urged to accept, can withstand external scrutiny as a fair and reasonable
30 process in the circumstances. Now, I stress that a further, more rigorous process will only be necessary if the Commission is being urged to adopt adverse commentary or conclusions which Crown – as you will have seen from the correspondence – says is not appropriate to do in any event.

35 MR KENNEDY: Yes.

MR MURPHY: It has not been the Commission's practice in the past to make adverse commentary around a matter which is decided does not affect suitability, and the China episode is not a context to depart from that past practice, particularly in the
40 light of the shareholder class action against Crown Melbourne's ASX listed parent, Crown Resorts, which is currently before the Federal Court. Any such adverse commentary by a regulator about matters which are the subject of a major court action could, potentially, affect the share price of Crown Resorts.

45 So depending on the content, Crown Resorts and its advisors will need to carefully consider disclosing to the market any such commentary by the Commission as soon as Crown becomes aware with sufficient certainty that it is to be made. We hope that

5 Crown's correspondence has persuaded the Commission that it wouldn't be appropriate to say anything about the China episode in the section 25 report, other than to treat it in accordance with past practice as an excluded matter. Otherwise, Crown Resorts would, potentially, have to inform the market, upon receipt of the Commission's final report on Thursday – as, Mr Chairman, you've foreshadowed – even in advance of that being seen by the minister. And, obviously, that would be a highly undesirable situation all round.

10 The China investigation has been conducted in a cordial fashion. Josh and I have been present at most of the interviews, and Crown has sought to cooperate fully throughout the course of it. It has necessarily taken some time, some months since the last of the detainees were released, given the number of witnesses to be interviewed and the breadth and difficulty of seeking to understand events in a foreign country over the course of several years. Crown's reaction to the content of the draft report is not intended as any criticism of the compliance division staff
15 involved in the investigation. They've conducted themselves at all times in an appropriate, non-adversarial fashion. And Crown was particularly appreciative that, when Jane Pan and Jason O'Connor were interviewed by compliance division staff, that due consideration was given to the trauma that they had suffered in the course of their detentions. And Crown will continue to cooperate fully with any further
20 investigative steps, including in relation to keeping the Commission fully informed of developments in relation to the ongoing Federal Court action.

25 MR KENNEDY: Good. Okay. Well, thank you for your frank feedback. We will see if there are any questions from my fellow Commissioners provoked from that. If not, we will be taking all of your written submissions on board, everything you've said today on board, in our consideration of our final position on each of these matters, and our conclusion and adoption of the final report on Thursday. If you could get back to us tomorrow on that issue of - - -

30 MR FELSTEAD: Yes, we will definitely do that.

MR KENNEDY: And we will endeavour to get back to you our adopted report on Thursday afternoon. Thank you.

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MATTER ADJOURNED at 3.30 pm INDEFINITELY