



RISK MANAGEMENT COMMITTEE
Meeting of the Committee
Wednesday, 8 May 2019 at 8.00am
by teleconference



Risk Management Committee

Meeting of the Committee to be held on 8 May 2019 at 8.00am
by teleconference

Attendees

<i>Committee:</i>	Geoff Dixon (Chair) Andrew Demetriou Jane Halton Mary Manos (Secretary)
<i>By Invitation:</i>	John Alexander (Crown Resorts) Ken Barton (Crown Resorts) Barry Felstead (Australian Resorts, CEO) Lauren Harris (Crown Resorts) Josh Preston (Australian Resorts, CLO)

RESTRICTED AGENDA

1. **VIP Operating Model – Malaysia**



AGENDA ITEM 1:
VIP Operating Model – Malaysia



Risk Management Committee

Memorandum

To: Risk Management Committee

From: Barry Felstead

Date: 6 May 2019

Subject: **VIP Operating Model – Malaysia / Risk Assessment**

Dear Committee Members,

Background

We refer to the “VIP Operating Model – Malaysia and Singapore” paper dated 7 February 2019 that was considered at the Risk Management Committee meeting held on Monday, 11 February 2019. That paper sought approval from the Committee to adjust the approved VIP Operating Model (**initial Model**) to now permit staff to be based in Malaysia and Singapore to carry out non promotion of gaming activities.

The Singapore element of the proposal was separated from the Malaysian element and was recently approved by both the Committee and the Crown Resorts Limited Board.

Management has now progressed the Malaysian element taking into account the feedback from the Committee and now seeks the approval of the Committee to adjust the initial Model to accommodate staff to be based in Malaysia to carry out non-gaming promotional activities. (**Malaysia Proposal**).

Risk Assessment

To support the Malaysia Proposal, Management has prepared a Risk Assessment related to having 2 or more staff based in Malaysia, which is attached as “Attachment A”. The Risk Assessment articulates the risks, controls implemented as part of the initial Model and new enhanced controls to support the Malaysia Proposal.

The current control framework in place has been effective since the change in the VIP Operational Model and is focused on ensuring compliance and minimising the risk of Crown’s processes being viewed by local law enforcement or even the general public as inadequate, and risking the safety and freedom of staff, as well as Crown’s reputation.

Crown has been operating in the Malaysian market over that period of time, and staff are familiar with the protocols and compliance regime of the initial Model. Additional steps such as having two

staff attend each meeting and not proactively engaging with ethnic Malays are further enhancements to the existing framework.

The proposed additional controls focus on pro-active monitoring and identification of triggers, both in the legislative, regulatory and political sense which will help Crown enact its response plan should any incident materialise.

Overall, the additional risk of moving staff from the Hong Kong-based office to live in Malaysia is very limited, and the introduction of additional controls further positions Crown to pro-actively trigger identification and effective response and reduces the overall risks to the Model.

Independent advices

REDACTED - PRIVILEGE

To further understand the local Malaysian environment, management held discussions with Austrade's Senior Trade & Investment Commissioner and Senior Investment Manager at the recommendation of Australia's High Commissioner to Malaysia who provided positive commentary on Crown undertaking business as proposed in Malaysia. Specifically it was noted that although Malaysia is a Muslim country and gambling is not looked upon positively, there is a large Chinese Malay population and as long as Crown has strong operational protocols, Austrade did not see any issues with Crown operating as proposed in Malaysia (see Attachment A for further detail).

FTI Consulting, an independent global business advisory firm dedicated to helping organisations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional, has been contracted to provide periodic regulatory and public policy monitoring reports to assist in Crown understanding any relevant change in the Malaysian environment and to take necessary actions to mitigate any risks that evolve.

REDACTED - PRIVILEGE

Other Casino Operators

Advices from our international staff indicate that various other casino operators have a combination of dedicated offices and staff in Malaysia as detailed below:

Malaysia

	Dedicated office in country	Staff working in country
Marina Bay Sands	✓	
Genting Malaysia	✓	
Naga	✓	
City of Dreams		✓

	Dedicated office in country	Staff working in country
Sky City		✓
The Star		✓
MGM		✓
Cypress		✓
Solaire		✓

Financial impact

	FY18	FY19 (March YTD)
Turnover (\$b)	5.4	3.6
Theoretical Direct Contribution (\$m)	24	14.3
Number of Gaming Programs	825	515

Turnover derived from the Malaysia market in FY18 totalled \$5.4b producing a theoretical direct contribution of \$24m. Turnover for the first 9 months of FY19 was \$3.6b (\$14.3 theoretical contribution), however nearly half of this turnover was produced by only 3 customers.

Going forward, under the initial Model, it is likely that annual turnover volumes may decline to around \$2b (\$8m contribution). Personal relationships are very important to customers and assist greatly in determining which casino property they choose to visit. We believe we are foregoing a significant profit opportunity by not having face to face non-gaming related discussions with customers in market.

Under the Malaysia Proposal, management is of the view that once the Model is established and becomes entrenched, we could maintain business volumes at around \$5b per annum (\$20m contribution).

Proposed Resolution

Management advises that the Malaysia Proposal contains a range of existing and enhanced protocols designed to address and reasonably mitigate the risks, with the residual risk rating being LOW, as support by MinterEllison, Hakluyt and local Malaysian lawyers.

Management is therefore of the respectful view that taking into account the Risk Assessment and the advices of external advisors, the Malaysia Proposal is appropriate to be approved.

Accordingly based on the above, subject to any comments or view of the Committee, it is proposed that the Committee recommend to the Crown Resorts Limited Board that the Malaysia Proposal be approved and that the:

*“Board **RESOLVE** to approve the initial Model being adjusted to permit staff being based in Malaysia with the controls (both existing and proposed) detailed in the Risk Assessment being implemented.”*

Kind regards

Barry Felstead
Chief Executive Officer – Australian Resorts

Encl



VIP Operating Model - Risk Assessment MALAYSIA

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BACKGROUND

The business made changes to the VIP Operating Model (**Model**) adopting a number of revised operational protocols, which have been in place since Q3 2017.

The current Model has established protocols which require our staff to make gaming related calls out of the Hong Kong office, or have an Australian based staff member make these calls for them, and then go in country to have face to face meetings and attend events where they discuss only non-gaming subjects with patrons (**existing protocols**).

The business is proposing to adjust that Model for our Malaysian staff, allowing them to be based and reside in Malaysia, therefore being more present in country to perform face to face non-gaming engagement with patrons, while continuing to have gaming related activities done out of either Hong Kong or Australia.

EXTERNAL LEGAL AND RISK ASSESSMENTS

REDACTED - PRIVILEGE

Malaysia remains a 65% Muslim country, and as such, gaming continues to be restricted, but the law focuses on domestic gaming, as opposed to foreign casinos. Provided that marketing activity remains low key and not directed generally at the Muslim community, the risk of enforcement action against staff in Malaysia remains low.

To further understand the Malaysian environment, management held discussions with Austrade's Senior Trade & Investment Commissioner and Senior Investment Manager, at the recommendation of Australia's High Commissioner to Malaysia. Management was advised as follows:

- The current Malaysian Government is very forward looking and positive about its relationship with Australia;
- Malaysia is Australia's 11th largest investment partner, with investment expected to continue to grow due to the Malaysian Government's active move away from investing with China;
- Although Malaysia is a Muslim country and gambling is not looked upon positively, there is a large Chinese Malay population and as long as Crown has strong operational protocols, Austrade did not see any issues with Crown operating as proposed in Malaysia;
- The current Government is more liberal in its approach, as opposed to the former government which was more traditional Muslim based;
- There would be warning signs from the Government if there was a change in policy;
- The Government is more open and transparent than the former government; and
- Management was invited to visit Malaysia and meet with Austrade and the High Commissioner.

ATTACHMENT A

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RISK ASSESSMENT

Some of the major inherent risks associated with the VIP operations in Asia in general, and Malaysia more specifically, are noted below, along with both existing controls, and additional controls proposed to enhance the compliance framework in place, and further reduce the residual risk.

Both the current socio economic context and the existing control framework in place reduce the risk of incidents to a 'LOW' residual level, as assessed by both Australian and in country legal experts as well as expert risk advisors, but the proposed additional measures can further enhance Crown's position and allow it to respond more quickly to either triggers or events.

The main risks identified are as follows:

1. Breach of local regulations and/or legislation.
2. Staff failing to follow operational protocols.
3. Breach of local expectations, cultural beliefs and 'unwritten rules'.
4. Safety incidents involving staff (protest or targeted action against individual staff by the public).
5. Arrest and/or detention of staff (action by local law enforcement agencies).
6. Change in political climate.

Risk	Existing Controls in Place for Hong Kong based staff who travel into country	Additional controls proposed	Residual risk level
1 – Breach of local regulation and/or legislation			
	<ul style="list-style-type: none"> • There is to be no promotion of gambling or any other 'on the ground' activity on visits to other Asian centres which might be characterised as arranging gambling or performing travel agency functions (for which a travel agents licence is required) such as arranging travel to Australia or accommodation in Australia (as provided for in the existing protocols); • VIP staff are to only deal with junket operators who are licensed by the DICJ in Macau or otherwise vetted by Crown management (as provided for in the existing protocols); • The appointment of a dedicated Compliance Officer in Hong Kong; • Periodic reviews of the existing protocols with supporting training; and • The Hong Kong team is supported by staff based in Australia. 	<ul style="list-style-type: none"> • Extend the existing protocols to Malaysia based staff; • All meetings with prospective patrons are to be attended by two staff members at all times; • Employees in country are to record details of all meetings and conversations <u>into Sales Force</u> within 24 hours of any meeting to ensure that there is a current record of the activity and discussions that took place; • A <u>script</u> is to be provided to employees with examples of how to respond to a patron if they make gaming related comments, for example, <i>"we will get someone from our Hong Kong or Australian offices to call you regarding gaming matters as we are not in a position to discuss anything related to gaming"</i>; • No proactive engagement will take place with ethnic Malays; • Regular <u>risk management monitoring</u> will be done by local lawyers and/or a risk advisory consultancy to pick up early warning signs of any change to enforcement policy or any risk of enforcement action being taken against foreign casinos in relation to marketing activities. Including for example: <ul style="list-style-type: none"> ○ a monthly or other appropriate periodic sweep of print and online media; 	LOW

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Risk	Existing Controls in Place for Hong Kong based staff who travel into country	Additional controls proposed	Residual risk level
		<ul style="list-style-type: none"> ○ the sweep will cover material in English, Mandarin and Malay; ○ the sweep will cover reports of parliamentary proceedings; and ○ a monthly or other appropriate periodic report, even if it is just to confirm that there have been no developments of note. ● Hong Kong based Compliance Officer to include compliance and protocols checks to Malaysia based staff and to report to the Group General Manager Regulatory and Compliance on at least a monthly basis; ● Retain ongoing services of local legal firm to advise on changes in legislation and related interpretations and operationalisation of such legislation; ● <u>Updated training</u> will be provided to the relevant staff members specifically focusing on the script to follow should gaming matters be raised when meeting with patrons in other Asian jurisdictions. This will be refreshed on a regular basis, specifically taking into account any learnings from the regular monitoring; and ● <u>VIP staff bonus plans</u> are to be revised to remove the reference to specific jurisdictional targets and to add a KPO regarding compliance with the protocols. The new bonus plans will be based on overall VIP budget performance, so that there will be no incentive for staff to pursue specific financial targets for the jurisdiction in which they operate. 	
2 - Staff failing to follow protocols			
	<ul style="list-style-type: none"> ● The appointment of a dedicated Compliance Officer based in Hong Kong; ● Periodic reviews of the existing protocols with supporting training is undertaken; and ● The Hong Kong team is supported by staff based in Australia. 	<ul style="list-style-type: none"> ● All meetings with prospective patrons are to be attended by two staff members at all times; ● Employees in country are to record details of all meetings and conversations <u>into Sales Force</u> within 24 hours of any meeting to ensure that there is a current record of the activity and discussions that took place; ● Hong Kong based Compliance Officer to include compliance and protocols checks to Malaysia based staff and to report to the Group General Manger Regulatory and Compliance on at least a monthly basis; and ● <u>VIP staff bonus plans</u> are to be revised to remove the reference to specific 	LOW

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Risk	Existing Controls in Place for Hong Kong based staff who travel into country	Additional controls proposed	Residual risk level
		jurisdictional targets and to add a KPO regarding compliance with the protocols, enhancing and promoting compliance culture.	
3 - Breach of local expectations, cultural beliefs and 'unwritten rules'			
	<ul style="list-style-type: none"> There is to be no promotion of gambling or any other 'on the ground' activity on visits to other Asian centres which might be characterised as arranging gambling or performing travel agency functions (for which a travel agents licence is required) such as arranging travel to Australia or accommodation in Australia (as provided for in the existing protocols); REDACTED - PRIVILEGE Strict engagement protocols and compliance regime exist in Hong Kong to ensure concerns around illegal activities and criminal links are identified and effectively managed. 	<ul style="list-style-type: none"> No proactive engagement will take place with ethnic Malays; Employees in country are to record details of all meetings and conversations <u>into Sales Force</u> within 24 hours of any meeting to ensure that there is a current record of the activity and discussions that took place; All existing Malaysian <u>customers are to be screened</u> before our staff living in Malaysia meet or engage with them to ensure there are no known integrity issues that we can reasonably identify (via Crown's Dow Jones tool which is also used for our AML/CTF Program); Screening of proposed Malaysian customers will take place as soon as reasonably practicable and no formalisation of any arrangement with a prospective customer will occur until appropriate screening has taken place. Discussions with potential patrons will be targeted to wealthy individuals known to be significant customers of other foreign casinos only, avoiding the general public perception of the impact of gambling on lower income individuals; and REDACTED - PRIVILEGE 	LOW
4 - Safety incident involving staff (protest or targeted action against individual staff by the public)			
	<ul style="list-style-type: none"> Constant and ongoing engagement between Hong Kong based staff and head-office staff; Following of strict protocols for approach and engagement for targeted individuals (as provided for in the existing protocols); and Incorporating compliance with operating protocols into employment contracts. 	<ul style="list-style-type: none"> Only low key events, interactions and meetings with targeted individuals, ensuring limited public attention; Engagement of International SOS (ISOS) in the provision of travel risk management services, including pre-travel assessments, live notices of medical or safety events or concerns, in country health and safety support, and extraction where necessary Ability to track staff location through the ISOS APP, to ensure staff location and safety in case of civil unrest or other safety concern; and 	LOW

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Risk	Existing Controls in Place for Hong Kong based staff who travel into country	Additional controls proposed	Residual risk level
		<ul style="list-style-type: none"> • Protocols in place, coordinated by ISOS, for making contact with staff in country during and after event. 	
5 – Arrest and/or detention of staff (action by local law enforcement agencies)			
	<ul style="list-style-type: none"> • SAME AS ABOVE 	<ul style="list-style-type: none"> • Analyse any in country peer events that could escalate to an event for Crown staff; • Retaining the services of local law firm or other suitable advisors to conduct trigger identification, including for example: <ul style="list-style-type: none"> ○ a monthly or other appropriate periodic sweep of print and online media. ○ the sweep will cover material in English, Mandarin and Malay. ○ the sweep will cover reports of parliamentary proceedings. ○ a monthly or other appropriate periodic report, even if it is just to confirm that there have been no developments of note; • ISOS also provides recommendations for local vetted legal representation, as well as extraction and retrieval services where required; and • Considering additional insurance product, to complement our existing special contingency (K&R) policy. 	LOW
6 – Change in political climate			
	<ul style="list-style-type: none"> • REDACTED - PRIVILEGE • Strict engagement protocols and compliance regime exist in Hong Kong (to be replicated in Malaysia) to ensure concerns around illegal activities and criminal links are identified and effectively managed; and • Ongoing monitoring by Senior Executives and VIP staff of international developments. 	<ul style="list-style-type: none"> • Contact with Australian High Commission to Malaysia and AUSTRADE to seek advice and recommendation on situation in Malaysia. • Retaining the services of local law firm or other suitable advisors to conduct trigger identification, including for example: <ul style="list-style-type: none"> ○ a monthly or other appropriate periodic sweep of print and online media. ○ the sweep will cover material in English, Mandarin and Malay. ○ the sweep will cover reports of parliamentary proceedings, and ○ a monthly or other appropriate periodic report, even if it is just to confirm that there have been no developments of note. <p>The purpose of this sweep will include any changes or indications of changes in political</p>	LOW

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Risk	Existing Controls in Place for Hong Kong based staff who travel into country	Additional controls proposed	Residual risk level
		climate or policy. <ul style="list-style-type: none"> • ISOS will provide near real time alerts on in country developments to senior Executives, allowing prompt response. 	

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CONCLUSION

The control framework in place has been effective since the change in the VIP Operational Model. It has been focused on ensuring compliance and minimising the risk of Crown's processes being viewed by local law enforcement or even the general public as inadequate, and risking the safety and freedom of staff, as well as Crown's reputation.

Crown has been operating in the Malaysian market over that period of time, and staff are familiar with the protocols and compliance regime. Additional steps such as having two staff attend each meeting and not proactively engaging with ethnic Malays are further enhancements to the existing framework.

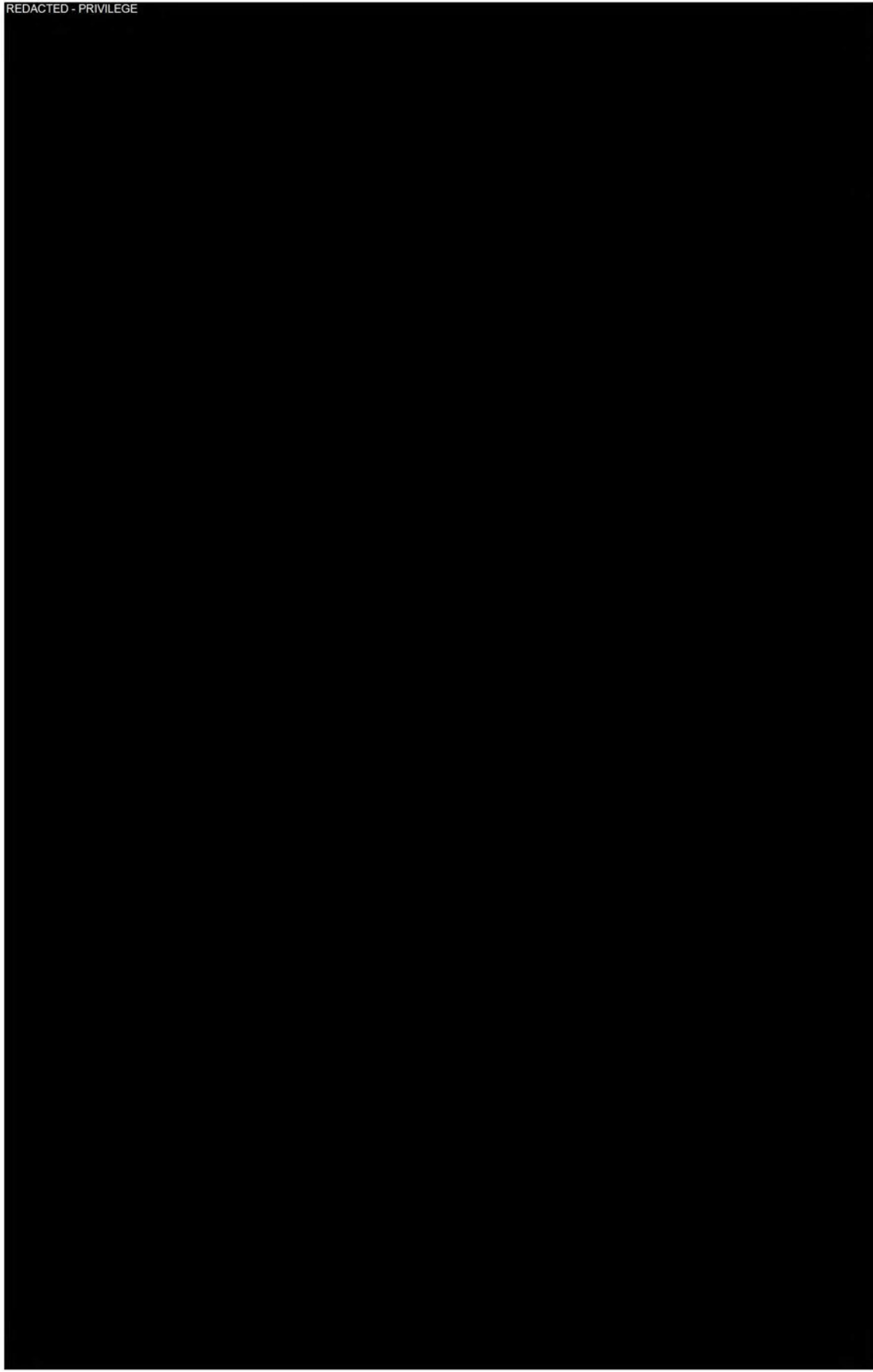
The proposed additional controls focus on pro-active identification of triggers, both in the legislative environment and popular perception, which will help Crown enact its response plan should any incident materialise. They will also enhance the compliance culture required by Crown from its VIP Operations.

To further enhance its response plan, the engagement of International SOS, as a travel risk management provider, will also contribute to both pro-active trigger identification, with an added scan of medical and safety issues, as well as effective incident monitoring, staff tracking and crisis response should any incident materialise.

Overall, the additional risk of moving staff from the Hong Kong-based office to live in Malaysia is very limited, and the introduction of additional controls further positions Crown to pro-actively trigger identification and effective response and reduces the overall risks to the Model.

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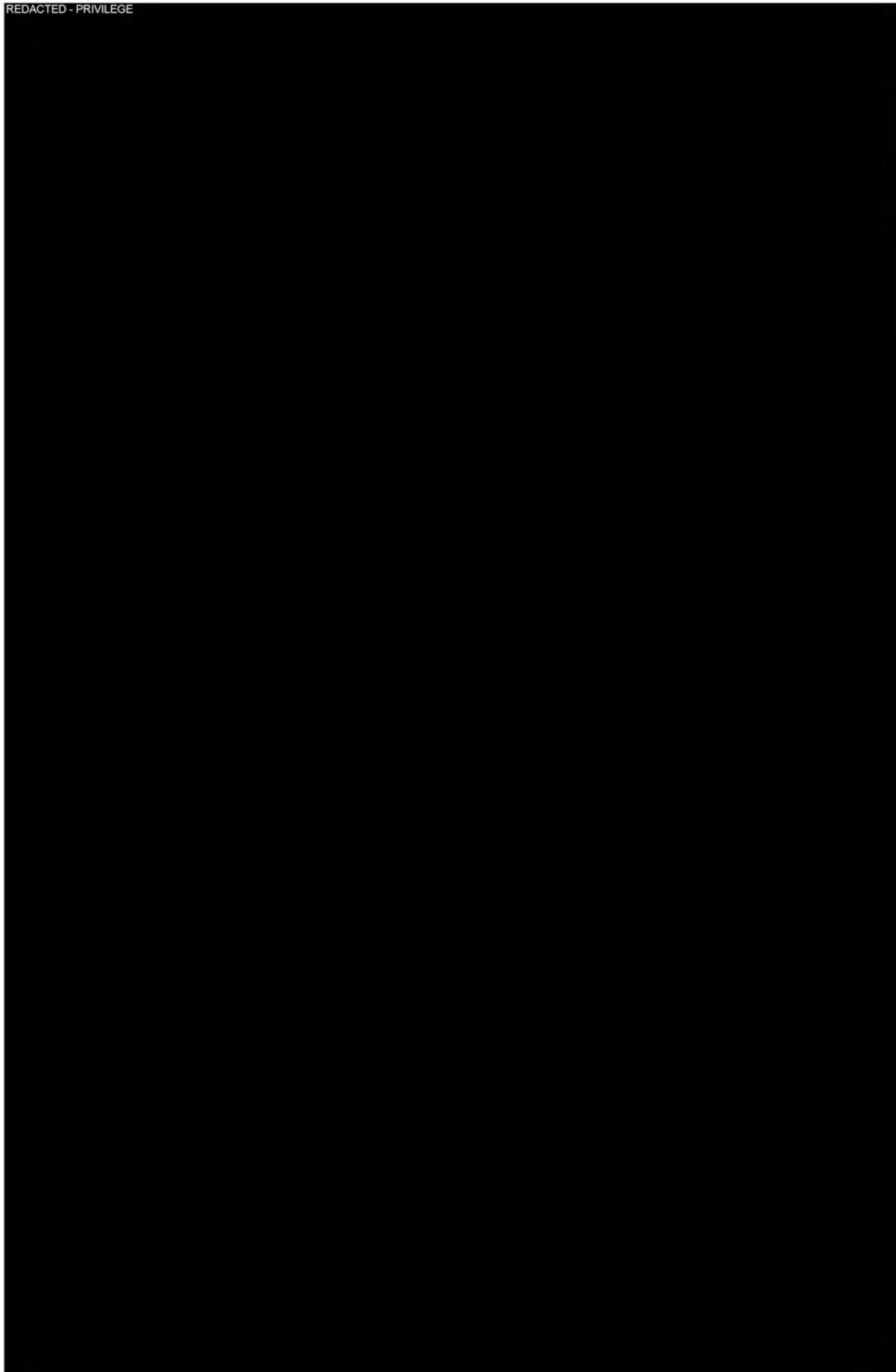
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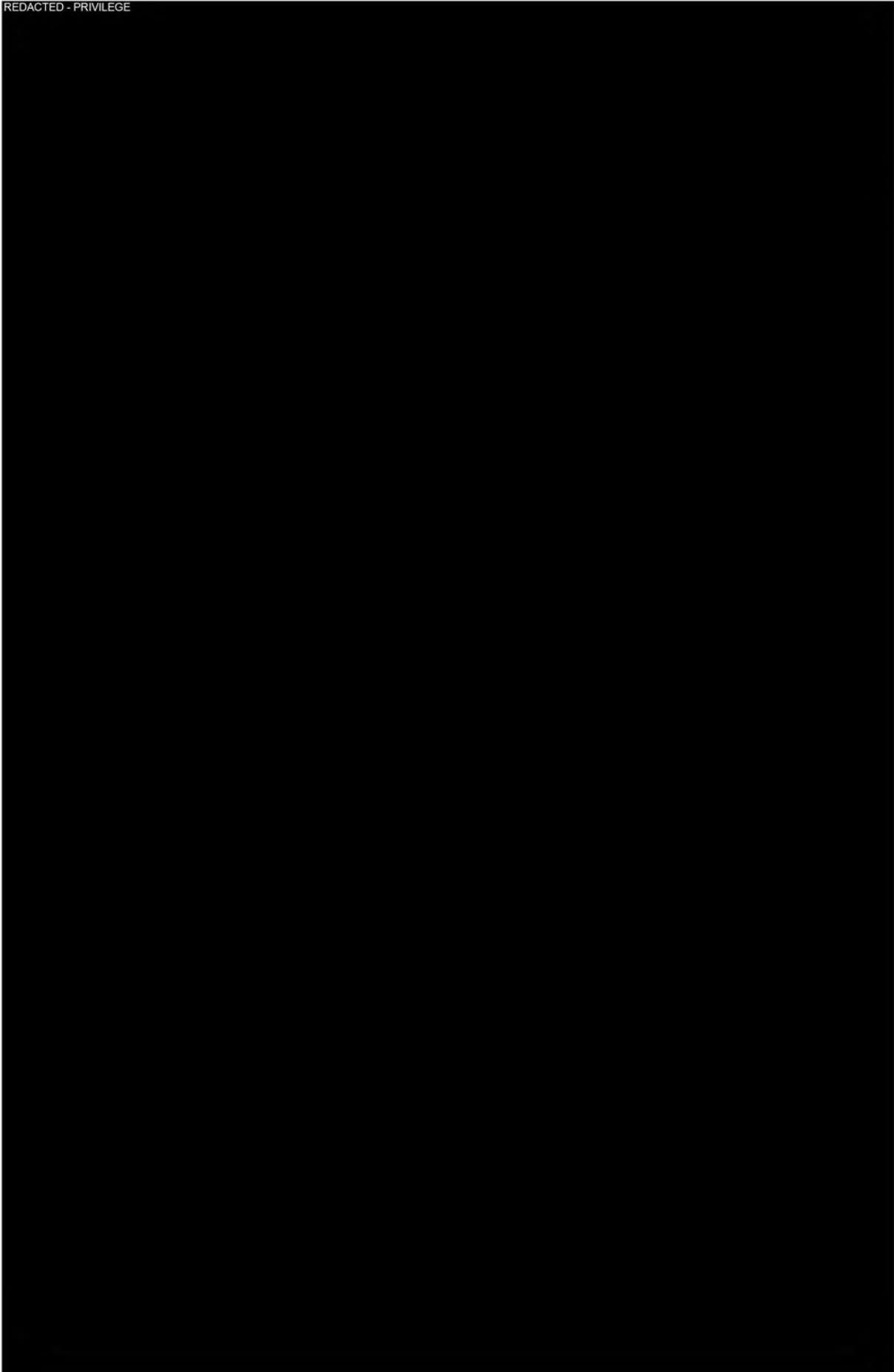


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