



## Regulatory & Governance Update June 2018

### 1. AUSTRAC

#### 1.1. 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.

#### 1.2. 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.



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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.

### 1.3. AUSTRAC enquiry – Suncity

On 15 May, 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.

### 1.4. 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).



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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.

An update will be provided at the meeting.

### 1.5. 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.

### 1.6. AUSTRAC Reporting – IFTIs, TTRs, SMRs

Following the IFTI issue earlier this year, Crown has moved the responsibility for lodging IFTIs to the AML team 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.

### 1.7. 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.



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### 1.8. 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.

## 2. RISK MANAGEMENT

### 2.1. Corporate Risk Profile Review

Since the last report in February 2018, a number of internal and external events have materialised which have impacted the overall risk profile of Crown Melbourne, and particularly its material high risk exposures.

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

- The VCGLR finalised its investigation into the blanking buttons matter and issued Crown with a Letter of Censure and a \$300,000 fine. The VCGLR has also reported that with respect to the October 2017 Wilkie allegations, they had been investigated and there were no adverse findings (apart from the blanking buttons which was already being investigated prior to Wilkie raising it). This matter is now closed.
- New allegations were raised by Mr Wilkie in April (plastic picks and multiple loyalty cards) which the Crown Resorts Board was briefed on. It should be noted that the plastic picks have been in place since 1997. They were ceased being issued by Crown earlier this year. The VCGLR is currently investigating those new allegations. Crown has taken external legal advices on the issues raised.
- The VCGLR has released the draft report on its Section 25 Review for management comments.
- As reported above, AUSTRAC has issued Crown Melbourne with a letter closing out its June 2017 AML/CTF Compliance Assessment.
- Premium gaming turnover is materially above budget in Melbourne, although this is tempered by lower win rates.
- Bad debt provisions continue to increase over VIP international debtors. Although decisions have been made to reduce the risk going forward, the residual debt, particularly for Chinese patrons, has materially accrued over the past 2 years and collection challenges continue to be worked through.
- A security threat unfolded in Melbourne in February 2018. It resulted in no harm to individuals or damage to the business, but a critical incident was declared and security responses have been evaluated in a post implementation process. Recommendations are being formulated to further enhance the control framework.
- In its 2018 Federal Budget presentation, the Government announced a proposal to restrict cash transactions for goods and services to under \$10,000 to address its concerns around the



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black economy. All transactions over \$10,000 are proposed to be by electronic transfer only. This proposal is being considered as to the potential impact it may have on Crown. **This is an emerging risk for Crown Melbourne.**

- The VCGLR has investigated the China incident, and we are awaiting their conclusions. The VIP structure has been reviewed and continues to be enhanced.

### ***These events have impacted the corporate risk profile in the following manner:***

- The risk of “Premium gaming business bad debt” is increased to high from a previous rating of significant. This increase is due to the increase in consequence considering the increased level of provisions against that line item.
- The risk to “Brand Reputation / Image” is also changing from significant to high, through both the likelihood and the consequence of this risk increasing. This change is mostly triggered by the greater focus from the media resulting from the allegations made by Mr Wilkie, as well as the anticipated media coverage following the release of the VCGLR’s section 25 report later in the month.

An updated risk map is provided in **Attachment 1** for information.

## **2.2. Update to the Risk Management Framework**

As part of the review of the risk management framework, a number of steps have been taken to align the Perth and Melbourne processes, but also mature the existing framework to both pre-empt industry and regulatory expectations, but most importantly enhance the quality of risk management across the organisation.

Some of the initial changes that are in progress include the following:

- Introduction of the CURA Enterprise Risk Management system to Crown Melbourne.

The CURA system, which has been used in Perth for the past 7 years, has been upgraded and moved to the cloud to allow multi-site access, including Melbourne (and Sydney in due course). Post implementation validation (PIV) is currently underway to ensure the upgrade was successful. Rollout will begin before the end of the year, and further enhancement will take place along with the implementation in the Melbourne environment.

- A set of seven (7) key risk categories has been created, that will form the underlying cornerstone of the risk management framework and ongoing reporting framework. These 7 categories are:

Financial	Customers / patrons
Reputational / Brand	Infrastructure
Compliance / Regulatory	Strategy / Business sustainability
People	

- For each of these 7 categories, the Crown Resorts Board (through its Risk Sub Committee) will be engaged in a process to articulate its appetite in an overarching Risk Management



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Strategy (RMS) document that will be applicable to all reporting entities, including Crown Melbourne. This appetite will be translated into an updated risk matrix, which will operationalise the appetite, and make these categories and associated appetite relevant to the business.

- Once the risk matrix is finalised, departmental risk registers will be formalised where there are currently no stand-alone registers in place. This will be undertaken with each head of department, using the existing Perth profiles as a basis and in a workshop setting. This approach will again allow greater consistency, but also leverage off the work already in place.
- Following the development of departmental risk profiles, the corporate risk profile consolidation process will be reviewed and updated.
- In parallel, enhancements to risk reporting at both Board and Executive levels are underway.

In order to support this new framework, the resourcing of the team has been reviewed. In December 2017, the Group General Manager – Risk and Audit (**GGM R&A**) position was recruited and joined the organisation.

Changes that are in progress in terms of resourcing are as follows:

- Recruitment of an Internal Audit Manager (Group) – this role will manage both the Melbourne and Perth resources into a combined group focused function that will operate across all entities under the Strategic Audit Plan (Perth, Melbourne, Betfair and Resorts) and whose sole focus will be internal audit.
- Recruitment of a Risk Analyst – the focus of this role will be to support the Risk function in its reporting responsibilities to management and Board, creating risk dashboards from operational data and analysing results for risk trends and emerging risks
- Recruitment of three (3) Risk Managers, who will be located throughout the organisation, but reporting to the GGM R&A. They will be the risk champions available to key business areas for advice, support and will challenge the business on day-to-day operations.

This new structure will provide greater depth of advice and challenge into the business and support more informed risk reporting to assist senior management in risk-based decision-making.

Ongoing updates will be provided to the management and the board/committees around the implementation of these elements and any further developments proposed to mature the framework.

### 3. REGULATORY AND COMPLIANCE

#### 3.1. Compliance Framework Activities

As reported previously, the implementation of a business wide corporate compliance framework at Crown Melbourne, consistent with that in place at Crown Perth, is in progress. The framework will assist in ensuring consistency in compliance practices within Crown Melbourne and also aims to increase awareness and accountability of compliance obligations. The central component of



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the new framework is the compliance management tool CURA. The business wide roll-out of CURA has commenced in Melbourne and has been well received by the various departments.

The following business units are currently utilising CURA as part of Crown Melbourne's compliance framework:

- 1) AML/CTF
- 2) Cage
- 3) F&B (8 individual survey's)
- 4) Finance
- 5) Gaming Machines
- 6) Gaming Machines Product
- 7) Hotels
- 8) Procurement
- 9) Property Services
- 10) Responsible Gaming
- 11) Security
- 12) Surveillance
- 13) Table Games

The following business units are proposed to commence utilising CURA in the coming months (survey questions are currently being set):

- 1) Gaming Machines Technical (July 2018)
- 2) VIP International (July 2018)
- 3) IT (August 2018)
- 4) Events and Conferencing (TBC)
- 5) Legal (TBC)
- 6) Regulatory and Compliance (TBC)
- 7) Projects (TBC)
- 8) Showroom (TBC)

### 3.2. Compliance and Regulatory Matters

#### 3.2.1. Section 25 Review

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

#### 3.2.2. China Matter

The VCGLR continues to work through its investigation into the China matter. The VCGLR has expressed concerns regarding the timeliness of providing documents to the investigations team which Crown and Minter Ellison are responding to. In this respect it should be noted that the discovery process associated with the China Class Action is relevant to the identification of documents to be provided to the VCGLR Investigations team. We understand that the VCGLR is preparing its draft report which is expected to go to the Commission for consideration. Comments on the China matter will also be included in the s25 Review Report.

#### 3.2.3. Button Panel Disciplinary Action



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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.

### 3.2.4. 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.

### 3.2.5. April/May 2018 Wilkie Allegations

Allegations of compliance breaches 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.

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### 3.2.6. 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





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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.

### 3.2.7. 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.

## 4. RSG

### 4.1. Crown Model

The Fifth Review of the Casino Operator and Licence, June 2013 (**Review**) by the Victorian Commission for Gambling and Liquor Regulation (**VCGLR**) recommended that Crown Melbourne Limited (**Crown**) '*.. assess the use of player data in relation to intensity, duration and frequency of play as a tool to assist in identifying problem gamblers*'.<sup>1</sup> A trial was implemented, with the results provided to the VCGLR on 20 November 2015.

The VCGLR subsequently requested that Crown provide a presentation to the VCGLR Commissioners at the 28 April 2016 Commission meeting on the results. At this meeting, the then Chair, Dr Bruce Cohen, provided comment that the use of loyalty program member play data available for persons who subsequently self-exclude could provide the basis for predictive data modelling as a tool to assist in identifying potential problematic play in the general loyalty program member population.

In correspondence dated 15 September 2016, the VCGLR confirmed the expectation that Crown would review the use of player data for persons who self-exclude, to determine whether meaningful or common themes can be identified.

As such, Crown Melbourne's Customer Analytics Team commenced work on a predictive data modelling project entitled 'Crown Model', using the data available from loyalty program members in the lead up to self-exclusion. Details of this project have been discussed on several occasions with VCGLR representatives, including a VCGLR data subject matter expert, in late 2017 and early 2018.

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<sup>1</sup> Fifth Review of the Casino Operator and Licence, Victorian Commission for Gambling and Liquor Regulation, June 2013, pg. 99



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The Crown Model Trial is expected to start in the week commencing 25 June 2018.

### 4.2. Responsible Gaming Support Centre – staffing

Executive management has approved the recruitment of five (5) additional Responsible Gaming Liaison Officers. Recruitment commenced in May, with a great result of four (4) internal candidates almost finalised, start dates will commence from late June. A second campaign will commence after a brief break.

### 4.3. Victorian Responsible Gambling Foundation (VRGF)

The VRGF has been conducting meetings with stakeholders to provide feedback on its stakeholder engagement strategy. Responsible Gaming and representatives from the VRGF met to discuss feedback, as well as general points of interaction with the VRGF. Also advised was that Responsible Gambling Awareness Week (held annually in October), would be re-named 'Gambling Harm Awareness Week' (in Victoria).

## 5. LEGAL

### 5.1. Car Parks

Crown Melbourne has transitioned from the temporary car park at Montague Street back to Clarke and Clarendon Street car parks and Vic Roads have finished their works related to the Citylink/Tulla Widening Project at these car parks.

To date, all of Crown's compensation claims in relation to the occupation of the car parks have been paid in full.

Crown had preliminary discussions with the State in relation to a potential purchase of these car parks in which the State advised that they would deal with Crown exclusively once the valuation of the land was completed. The relevant lease expired on 4 August 2017 and Crown is currently occupying the land pursuant to a monthly tenancy. The Department of Treasury and Finance (DTF) has had the land valued however DTF has not advised Crown of the valuation due to the Vic Roads objection to any sale on the basis that the land should remain State owned. DTF has not been able to resolve this objection with Vic Roads despite the proposed sale conditions (land to be used as a single level car park only with an easement allowing Vic Roads access to perform maintenance to the Westgate Freeway) aimed at protecting Vic Roads' interests. DTF has advised that a sale is unlikely and that Crown would likely have to negotiate another long term lease of the land. DTF is preparing another confidential Brief with recommendations for the land which is scheduled to go to the Minister around end of June. In the meantime Crown continues to occupy the land pursuant to the monthly tenancy.

### 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



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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).

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On 15 March 2018, Crown issued a further draft of the co-existence agreement which is currently being reviewed by IHG.

The parties have agreed to suspend court and tribunal proceedings where possible (including, in the USA) in an attempt to seek to resolve matters.

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### 5.3. Navin Kumar Aggarwal – K&L Gates (Lawyers)

Southbank Investments Pty Ltd (Crown Melbourne's bank account for deposit of patron funds), Crown Melbourne Limited and Burswood Nominees Ltd (the Crown Parties) have been served with claims for return of allegedly stolen funds (\$3,985,191 and \$1.9m respectively), gambled by a Hong Kong solicitor who defrauded the trust account of K&L Gates. There are 11 other casino defendants, including Golden Future (Altira Macau), Wynn and Venetian Macau.

Crown on a without prejudice basis offered to settle all claims against the Crown Parties, on a no admission of liability basis for HKD5,000,000 (approximately A\$826,400.00). This offer was rejected.

K&L Gates subsequently amended its Statement of Claim to include claims against the Crown Parties, to include:

1. Reporting obligations to AUSTRAC and know your customer requirements under Australian anti-money laundering legislation; and
2. A negligence claim for alleged failure to report to the relevant authorities (particularly AUSTRAC) in a timely manner which, it is asserted, if so reported Aggarwal's fraud would have been detected.

The Crown Parties have filed their amended defences denying the above allegations, which also included a claim for contributory negligence and/or counterclaim against K&L Gates who failed to detect Aggarwal's fraud.



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K&L Gates subsequently served a counter offer to settle the claim for HKD24,500,000 (approximately A\$3,947,218) with mutual releases but no indemnity and each party bearing their own costs. Crown rejected this offer.

After a lengthy period of lack of interest on the part of the Plaintiff, a mediation was held on 27 October 2017 with the Plaintiff and the casino defendants. The matter did not settle at the mediation. However, Crown raised with the casino defendants and the Plaintiff a proposed settlement based on the “buying out” of defendants’ unrecoverable costs rather than based on the amounts claimed, subject to full releases and an indemnity against any potential third party escrow claims. The Plaintiff indicated for the purpose of mediation it would accept HKD80,000,000 (from the all defendants) by inference HKD20,000,000 from each of the four casino defendants. The 3 Macau based casino defendants, expressed strong opposition to settling the matter (particularly Wynn and Venetian). In any event,

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Attachment 1

Crown Melbourne Corporate Risk Map – June 2018

