



Regulatory & Governance Update July 2018

1. AUSTRAC

1.1. All Compliance Assessments now closed

The two Compliance Assessments of 2017 have now been formally closed by AUSTRAC, with the earlier assessment (**General and Junkets Assessment**) closed on 18 May 2018, and the latter (**EGMs Assessment**) on 19 July 2018.

No non-compliances were identified by AUSTRAC in respect of the two assessments. There were however several recommendations made in each Assessment.

Crown Melbourne has made a number of changes to its AML/CTF Program to reflect AUSTRAC's recommendations from the General and Junkets Assessment and to reflect its ongoing compliance with the AML/CTF Act and AML/CTF Rules, which are currently being finalised for approval.

Crown Melbourne is currently working through implementing each of the recommendations from the EGMs Assessment. AUSTRAC has requested that we keep it abreast of any material changes to our Transaction Monitoring Program (**TMP**) as a result of the work currently underway by the specially-created project team on automation opportunities, as well as the results of the independent review that we will have conducted on our TMP - at AUSTRAC's recommendation - in advance of the contemplated joint program from Crown Perth and Crown Melbourne.

1.2. AUSTRAC enquiry – Suncity

As previously reported, Crown Melbourne received an enquiry from AUSTRAC in May in relation to a large cash transaction involving the Suncity Room (Chau Cheok Wa junket (**CCW**)). It should be noted that AUSTRAC has previously (early to mid-2017) made enquiries with Crown regarding Suncity and CCW which we have responded to.

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 relocation of the junket from Pit 86 to Pit 38, a salon within the Mahogany Room.

We have had no further correspondence with AUSTRAC on this matter.

1.3. 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 and Regulatory agencies and Crown. It is also noted that we can expect AUSTRAC to gain a deeper understanding of how Crown operates and also, potentially, have more frequent access to our data. The Fintel Alliance opportunity is a positive step in Crown's ongoing focus of working in a proactive and productive manner with AUSTRAC.

1.4. AUSTRAC Reporting

In respect of Crown's obligation to report threshold transactions, international funds transfer instructions and suspicious matters to AUSTRAC:

- the AML team is investigating software available to it to enhance the existing quality assurance measures (specifically, by running another check over the data for completeness and accuracy in advance of uploading to AUSTRAC, as a supplement to the existing manual process);
- as foreshadowed in June, IFTI reporting at Crown Melbourne has moved to the AML team, with the Group General Manager – AML and the Cash Transactions Reporting Manager reviewing the IFTIs on a daily basis in advance of uploading the information to AUSTRAC. This change in process will align with Crown Perth's current processes;
- any IT change impacting AML across Crown is escalated for the approval of the Group General Manager – AML and the Group Chief Information Officer; and
- the assurance process in respect of AUSTRAC reporting for Crown Melbourne (the end-to-end review of the manner in which Crown meets its threshold, international funds transfer and suspicious matter reporting obligations) has now commenced.

1.5. Joint Program

As previously reported, we continue to progress the work to align our Perth and Melbourne AML/CTF Programs into a joint program. The joint program will undergo an external review prior to being rolled out. The joint program will also include Crown Sydney in due course. AUSTRAC is supportive of this initiative.

1.6. 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.



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2. RISK MANAGEMENT

2.1. Corporate Risk Profile Review

Since the last report in June 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.

Key events that have taken place over the period include:

- The Victorian Commission for Gaming and Liquor Regulation (**VCGLR**) has finalised its report on the Section 25 Casino Licence Review. It is expected that the Report will be published shortly.
- The VCGLR is currently investigating new allegations raised by Mr Wilkie in April 2018 regarding plastic picks being used on continuous play machines and multiple loyalty cards. The Gaming & Wagering Commission of Western Australia (**GWC**) is also assessing these matters in Perth.
- The VCGLR continues to investigate the China incident. The VIP structure has been reviewed and continues to be enhanced.
- AUSTRAC has issued Crown Melbourne with a letter closing out its June 2017 AML/CTF Compliance Assessment (which was a general assessment with a focus on junkets).
- AUSTRAC also issued a report addressing the 2017/2018 Assessment carried out on gaming machines as a result of the initial Wilkie allegations, in which it made no adverse findings, however provided 10 recommendations for Crown to consider. Crown responded to those findings and Austrac has now formally closed the matter.
- 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 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 with Crown, together with Star and Sky City lodging a submission with the Federal Treasury Department seeking an exemption from this proposal.
- Premium gaming turnover is materially over budget overall, although this is tempered by lower win rates in Melbourne in particular.
- Whilst changes in the VIP operating model have reduced credit risk, collection challenges continue to be worked through, particularly for China debts. Through F18 Crown Melbourne has increasingly taken a conservative approach to debt provisioning, materially increasing its provisioning to 75% of gaming debtors, up from 59% at the same time last year.

These events have not triggered any changes to the identification or rating of risks in the corporate risk profile for the period since the Board last met in June 2018.

The current risk map is provided in **Attachment 1** for information.



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2.2. Update to the Risk Management Framework

As previously reported, 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.

The below changes are continuing to progress:

- 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. Post implementation validation is currently underway to ensure the upgrade was successful. Rollout will begin before the end of the calendar year, and further enhancement will take place along with the implementation in the Melbourne environment.

Other steps are still in progress and include:

- 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 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.

Updates on the progress in terms of resourcing are as follows:

- Risk Analyst – *the focus of this role will be to support the Risk function in its reporting responsibilities to management, Boards and Committees, creating risk dashboards from*



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operational data and analysing results for risk trends and emerging risks – An internal candidate accepted the role and will begin on 13 August.

- Three (3) Risk Managers - *located throughout the organisation, but reporting to the GGM R&A. They will be the risk champions available to key business areas for advice and support and will challenge the business on day-to-day operations.* An offer has been made, and acceptance is pending, another candidate is in final stages of interview, and further interviews are underway for the third position.
- 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.* Two strong candidates have been identified and are progressing through the interview process.

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 management, board and 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

The new Compliance Framework continues with the following business units 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
- 14) IT

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

- 1) Gaming Machines Technical (August 2018)
- 2) VIP International (August 2018)
- 3) Events and Conferencing (TBC)



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- 4) Legal (TBC)
- 5) Regulatory and Compliance (TBC)
- 6) Projects (TBC)
- 7) Showroom (TBC)

3.2. Compliance and Regulatory Matters

3.2.1. China Matter

The VCGLR has not yet finalised its investigation into the China matter. The VCGLR has expressed concerns regarding the timeliness of providing documents to the investigations team, to which Crown and Minter Ellison have responded. Crown and Minter Ellison continue to be engaged with the VCGLR regarding this investigation.

The VCGLR continues to investigate the China matter.

REDACTED - PRIVILEGE

3.2.2. 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.

REDACTED - PRIVILEGE

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 of the Presentation is in progress.

3.2.3. 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.

Since the last Report, the VCGLR attended at Crown and requested (and was provided with) a number of linked Rewards Cards to test the functionality of continuous play and multiple accounts. Crown has not received any information or outcome resulting from the testing. Note – the 2007 VCGLR Rules for the Casino authorise the playing of up to three gaming machines at a time.

On 18 July 2018, the VCGLR provided Crown with a notice pursuant to s 26 of the Casino Control Act 1991 (Vic), requiring Crown to provide any authorisations it has in relation to the button picks by 27 July 2018; and a response on multiple enquiries (including, by way of



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example: who manufactured the picks; why did Crown produce them; when were they manufactured etc.) by 10 August 2018. Crown has now responded to the first request advising the VCGLR that the original 1997 VCGLR Rules for the Casino (which were gazetted) specifically authorised the use of a device for the depressing of a gaming machine button in order to permit continuous gaming – this clause was removed from the Rules in the early 2000s.

REDACTED - PRIVILEGE

3.2.4. Poker Tax

The VCGLR claims that Crown Melbourne is required to pay GGR gaming tax on the entry fee component of poker tournaments held at Crown. Crown Melbourne has disputed that entry fees are subject to gaming tax, primarily based on:

- For the preceding years, the Rules for Poker Tournaments, approved by the VCGLR, specifically provided that GGR did not apply to the entry fee;
- The ATO has declared that the entry fee component is not a gambling supply and is therefore subject to GST;
- The fee does not fit the definition of GGR or gambling, in that there is no possibility of a return from paying the fee, it is not wagered; and
- The VCGLR has determined that poker tournaments where the buy-in is returned to players as prizes: are permitted outside the casino, are not subject to gambling regulation or a casino licence and are not subject to a gaming tax.

The VCGLR has raised the matter periodically over 11 years and on 2 May 2018 served Crown Melbourne with a Notice under s 26 of the Casino Control Act to provide certain data for an assessment to be made. Crown Melbourne complied with the Notice on 30 June 2018, providing the data, along with a supporting cover letters to aid the reading of the data and outlining a number of set-offs. No response has been received to date. If required

REDACTED - PRIVILEGE

3.2.5. 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 (which were due by 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.

Crown has been engaging with a range of Federal politicians to seek an exemption for casinos from this requirement.

Crown prepared a submission with the The Star Group and Sky City to the Federal Treasury Department seeking an exemption to the \$10,000 proposal on the basis they are already



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major reporters (with the banks and payment providers who are to be exempt) to AUSTRAC, and awaits an outcome.

3.2.6. 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 continues to experience 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

Crown Melbourne's Customer Analytics Team has developed a predictive data modelling tool entitled 'Crown Model' in conjunction with the Responsible Gaming team. A trial commenced on 25 June 2018. The tool uses data available from loyalty program members in the lead up to their self exclusion.

Details of this project have been discussed on several occasions with VCGLR representatives, including a VCGLR data subject matter expert. Discussions included the source data to build the Crown Model (the previous Chair, Dr Bruce Cohen, had 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) and the build and ongoing refinement of the Crown Model, which the VCGLR data subject matter expert was briefed on and supportive of.

4.2. Chill Gaming Products

The Minister has asked the Responsible Gambling Ministerial Advisory Council (**RGMAC**) to provide her with advice on any risks from a consumer protection or gambling-related harm perspective associated with emerging gambling products. The RGMAC established a Working Group to advise it on the risks associated with emerging gambling products.

Since late last year, over several meetings, the Working Group considered emerging products in three main areas: gaming machine products, wagering products and other products, including the potential risks that may be associated with the emerging products.

Several recommendations were developed as a result, and in relation to emerging gaming machine products, many achieved no consensus.

The findings of the Working Group may be relevant to products Chill Gaming products which are currently being developed.

The Final Working Group Report is expected to be presented to the RGMAC at its 26 July 2018.



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4.3. Victorian Responsible Gambling Foundation (VRGF)

As previously reported the annual "Responsible Gambling Awareness Week" will change its name to "Gambling Harm Awareness Week" and this will be held 8 – 14 October 2018. The theme will centre around the call to action 'Talk. Share. Support', and new branding and collateral will be developed. Crown continues to work with the VRGF on this program.

4.4. Cross Property Self Exclusion

Crown Melbourne and Crown Perth have continued working towards a Cross Property Self Exclusion position. Crown Melbourne has applied for approval from the VCGLR to share self exclusion lists with Crown Perth.

The VCGLR has requested meetings to discuss the change and how it would be affected, and have raised a couple of concerns in relation to the concept of self exclusion across both properties. There have been two meetings, one in June and one in July. One concern relates to the concept of persons declining self exclusion as they do not wish to be excluded from both properties for personal or business reasons. This has previously been assessed by Crown and has been addressed with an exception rule, whereby in special circumstances (to be approved at senior management levels), a person can be self excluded from one property only. The other concern relates to Privacy matters the VCGLR has raised in ensuring participants are fully informed. The Crown Privacy Officer has reviewed these concerns, and is satisfied that they are met, however, additional information will be included in the application form to assuage VCGLR concerns. We are currently working with the VCGLR in relation to their concerns and expect that the Cross Property Self Exclusion can be implemented within the next couple of months.

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.

REDACTED - PRIVILEGE

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



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with recommendations for the land which is scheduled to go to the Minister around end of July.

REDACTED - PRIVILEGE

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

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.

REDACTED - PRIVILEGE



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REDACTED - PRIVILEGE



5.4. 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 Limited.

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.

REDACTED - PRIVILEGE



The matter will return to court on 12 November 2018 for a further case management hearing.

Attachment 1

Crown Melbourne Corporate Risk Map – June 2018

