

File note

Matter Crown | China Union Pay

File No. 011916235

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Author Harriet Craig

Subject **Meeting with Barry Felstead**
Wednesday, 28 April 2021 at 1:00 pm – 3:30 pm

Present: Barry Felstead (**BF**); Christopher Archibald (**CA**); Christopher Carr (**CC**); Anna Dixon (**AD**); Jessica Elliott; Harriet Craig

General

- 1 BF advised he is more than happy to cooperate but noted that he has retained lawyers to act for him in relation to the ASIC investigation and the inquiries so doesn't wish to speak about those matters without his lawyers present.
- 2 BF was the CEO of Crown Perth from 2007 to 2013 and then the CEO of Australian Resorts at Crown which covered Melbourne and Perth. BF took over responsibility for the VIP International operations in March 2013 at Rowen Craigie (**Rowen**) and James Packer (**James**)'s request. BF noted that he wasn't prepared to go and get customers which was a sore point with James.
- 3 When BF took over VIP International, he inherited a strong team. Jason O'Connor (**Jason**) reported to BF and Michael Chen reported to Jason. The main focus was growing the business, getting business from China and getting more visibility in the international market. BF was tasked with that and worked closely with Michael Johnston.
- 4 When BF took on Melbourne responsibilities, he had 14-16 direct reports. Every business unit in Melbourne and Perth reported to BF, including International.
- 5 China Union Pay was already in place when BF became involved in Melbourne. BF wasn't there for the set up of China Union Pay but he was aware that it existed.

Remitting funds from China

- 6 BF doesn't recall there being any meetings of the VIP Working Group prior to BF joining. He advised that it definitely didn't start before he came to Melbourne.
- 7 CA wanted to go back to the issues encountered in growing the international business before 2013. He asked whether BF could explain how transferring money to Crown from overseas was a difficulty for Crown or an issue that needed to be solved in order to promote growth in the business. BF advised that it was one of the challenges that the VIP Working Group worked on. CA noted that he wanted to understand what it was like in 2012 before the VIP Working Group began. BF advised that he was always aware when he was directly involved in VIP that one of the issues was customers remitting funds for payment. Typically, this would be done in one of several ways: 1) funds transfers from Australian accounts, 2) funds transfers from overseas accounts, 3)

via money changers (although he's not exactly sure how they worked) and 4) on rare occasions, customers would bring in large amounts of cash. BF noted that this was why the business was keen to move to a junket model as it was easier to transfer money from overseas into Crown accounts through the junket model.

- 8 When asked how the business was considering how to deal with those difficulties before BF came to Melbourne, BF advised that most of the work in relation to getting customers' funds onshore occurred when he was in charge of Melbourne and Perth. There were issues prior to that but BF was more involved post-2013.
- 9 BF noted that Crown's exploration of viable options escalated post-2012 because more countries brought in restrictions and transmitting funds to Crown became more difficult. This meant that there was more of a push towards junkets, who had accounts from which money could be moved. It was the responsibility of junkets to move money from point A to Crown's accounts. It was more difficult for Crown to deal with customers in China as they would tell Crown that they couldn't get money out. BF noted that China Union Pay probably escalated from here because it was another way of customers getting access to funds when they were at Crown.
- 10 CA asked what BF understood at the time to be the way in which Crown dealt with or ensured it was compliant with laws in circumstances where the customers were from countries that had restrictions on the movement of currency. BF advised that any proposed method would go through a rigorous process including obtaining legal advice, all money coming in was reported to AUSTRAC and standard due diligence was carried out on customers. BF thinks that, in 2014 or 2015, he and Michael Chen met with Wilmer Hale and with Mintz in relation to the ways Crown could legally get funds out of China including opening an account in China or opening an account in another country. He recalls the general advice being that these options wouldn't work.
- 11 At the same time, Michael Johnston was working on a project with Steve Bennett looking at alternative options. They considered whether Crown could get cash from Macau and then transport it to Australia and also considered whether money could be deposited at Crown's sister casino in Macau, City of Dreams, and then conduct a sweep or a transfer to Melbourne or Sydney. Neither of these options eventuated because the general advice was that Crown couldn't do it like that.
- 12 CA noted that he has seen references to advice from Wilmer Hale on other topics but not this topic. BF thinks the advice was mostly just from Mintz. He recalls meeting with Randy Phillips in Beijing to discuss the ways that companies in China were moving funds overseas. He thinks that was a sit-down discussion but expects that Crown also got the advice in writing. He noted, however, that there was nothing Mintz could come up with that would help Crown. The advice wasn't feed back to Melbourne because the advice was that there was no easy way to get money from China to Australia.
- 13 BF doesn't recall China Union Pay being discussed at the meeting with Mintz or at any other time and noted it was probably because it was already being used. The issue was how to get funds from China to Australia, but China Union Pay was more beneficial for customers who were already at Crown who may have run out of money.

Restraints on moving funds out of China

- 14 When asked what he understood the constraint to be on getting funds out of China, BF advised that he thought it related to the \$50k limit. He knew customers would move a lot of money to Vegas casinos and that there were firms like Regal Crown which would



move money from customers to casinos. Crown looked at these options, but it didn't seem like they would be legal.

- 15 CA asked what considerations Crown had in place to be satisfied that it was ok to accept \$100k from a Chinese customer given there was a \$50k limit on getting funds from China. BF advised that the transaction would be reported to AUSTRAC. He noted that junkets had fairly well-established ways of moving funds from overseas. Most junkets were in Macau, so City of Dreams was a big repository of funds for Crown. Customers would deposit chips at the cage and the money would come to Australia via a sweeping arrangement. BF said that, in terms of how a customer paid the junket and the junket got funds to Crown, Crown saw that as the responsibility of the junket operator.
- 16 CC asked whether, if a customer brought \$500k from China, Crown would accept the money. BF advised that they would typically accept it unless there was some reason not to. If, for example, they didn't know the customer and the customer brought a large amount of cash, there may have been a reason to be suspicious. BF noted that most customers were known to Crown and it was rare that customers would bring large amount of cash. Most funds were transacted through a money changer.
- 17 When asked whether there was any issue with accepting money sent via a money changer in breach of the \$50k limit, BF said it didn't raise alarms. The customer may have, for example, had money offshore. Crown wouldn't have known if the money originally came from China or from somewhere else if it came through a money changer.
- 18 BF doesn't think Wilmer Hale gave advice about the \$50k limit. He advised that the Mintz discussions were more about new ways to move funds offshore.
- 19 BF doesn't image too many businesspeople in China would say "if I can only move \$50k out of China each year, how can I run a business?". He noted that this isn't practical, and that people would find a way to move money.
- 20 BF doesn't recall the exact time he became aware the limits on moving funds out of China. He advised that he was always aware that there were restrictions on currency movement. AD referred to Crown's FY14 business plan and noted that it recognised that increasing restrictions on cross-border currency movement was putting pressure on profits. BF advised that if customers can't pay, then they can't do business. One excuse customers would give was restrictions on moving money offshore. Sometimes this was true but other times it wasn't and was just used as an excuse. He doesn't think this was the biggest issue because customers could still move money. One of the biggest issues for him was increasing competition and competitors paying higher commission rates than Crown.

VIP Working Group

- 21 CA noted that the business plan seemed to coincide broadly with the beginning of the VIP Working Group and asked how the VIP Working Group was driving solutions for the issue of remitting funds. BF advised that he, Michael Johnston and Jason were looking at ways to remit funds. It was certainly an area of focus because they knew it would get harder for customers to move money out of various countries. Luckily Crown had the help of CPH which had a look of good resources from Crown's perspective. CA asked whether CPH contributed positively or whether they would have been perceived by anyone on Crown's side of the VIP Working group as external pressure. BF didn't see CPH as pressure but advised that some of the older established people in VIP might have "got their noses out of joint" because things had always been done in a certain way.



- 22 AD noted that there was a \$200k cap on China Union Pay but that NAB had said customers could possibly withdraw up to \$999,999. She asked whether increasing the cap was ever an option that the VIP Working Group discussed. BF didn't think the VIP Working Group would have discussed it because China Union Pay was of more benefit for customers in Australia rather than for junkets. He didn't see China Union Pay as a panacea for all currency movement issues. AD noted that the cap was eventually lifted to \$500k and asked whether BF knew the justification for keeping the cap. BF didn't know but said that Star was very active in that space and was possibly giving customers up to \$1m.

CA referred to document CRW.514.071.3304 –The document couldn't be located so a general description was given instead

- 23 CA noted that the "take out" was that BF and Jason were to look into whether there is an opportunity for customers to use China Union Pay to access money. BF thought this seemed unusual given Crown was already using China Union Pay. He thought it may have meant investigated whether there were other ways Crown could use it.

Review of China Union Pay

CA showed BF document CRW.523.002.0331 – Document entitled "VIP International Credit and debit card cash out review" dated 6 June 2013

- 24 CA noted that the document appears to have been prepared in Melbourne by the VIP but that it doesn't have an author. CA noted that the "Background" sections says that patrons can obtain access to their funds "via cash outs". BF advised that cash out would be at an ATM. He noted that, in Melbourne, there's a restriction that ATMs have to be 50m from the casino so he assumes the cash out terminal would have to have been in the hotel.
- 25 CA noted that the "Background" section suggests that China Union Pay has been happening since August 2012. BF had understood that China Union Pay was only a debit transaction. He didn't realise they could use credit cards back in 2012. BF doesn't have a great memory of Crown accepting credit cards for large customers but knows Crown accepted China Union Pay. CA asked whether BF understood that Crown only accepted transactions for debit cards or that China Union Pay itself was only ever a debit card. BF thought it was the latter.
- 26 CA asked whether the credit / debit distinction was a relevant factor in assessing the prudence of adopting the process. BF thought it was because it was less risky if customers were withdrawing funds that actually exist. When asked what the risk is for Crown, BF advised that there was probably no risk, but that he would pick debit over credit. If a Chinese customer had a credit facility then Crown needed to get the money back, whereas if a customer transferred money over then Crown already had it. BF said there's probably no difference between debit and credit cards but that debit cards seemed to be the safer option.
- 27 BF noted the "Usage to date" that 14 customers have use the facility withdrawing a total of \$2.1m. He commented that this is "rats and mice". CA asked whether BF remembered it later becoming more substantial and BF commented that he couldn't recall but expects that it would have.
- 28 CA noted that the document is headed "review". BF doesn't recall a review being carried out within VIP International. When asked whether the review would have been



prompted by the VIP Working Group, BF advised that thinks there would have been a link and that the document would have done to the VIP Working Group.

- 29 CA asked whether the “Key steps” page looked to BF like the China Union Pay policy. BF doesn’t recall seeing it but said that it’s obviously a policy the VIP team had. BF advised that the policy was VIP-led, and that Hotel and the Cage were the end product of it because the policy was facilitated through them.
- 30 CA asked whether BF had any concerns about the practice or the policy when he learned about it in 2013. BF advised that he probably didn’t have concerns because typically these things go through Legal and he understood the process to be legal. He thinks they got advice when considering changing the cap to a larger amount. He advised that the process came about because customers were asking for it because it was available at other properties. Crown implemented it but with a smaller cap than other properties. BF recalls the sales team always pushing for larger amounts. He noted that customers would travel to another casino, get money out on their China Union Pay card and then either bring it back to Crown Melbourne or the casino would send the money to Crown. He couldn’t recall whether customers actually brought in cash.
- 31 When asked how he came to understand that there was legal advice on China Union Pay, BF thought it was probably through conversations with Jason who would have said that they have legal advice and that it’s also been past the Finance department.

VIP Working Group

Document CWN.514.071.3304 located and shown to BF – document entitled “VIP Review Workshop #1 held on 9 April 2013”

- 32 CA noted the following workstream summary: “Foreign Currency: Look into whether there is an opportunity for customers use China Union Pay to access \$”. BF suggested that this may have been about ways in which it could be expanded, including larger limits.

CA showed BF document CWN.514.078.5672 – document entitled “VIP Review Work Streams – Meeting 5 August 2013”

- 33 CA took BF to item 13: “Foreign Currency – CUP: Look into whether there is an opportunity for customers to use China Union Pay to access \$”. BF thought that this might be a reference to whether there are other payment methods like China Union Pay that Crown could use. He noted the references to “Telebite/PayEco, Regal Crown and Everforex” and advised that none of them ever got off the ground. He recalls Regal Crown and said that Crown knew Gordon McIntosh because he worked for Crown for a period of time.
- 34 CA noted the reference to a “decision re CUP debit cards” and asked whether BF recalls what the decision was about. BF didn’t know because Crown was already using China Union Pay. He thought it was highly unlikely that Crown started using China Union Pay without getting legal and banking advice. The only thing he thought it might be was advice on whether Crown could get around limits on cards. He said it wasn’t the style of people in that department to do something without getting advice, but he said CA would need to speak with Jason or Roland. He referred to the people in the meeting, including Rowen Craigie, Alan McGregor, Craig Spence and Michael Neilson, and said it would seem unusual for them to be doing something that hadn’t ready received advice.



- 35 CA asked about Crown's risk appetite when considering or getting legal advice on processes. BF advised that it was fairly robust. He expects that the advice would have been that Crown can take money from a China Union Pay debit card although it might have had caveats which he thinks related to the amount of the transaction rather than whether it was legal or not.
- 36 When asked about the robustness of the risk assessment given the pressure on profits as a result of greater restrictions on currency movements, BF advised that China Union Pay was never a game changer but was just something to add to Crown's arsenal. He knows that Crown wouldn't have done something illegal to grow profits. One risk Crown would take related to credit because the general consensus was that if they wanted to expand then they needed to take on more credit risk.

CA showed BF document CRW.514.051.3129 – document entitled “VIP Review Work Streams – Meeting 17 September 2013”

- 37 CA referred to item 13: “Foreign Currency – CUP: Look into whether there is an opportunity for customers to use China Union Pay and Global Cash Access”. BF didn't understand why the paper was talking about opportunities for customers to use China Union Pay given that they already were. BF noted the “Update 17 Sept” and commented that it seems like the paper uses an old heading. The update shows that the legal advice was done after China Union Pay was put in place. BF can't recall having any concerns about this – he would have thought legal advice was obtained when they started using China Union Pay. He commented that it was possible that the old legal advice related to debit and credit cards generally and that advice may have just become specific to China Union Pay.
- 38 When asked who at the meeting was most interested in discussing China Union Pay, BF said it possibly would have been Roland. Michael Johnston's interest was more around the movement of funds, credit and generally growing the business. This was more specific so was probably Roland and Michael Chen. BF considers that China Union Pay is slightly different to the movement of funds because this was getting money from their China Union Pay card in Australia rather than someone in China repaying Crown.
- 39 BF advised that China Union Pay was good to have but it wasn't the solution for junkets. The limit was never going to satisfy a VIP customer. BF thought that smaller players (\$50k-\$100k) would have used China Union Pay as front money and \$500k players would have used it as a top up when they ran out of funds. He doesn't think that larger (e.g. \$10m) customers would have used it because they couldn't get the money they were after.

Policy

CA showed BF document CRW.523.002.0023 – document entitled “VIP International Credit and Debit Card Cash Out Policy” dated September 2014

- 40 BF doesn't recall this particular document but advised that the approval of this type of document would have involved Jason speaking with BF. He noted that the limit increased to \$500k and said that Jason would have asked whether he was comfortable with it. The VIP Working Group would have focused on whether the limit can be increased and BF was possibly part of the group that approved the increase. He assumed that they got legal advice. BF wasn't surprised to see the \$500k limit.



- 41 CA noted that the 48-hour requirement has dropped away. BF advised that he hadn't recalled the 48-hour requirement.
- 42 CA asked what advice or contributions would have been obtained from other areas of Crown dealing with compliance, risk and AML. BF expects it would have gone through Debra Tegoni (**Debra**) as the AML officer at the time. It was the practice to get legal advice on these types of things and BF would have relied on the process.

Hotel work instructions

CA showed BF document CRW.523.002.0001 – document entitled “How to Process a Main Cage Purchase for a Gaming Guest”

- 43 CA explained that the document is the work instructions from Hotel for the China Union Pay procedure. BF advised that he definitely would not have seen this document.

AML

- 44 CA noted that the VIP International Credit and Debit Card Cash Out Policy referred to the Cage as being responsible for carrying out its usual AML procedures. BF advised that he didn't have any view of the Cage's usual AML procedures.

Responsibility for introducing process

- 45 CC asked who had responsibility for introducing, varying and determining the availability of the China Union Pay process. BF advised that it was Roland through to Jason. Jason reported to BF but would have had a reasonably free rein for this type of process.

Reuters article

- 46 CC asked whether BF perceived there to be any difference between a customer finding a way around the \$50k limit and Crown having a process which allows the customer to find a way around the limit. BF noted that customers regularly went to jewellery stores and bought \$100k bracelets using China Union Pay. He didn't see a difference between that and what Crown was offering.
- 47 CC noted that a Reuters article dealt with almost exactly that situation and explained that in Macau, customers were using their China Union Pay card at a jewellery store and receiving cash for gambling. BF advised that that was very different because it was a way to circumvent credit restrictions in Macau and the casinos were involved and facilitated that.

CC showed BF the Reuters article entitled “Special Report: How China’s official bank card is used to smuggle money” dated 12 March 2014

- 48 BF explained that there's a distinction because, at Crown, customers weren't buying a fake item. Rather, they were doing a transaction in the casino which Crown had legal advice to say was legal.
- 49 CC noted that there has been a suggestion that the fake transactions in Macau are common knowledge. BF advised that the way Macanese casinos run is common knowledge that he has been to Macau and seen it in person. CC noted that there has also been a suggestion that it is common knowledge that the procedures in Macau violate China's AML laws and restrictions on currency movement. BF said that this is because they are fake transactions. When asked whether it was because customers



were using China Union Pay cards to obtain money that they're not really allowed to take out of China, BF said "sure".

- 50 BF understood that the China Union Pay process gave customers chips. He said it is possible that a customer could cash in those chips but said that they typically received them to play. He doesn't think the cage would have given cash straight up and said that the point wasn't to provide a cash out service but to give customers chips for gambling. He advised that a customer can't cash in a chip purchase voucher as it is for the purchase of chips. At the end of play, a customer could convert chips into cash (unless they had a credit facility they had to pay back).
- 51 BF doesn't recall reading the Reuters article or discussing it with Jason but is aware of the content. AD asked whether it was sent in the context of concerns about China cracking down on overseas gambling or movement of funds. BF didn't think so and doesn't recall Jason or anyone else suggesting that Crown shouldn't be accepting China Union Pay. He said this is evidenced by the fact that the limit subsequently increased. China Union Pay wasn't something BF was ever concerned about prior to the China arrests. BF advised that they were concerned about the limits but not the legality. It never crossed his mind that it was risky.

CA showed BF CRL.522.001.0136 – document entitled "F16-F20 Strategic Business Plan Executive Review"

- 52 CA noted that he understands the plan was created in FY15 looking forward. He referred to the statement on page 4 that "the prevailing feature of the current international market place is uncertainty" and "[the Chinese] Government is also trying to close down the uncontrolled outflow of currency, and the "underground banking system" that supports it. This has also brought attention to the use of China Union Pay cards to access money overseas". BF recalls the Chinese government trying to close down the uncontrolled outflow of currency. BF think the "underground banking system" is the ways of people moving money out of China – whether through money remitters or otherwise. It wasn't a phase he was familiar with but was one used by Michael Chen.
- 53 The document was prepared by others, but BF was certainly across it and was one of the final approvers. Every business unit would prepare a plan for the year and a long-term plan. These plans came to a group which BF was part of which would either include or exclude the plans from the final business plan presented to the Crown Board.
- 54 BF noted that China Union Pay was regarded as different to the outflow of currency but that there was definitely increasing scrutiny regarding the movement of funds from China. CA noted that the document seems to suggest that using China Union Pay to access money overseas is a form of outflow of currency. BF advised that he has a different view but that he won't argue with it. He understands there to be a difference between sending money from China to pay a debt in Australia and paying on a China Union Pay when in Australia. He noted that the statement could have been a reference to the Macanese casinos.
- 55 BF doesn't recall any steps being undertaken after the document was prepared.
- 56 CA noted the statement of page 5 that "Junkets are being much more cautious about moving funds across borders". BF advised that he had observed this and noted that the remittance of funds was getting more difficult. He advised that this didn't have a bearing on Crown's continuation of the use of China Union Pay because junkets weren't using China Union Pay. CA suggested that if junkets were more cautious about moving funds then the China Union Pay solution may have become more attractive. BF advised



that he wouldn't have put the two together. Junkets were a very separate business to individuals and generally had established ways of remitting funds.

Implementation in Perth

- 57 BF has a vague recollection of suggestions about rolling out China Union Pay in Perth in 2016 but isn't sure why it didn't occur. When asked whether he recalls whether the process required notification to the regulators, BF advised that he wouldn't be able to give an accurate answer. He remembers a conversation with the regulator about credit and debit cards at the cage in Perth where China Union Pay may have been discussed.
- 58 CA asked whether there was any sensitivity with approaching regulators and BF advised that Crown had a better relationship with the regulator in Perth than in Melbourne. He advised that Claude Moray would know what happened in Perth.
- 59 CA asked whether BF recalls there being consideration given to whether the Melbourne regulator should be informed about the China Union Pay process, BF advised that he doesn't recall but that it definitely would have been considered as part of the legal advice.

China arrests

- 60 BF advised that after the China arrests, everything relating to China was shut down including China Union Pay.
- 61 CA asked whether, for a process like this to cease, it was as simple as not accepting the transactions any more or whether other things needed to be unwound. BF expects that, with something as simple as China Union Pay, Crown would have just stopped accepting it.
- 62 BF advised that he uses China Union Pay as shorthand for the process of using China Union Pay card at the hotel and receiving a voucher for chips.
- 63 BF doesn't recall any consideration being given to stopping the use of China Union Pay before the China arrests.

Promontory

- 64 BF advised that the name Promontory is familiar and that Josh Preston, who was running Legal and Risk and Compliance for both properties, may have engaged them. He hasn't heard of Alex Carmichael.

Patron to patron transfers

- 65 CA asked whether BF is aware of a process occurring whereby a patron overseas would transfer funds to another patron overseas and the recipient would transfer funds from an Australian account either to the first patron's Australian account or to Crown on behalf of the first patron. BF isn't aware of this and advised that the closest thing he is aware of is money changers.

