



Crown Resorts Limited

Regulatory Update

SECTION 25 REVIEW

A Report on the Section 25 Review is the subject of a separate paper.

CHINA MATTER

A Report on aspects of the China matter is the subject of a separate paper.

In summary, the VCGLR has not yet finalised its investigation into the China matter, although all that evidently remains to be done is the consideration of the final tranche of documents recently provided to it (equivalent to one small folder of material, mainly emails retrieved from back-up tapes which have been restored for the purposes of discovery in the class action). The VCGLR has expressed concerns regarding the timeliness of providing documents to the investigations team, to which Crown and Minter Ellison are responding. We understand that following consideration of the final tranche of documents and any questions in relation to them, the VCGLR will finalise its draft report which is expected to then go to the Commission for consideration. Commentary and preliminary conclusions from the China investigation will also be included in the s25 Review Report.

PROPOSAL TO RESTRICT CASH TRANSACTIONS

The Treasury Department has recently issued a paper titled "Introducing an Economy-Wide Cash Payment Limit; Government response to the Black Economy Taskforce Final Report" dated 23 May 2018 inviting submissions from the public (due on 24 June 2018).

Included is a proposal to restrict cash transactions for goods and services to under \$10,000 to address its concerns around the black economy. All transactions over \$10,000 are proposed to be by electronic transfer only.

We have been engaging with a range of Federal politicians to seek an exemption for casinos from this requirement on the basis they are already major reporters (with the banks and payment providers) to AUSTRAC.

Crown is in the process of preparing a submission and will consult with the The Star Group as it is likely that the submission will be either a joint Crown/Star submission or a general casino industry one.

BUTTON PANEL DISCIPLINARY ACTION

The VCGLR issued a Notice to Show Cause in relation to the replacement of several Gaming Machine buttons for blanking plates for two weeks on 17 machines, which the VCGLR has determined required regulatory approval (and which Crown did not apply for). Crown was issued with (and has paid) a \$300,000 fine.

Two additional consequences were imposed on Crown via a letter of censure. One is that within 6 weeks, Crown must arrange a meeting with the Commission officers to discuss whether amendments are required to the ICS to prevent a recurrence. This meeting has occurred and proposed wording framed for submission.

The second is for Barry Felstead and Joshua Preston to present to the VCGLR Commission within 6 months, on Crown's regulatory framework and the changes that have been made. Preparation for the Presentation is underway.

GAMING INITIATIVES FORM

As a consequence of the button panel disciplinary matter, Crown Melbourne reviewed its processes for introducing new product and processes to the gaming floor. An opportunity for improvement of processes was recognised to strengthen the identification of ownership of new initiatives, along with improvements in the recording of who was involved in the internal approval process. As a result, Crown Melbourne introduced a 'Gaming Initiatives Form', to obtain sign-off from the AML, Security, IT, Surveillance, RSG and Regulatory & Compliance Departments, for all new gaming initiatives. The Form must be completed for any new (or variation to existing) initiatives, games, technology, programs or procedures, to ensure any requirements of, or risks to: anti-money laundering and counter terrorism financing regulation; gaming integrity; security and surveillance; regulatory requirements and social responsibility; can be identified, assessed, mitigated and managed appropriately.

The Gaming Initiatives Form template must be completed and approved in advance of any proposed initiative being introduced to Crown Melbourne.

APRIL/MAY 2018 WILKIE ALLEGATIONS

Allegations of compliance breaches were raised by Andrew Wilkie relating to the use of Crown issued picks to hold the EGM button down for continuous play and multiple cards issued to patrons.

The VCGLR is investigating the allegations in progress. Crown had already ceased the practice of issuing picks to patrons. REDACTED - PRIVILEGE

INTERNATIONAL OFFICE HK

As previously reported, in response to current business conditions, VIP International Operations has been centralised in Hong Kong with regional sales offices closed, providing ready management oversight of procedures and practices, and the implementation of consistent governance practices (including a dedicated compliance officer).

Anthony Forsyth was appointed to the role of Compliance Executive (HK) and his duties include leading a culture of compliance and risk awareness, providing specialised regulatory and compliance advice and support to the VIP International team to ensure adherence to the VIP procedures and

processes, along with providing mandatory periodic Compliance and Procedure training of the VIP International team.

Regular periodic meetings are held by phone between the Compliance Executive (HK), Manager – Program Compliance, Group General Manager – Regulatory and Compliance, Senior Legal Counsel and Group General Manager – International Business Operations; to ensure that relevant managers in Melbourne are kept up to date with operational and compliance matters in Hong Kong, so that they can be escalated as and when necessary.

VICTORIAN AUDITOR-GENERAL (AG) REGULATING GAMBLING AND LIQUOR

As previously reported, on 8 February 2017 the AG released its audit report on regulating gambling and liquor. Specifically the report was critical of the VCGLR's diminished role and focus on Crown Melbourne – as well as the nature of the relationship between the organisations. As a result of the report, Crown Melbourne has experienced an increase in attention from the on-site Government Inspectors and a more focused enforcement type attitude. Specifically, new audits have been created and/or dormant audits reactivated. Crown will continue to manage the relationship and monitor the level of VCGLR activity.

AUSTRAC

Compliance Assessment of June 2017 (Junkets) – addressed to AUSTRAC's satisfaction (assessment closed)

Crown Melbourne has received written confirmation that AUSTRAC has noted the actions Crown had taken to address all its findings and recommendations and considered the assessment now closed. No non-compliances were identified.

Crown Melbourne will now formally adopt the changes to its AML/CTF Program, having implemented proposed changes to its Program following Crown Melbourne's correspondence with AUSTRAC last year.

Compliance Assessment of November 2017 (Wilkie allegations re EGMs) – 10 recommendations (to which Crown is to respond)

On 18 May 2018, Crown Melbourne received written confirmation from AUSTRAC outlining that, in respect of the Wilkie allegations:

- It had not identified any times, dates or persons involved in the allegations made in Parliament on 18 October 2017, particularly that Crown Melbourne “*avoids AUSTRAC’s scrutiny of individuals involved in transactions over \$10,000 by sometimes tolerating or even encouraging the misuse of identity documents.*”
- AUSTRAC was able to satisfy itself that there was no systemic underreporting of threshold transactions by Crown Melbourne for the period of the assessment (1 July 2016 and 30 June 2017).
- No non-compliances had been identified.

In addition, AUSTRAC has provided Crown Melbourne with 10 recommendations to assist Crown to strengthen its AML/CTF systems and controls. Many of these recommendations had been already under consideration by Crown Melbourne's AML Team.

These ten recommendations can be briefly summarised as follows:

- Three recommendations in respect of AML training, particularly of EGM customer service agents (given the scope of the Assessment).

AUSTRAC has identified in its review of pubs and clubs earlier this year a potential money laundering / terrorist financing (**ML/TF**) risk in respect of third parties seeking to buy winning TITO Tickets or jackpots from gaming machine patrons for cash. AUSTRAC has recommended Crown include this risk in its AML/CTF Program and train staff to be on the lookout for such activity.

- Three recommendations in respect of Crown Melbourne's transaction monitoring program, focusing on automated rules, the recording of analysis conducted (including where no adverse findings are identified), and recommending an independent review.

Crown Melbourne, through a designated Project Team, has commenced investigations into opportunities to automate some of its transaction monitoring.

Whilst this investigation is underway, additional tailored and targeted reports are being sought in respect of identified ML/TF risks.

- One recommendation to increase the resourcing of the compliance function. This process had commenced in advance of the Compliance Assessment, and has continued, with the AML team now comprising:
 - the AML/CTF Compliance Officer (the Chief Legal Officer – Australian Resorts);
 - a Group General Manager – AML Australian Resorts, responsible for AML legal and compliance matters (commenced end November 2017);
 - a new part-time AML Compliance Manager (shared with Betfair), responsible for AML compliance and with AUSTRAC, regulatory and casino / wagering sector experience (commenced 7 June 2018);
 - the Cash Transactions Reporting Manager (CTRM); and
 - a new AML Officer, to support the AML team in administering Crown's transaction monitoring Program (commencing 22 June 2018).
- Three recommendations which can be described as minor (but important) updates to Crown's documents, which have been implemented. For example, updating a process in the gaming machine workplace instructions to make clear how to verify a customer.

Junket Disciplinary Action

As previously advised, the VCGLR carried out an audit in late 2016 on 2015 Junket related paperwork. There were 21 alleged breaches put to Crown. The VCGLR subsequently withdrew eight of the alleged breaches as they were not breaches. Crown was found to have breached the remaining 13 and was issued with a \$150,000 fine.

AUSTRAC enquiry – Suncity

On 15 May 2018, Crown Melbourne received an enquiry from AUSTRAC in relation to a large cash transaction involving the Suncity Room (Chau Cheok Wa junket (**CCW**)).

AUSTRAC's enquiry addressed, amongst other matters, Crown's relationship with Suncity, details as to CCW's junket representatives and what steps Crown had taken to address the suspicious activity in the room.

Crown has over a period of time and then more recently implemented a number of additional controls in respect of the Suncity Room, including all cash to be deposited at the Mahogany Cage, no more than \$300,000 cash per day to be deposited in the Cage on behalf of the CCW junket and the proposed relocation of the CCW junket to Pit 38 in the Mahogany Room.

Fintel Alliance

Crown has been advised that it will be formally invited to join AUSTRAC's Fintel Alliance, a private-public partnership between AUSTRAC, law enforcement / government agencies and invited major entities (the big four banks, Macquarie, PayPal, Western Union, HSBC and representatives of the Fintech sector).

At a practical level, membership will involve Crown working alongside its reporting entity peers, including by seconding (at times) an employee into AUSTRAC to assist AUSTRAC in addressing financial crime and ML/TF issues.

This will enable better opportunities for information sharing between Law Enforcement, Regulatory agencies and Crown and is a positive step forward in our relationship building focus with AUSTRAC. It is expected AUSTRAC will get a deeper understanding of how Crown operates and also, potentially, have more frequent access to our data. This prospect is a positive step in Crown's ongoing of working in a proactive and productive manner with AUSTRAC.

AUSTRAC / CBA Settlement

Directors will be aware of the negotiated settlement between CBA and AUSTRAC of A\$700 million earlier this month. There are a number of key learnings that can be observed from the Statement of Agreed Facts and Admissions, including as to 'misapprehensions' on how sections of the AML/CTF Act are to be interpreted. As previously reported, Crown will be engaging Minter Ellison to carry out a full review of its AML/CTF Program to identify any weaknesses or opportunities for improvement. The learnings from the CBA matter will be considered in this review.

AUSTRAC Reporting – IFTIs, TTRs, SMRs

Following the IFTI issue earlier this year, Crown is moving the responsibility for lodging IFTIs to the AML team (effective from 1 July 2018) and has implemented processes and procedures to ensure that the risk of such errors – including in respect of software upgrades – is appropriately managed and controlled.

These processes and procedures include:

- a workplace instruction for the Credit Control team detailing the process which must be followed each day when uploading these instructions to AUSTRAC;

- a clear process that no IT change with a potential AML/CTF impact may be approved without the express written approval of each of the Group Chief Information Officer and the Group General Manager – AML; and
- dedicated AML/CTF training to IT staff as to what changes might have an impact on an AML/CTF area, and to refer such changes to the AML team.

The Group General Manager – AML, with the assistance of the risk team, will shortly commence an assurance process of AUSTRAC reporting on an end-to-end basis. It is then proposed that such assurance work is conducted annually.

Joint Program

As previously reported, we continue to progress the work to align our Perth and Melbourne AML/CTF Programs. The joint program will also include Crown Sydney in due course. AUSTRAC is supportive of this initiative.

General AUSTRAC relationship

Joshua Preston, Barry Felstead and Ken Barton are meeting with AUSTRAC's CEO (Nicole Rose) shortly to continue to build the relationship.