



Regulatory & Governance Update August 2019

1. AUSTRAC

1.1. Section 167 Notices – Risk Assessment of Junkets

Crown Melbourne and Crown Perth have received and responded to formal AUSTRAC s 167 notices requesting detailed information (including funds flow and customer due diligence information) about Junket Operators, Junket Representatives and Junket Players for Junket Programs during the period 1 April 2018 to 31 March 2019.

These notices were issued casino industry wide, with AUSTRAC indicating in its notice that its aim is to provide our sector with insights into the potential threats and vulnerabilities we (the casino industry) might face with respect to junkets.

Crown has received further notices on 15 July 2019 seeking additional information as to AUSTRAC reporting on Junket Operators (TTRs, SMRs, IFTIs), amongst other matters. Crown is preparing a response to these notices in accordance with AUSTRAC's deadline.

1.2. Changes to AUSTRAC Enforcement Team

Following a departure and an internal restructure at AUSTRAC, Jack Haldane (Acting Director, Regulatory Operations) and Vicky Orshansky (Compliance Manager) will now be Crown's key contacts at AUSTRAC.

1.3. Joint Program and AML/CTF Framework

As previously reported, Crown has drafted, in conjunction with independent external advisers, a new Joint AML/CTF Program for Crown Melbourne and Crown Perth (and for Crown Sydney in due course).

Refer to agenda item 6.2.

1.4. Existing Designated Services – Risk Assessment

The annual risk assessment of Crown Melbourne's ML/TF risks, conducted by the AML Team in conjunction with the Business Units (and this year, looking at the ML/TF risks presented across both Crown Melbourne and Crown Perth on a group basis) was completed in May 2019.

The updated register and assessment was shared with the relevant Business Units in June 2019.

1.5. AML Sentinel Project

AML Sentinel, developed by the IT and AML Teams utilising the SPLUNK software system, has completed quality assurance and user acceptance testing by IT and the AML Team in respect of three of the five modules (AUSTRAC Reporting, Cage, Table Games) and is now in live testing, alongside our existing Transaction Monitoring Program system (being largely a manual system).



These three modules allow for automated alerts (referrable to rules generated by Crown according to identified money laundering / terrorism financing risk) on the following:

- all threshold transactions at Crown (cash transactions of \$10k or more);
- all International Funds Transfer Instructions at Crown;
- the issuance of Crown cheques;
- activity on a Customer's DAB;
- wire transfers in and out of Crown to Customer DABs; and
- carded activity at a Table Games Booth, Table or Pit.

The final two modules – EGMs/ETGs and Customer Other, are presently under development, with the latter to offer the capability of an 'internal federated search' functionality across Crown dependent upon the log input.

In addition, Crown is presently undergoing an RFP in respect of a case management solution to enable Crown to receive these alerts and in a more automated manner report, retain and upload potentially suspicious matters to AUSTRAC.



2. RISK MANAGEMENT

2.1. Update to the Risk Management Framework

All the fundamental elements of the risk framework have now been developed and approved. Implementations and ongoing enhancements will now be embedded in day to day processes.

Further enhancements are in the pipeline, which include a Data Risk Management Framework, and the roll out of operational tools across key processes that further enhance how the Board's Risk Appetite and the Risk Management Strategy are embedded across the organisation.

2.2. Corporate Risk Profile Review

Since the last report in May 2019, a number of key internal and external events have materialised which have the potential to impact the overall risk profile of the organisation, and particularly its material risk exposures. At this stage, none of these events require changes to Crown's Risk Profile. The current Risk Map is provided in **Attachment 1** for discussion.

The key events that have taken place over the period include:

- On 30 May 2019 Crown was informed that CPH Crown Holdings Pty Limited, a wholly-owned subsidiary of Consolidated Press Holdings Pty Limited, had entered into an agreement in relation to the sale of 19.99% of the issued capital of Crown to Melco Resorts & Entertainment Limited (Melco). Subject to obtaining requisite regulatory approvals, Melco may seek to increase its ownership in Crown Melco and intends to pursue board representation on Crown's board of directors commensurate with its ownership position. Discussions have been had with the New South Wales, Victorian and Western Australian gaming regulators regarding next steps who propose to work collaboratively on the matter.
- The Government, on 26 July 2019, released the exposure draft legislation and explanatory material for the introduction of an economy-wide cash payment limited of \$10,000 for payments made or accepted by businesses for goods and services (Black Economy Taskforce). Transactions equal to or in excess of this amount will need to be made using the electronic payment system or by cheque.

The cash payment limited will commence from 1 January 2020 and for certain AUSTRAC reporting entities from 1 January 2021, which include casinos.

Submissions to the consultation are open until Monday, 12 August 2019. Responses to this consultation will inform the final Bill to implement the economy-wide cash payment limit.



- Channel 9's 60 Minutes programme ran a story featuring Crown on Sunday 28 July focusing on the China detentions and the VIP business. Nine/Fairfax have also run various articles with a range of related allegations both prior to the 60 Minutes programme and subsequently. These media reports continue. Crown has responded through issuing ASX/Media Releases. As a result of the media reporting, the Federal Government has announced that it has referred allegations over Crown and government agencies to the Australian Commission for Law Enforcement Integrity. Further, the Victorian Gaming Minister has instructed the VCGLR to "re-examine the allegations raised as a matter of priority" and that the DOJ and the VCGLR will "examine the regulatory arrangements concerning junkets".
- Mr Wilkie has made fresh allegations of corruption in relation to the Victorian Police, the VCGLR and Crown, which have been sent to IBAC for investigation which received media attention.
- The VCGLR's s 25 Report contains 20 Recommendations, which Crown has accepted and is currently working through internally (and with some external experts providing input on select recommendations) and is engaging with the VCGLR on. To date, 12 of the 20 Recommendations have been responded to by Crown by the relevant due dates.

REDACTED - PRIVILEGE

- Approximately \$200m of fully provisioned international gaming debts were written off at 30 June 2019 from an accounting and tax perspective (the debts were not written off from a regulatory perspective meaning they can still be recovered at a later stage should the patrons return to Crown). This brings Crown Melbourne's gross and net debt balances to historically low levels with doubtful debt amounts having materially reduced over the past 2 years.
- Crown Melbourne conducted its ML/TF risk assessments under its AML/CTF Programs during the period. The overall assessment of AML/CTF risk for Crown Melbourne on an inherent basis as "Critical" remains unchanged (albeit the definition has changed in line with the update to the Risk Management Strategy). The overall residual risk, taking account of the controls in place, remains unchanged at "Low".
- Crown Melbourne and Crown Perth have responded to a formal AUSTRAC s 167 notice requesting detailed information (including funds flow and customer due diligence information) about Junket Operators, Junket Representatives and Junket Players for Junket Programs for the period 1 April 2018 to 31 March 2019. These notices were issued casino industry wide, with AUSTRAC indicating in its notice that



its aim is to provide our sector with insights into the potential threats and vulnerabilities we (the casino industry) might face with respect to junkets.

- The new Crown Melbourne Limited (**CML**) Table Games and Cage Area Managers Enterprise Agreement (**EA**) was recently finalised. The main CML United Voice EA 2016 and the CML Property Services and Technicians EA 2015, which nominally expired on 1 July 19 and 30 June 19 respectively, are currently under negotiation. There has been no adverse action to date.
- No further update has been received regarding the VCGLR's investigation into an electronic gaming machine which the VCGLR alleges was operating in 'Unrestricted Mode', without Your Play functionality activated.
- Regarding the VCGLR's China investigation, it is expected that the investigation will be completed shortly with a draft report to be provided to Crown for comment prior to it being finalised. It is expected that the report will possibly be provided to the Minister for Gaming in due course.

3. REGULATORY AND COMPLIANCE

3.1. Your Play

There has been no further progress on the YourPlay matter in the period.

3.2. China Matter

As referenced above in the Risk Management update, it is expected that the VCGLR will shortly be finalising its investigation at which time a copy of a draft report will be provided to Crown and Crown will be invited to make submissions. The finalised report is expected to be sent to the Minister for Gaming.

It is also noted that Jenny Jiang, the former staff member who has not settled with Crown participated in the 60 Minutes program.

3.3. Blanking Buttons

The final matter related to the Blanking Buttons issue was for Crown to present to the Commission on its compliance framework. Subsequent to that the VCGLR advised that the Commission now required a written submission as opposed to a presentation which Crown submitted on 24 December 2018.

On 10 May 2019 the VCGLR wrote to Crown regarding its compliance framework submission stating that it intends to monitor Crown's implementation of the framework which will include:

- reviewing Executive Risk and Compliance Committee agendas, minutes and papers for the last six months;



- reviewing Compliance Committee agendas, minutes and papers for the last six months;
- reviewing Board Compliance Committee agendas, minutes and papers for the last six months;
- auditing a sample of "Gaming Initiatives" forms;
- inspecting Annual Compliance Plans for the last two years; and
- reviewing a sample of CURA system incident reports.

We have now received a formal request for access to these documents. Crown has collated the necessary information (including reviewing the papers and redacting where appropriate for Legal Professional Privilege purposes). The VCGLR has requested the time to review the papers be rescheduled to a later time as they currently have other priorities they are attending to.

3.4. Poker Tax

There has been no further progress on the Poker Tax matter during the period.

3.5. EGM Continuous Play

There has been no further progress on the EGM Continuous Play matter during the period.

3.6. Proposal to Restrict Cash Transactions

As reported above, the Government, on 26 July 2019, released the exposure draft legislation and explanatory material for the introduction of an economy-wide cash payment limited of \$10,000 for payments made or accepted by businesses for goods and services (Black Economy Taskforce). Transactions equal to or in excess of this amount will need to be made using the electronic payment system or by cheque.

The cash payment limited will commence from 1 January 2020 and for certain AUSTRAC reporting entities from 1 January 2021, which include casinos.

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4. RSG

4.1. Section 25 Review Recommendations

Refer Agenda Item 6.3.

4.2. Crown Model

The twelve-month Crown Model Trial has concluded for FY19. The Responsible Gaming team worked with 9 data sets of 100 members provided by the Customer Analytics team. Based on the data provided, refinements to the process were made as the trial progressed. These were a product of the monthly meetings between the Customer Analytics and Responsible Gaming teams. Marketing Analytics are now reviewing the data collated, to identify patterns and behaviours consequent upon the interactions.

At the request of the Committee, the Chair of the Responsible Gambling Advisory Panel, Prof. Alex Blaszczynski will be provided information and results from the trial for review.

4.3. Stakeholder Engagement

A number of stakeholder site visits occurred during the reporting period including the below:

Date	Support Service or other party
28/05/2019	Shane Lucas - (recently appointed Victorian Responsible Gambling Foundation's (VRGF) CEO), VRGF Board Member Tass Mousaferiadis and VRGF staff met with Crown Senior Management for a tour and presentation
28/05/2019	Senior Victorian Department of Justice Representatives
30/05/2019	VCGLR CEO & Commissioners – tour and information brief
11/06/2019	Steph Ryan MP – Shadow Minister for Gaming and Liquor Regulation
25/06/2019	Simon Cohen – Deputy Secretary of the Department of Justice and Community Safety (and staff)
28/6/2019	Cindy McLeish MP – Shadow Minister for Education

Crown's Responsible Gaming Manager attended the VRGF 'Industry Reference Group Meeting' on 4 July 2019. A discussion about the annual Gambling Harm Awareness Week (GHAW) was held. It was confirmed events would be held during the week 7 – 13 October 2019. Preparations are in place to host the event at Crown Melbourne on Thursday, 10 October 2019.



The VRGF has announced that applications for funding to host events during GHAW 2019 are now open.

4.4. Responsible Gaming Advisory Panel

Work continues to be done to coordinate a meeting between members of the Crown Resorts Responsible Gaming Committee, Senior Management and Responsible Gaming Advisory Panel representatives. Prof. Blaszczynski has advised that he is unavailable before September. Management will progress a time suitable to meet shortly.

5. LEGAL (SUBJECT TO LEGAL PROFESSIONAL PRIVILEGE)

5.1. Car Parks

Crown continues to occupy the Clarke Street and Clarendon Street car parks pursuant to the monthly tenancy. DTF has advised Crown that the Victorian Assistant Treasurer has signed off on offering Crown a new long-term lease (likely to be a 10-year lease plus 2 options of 5 years each) at the rental determined by the Valuer-General. DTF has also advised that the Surveyor General is preparing updated plans for these areas and once that is completed Crown will be presented with the new lease offer.

5.2. IHG Trade Mark Matter

IHG (through Six Continents Hotels) is the owner of the CROWNE PLAZA trade mark and Crown Melbourne is the owner of the CROWN brand (as used by the Crown Resorts group and licensees). IHG and Crown are in dispute in relation to the respective use of the CROWNE PLAZA and CROWN brands for hotel services. The countries/jurisdictions of dispute include USA, UK, EU, Australia, Hong Kong, PRC (China), Taiwan and Macau. There are currently in excess of one hundred separate trade mark disputes before the various courts and tribunals around the world relating to this matter.

Previously the use was governed by a trade mark co-existence agreement that covered the Asia-Pacific region (excluding the Americas).

REDACTED - PRIVILEGE

The parties have continued to suspend court and tribunal proceedings where possible in an attempt to seek to resolve matters.

Crown has issued a close to final draft for IHG review and approval (subject to the above new matters). REDACTED - PRIVILEGE



5.3. Zantran Pty Ltd (Class action – Crown Resorts Limited)

Zantran Pty Ltd (**Applicant**) a shareholder in Crown Resorts Limited (**Crown Resorts**) has issued class action proceedings in the Federal Court against Crown Resorts.

The Applicant on behalf of other yet identified shareholders alleges that it has suffered loss and damage (fall in share price) arising out of and in consequence of Crown's operations in China during 2015 and up to the detention of Crown employees in China (**Relevant Period**).

It is further alleged that Crown Resorts during the Relevant Period failed to disclose to the share market information that was not generally available which a reasonable person would expect to have a material effect on the price or value of Crown Resorts shares. Such information included the risk of Crown's operations in China, the Chinese Government crackdown on corruption, the arrest in China of South Korean Casino employees and the risk that employees might be detained and arrested in China for alleged breaches of Chinese gambling laws.

Crown Resorts has filed its defence denying the allegations. The parties are currently going through the lengthy process of discovery which is the provision and exchange of documents under a strict confidentiality regime relevant to the facts in issue. Crown Resorts has completed stage 1 of discovery and stage 2 has been undertaken. Documents are being provided to the Applicant. There will be further stages of discovery.

Security for costs has been agreed up to mediation (\$3.4 million) and the litigation funder (the funder of the action) has paid the first instalment into court in accordance with court orders.

Insurers have confirmed indemnity, subject to deductible and certain conditions.

REDACTED - PRIVILEGE

The Applicant successfully made an application to the court for orders that the formerly detained employees be released from their employment and redundancy confidentiality obligations to enable the Applicant's lawyers to speak with those employees, with His Honour handing down His decision on 8 May 2019. Crown has appealed the decision with the appeal to be heard on 29 August 2019.

A mediation was held on 18 June 2019. The matter did not settle.

Further stages of discovery are currently being undertaken.

REDACTED - PRIVILEGE



The Applicant has provided its evidence on quantum upon which it intends to rely on at trial and Crown provided its expert evidence on 24 May 2019.

6. OTHER MATTERS (LEGALLY PRIVILEGED AND COMMERCIAL IN CONFIDENCE)

Crown entered into an agreement with entities associated with Heston Blumenthal, to secure his restaurants, first The Fat Duck (TFD), then **Dinner by Heston Blumenthal (DBH)** at Crown Melbourne. TFD/DBH has been in operations for the past 4.5 years.

A number of events have recently materialised or escalated:

- DBH orders its goods via the Crown systems, and Crown charges back the costs to DBH monthly. DBH has not paid its invoices since January 2019. The outstanding receivables amount as at 30 June is approximately \$2.74M.

REDACTED - PRIVILEGE

- As part of the initial arrangement, Crown paid for the refurbishment of the restaurant. The costs have been amortised over the life of the assets, for a total initial value of \$15.8M. Outstanding value as at 30 June is \$10.2M, but the assets are owned by Crown and can mostly be re-utilised for any future tenancy. REDACTED - PRIVILEGE

REDACTED - PRIVILEGE

- As part of the arrangement, Crown pays one of Blumenthal's entities an annual £1M licensing fee, which is amortised over the following 12 months. The fee was invoiced in March 2019, and is still mostly unamortised as at 30 June.
- In addition, an initial £2M licensing fee was paid at the beginning of the contract, and amortised over the 10 year contract period. Over £1M remains unamortised as at 30 June. Both this amount and the above annual licensing fee amount to A\$3.7M in Crown's accounts as at 30 June.
- DBH has an additional outstanding loan amount of \$750,000 owed to Crown.
- For the past 2 years, DBH has made a loss, which has triggered a breach of a contractual clause allowing Crown to terminate the contract. REDACTED - PRIVILEGE

REDACTED - PRIVILEGE



Summary of financial exposure as at 30 June 2019:

Outstanding Receivables	\$2.74M
Outstanding Loan	\$750k
Unamortised License Fees:	\$3.7M
<i>Of which less than 12 months old:</i>	<i>\$1.7M</i>
Total Crown Exposure from DBH	\$7.19M
Capitalised assets (NPV)	\$10.21M

In parallel, DBH is under FairWork investigation for underpayment of staff. REDACTED - PRIVILEGE

REDACTED - PRIVILEGE

Discussions are continuing.

This is an emerging issue, which will be further communicated to the Crown Melbourne Limited Board as it unfolds.



Attachment 1
Crown Melbourne Corporate Risk Map – August 2019

		<i>Material Risks</i>				
Likelihood	Almost certain					
	Likely		16- Harm to persons on property		14 - Major reputational damage	
	Possible		9 - Loss of key management 15 - Poor people management practices	6 - External disruption to demand for our services 7 - Physical Business Disruption 8 - IT business disruption 11 - Litigation 12 - Major criminal activities 13 - Ineffective responsible service of gaming (RSG) 18 - Industrial action 23 - Failure in responsible service of alcohol (RSA)	1 - Material breach of gaming and other relevant legislation /regulation 2 - Changes in key legislation or regulatory requirements 5 - Poor credit or investment decision 21 - Data misuse 22- Breakdown in relationship with key government, legislative or regulatory body	3 - Act of terrorism on Crown property 4 - Volatility of gaming revenue
	Unlikely		17 - Breakdown in strategic partnership with third party 19 - Unsustainable environmental management and ethical standards	10 - Reduction in property standards		
	Rare					20 - Aviation accident
		Insignificant	Minor	Moderate	Major	Severe
Consequence						

Legend:

Critical Risk	Oversight by the RMC/Board
High Risk	Managed by CEO and relevant EGMs
Moderate Risk	Managed by BOT members
Low Risk	Managed as part of BAU