

## Royal Commission into the Casino Operator and Licence

### STATEMENT OF STEVEN BLACKBURN

**Name:** Steven Blackburn

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**Occupation:** Group Chief Compliance and Financial Crime Officer, Crown Resorts Limited

**Date:** 7 June 2021

1. In this statement I refer to:
  - (a) Crown Resorts Limited, the ultimate holding company, as “**CRL**”.
  - (b) Crown Melbourne Limited, a company wholly owned by CRL, as “**Crown Melbourne**”.
  - (c) CRL, Crown Melbourne, Crown Sydney Gaming Pty Ltd (“**Crown Sydney**”) and Burswood Nominees Limited (“**Crown Perth**”) collectively as the “**Crown Group**”.
2. Unless indicated otherwise, I make this statement from my own knowledge or on the basis of documents of Crown and CRL that I have reviewed.

#### **A. Overview**

3. In this statement, I intend to apprise the Royal Commission of, among other things,
  - (a) my assessment of the current state of maturity of the Crown Group’s financial crime program;
  - (b) further detail in respect of the Financial Crime and Compliance Change Program (“**FC&C Change Program**”) (**CRW.512.081.1750**), which was endorsed by the Board of Directors of CRL on 24 May 2021 (**CRW.512.081.1791**); and
  - (c) the status of the various external reviews of the Crown Group’s financial crime program and the current state of the Crown Group’s implementation of the recommendations provided to date by Deloitte Financial Advisory Pty Limited (“**Deloitte**”) pursuant to their review (**CRW.512.023.0100**) and Promontory Australasia (Sydney) Pty Ltd (“**Promontory**”) pursuant to their review of potential AML vulnerabilities faced by the Crown Group (**CRW.512.086.0003**).

**B. Current state of the maturity of the Crown Group's financial crime and compliance programs**

4. To assess the current state of maturity of the Crown Group's financial crime and compliance programs, I reviewed the key components of both programs with a particular focus on capacity and capability, risk appetites and assessments, policy frameworks, reporting, oversight, assurance, training, roles and responsibilities, customers and controls, data and systems. In respect of financial crime, I considered whether in aggregate these elements effectively address the primary purpose of reducing the likelihood that the Crown Group is inadvertently facilitating financial crime whilst assisting the other two key stakeholders in Australia's financial crime regime, government and law enforcement, in detecting, deterring and disrupting crime. I also considered each element in the context of my understanding of regulatory requirements, regulator expectations and the financial crime programs of other reporting entities (as that term is defined in the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) (*AML/CTF Act*)).
5. The Crown Group has significantly invested in its financial crime program over the last year and a half. With the investment allocated in part to the introduction of a number of foundational risk mitigation measures, such as the prohibition against transfers from third parties and money remitters, and the expansion of the financial crime team, there has been a corresponding reduction in Crown's forward-looking financial crime and regulatory risk profile. Many of the changes introduced by the Crown Group to reduce its exposure to financial crime risk are detailed in my responses to the Royal Commission's previous Requests for Statements and the responses of Nick Stokes, John Salomone and Xavier Walsh.
6. To effectively manage financial crime risk and the associated regulatory risk, the Crown Group must continue to evolve the financial crime program through further material and ongoing investment in capacity, capability and technology. With ongoing investment, the Crown Group will be able to improve its financial crime program and its contribution to the detection, deterrence and disruption of crime.
7. In its current state, the Crown Group's compliance program addresses regulatory requirements but requires greater resourcing and investment to better position the Crown Group for regulatory change and responsiveness.
8. As articulated in the FC&C Change Program pack (**CRW.512.081.1750**), I have assessed the overall maturity of the Crown Group's financial crime program as foundational, meaning the entity has a compliant Joint AML/CTF Program (as defined in the *AML/CTF Act*), most processes are documented, foundational resources and capability are in place, largely manual processes are deployed and basic controls and systems are operating.

9. With any reporting entity, the various individual elements of the financial crime program may be at different maturity levels. When considered individually, the majority of the elements of the Crown Group's financial crime program are foundational with a small number of elements at either an initial stage or transitioning to foundational. Whilst the Crown Group's program is effectively operating given its aggregate maturity, it is important to continue to evolve all elements of the program, starting with those that are not yet fully foundational.

### **C. The FC&C Change Program**

10. The FC&C Change Program (**CRW.512.081.1750**) was presented to and endorsed by the Board of Directors of CRL on 24 May 2021. The week prior to endorsement, each Board member was taken through the content of the proposed plan in detail, allowing Board members to ask questions and challenge the plan. With the endorsement of the Board of Directors of CRL, the FC&C Change Program will apply across the Crown Group. The Board of Directors of Crown Melbourne and Crown Sydney noted the FC&C Change Program on 1 June 2021 and 7 June 2021, respectively, and the FC&C Change Program is on the agenda to be noted at the meeting of the Board of Directors of Crown Perth scheduled for 17 June 2021.
11. Since I commenced employment with CRL on 24 February 2021 and in the interest of transparency and collaboration, I have shared copies of a number of relevant reports, including my assessment of the Crown Group's financial crime and compliance programs and the FC&C Change Program, with AUSTRAC and the state gaming regulators.
12. The FC&C Change Program seeks to build on the Crown Group's existing financial crime and compliance foundations, introducing changes that will ensure the stability and sustainability of the programs, whilst enhancing the functions wherever possible and appropriate. To drive the evolution of the financial crime and compliance functions, additional capacity and capability will be introduced under a new structure, with distinct teams developed for,
- (a) financial crime risk;
  - (b) compliance and regulatory affairs;
  - (c) financial crime and compliance operations;
  - (d) financial crime and compliance assurance; and
  - (e) financial crime and compliance solutions.
13. By adding new employees and teams, we will enhance our overall capability by introducing deeper expertise in respect of key components of the programs, like data analytics, financial crime intelligence, and assurance.

14. The FC&C Change Program involves key actions and outcomes, including but not limited to:
- (a) introducing further financial crime and compliance capability and capacity to drive the evolution of our financial crime and compliance programs;
  - (b) clarifying risk appetite statements with respect to financial crime and compliance to guide business activity and better identify, assess and manage risk;
  - (c) improving financial crime and compliance frameworks and document hierarchy to improve understanding and ensure consistency;
  - (d) improving financial crime risk assessment methodologies, including in respect of customers, products and jurisdictions, to better understand where our customers and products may pose heightened risks;
  - (e) introducing a financial crime enterprise wide risk assessment (“**EWRA**”) based on enhanced risk assessment methodologies, to hone our focus on where the risk is greatest;
  - (f) introducing improved financial crime and compliance risk reporting to better arm senior management and the Board to discharge their oversight obligations;
  - (g) introducing a new Financial Crime Oversight Committee accountable to the Board, with all senior business executives, including the Chief Executive Officer, as members, to drive accountability across the three lines of defence;
  - (h) introducing second line of defence assurance to review and report on the effectiveness of the financial crime and compliance programs, to better inform management and the Board where risk may reside and the effectiveness of controls;
  - (i) enhancing current financial crime training to help employees and relevant contractors better understand how to identify and escalate potential financial crime, with a focus on how they can make a difference for those most vulnerable;
  - (j) clarifying roles and responsibilities across the first and second lines of defence to ensure those accountable and responsible for managing compliance and financial crime risk understand their obligations;
  - (k) introducing greater accountability by including meaningful compliance and financial crime-related key performance objectives in performance plans and position descriptions for all relevant employees, including senior executives, to drive ownership and accountability;

- (l) introducing greater rigour around the collection of customer information, particularly in respect of customers in the top two tiers of the Crown Rewards loyalty program and our critical and high risk customers, to better understand the risk posed by our customers;
  - (m) introducing a number of new controls, including reduced cash thresholds, to provide Crown with greater insight into our customers and their activity;
  - (n) introducing data analytics to improve our ability to identify and apply typologies;
  - (o) enhancing existing financial crime and compliance-related systems and considering new technology solutions to simplify our first and second line processes and improve effectiveness;
  - (p) introducing greater rigour related to third party procurement to enhance our understanding of the potential risks posed by the third parties we work with; and
  - (q) facilitating greater convergence between our financial crime and surveillance activities and intelligence, to improve our financial crime reporting.
15. With sustained funding and the commitment of the Crown Group's leadership team and Board of Directors, the FC&C Change Program aspires to achieve an advanced maturity state (in aggregate) for the Crown Group's financial crime and compliance programs by 31 December 2022. The Crown Group will apply a risk-based approach to put in place controls that are aligned to the nature of our business and that are commensurate with the risks we face.
16. With the endorsement of the Board of Directors of CRL received on 24 May 2021, work has begun on several elements of the FC&C Change Program. A key component of the program is the recruitment of 55 new financial crime and compliance permanent employees, doubling the size of our existing team. Our recruitment plan is well underway, with a number of key roles to be advertised this week (the week of 7 June 2021).
17. The FC&C Change Program will deliver a number of new and enhanced controls to improve the Crown Group's ability to manage and mitigate financial crime. The new or enhanced controls were developed with the input of leaders in both the first and second lines of defence. The suite of new and enhanced controls include, but are not limited to, the following:
- (a) **KYC and risk assessment:** enhanced collection of customer information and management of the risk of fraudulent identification through electronic Document Verification Service (eDVS) checks, capturing of occupation codes and citizenship information and changes to Politically Exposed Person classifications to enable end-to-end electronic Know Your Customer (eKYC). This informs a comprehensive jurisdiction

risk assessment and customer risk assessment methodology to be executed as part of the EWRA.

- (b) **Peer-to-peer gaming:** Implementation of additional poker controls to reduce the risk of inadvertent facilitation of financial crime through customer collusion and/or intentional losing.
- (c) **Gaming systems:** system changes which enforce 'carded' play (and therefore, customer identification) via reduced cash thresholds across electronic gaming machines ("EGMs"), electronic table games ("eTGs") and table games ("TGs"), changes to information captured on tickets, capturing of buy-in information for carded play on EGMs and introduction of credit meter limits on EGMs/eTGs. This enables implementation of additional enhanced transaction monitoring ("TM") rules across customer gaming activity.
- (d) **Financial services/Cage:** changes in policy relating to customer identification and verification thresholds and updates to TM rules to further assist in the prevention and detection of structuring, updates to the return of funds policy to prevent DAB accounts/Reward Cards being used like bank accounts, removing safe deposit boxes and enhanced Patron Account controls.
- (r) **Employee:** through training and improved job descriptions, ensuring employees in high risk roles understand and comply with their financial crime obligations, thereby reducing the risk of employees inadvertently facilitating financial crime through their interactions with customers (e.g. grooming).

#### **D. External reviews of elements of the Crown Group's financial crime program**

- 18. The Crown Group engaged a number of third party experts prior to the commencement of my employment with CRL to complete reviews of various components of the Crown Group's financial crime program. These third parties include Initialism (with Grant Thornton), Promontory and Deloitte.
- 19. I am informed by Mr. Nicholas Stokes that, prior to the commencement of my employment with CRL, Initialism was either engaged by the Crown Group, or a discussion regarding a potential engagement occurred, to review and provide advice in respect of range of matters, including the Crown Group's,
  - (a) EWRA;
  - (b) financial crime assurance plan;

- (c) implementation of the AML/CTF Program;
  - (d) transaction monitoring;
  - (e) patron account controls; and
  - (f) reporting of International Fund Transfer Instructions (“IFTIs”).
20. In respect of Initialism’s proposed engagement to assist the Crown Group with developing a financial crime EWRA, I am informed by Mr. Stokes that he agreed with Initialism to use their off-the-shelf ML/TF risk assessment product called AML Accelerate. A licence fee was purchased for this product in November 2020 and work commenced on obtaining various data inputs into the risk assessment. With the Promontory AML Vulnerability and Strategic Capability Assessment foundational to completing the EWRA, Initialism’s work didn’t materially progress over the subsequent months. As the off the shelf solution proposed by Initialism is not designed for casinos, I am working with PwC to develop a more comprehensive, detailed and bespoke EWRA for the Crown Group that I aim to deliver before the end of 2021.
21. In respect of Initialism’s engagement to assist the Crown Group with developing a financial crime assurance plan, I am informed by Mr. Stokes that he received a draft AML/CTF Program Assurance framework document from Initialism on 18 November 2020. Although the original plan was to work further with Initialism to finalise the draft through a series of workshops in late early December, Mr. Stokes decided in late December that it would be more efficient to leverage internal Crown Group resources to complete this work. Mr. Stokes then hired an experienced AML subject matter expert from Grant Thornton who has a strong background in performing assurance and independent reviews in the gaming space. As indicated in the FC&C Change Program, I intend to build a second line of defence assurance team that will perform the assurance activity contemplated in the Initialism draft report.
22. In respect of Initialism’s proposed engagement to assist the Crown Group with conducting a gap analysis in respect of the implementation of the AML/CTF Program, I am informed by Mr. Stokes that he agreed with Initialism that this work would not proceed. Allens and PwC are currently assisting the Crown Group with this work, given their familiarity with the Crown Group’s AML/CTF Program and their depth of resources.
23. In respect of Initialism’s engagement to assist the Crown Group with assessing its transaction monitoring program, Initialism delivered an updated draft report to the Crown Group on 20 May 2021 (**CRW.512.072.0128**). Whilst still in draft, the report confirms that the Crown Group’s transaction monitoring program includes appropriate systems and controls to meet its obligations under s 36(1) of the AML/CTF Act and meets the requirements of Chapter 15 of the AML/CTF Rules. Initialism also expressed the view that the Crown Group has refined and evolved its transaction monitoring program to address the findings of Initialism’s review in 2019

and that the Crown Group's foundational automated transaction monitoring rules appear different to, and more comprehensive than, the proposed automated monitoring rules advised to Initialism in 2019.

24. In respect of Initialism's engagement to assist the Crown Group with assessing the effectiveness of new patron account controls, a preliminary draft report was shared by Initialism with the Crown Group on 24 February 2021. The purpose of the preliminary analysis was to confirm whether the Crown Group's recently introduced patron account controls to prevent cash deposits and third party transfers were stopping these types of payment (or ensuring they were returned in compliance with the Crown Group's policies). The draft analysis shared by Initialism had marked some transactions for discussion. Initialism explained to Allens and the Crown Group that it required significant further data from the Crown Group (and in some cases the Crown Group's bank account providers) in order to confirm whether the transactions identified in its draft analysis were cash deposits or third party transfers due to limitations in the quality of data available (particularly bank account statements). Given the significant further work required to reach a conclusion and that Deloitte had been engaged to conduct a forensic review covering the same scope and more, Initialism was instructed not to proceed. This analysis was carried out by Deloitte as part of phase 1 of its forensic review
25. In respect of Initialism's engagement to assist the Crown Group with assessing the completeness of its IFTI reporting, I am informed by Mr. Stokes that he asked Initialism to extend the scope of the original review, which was limited to inbound and outbound IFTIs for November 2020, to include data from March 2020 and to extend the review to include a sample of remitter IFTIs. I am further informed by Mr. Stokes that Initialism delivered a draft report in respect of IFTI reporting to the Crown Group on 21 January 2021. Given the breadth and depth of resources available at PwC, I have elected to shift this review to PwC from Initialism, with the draft Initialism report to be provided to PwC to assist with their review (**CRW.512.027.0332**) (**CRW.512.027.0626**).
26. The scope of work contemplated under the engagement letters with third parties has not contracted as a result of the decision to shift work to organisations better equipped to manage the volume of work. Rather, the scope of work contemplated has expanded.
27. On 7 June 2021, I submitted a paper to the Board of Directors of CRL relating to the status of the implementation of the recommendations and observations delivered by Deloitte and Promontory to date. I will present the paper to the Board of Directors of CRL at its meeting scheduled for 15 June 2021 (**CRW.512.112.0001**).
28. As advised in my statement in response to the Royal Commission's Request for Statement 007 (**CRW.998.001.0036**), I am in the process of engaging a fully independent reviewer to perform an independent review of the effectiveness of the Crown Group's Joint AML/CTF Program and



the implementation of the Program, in accordance with Section 8 of Part A of the Program. I anticipate that the work under the engagement will commence in the fourth quarter of 2021.

**E. Other**

29. As referenced in paragraph 117 of Xavier Walsh's response to the Royal Commission's Request for Statement 003, I am currently reviewing opportunities to improve processes related to the Crown Group's Group Person of Interest ("**POI**") Policy and Significant Player Review ("**SPR**") Policy. Both Policies continue to operate whilst my review is underway.
30. With respect to the POI Policy, I've instructed the financial crime team to deploy the escalation process contemplated under the Escalation of Critical Risk Customers Policy in place of the routine POI escalation process for customers identified as presenting material financial crime risk. This ensures that customers who present material financial crime risk are promptly escalated to the Chief Executive Officers of each member of the Crown Group for adjudication, with a recommendation provided by the financial crime team. In circumstances where the Chief Executive Officers do not support the recommendation, the customer is then escalated to me for adjudication, in my sole discretion.
31. Whilst I support the principles in the SPR Policy, I am considering whether the risk rating assessment methodology can be enhanced and whether escalations should continue through the POI Committee or if another channel would be appropriate.

Signed:



Date:

7 June 2021