



## Regulatory & Governance Update May 2020

### 1. AML UPDATE

#### 1.1. Activities during COVID-19 Casino Closure

With the closure of Crown Melbourne, the vast majority of AUSTRAC reporting ceased due to no gaming and gaming related activity, noting that the AML Team continues to monitor any activity in order to report and comply with our AML/CTF legislative obligations.

The majority of the AML Team has continued to work during the period of closure to progress a number of key projects related to the Joint AML/CTF Program, various enhanced initiatives to support the AML framework and engagement with AUSTRAC on its industry wide Junket Risk Assessment and AML/CTF Program Compliance Assessment.

#### 1.2. AUSTRAC

##### (a) AUSTRAC Compliance Assessments

As previously noted, AUSTRAC commenced its AML/CTF Program Compliance Assessment in September 2019 on Crown Melbourne which focused on Politically Exposed Persons and High Risk Customers active during FY16 and FY19. Crown Melbourne provided all of the information requested in two tranches, with the first tranche provided in October 2019 and the second tranche in December 2019.

In late March 2020, AUSTRAC advised of its intention to conduct an onsite visit as a follow up to the 2019 Compliance Assessment. Dates were agreed and accepted by the Crown AML Team, however AUSTRAC then advised that due to COVID-19 the visit would have to be postponed indefinitely.

AUSTRAC enquired as to whether the Crown AML Team would be available remotely to answer questions or further assist the AUSTRAC Assessment team in the interim period to which this undertaking was given. Crown confirmed that the AML Team would continue to be available remotely.

##### (b) Section 167 Notices – Risk Assessment of Junkets

As previously noted, Crown Melbourne and Crown Perth have been working with AUSTRAC regarding its industry wide Risk Assessment of Junkets providing a range of information and meeting with AUSTRAC to discuss Junkets generally and specifically with respect to Crown.

On 6 April 2020, Anna Lewkowicz, Director of Risk Assessments at AUSTRAC provided the Confidential Draft Risk Assessment for review and comment by the relevant stakeholders.

Crown prepared a response which was considered and endorsed by the Crown



Resorts Limited Risk Management Committee and submitted to AUSTRAC on 13 May 2020. A copy of Crown's response dated 13 May 2020 annexing AUSTRAC's Confidential draft Risk Assessment (incorporating Crown's comments on the draft Risk Assessment) is attached as **Annexure A** for your reference.

### 1.3. AUSTRAC Reporting and AML/CTF Program Matters

#### (a) Joint Program and AML/CTF Framework

As previously reported, operational implementation of the components of the Joint AML/CTF Program (**Joint Program**) will be progressively implemented during 2020. The new Group GM-AML has identified certain areas for focus and will table a detailed implementation plan, noting any proposed changes to the plan, at the next AML/CTF Compliance Committee.

During the current shutdown of the casino, Crown has taken the opportunity to make further enhancements to the Joint Program and AML/CTF Framework with a view to having these operational when Crown's casinos reopen.

Subject to the progress of the implementation of the Joint Program, Crown was originally planning to have an Independent Review of Part A of the Joint AML/CTF Program conducted in mid-2020 by an international consulting/audit firm. With the current closure of the casinos, this review will likely be delayed until the second half of 2020 at the earliest.

#### (b) IFTI Reporting and Telegraphic Transfers

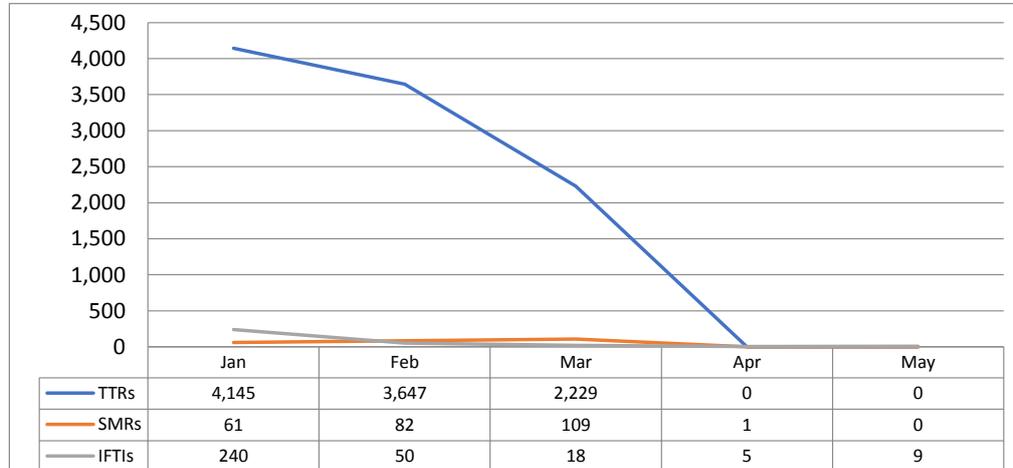
The AML Team is undertaking a fresh review of Crown's Threshold Transactions (**TTR**) and International Funds Transfer Instructions (**IFTI**) processes, including third party transfers. In this respect, as at 8 April 2020 Crown implemented a prohibition on third party payments (save for where senior management (including approval from the AML Team) approval is obtained).

#### (c) Existing Designated Services – Risk Assessment

As part of the enhancements to the AML/CTF Framework, the AML Team is updating the risk methodology which will be used to conduct the 2020 annual risk assessment of Crown Melbourne's ML/TF risks.

#### (d) Reporting statistics (1 January 2020 – 18 May 2020)

The below table details the number of Suspicious Matters Reports (**SMR**), IFTIs and TTRs reported to AUSTRAC by Crown Melbourne for calendar year 2020 (reported by transaction date):



**(e) AML Sentinel Project**

The AML Team is continuing to work with IT to develop AML Sentinel. Since the last meeting the Sentinel Team has developed a Risk Metrics Dashboard to capture:

- Threshold transactions broken down by customer segment and value;
- Melbourne SMRs by customer segment;
- Third party transactions; and
- Certain transactions by customers from heightened ML/TF risk jurisdictions.

The Sentinel and AML Teams will continue to test the Risk Metrics Dashboard when customers return, and data is ingested into the system.

The Sentinel and AML Teams have also started discovery and development work on some additional rules that combine multiple factors to create a notification to be investigated by the AML Team.

Live testing of AML Sentinel, alongside our existing Transaction Monitoring Program system (being largely a manual system) will continue when customers return to Crown, and data is ingested into Sentinel, to further refine the triggers for automated reports and create new appropriate triggers. When Crown becomes satisfied with the triggers, and the performance of the automation functionality, we will look to phase out the manual review of reports.

**2. INTERNAL AUDIT**

Following the closure of the property on 23 March 2020, the Internal Audit team was stood down on 30 March. It is estimated that once the property re-opens, the Internal Audit team will initially focus on providing assurance over re-opening and pre-opening activities and it is



expected that approximately 8 weeks after re-opening, once business operations have stabilised, the Internal Audit program will resume.

### 3. RISK MANAGEMENT

#### 3.1. Material Events

Since the last update in January 2020, a number of existing and new key internal and external events have evolved or materialised which have the potential to impact the overall Risk Profile of the organisation, and particularly its material risk exposures.

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

- The property was closed on 23 March 2020, due to the declared national COVID-19 pandemic, and at the direction of government authorities. Limited activity has continued in hotels, but all other departments have essentially shut down, with approximately 95% of staff being stood down. Security and Surveillance operations remain in place to ensure the security of the facilities, and a number of core staff remain active to handle critical activities and infrastructure, as well as plan for re-opening.

The closure of the property will present a number of challenges as Crown prepares to re-open its doors, including restricted ability to operate (social distancing measure, hygiene and other government imposed conditions); no international business whilst our international borders remain closed; risk of a second wave; customer confidence in returning to our premises; impacts on discretionary spending and impacts on overall employment.

- The JobKeeper program was implemented at Crown, which is providing support to our eligible staff during the closure period. A number of other initiatives have been implemented to help keep staff engaged.
- On 29 April 2020, Melco Resorts & Entertainment Limited sold all of its Crown Resorts shares to American private equity firm Blackstone. The impact on the ILGA inquiry remains uncertain, but the inquiry remains on hold during the pandemic. It is also noted that Stanley Ho passed away on 26 May 2020.
- Crown ended its relationship with Dinner by Heston Blumenthal, and the restaurant closed its operations on 14 February 2020. Alternate restaurant offerings are in development for re-opening.
- On 19 September 2019, the *Currency (Restrictions on the Use of Cash) Bill* was introduced into Parliament and, based on the explanatory memorandum, it is expected that exemptions will be created for certain payments that are subject to reporting obligations under the AML/CTF Act (including for designated services within the casino) within the rules made by the Treasurer and it is expected that



casinos will be exempt from the scope of the cash payment limit. No further changes since the last report.

- As reported previously, as a result of the allegations put by both the Fairfax/Nine Network (*60 Minutes* program, SMH and the Age) and Mr Wilkie, various investigations and inquiries are continuing involving AUSTRAC, ILGA and ACLEI. With respect to the ACLEI investigation (Operation Angove), ALCEI has announced that there will no longer be a public hearing for this matter. Instead, the investigation will be carried out on the information gathered by ACLEI Investigators. Investigations involving VCGLR, VCGLR Inspectorate, and the ATO into some of the media allegations have also been undertaken.
- During the period, Crown has continued to address and engage with the VCGLR on the Recommendations made by the VCGLR as part of its Sixth Review of the Casino Operator and Licence. To date, 17 of the 20 Recommendations have been responded to by Crown by the required due date, with the remaining 3 not yet due. The meeting that was set up to address Recommendation 20 was postponed due to the COVID-19 shutdown. It will be rescheduled to a later date.
- As previously reported, an issue was identified with a number of Roulette wheels on the gaming floor. Thirteen years ago, the manufacturer delivered a version of the product different to the version approved by the Regulator and the version ordered by Crown. The difference was not visible to the eye (additional in-rim sensor – not regulated equipment), and Crown was not aware of being supplied different wheels until recently. The effected Roulette wheels have been removed from the floor, additional verification steps are now undertaken for all equipment, and the Regulator has conducted a review of all Roulette Wheels. The Regulator continues to review this matter.
- No further update has been received regarding the VCGLR's investigation into an electronic gaming machine which the VCGLR alleges was operating in 'Unrestricted Mode', without 'Your Play' functionality activated. The VCGLR has referred the matter to the Commission, for consideration. There has been no further development since the last report.
- As previously reported, as a result of media allegations against Crown reported on or around 27 July 2019, the VCGLR wrote to Crown Melbourne on 23 September 2019, providing notice of its intention to continue its investigation into the China Matter. The VCGLR noted its intention to obtain information from former Crown staff who were involved in the media reports and the detentions in China.   
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- As previously reported, Crown Melbourne received a show cause notice from the Melbourne City Council (MCC) relating to combustible cladding on the Metropol Hotel (dated 11 April 2019). In response, Crown submitted a report by fire engineers, DNT Engineering Services, on 12 September 2019. Crown met with the



Building Appeals Board on 7 April 2020, and several additional queries were raised. Crown lodged additional information on 22 May 2020.

### 3.2. Adjustments to the risk profile:

Following the events above, the following change to risk ratings is proposed:

- Following the national pandemic declaration, the risk of 'External disruption of demand for our services', which includes consideration for pandemic, was increased to 'Severe / Almost Certain', making it the highest risk for the Crown Melbourne property.

The current Risk Map is provided in **Annexure B** for discussion.

## 4. REGULATORY AND COMPLIANCE

### 4.1. COVID-19

- Due to Crown Melbourne ceasing operations (save for minor hotel activity) on 23 March 2020 and the majority of our staff being stood down, compliance surveys have not been completed for March, April and May 2020. Further, a number of remedial actions have also been delayed as a result of staff members being stood down, limited resources and no trading activity.
- On 16 March 2020, the VCGLR advised Crown that their Inspectors would be remaining in their office for the duration their shift, as a result of the COVID-19 pandemic. Crown notified the relevant internal departments to continue to phone the Inspectors with any matters that would usually be reported (e.g. breach of Exclusion Order etc.), although the Inspectors would be unlikely to attend. Crown closed to the public as a result of the COVID-19 pandemic on 23 March 2020. The Inspectors largely left site from early April 2020.
- The Minister for Consumer Affairs, Gaming and Liquor Regulation has agreed to support two measures to provide relief to Crown in light of the closure of Crown Melbourne casino due to COVID-19 being:
  1. agreement to waive the \$25 million tax guarantee obligation under clause 22.10 of the Casino Management Agreement for the 2019-20 financial year; and
  2. deferring further action in relation to outstanding poker tax for 12 months, although it is expected that this issue will be resolved by 30 June 2021. It was also noted that the State will not be relinquishing the claim.



#### 4.2. ILGA Inquiry

On 8 August 2019, Crown Resorts issued an ASX Media Release advising that the NSW Independent Liquor and Gaming Authority (ILGA) would be conducting an inquiry under section 143 of the *Casino Control Act 1992 (NSW)* into, amongst other matters, the sale of Crown shares to Melco. The Inquiry hearing (which will include a broader range of matters) commenced on 21 January 2020.

On 3 April 2020, ILGA announced that most of the work of the Casino Inquiry will be deferred as a result of the COVID-19 pandemic.

On 29 April 2020, Crown Resorts released to the market that The Blackstone Group Inc. and its affiliates had purchased 67,675,000 shares in Crown, representing 9.99% of the issued capital of Crown, from Melco Resorts & Entertainment Limited.

On 26 May 2020, Stanley Ho passed away.

There has been no updated from ILGA as to when the Inquiry hearings will recommence.

#### 4.3. ACLEI Investigation

On 2 April 2020, ACLEI's Integrity Commissioner, Jaala Hinchcliffe announced that she has decided not to conduct public hearings in relation to ACLEI's Operation Angove, being their investigation into possible corruption issues arising from the 60 Minutes program on 28 July 2019 and subsequent reporting in the Sydney Morning Herald regarding the Department of Home Affairs (Home Affairs) and its interactions with Crown Casino.

ACLEI investigators are currently finalising the last lines of inquiry in relation to Operation Angove. The investigation will then move into the reporting stage, with a report being prepared for the Attorney General. Given the public interest in this matter, the Integrity Commissioner will consider the release of a public report under section 209 of the *Law Enforcement Integrity Commissioner Act* once the investigation report has been provided to the Attorney General.

#### 4.4. China Matter

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#### 4.5. Compliance Framework Status

All intended business units have now been integrated to the business wide compliance framework. In line with the objective of continuous improvement, consideration will be given to incorporating further sub-departments, as may be required from time to time.

All existing departments have prepared and are completing monthly compliance surveys and reporting into the Compliance Committee.

A planned review of the Requirements Register has been postponed due to the ongoing closure resulting from COVID-19.

An external review of the Compliance Framework will be commissioned during the next 18 months.

### 5. RESPONSIBLE GAMING

#### 5.1. Casino Closure – Impact on RG and Re-Opening Activities

The Responsible Gaming Department at Crown Melbourne (**Crown**) ceased customer facing operations upon the casino closure due to the COVID-19 pandemic, on 23 March 2020.

During the period of closure:

- The Responsible Gaming 1800 number diverts to the mobile, where the caller is greeted as follows:

*The Responsible Gaming Centre is currently closed. If you require assistance or information in relation to concerns with your gambling, please call Gambler's Help on 1800 858 858. For inquiries in relation to the Crown Melbourne Responsible Gaming Centre, please email [rgc@crownmelbourne.com.au](mailto:rgc@crownmelbourne.com.au). For all other inquiries, please call 03 9292 8888. Please do not leave a voicemail as this will not be monitored. Thank you*

- The Responsible Gaming Centre (**RG**C) email and website were amended with the following now on the Responsible Gaming landing page:

*The Responsible Gaming Centre is currently closed. If you require assistance or information in relation to concerns with your gambling, please call 1800 858 858 or*



[www.gamblinghelponline.org.au/services-in-your-state/victoria](http://www.gamblinghelponline.org.au/services-in-your-state/victoria) For inquiries in relation to the Crown Melbourne Responsible Gaming Centre, please email [rgc@crownmelbourne.com.au](mailto:rgc@crownmelbourne.com.au)

- The RGC email is being monitored by the Group General Manager Responsible Gaming, and queries and requests are responded to;
- Applications for the revocation of self exclusion are being responded to. The follow up with revocation report writers is conducted by the Responsible Gaming Psychologists as time allows, and applicants are advised that the process will not be complete until the casino re-opens;
- Any Applications for Self Exclusions in this period are being treated as a remote application and relevant information is provided;
- Gambler's Help is operating in this period;
- Self Exclusions that have an elected end date in the closure period are still subject to a revocation process;

The Responsible Gaming Strategy (**Strategy**) will be reviewed and updated in light of the casino closure (which will have an impact on some of the proposed timelines in the Strategy) and as a result of any relevant recommendations that may come out of the report being prepared by the Responsible Gaming Advisory Panel (**Panel**) (referred to below for further detail regarding the Panel).

## 5.2. Responsible Gaming Advisory Panel

The Panel, comprised of Prof. Alex Blaszczynski, Prof. Lia Nower and Prof. Paul Delfabbro, were requested to complete a review of the Crown Resorts Responsible Gaming Framework and Strategy in line with Crown's Responsible Gaming (**RG**) vision. Management continues to work with the Panel on this project with outcomes to be considered and tabled with the Crown Resorts Responsible Gaming Committee in due course.

## 5.3. Responsible Gaming Alignment – VIP Entry

A process review in relation to VIP entry for customers who have previously self excluded and have since successfully completed the revocation process has been undertaken. This involved discussion and consultation with the business and a member of the Panel. Currently Crown Perth has a 12-month period prior to access and re-entry/eligibility to access premium member rooms following successful revocation, whilst Crown Melbourne has operated with a three-month period. As a result of the advices received, Crown has adjusted its conditions with the VIP entry/eligibility period for both properties adjusted to six months. An evaluation of this adjustment will also be undertaken to assess the results and/or impact.

The evaluation will be comprised of three components:



1. Review of the customer's history and behaviour;
2. Discussion between RG and VIP staff on general information and feedback about their customer; and
3. Three month follow up meeting with a Responsible Gaming Advisor following approval (sample group to be determined).

#### 5.4. Stakeholder Engagement

One site visit occurred during the reporting period:

Date	Support Service or other party
14 – 16 January 2020	Crown Resorts Responsible Gaming Advisory Panel visit

#### ***Responsible Gambling Ministerial Advisory Council (RGMAC)***

The RGMAC Working Group 'Codes of Conduct Improvements for non-venue operators' was established to examine how codes can be improved for non-venue operators. The Group General Manager Responsible Gaming has been appointed as a member of this Working Group. The Working Group held its first meeting on 6 March 2020. The meeting discussion focused on the Terms of Reference, Working Group membership and workplan. The next meeting was scheduled to be held on 6 April 2020, however, due to issues associated with the COVID-19 pandemic, this meeting has been postponed to a date to be advised.

#### 5.5. Regulatory updates

##### ***VCGLR – Approval of Responsible Service of Gaming (RSG) Training***

The *Casino Control Act 1991* (Vic) requires the VCGLR to approve RSG Training for Crown Special Employees who perform functions in relation to gaming machines. This approval is in place for five years, expiring February 2020 (this will not expire while an application is submitted).

Crown's discussions with the VCGLR and Victorian Responsible Gambling Foundation (VRGF) in relation to the five-yearly approval of Crown's RSG Training program have concluded.

On 9 April 2020, Crown received notice that on 26 March 2020, the VCGLR approved the RSG training courses for Crown Special Employees in accordance with sections 58B(1)(a) and 58B(1)(b) of the *Casino Control Act 1991* (Vic).

As part of the considering the approval of the RSG Training, the VCGLR determined that it would write to the VRGF advising that it would be beneficial to undertake further research on observable signs specific to the casino context.



The VCGLR also requested that Crown conduct an evaluation of the effectiveness of the approved training courses, conducted by an independent third party and that the results be provided to the Commission after conclusion of the evaluation and completed prior to the next training course approval process.

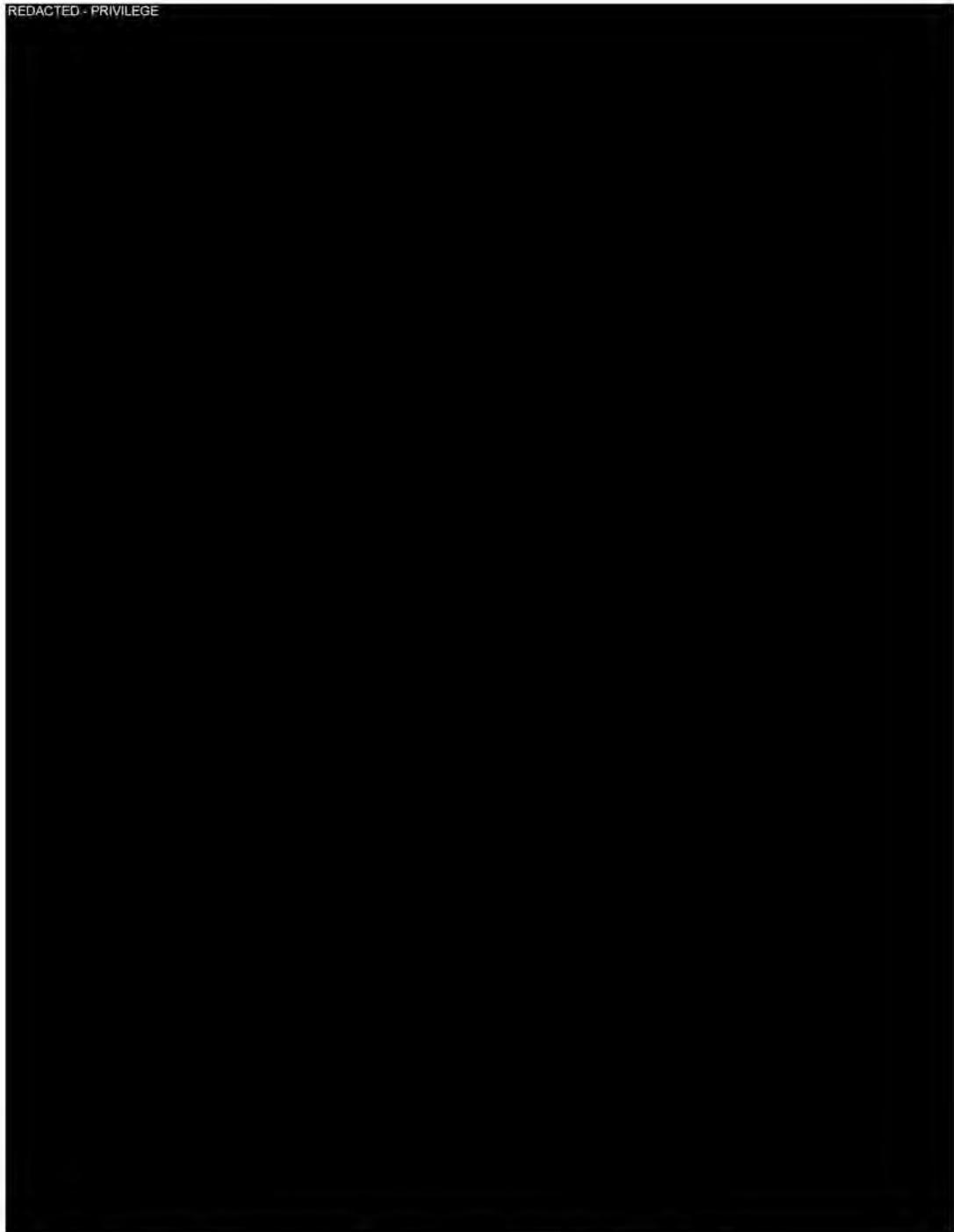
**6. LEGAL (SUBJECT TO LEGAL PROFESSIONAL PRIVILEGE)**

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**7. OTHER MATTERS (LEGALLY PRIVILEGED AND COMMERCIAL IN CONFIDENCE)**

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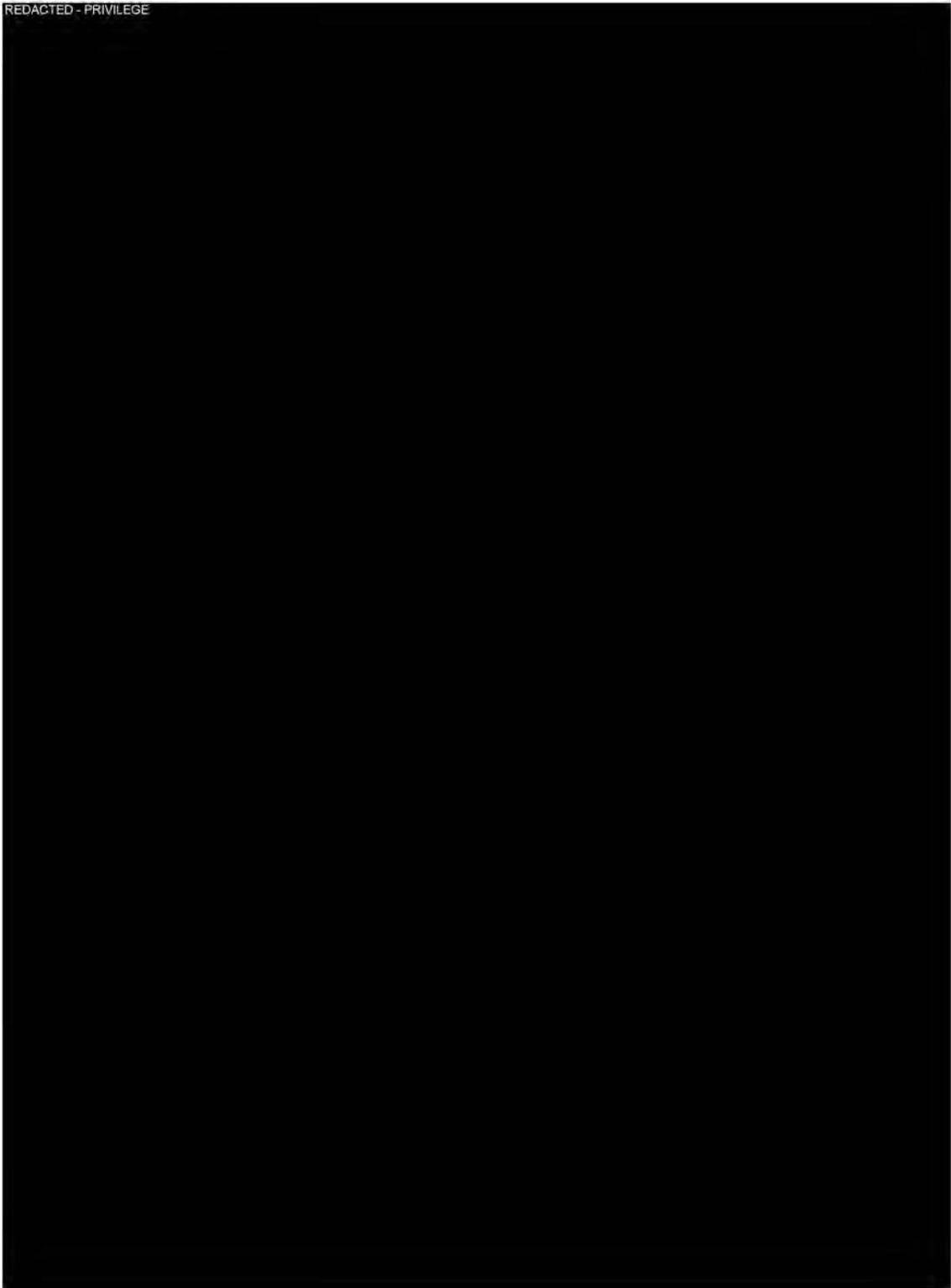
**7.2. Instrument and Payroll Compliance Review**

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Document No: LEGAL\_525173.1

13 May 2020

Ms Anna Lewkowicz  
Director  
Risk Assessments  
Australian Transaction Reports and Analysis Centre  
PO Box 5516  
**WEST CHATSWOOD NSW 1515**

By email: [anna.lewkowicz@austrac.gov.au](mailto:anna.lewkowicz@austrac.gov.au)

Dear Ms Lewkowicz

**Junket Tour Operations in Australia - Money laundering and terrorism financing risk assessment  
(Junket Review)**

We refer to:

- your email dated 6 April 2020, providing a copy of AUSTRAC's draft Junket Risk Assessment (**draft Junket Risk Assessment**) requesting further collaboration with Crown Melbourne Limited and Burswood Nominees Limited (**Crown**) during AUSTRAC's development of its ML/TF risk assessment of junket tour operations in Australia (**Junket Risk Assessment**); and
- your teleconference with Nick Stokes, Crown's Group General Manager Anti-Money Laundering, on 21 April 2020.

We thank you for granting Crown an extension of time to provide comment on the draft Junket Risk Assessment.

Crown welcomes, and is grateful for, the opportunity to continue to participate in the consultation phase in respect of AUSTRAC's draft Junket Risk Assessment. Crown recognises the importance of the Junket Risk Assessment for all casino operators and other businesses (such as banks) which interface regularly with junkets.

This letter has two parts. The first part sets out Crown's key high level comments on the draft Junket Risk Assessment, which are set out under the headings "Junket operations in Australia" and "Junket risk profiles and ML/TF controls". Crown has also provided specific comments directly into a copy of the draft Junket Risk Assessment, which is enclosed with this letter. Crown would be happy to provide any further detail or context that AUSTRAC or its partner agencies require in relation to these high level and specific comments.

The second part of this letter concerns further engagement that Crown seeks to have with AUSTRAC in light of aspects of the draft Junket Risk Assessment, to assist Crown with identifying and implementing further strategies to mitigate ML/TF risks within its operations.

### **Part 1**

#### **Junket operations in Australia**

Crown raises for AUSTRAC's consideration whether the draft Junket Risk Assessment might be assisted by the inclusion of the following contextual information:

- junket tour operations are an element of international tourism business for Australia, generating both gaming revenue (and associated taxes), employment and indirect revenue in the economy;
- junket tour operations are a significant, regulated aspect of the casino industry both in Australia and other jurisdictions (and have been for decades);
- junket tour operations, and the wagering which takes place during junket programs, are subject to detailed regulation and oversight; and
- recent media allegations have focussed on a small number of junket tour operators, being a small proportion of the junket operators which conduct business in Australia.

#### **Junket risk profiles and ML/TF controls**

As AUSTRAC is aware as a result of the presentations and information provided by Crown during the course of the Junket Risk Assessment project, Crown has a range of detailed processes and measures in place that are specifically directed towards mitigating ML/TF risks associated with the conduct of junket activity, including detailed initial and ongoing due diligence and probity checks in relation to all junket operators and ongoing daily due diligence screenings through third party external providers in relation to all active junket operators, representatives and players, as well as ongoing review of all junket activity through Crown's Transaction Monitoring Program.

The draft Junket Risk Assessment notes that the risk mitigation strategies listed on pages 34 and 35 (or a combination of these measures) contribute to mitigating and managing the ML/TF risk associated with the conduct of junket activity, particularly in the areas of transaction monitoring and suspicious matter reporting.

In Crown's view, the measures which Crown and other industry participants have in place to mitigate these risks are important context for the Junket Risk Assessment, and should be factored into junket risk profiles.

However, on page 41 AUSTRAC concludes that *'at a sector level, limited systems and controls have been implemented to mitigate vulnerabilities.'*

It is not clear to Crown whether AUSTRAC intends for a distinction to be made between the inherent or unadjusted risk profile attaching to junkets and junket activity, and the risk profile after the application of risk mitigants and control measures.

Accordingly, Crown queries AUSTRAC's conclusion at page 41 that there are limited systems and controls in the casino industry to mitigate vulnerabilities in respect of junket activity.

Moreover, Crown is currently in the process of reviewing its due diligence procedures for junket operators, representatives and players in order to identify opportunities for further enhancements to existing risk mitigation measures. These further enhancements will build upon a range of measures that have been implemented in recent years.

Crown will ensure that any insights and recommendations from the Junket Risk Assessment and any other aspects of AUSTRAC's consultation process are considered and implemented as appropriate.

## **Part 2**

### **Reporting and information sharing**

Crown welcomes the observation by AUSTRAC in the draft Junket Risk Assessment that '*SMRs submitted by reporting entities provide valuable intelligence to AUSTRAC*'. This aligns with other recent observations AUSTRAC has made about Crown and other industry participants being very good at complying with their reporting obligations.

For its part, Crown takes its reporting obligations very seriously and is keen to enhance and explore other ways in which Crown can assist AUSTRAC and other law enforcement agencies in discharging their functions.

As a commercial operator, Crown does not have the same level of access to information that AUSTRAC (or its partner agencies) do in respect of junket operators, representatives and players. Crown would welcome a discussion around any measures which would allow for increased information sharing and collaboration with AUSTRAC and other law enforcement agencies, in order to allow commercial operators to have a more complete understanding of the criminal threat environment.

For instance, Crown notes that AUSTRAC's conclusions about the level of involvement of significant organised crime groups and high risk entities do not accord with Crown's own experience and understanding, including through its own engagement with law enforcement agencies. Accordingly, Crown would welcome the opportunity to discuss AUSTRAC's conclusions in this area (and the basis for those conclusions) to the fullest extent possible. Indeed, if this was the fact, Crown is surprised that law enforcement and/or regulatory agencies have not brought this to the attention of Crown (or the industry), particularly in light of the extensive reporting that Crown (and we expect the industry) undertakes and engagement that Crown has with those government agencies.

Crown also notes that the draft Junket Risk Assessment considers information gathered from various industries and includes typologies relevant to the casino industry and to the banking industry. Crown considers that there is an opportunity for casinos to work more closely with related industries (such as banks) in order to collectively enhance controls to reduce money laundering risks faced by all industries. Crown remains keen to play a continuing role in sharing its industry knowledge with other sectors.

### **Development of industry-leading practices**

Crown notes AUSTRAC's encouragement in the draft Junket Risk Assessment for '*casinos to develop industry-leading practices*.'

Crown is of course committed to continuous improvement and enhancement to its ML/TF risk management strategies and welcomes any suggestions from AUSTRAC about any other ML/TF risk mitigation practices it could consider.

Crown would welcome any guidance that AUSTRAC can provide on risk mitigation strategies and measures that AUSTRAC considers to be the most effective in practice in addressing vulnerabilities associated with junket activity. Provision of this information will assist Crown in enhancing its own risk mitigation strategies.

### **Money laundering typologies**

Crown has reviewed the specific typologies set out in the draft Junket Risk Assessment and would be grateful for the opportunity to discuss and engage further with AUSTRAC in relation to these typologies, some of which Crown has not directly identified in its operations. These are set out in greater detail below.

#### *Offsetting*

Crown has had limited visibility of these issues and has not identified *offsetting* conduct through its usual reporting and information gathering processes.<sup>1</sup> To the extent AUSTRAC has identified this as an emerging typology within the Australian casino sector,<sup>2</sup> Crown would welcome the opportunity to obtain further information that AUSTRAC and/or its partner agencies can provide about this typology so that Crown can fully appreciate the risk associated with this issue and consider the manner in which Crown can put in place measures and controls to mitigate this risk.

Crown is open to considering the introduction of further controls to address the risk of illegitimate offsetting, and would welcome any insights AUSTRAC can provide on these issues.

#### *Acquiring shares in foreign companies*

Crown has not encountered this type of transaction (and if a transaction of this nature has occurred, the information that Crown collates and reviews in order to comply with its reporting obligations has not brought the issue to Crown's attention).

As such, Crown would appreciate any further intelligence that AUSTRAC can provide, to assist Crown to assess whether it is exposed to this risk and, if it is, to implement relevant controls.

### **Visa Controls**

Under its assessment of the Criminal Threat Environment, the draft Junket Risk Assessment on page 6 states '*Actions that may contravene visa controls to facilitate junket tour operations undermines the integrity of Australia's migration system.*'

Crown welcomes any additional detail that AUSTRAC can provide about this matter, as it is not aware of any such actions in connection with its junket processes.

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<sup>1</sup> This concept of offsetting or offsetting arrangements appears to Crown to be a new typology referenced by AUSTRAC in the context of the casino sector (in contrast with remittance service providers who are also reporting entities under the AML/CTF Act).

<sup>2</sup> AUSTRAC's 2014 Typology Report does not reference offsetting as a typology.

### **Infiltration by SOCGs**

Under its assessment of the Criminal Threat Environment, the draft Junket Risk Assessment on page 17 has a section headed '*Junkets and domestic and transnational SOCGs*'.

Media attention in relation to the infiltration of junket operators has focussed on a small number of JTO's and junket players, representing a small proportion of overall junket tour operators, representatives and players. Media allegations aside, AUSTRAC's conclusions about the level of involvement of SOCGs and high risk entities do not accord with Crown's experience and understanding.

Crown welcomes the opportunity to discuss AUSTRAC's conclusions and the basis for them to the fullest extent possible. This information would assist Crown to put in place strategies and measures to minimise the risk of its operations being exploited by JTOs that have been infiltrated by transnational and SOCGs.

### **Transactions with "high-risk" jurisdictions**

In relation to the discussion of transactions with "high-risk" jurisdictions on page 33, Crown is interested to understand whether AUSTRAC is referring to a particular index when concluding that certain countries pose a high risk.

Crown's understanding is that:

- there are no defined 'high risk' countries identified by AUSTRAC;
- according to FATF, some countries are designated 'prohibited' (Iran / North Korea) or high risk (Bahamas, Botswana, Cambodia, Ghana, Iceland, Mongolia, Pakistan, Panama, Syria, Trinidad & Tobago, Yemen, Zimbabwe); and
- reporting entities taking a risk-based approach either subscribe to a vendor's country risk methodology (e.g. Promontory's AML Atlas) or develop their own methodology based on international standard setters like FATF, Basel, Transparency International etc.

Crown would also welcome any detail about why AUSTRAC considers that a risk is posed by a significant volume of funds being sourced from jurisdictions in which gambling restrictions apply.

### **Appendix A of the draft Junket Risk Assessment**

In relation to Appendix A of the draft Junket Risk Assessment, in addition to the matter on page 41 identified above:

- Crown would welcome any further specificity AUSTRAC can provide about the levels of high risk customer activity that AUSTRAC has observed (as this does not accord with Crown's experience and understanding). Crown would welcome the opportunity to discuss AUSTRAC's conclusions in this area (and the basis for those conclusions) to the fullest extent possible.
- Crown is interested to understand what is meant by the term 'remote services'. From Crown's point of view, all gambling services in the casino sector are provided face to face.
- Similar to the above, Crown is interested to understand what is meant by 'complex delivery

arrangements' (and would welcome further detail about AUSTRAC's observations in this area).

**Next steps**

Crown welcomes AUSTRAC's openness to engaging with the casino sector in order to understand the complexity of casino operations and to enhance the collective understanding of ML/TF risks. Crown looks forward to a continued constructive dialogue with AUSTRAC regarding these matters. If a meeting with Crown would be of assistance to AUSTRAC in discussing any of the matters above, we are of course more than happy to participate in such a meeting.

Please do not hesitate to contact me or Nick Stokes to discuss any of the issues set out above or in the attached version of the draft Junket Risk Assessment.

Yours sincerely



Joshua Preston  
**Chief Legal Officer - Australian Resorts**

Encl



**Australian Government**  

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**Australian Transaction Reports  
and Analysis Centre**

# JUNKET TOUR OPERATIONS IN AUSTRALIA

Money laundering and  
terrorism financing  
risk assessment

## INSIDE COVER: INFOGRAPHICS

### JUNKET TOUR OPERATIONS IN AUSTRALIA

From 1 April 2018 - 31 March 2019:

Eight out of the thirteen licensed casinos in Australia conducted junket programs during the assessment period.<sup>1</sup> Over two-thirds of junket programs were held at two casinos. Over 500 individual junket tour operators/representatives (JTOs/JTRs) are responsible for in excess of 1,000 junket programs at Australian casinos each year.

#### Reporting

During the reporting period, Casinos submitted 387 suspicious matter reports (SMRs) with a value of \$130.4 million, 651 international funds transfer instructions (IFTIs) (\$352.9 million incoming and \$104.5 million outgoing) and 4,638 threshold transaction reports (TTRs) (\$81.1 million incoming and \$165.2 million outgoing) that they identified as relating to activity on JTOs' accounts at casinos.

AUSTRAC identified a further 153 SMRs with a value of \$107.1 million, 31 IFTIs (\$15.6 million incoming and \$760,886 outgoing) and 1,401 TTRs (\$29.7 million incoming and \$38.5 million outgoing) submitted by casinos that related to activity by JTOs or JTRs. These reports are likely to relate to activity JTOs and JTRs conducted at casinos outside of junket play.

AUSTRAC also identified 95 SMRs with a value of \$125.6 million, 880 IFTIs (\$164.5 million incoming and \$46.3 million outgoing) and 321 TTRs (\$5.0 million incoming and \$5.1 million outgoing) submitted by other reporting entities that related to financial activity of JTOs or JTRs outside of the casino sector.

This risk assessment is intended to provide a summary and general overview; it does not assess every risk relevant to junket tour operations. It does not set out the comprehensive obligations under the *Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Act 2006*, AML/CTF Regulations and AML/CTF Rules. It does not constitute nor should it be treated as legal advice or opinions. The Commonwealth accepts no liability for any loss suffered as a result of reliance on this publication. AUSTRAC recommends that independent professional advice be sought.

<sup>1</sup> One casino that offered junkets over the time period has ceased its junket operations.

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## EXECUTIVE SUMMARY

### Overall risk rating



AUSTRAC assesses the overall money laundering and terrorism financing (ML/TF) risk associated with the junket tour operations sector to be **high**. This rating is based on assessments of the criminal threat environment, the vulnerabilities present in the sector, and the consequences associated with the criminal threats.

Not all junket tour operations are the same, and the level of risk associated with each operation varies depending on many factors, including but not limited to the domicile of JTOs and players, and the effectiveness of the risk mitigation systems applied by casinos.

This assessment draws upon a range of information and intelligence held by Australian government agencies. While efforts have been made to convey the classified findings for a public audience where the intelligence has been classified as sensitive, **some of the information relied upon to support AUSTRAC's conclusions cannot be released publicly.**

#### Crown comments

- Crown considers an express acknowledgement that casinos do not have access to the same level of information in relation to individuals involved in junket activity would be appropriate in this context.

### Criminal Threat Environment



AUSTRAC assesses that junket tour operations are associated with a **high** level of criminal threat.

Some junket tour operations have been exploited, and in some instances infiltrated by serious and transnational criminal entities, including by individuals reported to be engaged in activities that could possibly be regarded as foreign interference.

The use of offsetting arrangements used by some junket tour operators to facilitate junket-related funds flows is **highly likely** to be exploited by criminal entities, and in being conducted can circumvent international funds transfer reporting requirements and facilitate the laundering of domestically-generated proceeds of crime.

Some junket tour operators have been identified as having been associated with a range of illicit activities including instances of tax evasion, visa misuse, possible corruption and unregulated prostitution.<sup>2</sup>

AUSTRAC did not identify any links between junket tour operations and terrorism financing.

#### Crown comments

- Crown queries the basis for the statement that the use of offsetting arrangements is 'highly likely' to be exploited by criminal entities.
- AUSTRAC may wish to consider whether further clarity would be provided by explaining more fully the vulnerability associated with offsetting and assessing the controls that casinos have available to them to mitigate against this risk.

<sup>2</sup> Unregulated prostitution refers to prostitution services that do not comply with criteria in state and territory laws legalising some prostitution activities.

## Vulnerabilities

						●		
Low			Medium			High		

AUSTRAC assesses that junket tour operations are exposed to a **high** level of ML/TF vulnerability.

At a sector level, the junket model **used by casinos** has a number of money laundering vulnerabilities. A key vulnerability is the lack of transparency and level of anonymity created by the pooling of all players' funds and transactions under the name of the JTO, and that the financial arrangements between the JTO and junket players are not disclosed to the casino. **There is also a long and complex value chain associated with junkets' funds flows that makes it difficult for a single reporting entity to understand the purpose of transactions or the beneficial owner/ultimate beneficiary of value moved.**

A number of JTOs and JTRs have been identified as having criminal or foreign political associations.

JTOs' casino accounts are being used to facilitate the storage and movement of significant amounts of money, both domestically and internationally. On a per-transaction and per-customer basis, the junket tour operations sector is also significantly exposed to the risks associated with high-value cash activity. The destination of large cash withdrawals from JTO accounts remains a key intelligence gap.

Inherent to the junket tour operations sector is exposure to some higher ML/TF risk jurisdictions with ninety-five per cent of junket players over the reporting period being foreign nationals.

Collectively, these elements can undermine the robustness of due diligence and enhanced due diligence efforts. In accordance with existing regulatory obligations and good practise, casinos have implemented a range of measures to help mitigate the risks posed by junket tour operations, including:

- systems and controls to monitor transactions, lodge suspicious matter and other transaction reports,
- conducting due diligence on persons applying to be JTOs, and
- collaboration with state-based regulatory and law enforcement agencies.

It is recognised that Australian casinos compete in a highly competitive junket market, both locally and internationally.

AUSTRAC encourages casinos to review the robustness of their risk mitigation and management processes, having regard to the threats and vulnerabilities identified as being associated with junket tour operations, in order to better protect their businesses from criminal exploitation.

### Crown comments

- AUSTRAC may wish to consider the use of the phrase '*used by casinos*'. Casinos interact with and enter into arrangements with JTO's, but they do not themselves use junket model.
- Crown agrees that it can be difficult for reporting entities to understand the beneficial ownership of value moved, not only in connection with JTOs.
- Crown notes that it retains detailed records in connection with the gaming activity of junkets, which Crown remains willing to share with AUSTRAC and/or its partner agencies. This information comprises all individual junket player gaming activity, and includes individual wins and losses.

## Consequences

					●			
Minor			Moderate			Major		

AUSTRAC assesses the consequences of criminal abuse and exploitation of the junket tour operations sector to be **moderate**.

Individuals are likely to be affected by some crimes associated with the sector, such as persons suffering from dependence on illicit drugs.

The casino sector has recently been the subject of adverse media relating to alleged criminal activities associated with junket tour operations. As has been observed to date, **widespread criminal exploitation of junket tour operations** may decrease VIP patronage, increase regulatory scrutiny and heighten public expectations concerning the operations of the casinos sector.

The Australian community and economy is also impacted by criminality in this sector. Money laundering perpetuates the profitability of crime and can enable further crimes to be committed. Further, any decline in the operation of junket activity will have implications for the taxation revenue of the states that host junkets. **Actions that may contravene visa controls to facilitate junket tour operations undermines the integrity of Australia's migration system.**

Widespread criminality through the junket sector would also be likely to impact on Australia's international AML/CTF reputation and attractiveness as a place to do business.

The exploitation of junkets by foreign interference entities can undermine and compromise Australia's national security and broader public confidence in our institutions.

**Crown comments**

- Crown queries the reference to 'widespread criminal exploitation' of JTOs. Whilst Crown acknowledges that there have been media reports of alleged criminal associations of a small number of JTOs and junket players, Crown is not aware of evidence of 'widespread criminal exploitation' of JTOs. Crown welcomes any additional detail that AUSTRAC can provide about this matter, as it is not aware of any such actions in connection with its junket processes.
- To the extent that AUSTRAC's comments in the report are based on media allegations, Crown considers that this should be referenced explicitly.

## PURPOSE

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This assessment provides sector-specific information on the ML/TF risks associated with junket tour operations at the national level. Its primary aim is to assist casinos to identify, mitigate and manage the risks of ML/TF enabled through the conduct of junket tour activity. It will also assist JTOs, law enforcement and regulatory agencies to better understand the ML/TF risk associated with junkets, in order to consider potential responses.

## METHODOLOGY

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The methodology used for this risk assessment draws on Financial Action Task Force (FATF) guidance that states that ML/TF risk can be seen as a function of criminal threat, vulnerability to exploitation, and consequences of exploitation. According to this methodology:

- **Criminal threat environment** refers to the nature and extent of ML, national security and relevant predicate offences in a sector.<sup>3</sup>
- **Vulnerability** refers to the characteristics of a sector that make it attractive for ML/TF purposes, including features of the sector that can be exploited, such as customer types, products and services, delivery channels and the foreign jurisdictions with which the sector deals. Vulnerability is also influenced, and in certain circumstances minimised, by the risk mitigation strategies the sector has implemented.
- **Consequence** refers to the impact or harm that ML/TF activity through the sector may cause.

This assessment considered 19 risk factors across the above three categories. An average risk rating was determined for each category, and the average of each category determined an overall risk rating for the sector.

Further information on the methodology and how it was applied to the sector is in Appendix A.

Four main intelligence inputs informed the risk ratings within this assessment:

- analysis of transaction reports submitted during the reporting period, as well as other AUSTRAC information and intelligence,
- reports and intelligence from a variety of state and Commonwealth government agencies, including intelligence, law enforcement and regulatory agencies,
- feedback and professional insights offered during interviews and consultations with a range of casinos, banks and regulatory and law enforcement bodies at the state and Commonwealth levels, and
- qualitative and quantitative information about the scale and nature of junket operations carried out in Australian casinos between 1 April 2018 and 31 March 2019. Casinos provided this information voluntarily and in response to two notices issued to them under section 167 of the AML/CTF Act.

The information and intelligence held by AUSTRAC or partner agencies used to inform this assessment was for the period up to 19 November 2019.<sup>4</sup>

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<sup>3</sup> For ML/TF Risk Assessments, predicate offence refers to an offence which generates proceeds of crime, or other related crimes such as identity fraud.

<sup>4</sup> AUSTRAC acknowledges various adverse allegations about the activities of junkets have been reported in the public domain. AUSTRAC has not in this risk assessment and cannot comment on the nature or extent of any investigations into these allegations.

## BACKGROUND

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### What is a junket?

For the purpose of this report, a junket is an arrangement between a casino and a JTO to facilitate a period of gambling by one, or a group, of high wealth player(s) at the casino. In return for bringing the player(s) to the casino, the casino pays the JTO a commission based on the collective gambling activity of player(s) on the junket. **Casinos have negotiated with State and territory governments to levy a lower gaming tax rate, in order to attract players from interstate and foreign jurisdictions.**

Players, who are often persons of high-net worth, may prefer to participate in junkets over individual play for several reasons:

- junkets are often organised as holiday entertainment for tourists, and can involve complimentary transport, accommodation, food and beverages provided by the casino,
- junket players will generally be accompanied by a JTO or JTR who may be able to see to their needs in a manner beyond that which could be facilitated by the casino,
- the JTO or JTR is responsible for conducting all financial transactions with the casino, enabling players to focus on their gambling activity
- JTOs often offer financial incentives to players, such as a portion of the commission the casino pays the JTO, and
- players can play in a group of their peers and pool their funds which may be more enjoyable.

Junkets are also attractive to casinos for several reasons:

- JTOs are often foreign nationals who have greater capacity to identify and attract players from foreign jurisdictions, and pursue them for gaming debts,
- the JTO is the primary customer of the casino, therefore, it is logistically more convenient to administer a financial arrangement with one person than it is to administer several arrangements with several people,
- JTOs' business models rely on repeat access to the same casinos, making them more likely to repay their debts, and
- concessional tax rates offered by states increase the profitability of junket operations.

Australian casinos operate in a highly competitive global environment in terms of junket tour operations, predominantly from south-east Asian casinos. Eight out of the thirteen licensed casinos in Australia conducted junket programs during the reporting period, with over two-thirds of junket programs being conducted by two casinos. There were in excess of 1,000 junket programs at Australian casinos in the assessment period with estimates of gambling activities associated with those junket tours in the multi-billion dollars.

#### Crown comments

- Crown notes that lower gaming tax rates were negotiated by casino operators in order to ensure that casinos could remain competitive in the global market, particularly in light of Crown's understanding that junkets operate with relatively low profit margins.

### How do junkets operate?

The operation of junkets is different between State jurisdictions and can vary further depending on the casino, the JTO, and the arrangement made between the two in respect of each individual junket program. Operations may also differ based on the regulatory requirements in the state in which the casino is located. Broadly speaking, however, junkets work in the following way:

#### Step 1:

The casino conducts due diligence on a prospective JTO (and their nominated representatives) and, if deemed suitable, the casino and the JTO enter into a written agreement setting out the terms of the arrangement between the two parties.

#### Step 2:

The JTO will identify prospective junket players who will generally be residents of a foreign country. The junket players enter into an arrangement directly with the JTO to either provide an amount of front money to, or enter into a private funding arrangement with the JTO which may include borrowing front money from the JTO. The casino is not privy to any financial arrangement between the players and the JTO.

#### Step 3:

Once the JTO has identified all the players who will participate in a specific junket program, and the total amount of front money for gambling purposes, the JTO will enter into an agreement with the casino for that specific program. The agreement will set out whether the JTO will provide the front money for all the players from their casino account, or whether the casino will provide the front money to the JTO as a line of credit or via cheque cashing facility. The agreement will also set out:

- the relevant terms of any credit or cheque cashing facility negotiated with the casino (if applicable),
- the amount of front money/turnover expected of the players,
- the amount of commission payable to the JTO by the casino (having regard to the amount of front monies and/or turnover of the junket), and
- what, if any, "complimentaries"<sup>5</sup> will be provided by the casino as part of the agreement.

The casino does not enter into an arrangement or agreement with the junket players.

#### Step 4:

Players arrive at the casino and their identities are verified by casino staff. The casino provides the JTO or JTR with specialised chips up to the equivalent dollar amount of the front money provided.<sup>6</sup> The JTO then distributes these chips amongst the players as privately agreed by the JTO and the players. The amount of funds available for gambling purposes can be increased by agreement between the JTO/JTR and the casino as the program progresses, and this may result in revisions to the agreement. **The JTO (or their JTR) is responsible for all gaming and financial transactions with the casino.**

#### Step 5:

Players gamble using the specialised chips for the duration of the junket. These chips cannot be exchanged for cash or the equivalent value. In some circumstances, individual junket players may leave the program before it ends, settling privately with the JTO, and new players may be added to a program while it is progressing.

#### Step 6:

<sup>5</sup> "Complimentaries" refers to incentives such as food and drinks packages and free/subsidised accommodation, transport and/or entertainment.

<sup>6</sup> These chips are only for junkets and are used to help calculate the amount of state gaming taxes and the commission payable to the JTO. These chips cannot be used on the main gaming floor or redeemed at the cage for cash and must be returned to the casino for junket settlement.

At the end of the program, players return all chips either won or not used to the JTO. The casino calculates turnover, to determine whether the junket won or lost, in turn determining the amount of tax payable to the state government, the commission payable to the JTO and any liability the JTO may have to the casino (in the event of a loss where front money was advanced to the JTO via a line of credit or a cheque cashing facility, for example).

The casino pays out any winnings and commission as instructed by the JTO.<sup>7</sup> This may be by paying all monies to the JTO, who will then distribute the funds as privately agreed to the players. This distribution will often occur offshore. In other circumstances, the JTO may instruct the casino to disburse funds directly to the players, or, in some cases, to third parties. If the junket loses, the JTO is liable for paying the amount of the loss to the casino, irrespective of which players' bets contributed to the loss.

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**Crown comments**

- In relation to 'Step 4', whilst junket operators are responsible for the financial transactions with the casino, the junket players are responsible for their own gaming transactions and ultimately control how they bet. The financial transactions that take place are a function of individual player activity.

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<sup>7</sup> The JTO or their agent must formally sign the settlement arrangements with the casino.

## CRIMINAL THREAT ENVIRONMENT



The criminal threat environment refers to the nature and extent of ML, TF, other national security and predicate offences that are associated with junket tour operations in Australia. AUSTRAC assesses that junket tour operations are associated with a **high** level of criminal threat. This assessment is based on SMRs submitted by reporting entities in relation to junket tour operations and service providers,<sup>8</sup> as well as an analysis of intelligence and information collected from Australian Commonwealth and state-based government agencies, banks and casinos.

### Suspicious matter reporting relating to JTOs and JTRs from 1 April 2018 to 31 March 2019.<sup>9</sup>

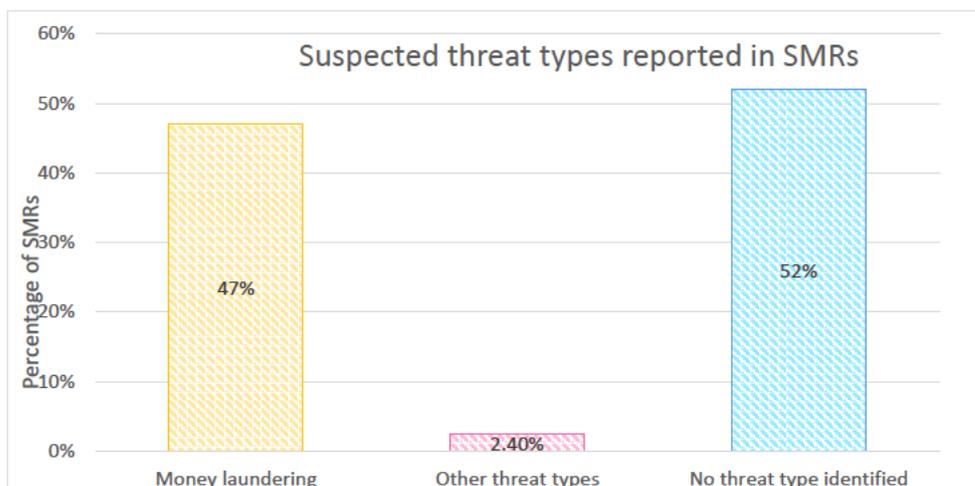
635 SMRs were submitted by 15 reporting entities in the casino, banking and remittance sectors. The total value of transactions reported in SMRs was \$363.1 million, including a cash component of \$64.7 million.

Seven casinos submitted 540 SMRs.<sup>10</sup>

Seven banks submitted 94 SMRs.

One remittance provider submitted one SMR.

Two casinos accounted for over two-thirds of the SMRs submitted.



*Percentage amounts sum to more than 100 because some SMRs were assigned more than one threat type.*

<sup>8</sup> Service providers refers to JTO and JTRs.

<sup>9</sup> This dataset consists of SMRs identified by casinos as relating to activity on junket accounts, SMRs lodged by any reporting entity that involved a junket tour operator or representative identified by casinos as operating from 1 April 2018 to 31 March 2019, SMRs in which the industry/occupation of a party referred to "junket", and SMRs that had "junket", "JTO" and/or "JTR" in the grounds for suspicion field of the SMR. False positives were manually excluded from the dataset.

<sup>10</sup> One casino submitted an SMR about a JTR despite the casino not offering junket programs during the reporting period. Two in-scope casinos did not submit any SMRs during the sample period.

Potential money laundering was the key threat indicated in SMRs, with 47 per cent of SMRs observing **possible money laundering attempts**. A small number of SMRs were in the “other threat type” category, and included suspicions relating to corruption, counterfeit currency and money lending.<sup>11</sup>

Fifty-two per cent of SMRs were not assigned a threat type. This is because activity described in the SMRs, while unusual, was not indicative of a specific criminal or related offence. For example, 32 per cent of SMRs in the dataset were reported as a result of domestic electronic funds transfers to/from third parties whom the casino noted were not players participating in the relevant junket, and 11 per cent were reported because players had large or frequent gambling losses.

#### SMRs play a crucial role in supporting law enforcement

Under the AML/CTF Act, reporting entities have an obligation to report suspicious matters to AUSTRAC. A reporting entity must submit an SMR if they form a suspicion on reasonable grounds that a transaction they have facilitated or been asked to facilitate may be relevant to the investigation or prosecution of a crime. The full range of circumstances in which an SMR must be submitted is set out in [section 41 of the AML/CTF Act](#).

SMRs submitted by reporting entities provide valuable intelligence to AUSTRAC. Working with its partner agencies, AUSTRAC pieces together intelligence from a range of sources to develop a picture of criminal activities and networks. Many of AUSTRAC’s partner agencies – including the Australian Federal Police (AFP), Australian Criminal Intelligence Commission (ACIC) and the Australian Taxation Office (ATO) – have access to SMRs in order to generate leads and conduct further analysis and investigation.

#### Crown comments

- *'possible money laundering attempts'* might be more accurately described as a suspicion in relation to possible money laundering.

<sup>11</sup> Counterfeit currency and money lending are not assessed as being significant threats and are not discussed further in this risk assessment.

### *Money laundering*

AUSTRAC considered the nature and extent of the money laundering threats associated with junket tour operations, and assesses the risk to be high. Money laundering through junket tour operations has been identified as being associated with:

- the use of offsetting, often relating to the evasion of international funds transfer instruction (IFTI) reporting and laundering of domestically-generated proceeds of crime,
- the onshore supply of large volumes of cash for unknown purposes,
- extensive cash, remittance and gambling-related transactions by JTO/JTRs through bank accounts, indicating use of banks to further layer funds and obscure financial activity, and
- involvement of international criminals and organised crime groups.

### *Offsetting*

The assessment found that many junket tour operations use offsetting arrangements, including through third parties, as a means of transferring value between jurisdictions. AUSTRAC assesses these arrangements have, in some circumstances, been targeted and exploited for the purpose of money laundering. Offsetting enables the international transfer of value without actually transferring money and is attractive to money launderers who want to move money undetected. This is possible because the arrangement involves a financial credit and debit (offsetting) relationship between two or more persons in different countries. It also provides an opportunity to co-mingle legitimately-derived funds with illicit cash generated onshore.

### How offsetting works

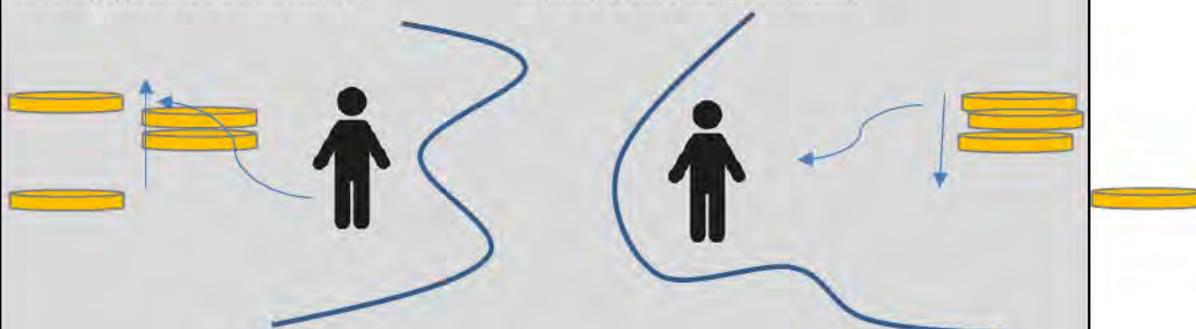
In relation to junkets, a typical offsetting scenario involves a prospective junket player depositing money into an offshore account controlled by the entity providing the offsetting service. That money remains in the offshore location, and when the player arrives in Australia to gamble, an agreed amount of value is made available to them from the funds the JTO has access to through the casino. In those circumstances where offsetting is used to disguise the movement of value, it is likely that no IFTI is reported to AUSTRAC by the provider in relation to the transaction.<sup>12</sup> This arrangement can also occur in reverse, allowing covert movement of value out of Australia.

*Offsetting provider's offshore account -*

*no money appears to leave the country*

*JTO's account at an Australian casino -*

*no money appears to enter the country*



Offsetting does not necessarily indicate that the money being moved is illegitimately sourced or that Australian laws are being broken. However, AUSTRAC and partner agencies consider it highly likely the offsetting activity facilitated in relation to junkets is being exploited by some persons in order to circumvent IFTI reporting obligations and launder domestically-generated proceeds of crime. Simultaneous demand for informal outgoing and incoming remittances means money can be offset in both directions, and illicit funds can flow both into and out of Australia without detection.

### Crown comment

- Crown notes that its practice is to report IFTIs if Crown is a party to the IFTI, even if the transaction does not involve any actual movement of funds, noting that Crown is not in a position to report on transactions that it is unaware of.

<sup>12</sup> AUSTRAC notes the details of offsetting arrangements and activities vary between junket tour operations, and some circumstances may not give rise to IFTI reporting obligations.

#### *Acquiring shares in foreign companies rather than depositing monies in a bank account*

One of AUSTRAC's partners is aware of a potential methodology whereby money to fund players' junket activity is raised by directing the player to purchase shares in a foreign company, rather than simply depositing the money into an offshore bank account. While more complex and sophisticated, this is essentially the same process as the offsetting model described above.

#### *Illicit cash*

There is a high likelihood that funds held in some JTOs' casino accounts to offset against money in accounts held overseas is partially derived from onshore individuals known as "cash collectors" moving money from domestic serious organised crime groups (SOCGs) to JTO casino accounts. During consultations, partner agencies indicated the proceeds of drug sales to be the likely source of illicit cash deposited into JTO accounts. One partner agency indicated cash may also be derived from trade at brothels, and entertainment venues - likely as a means to evade tax.

#### *Domestic sources of funding for JTO accounts*

AUSTRAC identified 29 SMRs totalling \$6.7 million in the reporting period that related to cash deposits made into 22 JTO accounts by persons who were not recorded by the casinos as players on the junket or operating as the JTO/JTR.<sup>13</sup> A total of 11 SMRs indicated that 13 JTOs were transferring cash domestically between one another. A further 45 SMRs indicated 28 JTOs were electronically transferring funds domestically between each other, and 187 SMRs indicated funds were being deposited into 35 JTOs' accounts via domestic electronic transfer.

Further, information provided by casinos demonstrates the majority of front money for junkets is provided to the JTO by the casino as a line of credit or via a cheque cashing facility.

The domestic source of funds or lines of credit used to gamble by predominantly foreign players supports AUSTRAC's finding that some JTOs use offsetting, whereby the funds paid to the JTO by players are collected and remain offshore, and the JTO offsets these with domestically sourced funds to meet their financial commitments to the player and/or casino.

#### *Provision of cash*

There is evidence that some junket tour operations provide cash to players and third parties while they are onshore.

AUSTRAC identified 64 SMRs concerning 33 JTOs during the reporting period that related to large cash withdrawals from junket accounts with a total value of \$23.6 million. These SMRs described JTOs providing large cash amounts under a range of circumstances, such as persons who were losing, persons withdrawing large amounts of cash and then immediately leaving the gaming floor, and junket staff providing cash to individuals who were not players on the junket.

The ultimate use of much of the cash provided by junkets remains an intelligence gap, though there is some indication it may be used to pay for goods and services (including illicit goods and services) supplied onshore. JTOs and JTRs may also be retaining the cash themselves, in order to avoid having to pay income tax on commissions paid by the casino.

#### *Activity of JTOs/JTRs on bank accounts*

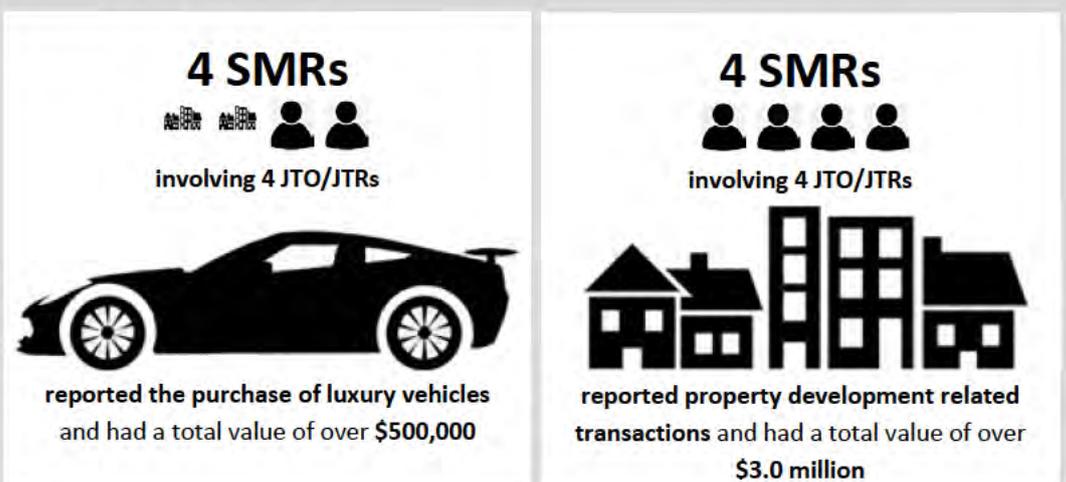
The assessment identified SMRs lodged by banks in relation to JTOs and JTRs that describe extensive gambling-related transactions. These SMRs suggest that a number of JTOs/JTRs use a personal Australian bank account to conduct their junket business activities. It is also recognised, however, that given the account and remittance facilities offered by casinos, extensive gambling transactions on personal bank accounts can likely indicate efforts to layer or further obfuscate financial activity. Such activity can also indicate attempts to disguise the origins of funds by spreading activity across several reporting entities. **One partner agency emphasised the difficulty for banks and law enforcement when customers make deposits of monies that originated at a casino, because source of funds can often be justified as winnings even if it was not actually won.**

<sup>13</sup> These transactions may be indirect. For example, cash deposits may have been made by a third party into their own casino account and then transferred to a junket account even though they were not playing on the junket. In other reports, casino staff observed a third party giving cash to a JTO/JTR, who made the actual deposit into the account.

**Crown comments**

- Crown maintains detailed records of junket program play, including junket gaming play together with individual junket player gaming play. This information comprises all individual junket player gaming activity and includes individual wins and losses, which Crown considers presents AUSTRAC and its partner agencies with an opportunity for significant visibility on the transactions of individual junket players.
- Crown regularly provides intelligence to law enforcement and other regulatory agencies on whether funds claimed to be winnings from the casino can be confirmed as winnings.
- This information can be made available to agencies who are looking to ascertain the source of funds in connection with a particular transaction upon request.

JTOs' and JTRs' bank accounts are also used by JTOs and JTRs to receive incoming funds transfers, and SMRs demonstrate significant cash activity, including structuring and possible cuckoo smurfing.<sup>14</sup> Accounts are also used to send international funds transfers and purchase high-value assets such as real estate and luxury vehicles.

**Purchase of high-value assets**

The purchase of high-value assets is an established money laundering method. High-value assets may be the final destination of the proceeds of crime, or may be on-sold by the money launderer, inserting another transaction between the wealth and its illicit origins.

SMRs reported by banks in relation to JTO and JTR activity describe trade in high-value assets in Australia. A key indicator of this activity was the purchase of large bank cheques issued in favour of lawyers, real estate agents, property developers and luxury car dealers. Activity on the personal bank accounts of the JTO/JTR in these SMRs also often included incoming and outgoing transactions with casinos, and large cash deposits.

AUSTRAC identified that one of the JTRs operating in Australian casinos is also a real estate agent, magnifying the money laundering risk associated with that particular JTR.

<sup>14</sup> As defined in the Glossary in Appendix B, cuckoo smurfing is money laundering process in which non-complicit beneficiary customers of international remittances have proceeds of crime deposited in their bank accounts, in consideration for the legitimate funds sent to them from offshore.

#### Occupation of JTOs and JTRs

In submitting SMRs relating to junket activity, casinos regularly report the occupation of the JTO and/or JTR accordingly, however, it is not uncommon for JTOs/JTRs to have additional employment which serves as their primary or secondary income, and which is unrelated to junket play. Suspicious matter reporting from banks about these entities indicates they are supplying these other occupations as their source of funds when dealing with the banks.<sup>15</sup>

Consultations with banks indicated that customers employed in junket provision may be considered higher risk, or even entirely outside the bank's risk appetite. Common transaction patterns observed in SMRs that may assist banks to identify JTOs or JTRs are:

- incoming IFTIs followed by transfers or bank cheques to casinos
- incoming transfers from casinos, the value of which is then transferred to multiple third parties, including third parties located offshore
- incoming transfers from one casino, followed by transfers to another casino
- large and frequent transfers between casinos and individuals who do not appear to have occupations that support their financial activity (e.g. student, retired, unemployed, home duties)
- lower value cash deposits, possibly indicating remuneration for services being paid in cash.

#### *Junkets and domestic and transnational SOCGs*

AUSTRAC assesses the junket tour operations sector is exposed to infiltration by transnational and SOCGs, with partner agency intelligence indicating that:

- several international JTOs are or were linked to organised crime groups
- Overseas-based transnational serious and organised crime (TSOC) groups exploit junkets in order to move money to Australia and launder the proceeds of crime through Australian casinos. Given the use of offsetting practices to transfer value into Australia for use by a number of junkets, overseas TSOC groups are effectively creating an opportunity for domestic SOCGs to launder illicit cash by arranging for it to be deposited into junket accounts at casinos as a means to balance the domestic side of the offsetting ledger.
- Some junket tour operations have links to South-East Asian crime groups.

### *National Security*

AUSTRAC assesses that junket tour operations present a medium threat from a national security perspective.

### *Terrorism financing*

AUSTRAC did not identify any links between junket activity and the financing of terrorism. AUSTRAC notes one partner agency observed that the anonymity facilitated by the junket business model makes it impossible to assess whether junkets pose a risk in relation to terrorism financing because the source and beneficiary of transactions is obscured, and the transactions of individual targets cannot be assessed against actual gaming.

### *Foreign interference*

For the purposes of this assessment, foreign interference includes covert, deceptive and coercive activities intended to affect an Australian political or governmental process that are directed, subsidised or undertaken by (or on behalf of) foreign actors to advance their interests or objectives. In contrast, foreign influence, is commonly practiced by governments and is lawful when conducted in an open and transparent manner.

The junket business model facilitates the transfer of large amounts of foreign funds or value into Australia, often outside the formal banking system and with the potential to obscure the purpose of, and beneficial ownership of the source of funds. Further, and as described in the Vulnerabilities section below, junkets are facilitated and may involve play by individuals who may also be classified as foreign politically-exposed persons (PEPs). The involvement of foreign PEPs in junket tour operations increases the risk and vulnerability of this sector to exploitation for the purposes of foreign interference.

AUSTRAC has identified a small number of links between junket tour operations and possible foreign interference activities. Transactions indicate that entities who may be of concern from a foreign interference perspective could be using money held in casino accounts to make political donations with a link to foreign interference. The provision of political donations in itself is not illegal, however the unusual source of the funds, involving potentially covert international money movement, raises concerns for potential foreign interference.

#### **Independent Commission Against Corruption (ICAC) Inquiry into Political Donations**

Open source information indicates that a \$100,000 cash withdrawal from a junket funded by an entity who is:

- one of the key figures in the 2019 ICAC inquiry into political donations
- the subject of extensive suspicious matter reporting by banks and casinos
- heavily involved in Australian property development
- noted in open source information as being involved in corruption in both Australia and his country of origin,

may have donated to a NSW political party in a manner contrary to political donation laws.<sup>16</sup> Open source information further indicates this entity has been excluded from re-entering Australia due to concerns over his association with foreign influence activities,<sup>17</sup> and that his assets have been frozen at the request of the ATO, which is pursuing him for over \$100 million in unpaid tax.<sup>18</sup>

<sup>16</sup> Australian Broadcasting Corporation – 'ICAC hears \$100,000 cash withdrawn from The Star casino days before same amount banked by NSW Labor' (<https://mobile.abc.net.au/news/2019-12-12/icac-cash-withdrawal-from-star-casino-before-labor-banked-money/11794496>)

<sup>17</sup> The Sydney Morning Herald - 'Dodgy donations and influence peddling: explosive allegations to be investigated by ICAC' (<https://www.smh.com.au/politics/nsw/dodgy-donations-and-influence-peddling-explosive-allegations-to-be-investigated-by-icac-20190802-p52d9g.html>) (O); The Guardian – 'Packer sold share of Crown Resorts to tycoon who was director of 'banned' company' (<https://www.theguardian.com/australia-news/2019/aug/08/packer-sold-share-of-crown-to-tycoon-who-was-director-of-banned-company>) (O)

<sup>18</sup> The Sydney Morning Herald – 'ATO seeks to bankrupt Huang Xiangmo over \$140 million bill' (<https://www.smh.com.au/national/ato-seeks-to-bankrupt-huang-xiangmo-over-140-million-bill-20191017-p531ll.html>) (O)

### *Predicate Offences*

AUSTRAC assesses that some junket tour operations are linked to a range of predicate offences, perpetrated at both the player and JTO/JTR levels.

### *Tax evasion*

Partner agency information indicates a level of non-compliance with Australian taxation laws by some JTO/JTRs, including failure to declare income earned through junkets on income tax returns.

There is a correlation between the foreign domicile of many JTO and JTRs and the sector's vulnerability to tax evasion, because:

- the residency status of JTOs/JTRs may be unclear, leading to uncertainty as to whether their income is taxable in Australia, and
- given the international reach of many junket tour operations, personal income/commissions paid to JTOs/JTRs in relation to work done in Australia may be said to have been derived in another jurisdiction for the purposes of taxation law. This may have implications for Australia's ability to tax that income.

Further, the taxable income of JTOs/JTRs may be in cash or "in-kind" – such as in accommodation, transport or entertainment - making it easier to conceal from the ATO.

One of AUSTRAC's partner agencies assessed that a resident JTO had set up complex arrangements to avoid their taxation obligations, including using their junket accounts to anonymously purchase assets, and distribute profits from the junket to family and friends.

### *Working against visa conditions*

It is highly likely some JTOs and JTRs are working in contravention of visa conditions. Data matching with partner agency holdings indicates a large number of the JTOs and JTRs on junkets that occurred over the reporting period were on tourist or bridging visas, which are unlikely to allow the holder to work except in some cases of financial hardship.

### *Corruption*

AUSTRAC identified SMRs from a bank in relation to a customer who acted as a JTR for a casino over 2017-2018. The bank reported the customer for multiple cash deposits, collectively in excess of \$150,000. Bank records indicated the customer was unemployed, but open source information led the bank to identify that the customer was in fact a politically exposed person who had been implicated in a corruption probe in their home country.

Further review of the customer's transaction reports in AUSTRAC's database revealed significant TTR activity with casinos, SMRs from casinos in relation to significant losses on junkets, as well as a residential property purchase which is likely to have been funded at least in part with a significant amount of cash.

### *Sanctions*

AUSTRAC has received intelligence that a person who was the subject of a United Nations travel ban participated in junkets in Australia, both during and subsequent to the ban. AUSTRAC is aware that the junket tour operation with which the travel ban subject played was still operating in Australian casinos as at 2018. One partner agency assessed that it was likely that the subject of the ban was laundering the proceeds of crime as a junket participant in Australia.

### **Crown comment**

- Crown notes that while the residency status of the junket operator may vary, Crown's practice is to require junket operators to obtain and provide an ABN before commencing as a junket operator at Crown.

**Non-gambling activities of junket participants**

AUSTRAC is aware of information indicating that some junket participants engage in illegal recreational activities while in Australia, such as the purchase and consumption of illicit drugs and unregulated sexual services. AUSTRAC is also aware that one of the JTRs operating in Australian casinos is alleged to have been associated with a brothel operation, itself implicated with exploiting vulnerable women by forcing them into sexual servitude.

AUSTRAC recognises the harms that these activities cause in the Australian community, however, they are outside of the scope of this report as they do not involve the provision of gambling services by casinos.

## VULNERABILITIES



Vulnerability refers to the characteristics of a sector that make it susceptible to criminal exploitation. AUSTRAC's assessment of vulnerabilities falls into five categories: customers, products and services, delivery channels, exposure to foreign jurisdictions and level of implementation of risk mitigation strategies.

Overall, AUSTRAC assesses the junket operations sector is subject to a **high** level of ML/TF vulnerability.

### Customers

AUSTRAC assesses that the customer base associated with junket tour operations poses a medium level of vulnerability. The size of the customer base is very small compared to other sectors assessed by AUSTRAC, but the average transaction value is relatively high, and the customer base is associated with several higher-risk attributes that increase vulnerability.

#### Size of the customer base

AUSTRAC assesses the size of the junket tour operations sector's customer base to present a low level of vulnerability. Information provided by casinos indicates that the numbers of JTOs, JTRs and players combined amount a very low exposure in terms of numbers.

However, the transactional activity relating to junkets is significantly high. In relation to junket activity alone, casinos had approximately two customers per threshold transaction report (TTR) per year, and \$55,000 per TTR.

AUSTRAC recognises junket tour operations may be unique in some of the services they offer, and the types of customers they have, as well as the fact it is not unusual for junkets (or casinos more broadly) to be associated with higher levels of cash transactions than may be typically observed in other sectors, as stated in the Products and Services section below. However, the relatively high transactional activity associated with junket tour operations increases the vulnerability level above what would generally be assessed for a customer base of its size.

#### High risk customers

AUSTRAC assesses the risk profile of persons involved in junkets to be high. Under current arrangements, it is not possible to clearly determine beneficial ownership and control of the funds while the use of cash increases anonymity. Under the junket arrangements, the primary customer of the casino is the JTO while the relationship between the casino and the junket players is more opaque.<sup>19</sup>

#### Crown comments

- Crown notes that there are various persons involved in junket programs, including the junket operator, junket representatives and junket players. Crown believes that:
  - there are different levels of risk associated with junket operators, representatives and players;
  - within these categories, each patron will have a different risk rating depending on various factors such as country of origin, PEP status and any other matters identified during due diligence processes; and
  - the risk level ascribed to a particular patron may vary after the application of controls that casinos put in place to mitigate against risk.
- Crown therefore queries the statement that persons involved in junkets are inherently high risk. Crown obtains the same KYC information for junket players as that obtained for non-junket players. However,

Crown also retains detailed gaming records for junket players, which results in Crown having more information about junket players than Crown is able to obtain from patrons who participate in casual gaming without having registered with Crown as a customer.

*The "customer" of the casino and beneficial ownership*

Consultation with AUSTRAC's partner agencies highlighted **concerns arising from the obscuring of the ultimate beneficiary of activity on junket accounts**, identifying it as a key vulnerability associated with the sector, in terms of criminal exploitation of the casino as well as the intelligence gaps faced by law enforcement.

Under the AML/CTF Act, a reporting entity is required to conduct due diligence on its customers proportionate to the level of ML/TF risks they pose. When a transaction occurs on a casino junket account, the customer of the casino is the JTO (or any JTRs who may be acting as agents of the JTO). However, the funds being deposited in, stored in or withdrawn from the JTO's account may not be beneficially owned or controlled by the JTO. **In fact, it would be assumed that for the purposes of the junket that much of the money stored in the JTO's account would be beneficially owned by players.**

This arrangement causes two significant vulnerabilities. First, **the pooled nature of the funds in junket accounts makes it more difficult for the casino and law enforcement to link transactions made by the JTO/JTR to specific junket players.** Second, transaction reports submitted to AUSTRAC about transactions requested by players are likely to be reported under the JTO's name (with the JTR as agent) rather than under the player's name. This obscures the true actor and makes it difficult for AUSTRAC and its partners to understand who is causing what transactions to occur, who or where the funds come from, and where they go.

To add a further layer of complexity, SMRs assessed by AUSTRAC reveal that junket accounts are also used by persons who do not appear to have any direct association with the conduct of the junket.

AUSTRAC identified 200 SMRs in the dataset that reported that a third party was depositing money into a junket account. Some of these SMRs indicated *indirect* deposits - for example, cash deposits may have been made by a third party into their own casino account and then transferred to a junket account even though they were not participating in the junket. In other reports, casino staff observed a third party giving cash to a JTO/JTR, who made the actual deposit into the account.

Of the 200 SMRs indicating third party deposits,

- 167 SMRs indicated that \$39.6 million was deposited by domestic electronic funds transfer (EFT) into 32 JTO accounts,
- 29 SMRs indicated that \$6.7 million was deposited in cash into 22 JTO accounts,
- 17 SMRs indicated that \$6.4 million was deposited by intra-casino transfers into 15 JTO accounts,
- nine SMRs indicated that \$6.2 million was deposited by IFTI into eight JTO accounts, and
- four SMRs indicated that \$570,000 was deposited in chips into four JTO accounts.<sup>20</sup>

A further 63 SMRs described funds in junket accounts being disbursed to third parties. Some of these SMRs indicated *indirect* withdrawals or disbursements - **for example, cash withdrawals from a junket account may have been made by a JTO/JTR and then handed to a third party.**

Of the 63 SMRs indicating disbursements to third parties,

- 35 SMRs indicated that \$24.5 million was disbursed via domestic electronic funds transfer from 38 JTO accounts,<sup>21</sup>
- 24 SMRs indicated that \$5.4 million was disbursed in cash from 18 JTO accounts,
- 11 SMRs indicated that \$8.8 million was disbursed by intra-casino transfers from ten JTO accounts,
- two SMRs indicated that \$639,200 was disbursed by IFTI into three JTO accounts,<sup>22</sup> and

<sup>20</sup> These figures amount to 226 SMRs because some reports involve third parties depositing funds using more than one method e.g. a third party depositing funds via cash and domestic transfer.

<sup>21</sup> Some SMRs described activity on more than one JTO account.

- two SMRs indicated that \$214,000 in chips was disbursed from two JTO accounts to third parties.<sup>23</sup>

This level of transacting on junket accounts by persons identified by the casino as not being related to the junket is consistent with our finding that junket accounts can be used for purposes other than junket activity. One partner agency indicated its concern that transactions from junket accounts to third parties may be going towards the purchase of Australian real estate.

#### Multiple parties depositing cash into a JTO casino account

AUSTRAC identified a JTO whose account received over \$14 million in cash deposits of \$10,000 or more from 32 individuals over the reporting period. However, only 15 of these depositors were registered JTRs – over \$1.5 million dollars in cash was deposited into this JTO's account over the relevant period by persons who were not the JTO or a JTR. One \$100,000 cash deposit was made by a second JTO.

This demonstrates that the casinos' practice of only allowing JTRs or the relevant JTO to transact on JTO accounts is inconsistently applied. Further, this JTO has 80 separate JTRs listed over the time period, presenting potential challenges in managing and understanding the scale of transactions on the JTO account.

#### Crown comments

- Crown notes AUSTRAC's comment that *'it would be assumed that for the purposes of the junket that much of the money stored in the JTO's account would be beneficially owned by players.'* In relation to this issue, Crown notes that:
  - junket operators often have credit provided by casino operators (or they finance the junket themselves);
  - junket players repay the junket operator based on their gaming activity and any commercial arrangement that they agreed with the junket operator.
- While the financial relationship is between the junket operator and the casino, Crown retains detailed records in connection with the gaming activity of junkets, comprising all individual junket player gaming activity. Crown believes that this information presents AUSTRAC and its partner agencies with an opportunity for significant visibility on the transactions of individual junket players.
- Further, only the JTO and JTR are authorised to perform transactions on a JTO account. Where a JTR carries out a reportable transaction on the JTO account, the identity details of the JTR are added to the relevant report for transparency.

<sup>22</sup> Ibid.

<sup>23</sup> These figures amount to 74 SMRs because some reports involve JTO/JTRs disbursing funds using more than one method e.g. a JTO disbursing funds via cash and domestic transfer.

### *Treating JTOs as individuals rather than corporate entities*

Consultations with casinos indicate that casinos often consider JTOs to be individuals and transact with them on that basis. However, it is clear some JTOs operate as part of large commercial operations that are often international businesses. Differences in treatment between a JTO as an individual or a business would likely lead to the different application of due diligence which would increase the vulnerability associated with understanding of beneficial ownership and control.

The diversification of junket tour operations into a range of different business lines increases opportunities for comingling, and presents difficulties for banks in understanding the origin of funds. One partner agency assessed as a vulnerability, the financial significance of large corporate junket operations to casinos and the likelihood they may exert additional influence over casinos' operations.

### *Foreign nationals*

Information provided by casinos indicates that 95 per cent of players on junkets over the relevant period were foreign nationals, which is consistent with the expected demographic breakdown of junket tour operations. However, at a general level, a customer base composed predominantly of foreign nationals can increase a sector's vulnerability in several ways. For example, it can:

- increase the sector's attractiveness and accessibility to TSOC groups because it increases the global reach of the sector
- obscure the source and destination of funds, because entities and governments have more limited visibility of financial activity in other jurisdictions, and
- make information relating to customers' criminal and financial history and associations difficult to access, because it is held by foreign governments.

Partner agencies indicated that these vulnerability factors have been exploited or observed in the junket tour operations sector.

Consultations with casinos highlighted that as part of their customer due diligence processes, some casinos were of the view that the granting of a short term tourist visa to enter Australia and participate in a junket tour includes an assessment of a person's probity. Partner agencies confirmed that the granting of these short term visas does not include consideration of the criteria relevant to the customer due diligence obligations.

### *Foreign politically-exposed persons (PEPs)*

Consistent with the nature of the activity, high net worth foreign nationals are the primary target market for junkets, which exposes junkets to patronage by foreign PEPs. Use of a service by PEPs can increase a reporting entity's vulnerability to dealing in the proceeds of corruption or exposing the business to foreign influence or interference. As a reflection of the risks posed by foreign PEPs, under the AML/CTF framework, reporting entities are required to conduct enhanced customer due diligence (ECDD) whenever they provide a designated service to a foreign PEP, including seeking senior management approval to establish and continue a business relationship.

**AUSTRAC has identified circumstances where a foreign PEP not only participated in junket activities, but also operated as JTOs and JTRs.**

AUSTRAC also notes a target market of foreign nationals also increases junket tour operations' exposure to internationally sanctioned entities.

#### **Crown comments**

- While Crown notes that foreign PEPs can and do participate in junket activities, Crown believes that not all foreign PEPs pose the same level of risk. For instance, many Chinese business people are members of political organisations, but do not have the same level of influence as an elected official, and do not have access to government funds.

### *Criminal associations*

As described in the Criminal Threat Environment section, some junkets have been infiltrated by criminals including South-East Asian crime group members and transnational money laundering operations. Data-matching with partner agencies identified 16 per cent of JTOs and JTRs that operated over the reporting period were associated with entities known to be partner agency targets, even if not actual targets themselves.

#### **Adverse matches on open source databases**

AUSTRAC undertook data matching between the names of the JTOs and JTRs that operated over the twelve month period<sup>24</sup> and a publicly available database that many reporting entities use when conducting due diligence on their customers. This publicly available database uses three broad categories as reflected below Results revealed:<sup>25</sup>

- **Sixty-three** matches under the category that broadly includes:
  - persons accused, investigated, arrested, charged, indicted, detained, questioned, or on trial for crimes, but not **yet** convicted,
  - individuals appointed to a PEP position (as opposed to elected),
  - individuals appearing on regulatory, law enforcement, or global sanctions watch lists such as Office of Foreign Assets Control (OFAC), disqualified directors or Interpol, and
  - immediate relatives or close associates of primary PEPs.
- **Forty-six** matches under the second category indicating the subject had been convicted of, pleaded guilty to or been sentenced for crimes including financial crime, organised crime and narcotics-related crime.
- **Four** matches under the third category that includes:
  - persons currently holding or having held a political position,
  - persons who have been elected to a government or PEP position,
  - individuals in a country where cabinet ministers, state secretaries and the like are appointed and not elected (e.g. kingdom or military state), and
  - leaders of a political party.

The JTO that was the subject of the greatest number of SMRs over the period matched under two of the above three subcategories, and appears to have been sentenced to a period of imprisonment in a foreign country for illegal gambling activities.

#### **High-risk customer example**

AUSTRAC identified a JTR who is a close business associate of a former junket player recently arrested and who has been the subject of extensive adverse media attention in relation to international crime, support of a foreign government as well as links to domestic government officials.

AUSTRAC received an SMR describing a large cash deposit made by this JTR into an account held for a law firm. The SMR indicated the cash deposited by the JTR was converted by the law firm into a bank cheque to a construction company – possibly indicating the purchase of Australian property. An SMR lodged by a casino the day after the deposit was made into the law firm's account indicated the cash may have originated from a JTO's casino account.

<sup>24</sup> There are over 500 JTOs/JTRs engaging in junket programs each year.

<sup>25</sup> The total number of individuals matched with open source databases was 76, however several individuals returned matches for more than one category.

**Crown comments**

- Crown notes that there may be material differences between media reporting of allegations and a formal criminal conviction. This issue, coupled with the incomplete information that casino operators often have in relation to an individual, adds to the difficulty faced by operators in assessing the probity of an individual for the purposes of participating in junket programs. As these persons were able to get a visa to travel to Australia we can only assume Border Force experience similar difficulties.
- On this issue, Crown reiterates the importance of the continuing discussion about information sharing between regulators, law enforcement agencies and casino industry participants, to improve the knowledge base upon which casino operators can make decisions about who should and should not have access to designated services.
- Crown suggests that AUSTRAC consider the appropriateness of the word 'yet' in the phrase 'but not yet convicted' (given that an individual might be investigated or questioned but never charged or convicted).

*Products and Services*

AUSTRAC assesses the products and services associated with junket tour operations to present a high ML/TF vulnerability.

Gambling activity is recognised globally as being intrinsically vulnerable to the placement and layering of proceeds of crime. There are several reasons for this:

- money deposited and then withdrawn with minimal gaming activity will appear to have a legitimate origin, even though very little money was actually risked. Further, any losses sustained can give the incorrect appearance that the customer is engaging in genuine gaming activity,
- value washed through gambling services is highly liquid, and can be easily transferred between fiat currency and gaming chips, or transferred to another player, another gambling establishment, or a domestic or foreign bank,
- recreational gambling winnings are not taxable in Australia, and
- it is possible to win very large amounts of money from a relatively small outlay, so it is difficult for banks that hold the accounts of gamblers to form a suspicion based on transactions being inconsistent with their claimed income source.

Given the much higher average transaction value and the higher personal wealth of most players (making illegitimately obtained wealth harder to identify), AUSTRAC considers the gambling services associated with junkets to be relatively high risk.

**Front money provided by casinos**

A key harm minimisation measure in Australian casinos is the prohibition of the use of credit (in particular the use of credit cards) for gambling purposes. This prohibition is generally restricted to local residents. Some State and territories have, however, provided exemptions to this obligation by allowing high net worth gamblers who are domiciled in a foreign jurisdiction access to casino credit or cheque cashing facilities under specified terms and conditions.

Casinos consulted for this risk assessment indicated the vast majority of front money used for junkets is provided to the JTO by the casino as a loan or via a cheque cashing facility in accordance with the terms and conditions relevant to that jurisdiction. The money is gambled by junket players, and at the end of the junket, the JTO directs the disbursement of any winnings, or pays the casino for any losses.

The nature of this funding model for junket tour operations reinforces the approach of offsetting previously described and significantly diminishes the amount of money JTOs need to have onshore to balance front money provided offshore by players. Without access to credit or cheque-cashing facilities offered by casinos, AUSTRAC considers it would be more difficult for JTOs to source sufficient front money without involving the financial services sector.

A further vulnerability caused by casinos' provision of front money is that it diminishes the opportunity for the casino to understand which players contributed what amount of front money. Hypothetically, if casinos were to require front

money to be directly credited to the casino by individual players, they would likely be better able to understand source of funds, and compare front money amounts with betting activity and settlement instructions.

#### Crown comments

- Crown queries the statement that the provision of front money results in a vulnerability that is 'caused' by casino operators: Conversely, Crown considers that the provision of credit from the casino to the junket operator is in itself a risk mitigation measure, because it reduces the opportunity for a junket operator to pool funds that may have been illegally obtained as 'front money'.
- Crown maintains detailed records of junket program play, including junket gaming play together with individual junket player gaming play. This information comprises all individual junket player gaming activity and includes individual wins and losses, which Crown considers presents AUSTRAC and its partner agencies with an opportunity for significant visibility on the transactions of individual junket players.

#### Use of cash

From a money laundering perspective, the underlying characteristics of cash ensure that it is inherently high risk because it is anonymous, readily exchangeable, and untraceable.

Cash exposure in casinos is typically higher than in other sectors regulated under the AML/CTF framework because state regulations impose harm minimisation standards prohibiting the use of some non-cash means (such as credit cards) to fund gambling activity.

The incidence of cash transactions associated with the junket tour operations sector is high, with over 85 per cent of the JTOs that operated over the period studied being the subject of TTRs submitted by casinos. While many of these transactions are likely to be legitimate, and simply indicative of the convenience of using cash to transact or move value between casinos while on holiday, they make illegitimate cash transactions less conspicuous and harder to identify. AUSTRAC assesses the high incidence of large cash transactions in the junket tour operations sector increases its vulnerability to money laundering, in particular to a known money laundering methodology of comingling illicit and legitimate funds.

#### TTRs relating to junket activity submitted by casinos during the period 1 April 2018 – 31 March 2019:

- 4,638 TTRs involving a total cash value of \$246.3 million and an average cash value of \$53,107
  - 1,160 incoming TTRs with a total cash value of \$81.1 million in relation to 78 JTOs
  - 3,477 outgoing TTRs with a total cash value of \$165.2 million in relation to 116 JTOs<sup>26</sup>

All in-scope casinos submitted at least one TTR, and one casino accounted for over half of the TTRs submitted.

#### Incoming versus outgoing TTRs

The intelligence and suspicious matter reporting studied by AUSTRAC for this risk assessment focussed predominantly on suspicious cash *deposits*. Casinos indicated they held less concern about cash withdrawals than deposits, because the source of funds for withdrawals was clearer to them, and because players may request large cash withdrawals as a way of moving funds between casinos.

This approach is reflected in SMRs, in that casinos lodged 129 SMRs that described \$37.5 million in cash deposits, but only 87 SMRs describing \$28.3 million in cash withdrawals. SMRs indicate a key concern held by casinos in relation to cash deposits was the way large cash deposits were *presented*, rather than the large cash deposits themselves. In particular, casinos are less likely to find cash deposits suspicious if the cash appears to have been issued by a casino (with casino straps), than if the cash were presented in loose notes and/or varying denominations.

However, threshold transaction report data demonstrates that, both in number and value, large cash activity in the junkets sector is actually heavily skewed towards withdrawals, not deposits. As described in the Criminal Threat Environment section, the ultimate destination of these large cash withdrawals is an intelligence gap. One bank consulted for this risk assessment indicated large cash withdrawals would likely end up being deposited into bank

<sup>26</sup> Total incoming and outgoing TTRs sum to 4,637 because the direction of one TTR was unspecified.

accounts, increasing banks' exposure to risks associated with junket activity.

To illustrate the relatively high exposure of junket tour operations to large cash transactions, AUSTRAC has compared threshold transaction reporting percentages for these higher value transactions from casinos that *do not* relate to junket activity, and TTRs from the four major domestic banks for the purposes of illustrating the cash intensive nature of junket activity. Whilst acknowledging the typically higher use of cash in the gambling sector, major banks facilitate significantly more cash transactions, as do casinos outside of their junket activities, the below figures highlight that junkets have a substantially higher exposure to singularly large cash transactions, than casinos or the major domestic banks.<sup>27</sup>

#### Percentage of TTRs over \$50,000



<sup>27</sup> TTR figures from the major domestic banks include all TTRs, not just TTRs relating to transactions by individuals.

### Percentage of TTRs over \$100,000



#### Crown comments

- Crown queries whether the infographics above may create confusion as to whether the piles of notes represent the percentage of TTRs or the percentage of the absolute value (which is not stated).

#### Ability to store and move funds or value

AUSTRAC assesses junket tour operations to be highly exposed to the risks posed by the ability to store and move funds.

##### *Gaming accounts*

Casinos reported 419 junket-related SMRs over the reporting period that related to the use of gaming accounts. Casino gaming accounts operate much like an account held with a financial institution, offering a safe place to store large amounts of money and the ability to deposit and withdraw funds using various means, including cash, chips, personal and bank cheque, intra-casino transfers and domestic electronic transfer.<sup>28</sup> Combined with the high degree of anonymity associated with transactions on junket accounts described above, together with risks associated with the depositing of funds by third parties with no association to the conduct of the junket, AUSTRAC considers junket accounts at casinos to be highly vulnerable to the storage and movement of potentially illicit funds.

##### *Delivery channel*

#### Level of customer contact

AUSTRAC assesses that the level of customer contact involved in the provision of junket tour operations creates a medium level of vulnerability. Junket tour operations generally require the physical presence of all players and at least one JTO or JTR in an Australian casino, which all have sophisticated security and monitoring systems. Casinos therefore have significant scope and means to observe players' and JTOs'/JTRs' behaviour for suspicious activity.

However, the account through which junket transactions are made is registered under the name of the JTO, who is the casino's primary customer in relation to transactions on their accounts. Yet, the JTO is frequently not present in person, particularly in circumstances in which the JTO is an international operation, thereby leaving all engagements to be facilitated by their authorised JTRs. In many ways, JTO accounts operate as an intermediary between the casino and the participants. This increases the distance between the casino and the underlying customer, in turn increasing the obscurity of the source and purpose of transactions on the account.

<sup>28</sup> Ability to transfer funds internationally is considered in the foreign jurisdiction section below.

Further, casinos allow gaming accounts, including JTO accounts, to receive funds via international and domestic electronic transfers, which allows for third parties, with whom the casino has no face-to-face contact, to transact.

#### **Complexity of service delivery arrangements**

AUSTRAC assesses the complexity of the service delivery arrangements associated with the provision of junket tour operations to create a high level of vulnerability.

As described throughout this assessment, the traditional casino gaming model involving the interposed position of the JTO between the casino and the player, and the further interposed involvement of JTRs, complicates casinos' service delivery in a manner that increases vulnerability. In particular, it increases the distance between the reporting entity and the underlying customer, making it difficult to assign beneficial ownership to transacted funds, or to assess the rationality of particular transactions. Moreover, the extent to which casinos are able or willing to influence the procedures or risk appetite of JTOs is likely to vary across casinos and JTOs. JTOs are often not in the country when a junket is progressing, reducing their ability to manage the procedures of the onshore JTRs. Partner agency intelligence indicates that exploitation of junket operations may be conducted by JTRs without the knowledge and/or support of the overarching JTO.

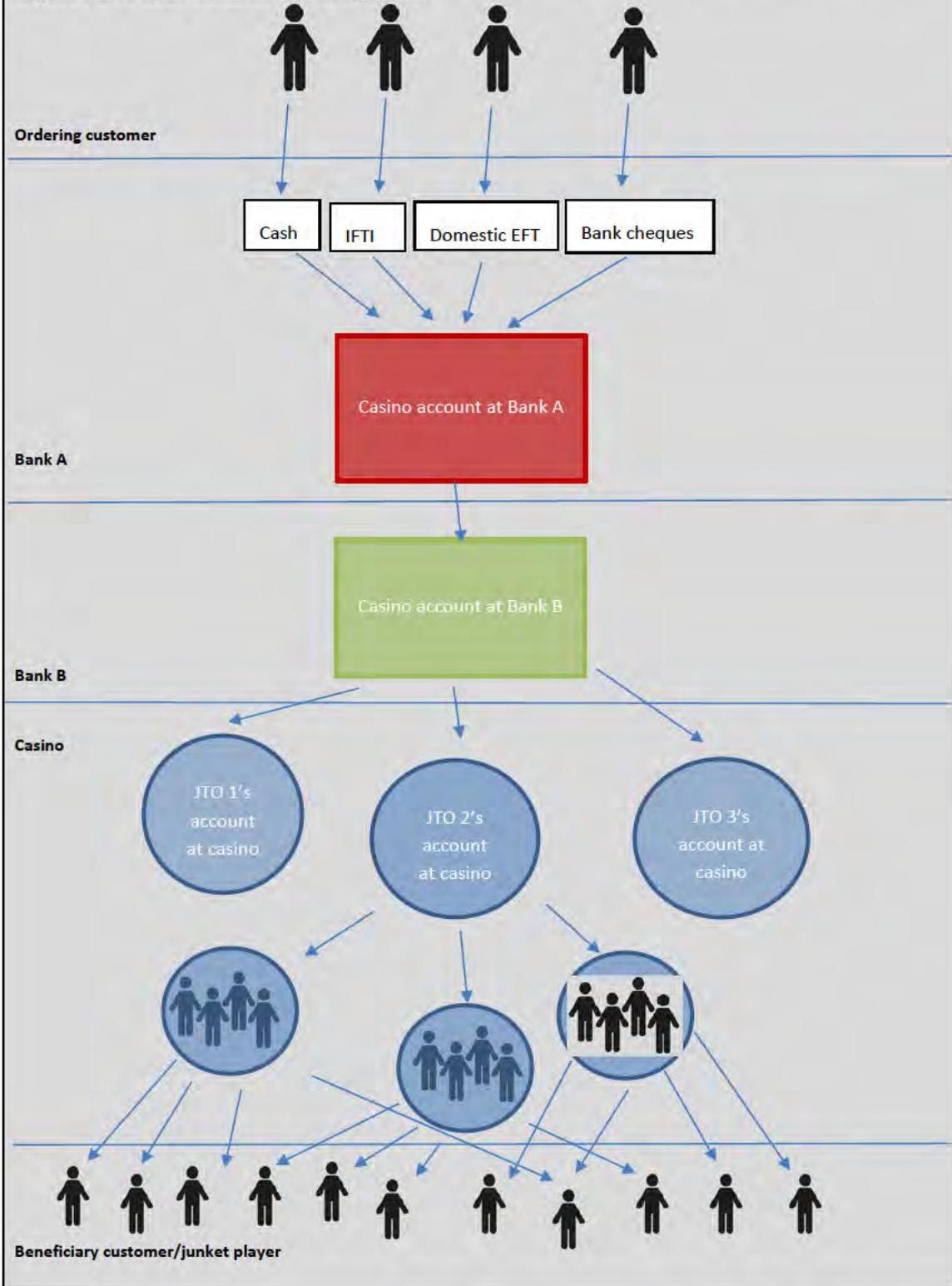
#### **Casino accounts with banks**

Casinos also hold accounts with banks (sometimes several accounts across multiple banks), which receive incoming transfers or cash deposits relating to both junket customers and non-junket customers. It is noted that in some States and Territories, the casino requires the approval of the regulator to open and operate a bank account.

Banks consulted for this risk assessment indicated the junket business model made it more difficult to assess the purpose and legitimacy of transactions on the casino accounts they held. They also noted the inability to isolate junket-related transactions from other casino transactions presented obvious challenges in terms of transaction monitoring and analysis.

**An example of the junket value chain**

The length of the value chain and pooling of various parties' money in the same accounts causes difficulties for casinos' due diligence and for banks' transaction monitoring activities.



### Foreign jurisdiction

AUSTRAC assesses junket tour operations to be subject to a high level of vulnerability in relation to foreign jurisdiction exposure. The ability to move funds between Australia and other jurisdictions increases Australia's vulnerability to transnational money launderers, terrorism financiers, foreign interference entities, transnational tax evaders and the purchase or sale of illicit goods internationally.

#### Movement of funds or value internationally

##### *Difficulty in obtaining a reliable IFTI dataset*

This assessment has found that much of the movement of value associated with junket activity is unlikely to have been reported as IFTIs to AUSTRAC due in part to the nature of some of the offsetting processes described above, or because there is no obligation to report an IFTI. Further, casinos' IFTI data is unable to provide a quantitative representation of the foreign jurisdiction exposure associated with the junket tour operations sector for various reasons, including but not limited to:

- use of loans or cheque cashing facilities as front money, meaning
  - front money to be gambled may not have actually crossed the border, and
  - repayments to the casino for losses incurred during the junket paid from offshore do not attract an IFTI obligation for the casino, and
- much of the IFTI activity that relates to junkets appears to be facilitated through JTOs' and JTRs' personal bank accounts, rather than through casino accounts.

However, given that 95 per cent of junket players over the reporting period were foreign nationals gambling money in Australia, AUSTRAC assesses there is a high exposure to the risk posed by international funds flows. These risks are likely to be exacerbated in situations where:

- the JTO has operations in several countries, increasing the risk of offsetting between accounts held at casinos in different jurisdictions, and
- where the casino itself is part of a group that operates casinos internationally.

<b>IFTIs reported by banks</b>			
In order to provide a qualitative representation of the sector's exposure to foreign jurisdictions, AUSTRAC extracted the IFTIs reported by banks in relation to transactions on the casino bank accounts in which junket monies are received into and disbursed out of. These accounts are not used exclusively for junkets, so not all reports will relate to junket activity.			
<b><i>Incoming IFTIs 1 April 2018 to 31 March 2019 – top five source countries (by \$ amount)</i></b>			
Source country	Total amount (AUD)	No. of IFTIs	Average amount per IFTI (AUD)
Hong Kong	\$201,349,353	326	\$617,636
Macau	\$172,782,695	90	\$1,919,808
Indonesia	\$130,172,769	525	\$247,948
Singapore	\$129,364,007	331	\$390,828
Taiwan	\$30,225,925	59	\$512,304
<b>Total</b>	<b>\$663,894,749</b>	<b>1331</b>	<b>\$498,794</b>
<b><i>Outgoing IFTIs 1 April 2018 to 31 March 2019 – top five destination countries (by \$ amount)</i></b>			

Destination country	Total amount (AUD)	No. of IFTIs	Average amount per IFTI (AUD)
Macau	\$34,496,300	3	\$11,498,767
Singapore	\$26,415,331	57	\$463,427
Hong Kong	\$12,541,891	28	\$447,925
United Kingdom	\$5,351,210	12	\$445,934
Philippines	\$3,280,527	1	\$3,280,527
<b>Total</b>	<b>\$82,085,258</b>	<b>101</b>	<b>\$812,725</b>

#### Transactions with high-risk jurisdictions

AUSTRAC assesses the jurisdictions with which the junket tour operations sector transacts pose a high level of ML/TF vulnerability.

AUSTRAC and several of its partner agencies assess it likely that a significant proportion of junket funds are ultimately sourced from jurisdictions in which gambling restrictions apply. Various other jurisdictions – which may act as conduits for such funds flows - may themselves, be deemed as higher risk for money laundering, corruption or other serious crimes.

### *Features of junket operations that make them higher risk*

Not all junket tour operations have the same risk profile. Each casino may implement different controls to mitigate and manage the ML/TF risks of their junket operations, and they may also implement different procedures with respect to different JTOs that operate in the same casino.

Generally speaking, AUSTRAC considers that the more of the following features that apply to a specific junket tour operation, the higher its risk in terms of its vulnerability to money laundering and related financial crime:

- JTOs/players are from high-risk jurisdictions
- Casinos accept large cash deposits to make up front money or repay debts
- Casinos allow large cash withdrawals
- Casinos allow movement of funds between casino accounts
- JTOs are PEPs or have criminal associations
- Casinos extending credit/cheque cashing facilities to JTOs for front money
- Casinos allowing non-junket related transactions on JTO accounts, including:
  - exchange of cash/"negotiable" chips
  - allowing any deposits or withdrawals during a junket
  - allowing any non-winnings funds stored in junket accounts to be used for purposes other than gaming
  - allowing transactions to or from third parties.

#### **Crown comments**

- Crown notes that a person's status as a PEP does not mean that the person is or may be involved in criminal activities. Not all foreign PEPs pose the same level of risk (a person, while affiliated politically with a particular group, may not have the same level of influence as an elected official, and may not have access to government funds).
- Further, Crown notes that significant media attention has focussed on a small number of JTOs and junket players.

### *Implementation of risk mitigation strategies*

AUSTRAC assesses the level of implementation of risk mitigation strategies in the junket tour operations sector poses a high level of vulnerability. Risk mitigation strategies include both measures that are mandatory under AML/CTF legislation and other measures that go towards mitigating ML/TF risks.

AUSTRAC consulted all of the casinos that offered junkets over the relevant period. Casinos outlined a range of practices used to mitigate the risk of criminal exploitation of junkets, including a combination of the following:

- Implementing an AML/CTF program and framework which includes policies and processes concerning employee due diligence, transaction monitoring, systems to report suspicious matters, threshold transactions and IFTIs, and AML training for staff members.
- Conducting due diligence on JTOs, generally including an application process, identity verification procedures, sanctions and PEPs screening, obtaining international police clearance certificates, credit checks and open source database screening. Due diligence may also be informed by activities conducted by third parties such as law enforcement and regulatory agencies (for example, the approval or refusal of visas).

- Notifying state gaming regulators of JTOs/JTRs and junket participant names. In Queensland, JTOs/JTRs are required to undergo an approval process administered by the gaming regulator.
- Requiring that JTOs enter the country at least once per year, to ensure they are still deemed suitable for the grant of a visa.
- Authorising that only JTOs/JTRs can transact on the relevant junket account. As described above, SMRs demonstrate this expectation can be compromised when unknown third parties hand cash to the JTO/JTR, who deposits it on their behalf, and when unknown third parties deposit money electronically.
- Attempting to establish a link between a JTO/JTR/player and the beneficiary of any requests for outgoing funds transfers.
- Recording all gambling activities
- Using CCTV surveillance footage to identify the context behind suspicious transactions.
- Screening higher-risk customers daily, to ensure any adverse changes are noted.
- Conducting ECDD on higher risk customers including JTOs/JTRs.

AUSTRAC considers that these measures (or a combination of these measures) contribute to mitigating and managing the ML/TF risk associated with the conduct of junket activity, particularly in terms of the transaction and suspicious matter reporting casinos undertake. Overall, however, AUSTRAC encourages casinos to develop industry-leading practices in the application of their ML/TF risk mitigation policies, systems and processes, with emphasis on the robustness of these efforts in order to better protect their businesses from criminal exploitation.

AUSTRAC will continue to engage with the casinos sector, to understand the complexities of their operations, assess compliance with their obligations under the AML/CTF Act, enhance the collective understanding of ML/TF risks and vulnerabilities of the sector, and provide casinos with information to support best-practice approaches to identifying and mitigating ML/TF risk.

#### **Crown comments**

- Crown queries whether some further clarity may be appropriate in this section. Is AUSTRAC suggesting that risk mitigation strategies exist, but the 'level of implementation' of those strategies is low, thereby contributing to a high level of vulnerability?
- As AUSTRAC is aware as a result of the presentations and information provided by Crown during the course of the Junket Risk Assessment project, Crown has a range of detailed processes and measures in place that are specifically directed towards mitigating ML/TF risks associated with the conduct of junket activity, including detailed initial and ongoing due diligence and probity checks in relation to all junket operators and ongoing daily due diligence screenings through third party external providers in relation to all active junket operators, representatives and players, as well as ongoing review of all junket activity through Crown's Transaction Monitoring Program.

## CONSEQUENCES

					●			
Minor			Moderate			Major		

The consequences of ML/TF activity in the junket operations sector are assessed as **moderate**. Consequence refers to the potential impact or harm that ML/TF and other financial crimes may cause. Financial crime in the junket tour operations sector has consequences for a range of stakeholders.

### Individuals

AUSTRAC considers the consequences of the criminal exploitation of junket tour operations for individuals to be **moderate**. The individual victims of the money laundering offences associated with junket tour operations, such as persons suffering from drug addiction, can suffer extreme harm as a result of criminality associated with junkets. Unlike other sectors AUSTRAC regulates that are subject to offences against individuals like fraud and scams, the junket sector is unlikely to perpetrate predicate offences itself – it is more likely to be used to launder the resultant proceeds.

### Junket tour operations sector

AUSTRAC considers the consequences of systemic criminal exploitation of junket tour operations for the sector to be **major**.

Gambling services are recognised globally as being vulnerable to criminals and criminal exploitation, and the casinos which are providing the services are subject to a high level of public and media scrutiny. Casinos operate in a highly competitive global market and competition to attract junkets is intense. Sustained actual or perceived criminal exploitation of junkets may cause reputational damage which without remedy is highly likely to extend to include competitive disadvantages effecting the casino licence or loss of revenues through decreased patronage. By extension junket tour operations could face exclusion from a particular market undermining legitimate business operations.

Casinos are subject to significant oversight at the State and Commonwealth levels in terms of ensuring the integrity of casino operations and any failure to effectively manage and mitigate against criminal exploitation may expose a business to regulatory action.

### Australian financial system and community

AUSTRAC assesses the consequences of criminal exploitation of junket tour operations on Australia's financial systems and community to be **moderate**.

Some junkets are used by SOCGs to move and otherwise launder money, supporting the continued profitability of underlying offences that affect the Australian community.

Where junkets are used to facilitate income tax evasion, they erode Australia's revenue base.

Where JTOs and JTRs may contravene visa conditions, they undermine the integrity of Australia's migration system.

Were criminality through junkets to be widespread, there would also be an impact on Australia's international AML/CTF reputation, which may in turn affect Australia's attractiveness as a place to invest and otherwise do business.

Finally, if widespread criminality in the junkets sector were to result in significantly decreased patronage of Australian junkets, this would have consequences for international and domestic tourism, the taxation revenue of states and territories, and the share price of ASX-listed companies.

### National security and international consequences

AUSTRAC assesses the potential consequences of foreign interference activities facilitated through junket tour operations to be **moderate**. Not only does foreign interference have the capacity to influence decision makers to act in a manner inconsistent with, or even contrary to, Australia's national interest, but it is also likely to undermine confidence in government and Australia's political process.

**Feedback**

AUSTRAC is committed to continual improvement and values your feedback on its products. We would appreciate notification of any outcomes associated with this report by contacting AUSTRAC via the [contact form](#) at <https://www.austrac.gov.au/contact-us/form>.

## APPENDIX A: Risk assessment methodology

The methodology used for this risk assessment follows Financial Action Task Force guidance, which states that ML/TF risk at the national level should be assessed as a function of criminal threat, vulnerability and consequence.

This risk assessment considered 19 risk factors across the above three categories and each risk factor was assessed as low, medium or high, as per the table below. These assessments were based on quantitative and qualitative intelligence inputs, including analysis of SMR and other reporting data, intelligence assessments from partner agencies, and feedback from industry. The average scores of the criteria provides the total risk score for each category, and the average of the three risk scores for each category provides the overall risk rating for the sector.

CRIMINAL THREAT ENVIRONMENT			
LOW	MEDIUM	HIGH	Crown comments
Minimal variety of money laundering methodologies. There is a low level of involvement by SOCGs and other high-risk entities.	Money laundering methodologies are moderately varied. There is a medium level of involvement by SOCGs and other high-risk entities.	Money laundering methodologies are highly varied. There is a high level of involvement by SOCGs and other high-risk entities.	As explained on our covering letter, AUSTRAC's conclusions about the level of involvement of SOCGs and high risk entities does not accord with Crown's experience and understanding. Crown would welcome the opportunity to discuss AUSTRAC's conclusions in this area (and the basis for those conclusions) to the fullest extent possible.
Low amount of money laundering intelligence, investigations and cases involving the sector, and low associated values.	Moderate amount of money laundering intelligence, investigations and cases involving the sector, and moderate associated values.	High amount of money laundering intelligence, investigations and cases involving the sector, and high associated values.	As above
Methodologies for national security offences are relatively invariable, or are easy to detect. None or a very small number of actors, financiers, associates and facilitators utilising the sector.	Methodologies for national security offences are somewhat varied, or can sometimes be difficult to detect. There is a small number of actors, financiers, associates and facilitators utilising the sector.	Methodologies for national security offences are highly varied, or are often difficult to detect. There are several actors, financiers, associates and facilitators utilising the sector.	

Very few instances of national security offences in the sector, with negligible or very low associated values.	Some instances of national security offences in the sector, with low associated values.	Multiple instances of national security offences in the sector, with moderate or high associated values.	
Minimal variety of predicate offences that are easily detected. There is a low level of involvement by SOCGs and other high-risk actors.	Predicate offences are moderately varied and may sometimes be difficult to detect. There is a medium level of involvement by SOCG and other high-risk actors.	Predicate offences are highly varied and are often difficult to detect. There is a high level of involvement by SOCG and other high-risk actors.	
Low number of predicate offences in the sector, and low associated values.	Moderate number of predicate offences in the sector, and moderate associated values.	High number of predicate offences in the sector, and high associated values.	

<b>VULNERABILITIES</b>			
<b>LOW</b>	<b>MEDIUM</b>	<b>HIGH</b>	<b>Crown comments</b>
Few higher risk customers	A moderate number of higher risk customers	A high number of higher risk customers	As explained on our covering letter, Crown would welcome any further specificity AUSTRAC can provide about the levels of high risk customer activity that AUSTRAC has observed (as it does not accord with Crown's experience and understanding). Crown would welcome the opportunity to discuss AUSTRAC's conclusions in this area (and the basis for those conclusions) to the fullest extent possible
Sector has a small customer base.	Sector has a medium customer base.	Sector has a large customer base.	
Provision of product/service rarely involves cash, or involves cash in small amounts	Provision of product/service sometimes involves cash, or involves cash in moderate amounts	Provision of product/service often involves cash, or involves cash in large amounts	
Funds and/or value are not easily stored or transferred	Funds and/or value can be stored or transferred with a small amount of difficulty	Funds and/or value are easily stored or transferred	

Product/service is provided predominantly through direct contact, with minimal remote services	Mix of direct and remote services	Predominantly remote services, with minimal direct contact	As explained on our covering letter, Crown is interested to understand what is meant by the term 'remote services'. From Crown's point of view, all gambling services in the casino sector are provided face to face.
Sector tends to have simple and direct delivery arrangements	Sector tends to utilise some complex delivery arrangements	Sector tends to utilise many complex delivery arrangements	Similar to the above, Crown is interested to understand what is meant by 'complex delivery arrangements' (and would welcome further detail about AUSTRAC's observations in this area).
Funds and/or value are generally not transferred internationally	Moderate amount of funds and/or value can be transferred internationally	Significant amounts of funds and/or value are easily transferred internationally	
Transactions rarely or never involve high-risk jurisdictions	Transactions sometimes involve high-risk jurisdictions	Transactions often involve high-risk jurisdictions	
At a sector level, significant systems and controls have been implemented to mitigate vulnerabilities	At a sector level, moderate systems and controls have been implemented to mitigate vulnerabilities	At a sector level, limited systems and controls have been implemented to mitigate vulnerabilities	This conclusion does not appear to be consistent with the more detailed discussion of this subject. AUSTRAC has noted a range of risk mitigation measures that are in place on pages 34 and 35 of the draft risk assessment, but has indicated here that it considers that 'limited systems and controls' have been implemented.

CONSEQUENCES			
MINOR	MODERATE	MAJOR	Crown comments
Criminal activity enabled through the sector results in minimal personal loss	Criminal activity enabled through the sector results in moderate personal loss	Criminal activity enabled through the sector results in significant personal loss	

Criminal activity enabled through the sector does not significantly erode the sector's financial performance or reputation	Criminal activity enabled through the sector moderately erodes the sector's financial performance or reputation	Criminal activity enabled through the sector significantly erodes the sector's financial performance or reputation	As above.
Criminal activity enabled through the sector does not significantly affect the broader Australian financial system and community	Criminal activity enabled through the sector moderately affects the broader Australian financial system and community	Criminal activity enabled through the sector significantly affects the broader Australian financial system and community	
Criminal activity enabled through the sector has minimal potential to impact on national security and/or international security	Criminal activity enabled through the sector has the potential to moderately impact on national security and/or international security	Criminal activity enabled through the sector has the potential to significantly impact on national security and/or international security	Crown notes that it may be AUSTRAC's intention to shade the middle box yellow, rather than red.

## APPENDIX B: Glossary of terms

<b>AML/CTF</b>	Anti-money laundering and counter-terrorism financing.
<b>AML/CTF program</b>	A document that sets out how a reporting entity meets its AML/CTF compliance obligations.
<b>Beneficial owner</b>	An individual who owns 25 per cent or more of, or otherwise controls the business of, an entity.
<b>Casino account</b>	An account held by an individual (for example a JTO) with a casino. Funds can be deposited and withdrawn from these accounts can be funded in many ways including by domestic electronic funds transfer, international funds transfer, cash deposit, and exchange of chips.
<b>Cheque cashing facility</b>	An arrangement whereby the casino accepts a cheque from the JTO as a substitute for front money. The cheque will only be cashed after settlement if the junket program loses, so the JTO does not need to actually provide the front money amount to the casino.
<b>Cuckoo smurfing</b>	A money laundering process in which non-complicit beneficiary customers of international remittances have proceeds of crime deposited in their bank accounts, in consideration for the legitimate funds sent to them from offshore.
<b>ECDD</b>	Enhanced customer due diligence. This is the process of undertaking additional customer identification and verification measures in certain circumstances deemed to be high risk.
<b>FATF</b>	The Financial Action Task Force is an inter-governmental body focused on fighting money laundering, terrorism financing and other related threats to the integrity of the international financial system, by ensuring the effective implementation of legal, regulatory and operational measures.
<b>Front money</b>	The amount of money available to the junket players in a program to bet. This is likely to be extended via credit or cheque cashing facility by the casino, but is sometimes raised by the JTO and deposited into their casino account. The front money amount for a specific junket program can be increased during the program.
<b>IFTI</b>	An instruction to transfer funds or property to either: <ul style="list-style-type: none"> <li>• Australia from another country</li> <li>• Another country from Australia</li> </ul>
<b>Integration</b>	The final stage of the money laundering cycle, in which illicit funds or assets are invested in further criminal activity, 'legitimate' business or used to purchase assets or goods. At this stage, the funds are in the mainstream financial system and appear to be legitimate.
<b>Junket program</b>	A discreet junket "tour" – a group of players with a set arrival and departure date and pre-determined front money amount, at the conclusion of which settlement occurs between the casino and the JTO. Junket programs differ from "rolling junkets" which are ongoing 24/7 and have players arriving and leaving without pre-determined dates.
<b>JTO</b>	Junket tour operator. This is the person with whom the casino enters into an arrangement to provide junket services to the JTO's customers.
<b>JTR</b>	Junket tour representative. An agent of a junket tour operator, who has authority to transact on the JTO's casino account.

<b>Layering</b>	The second stage of the money laundering cycle, which involves moving, dispersing or disguising illegal funds or assets to conceal their true origin.
<b>ML/TF</b>	Money laundering/terrorism financing
<b>MLO</b>	Money laundering organisation
<b>Offsetting</b>	A practice which enables the international transfer of value without actually transferring money. This is possible because the arrangement involves a financial credit and debit (offsetting) relationship between two or more entities operating in different countries.
<b>PEP</b>	Politically exposed person
<b>Placement</b>	The first stage of the money laundering cycle, in which illicit funds first enter the formal financial system.
<b>Predicate offence</b>	For the purpose of this risk assessment, predicate offence is any offence which generates proceeds of crime.
<b>SMR</b>	A report that must be submitted by a reporting entity under the AML/CTF Act if they have reasonable grounds to suspect that a transaction may be related to money laundering, terrorism financing, tax evasion, proceeds of crime or any other serious crimes under Australian law. An SMR must also be submitted if the reporting entity has reasonable grounds to suspect the customer or an agent of the customer is not who they say they are.
<b>SOCCG</b>	Serious and organised crime group
<b>Structuring</b>	Structuring is where a person deliberately: <ul style="list-style-type: none"> <li>• splits cash transactions to avoid a single large transaction being reported in threshold transaction reports</li> <li>• travels with cash amounts in a way that avoids declaring cross border movements of the cash.</li> </ul> Structuring can be a money laundering technique and is against the law under the AML/CTF Act.
<b>TMP</b>	Part A of a reporting entity's AML/CTF program must include a risk-based transaction monitoring program (TMP) that comprises of appropriate systems and controls to monitor the transactions of customers and identify suspicious transactions.
<b>TSOC</b>	Transnational serious and organised crime
<b>TTR</b>	A threshold transaction report, submitted to AUSTRAC about a designated service provided to a customer by a reporting entity that involves a transfer of physical or digital currency of A\$10,000 or more or the foreign currency equivalent.
<b>Unregistered remittance</b>	The provision of money remittance services in a manner that is captured by the AML/CTF Act, but without being registered with AUSTRAC. Unregistered remittance is a criminal offence.



**Annexure B**  
**Crown Melbourne Corporate Risk Map – May 2020**

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

**Legend:**

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