



Regulatory & Governance Update May 2019

1. AUSTRAC

1.1. AUSTRAC Compliance Assessments

AUSTRAC has advised Crown that it will be conducting a Compliance Assessment on Crown Perth in October 2019 (having deferred the June assessment following discussion with Crown). This review will consider, amongst other matters:

- the Joint AML/CTF Program;
- the results and progress of the new automated transaction monitoring program system; and
- staff training initiatives.

Whilst this Compliance Assessment is to be largely focused on the Crown Perth operations, we should expect AUSTRAC to make enquiries in respect of the Group in respect of the matters listed above.

1.2. FinTel Alliance

We have been advised that, due to a reconsideration of composition and role of the Fintel Alliance, AUSTRAC were not progressing with new invitees at this point.

In its discussions with AUSTRAC, Crown Melbourne was advised that this was not a reflection on Crown and entirely an internal matter for AUSTRAC and the strategic direction of the Fintel Alliance going forward.

1.3. Joint Program

A draft of a Joint Program continues to be prepared with the assistance of external advisors, which will ultimately be rolled out across the Australian Resorts.

1.4. AUSTRAC Relationship

Crown Melbourne recently carried out a familiarisation tour with representatives from AUSTRAC (including the Deputy CEO) together with a presentation on the proposed transaction monitoring automation solution.

1.5. AUSTRAC Restructure

Following the last meeting of the Committee, AUSTRAC has implemented a restructure of its Regulatory Supervision team along industry lines.

As a result, the Crown Reporting Entities are now overseen by the Regulatory Supervision – Gambling Team, managed by Ms Briony Olmedo. Ms Olmedo has been involved in prior compliance assessments of Crown Melbourne and has a good knowledge of casino, wagering and gambling operations. As recently as 2 May 2019, we



have taken Briony and her team through Crown Melbourne's operations and the contemplated updates to our transaction monitoring system.

Janet McCarthy, formerly the Director of Major Reporters, Compliance (and to whom Briony reported), has recently left AUSTRAC for a senior AML role at ANZ. Her replacement is yet to be announced.

2. RISK MANAGEMENT

2.1. Update to the Risk Management Framework

As part of the review of the risk management framework, a number of steps have been taken to align the Perth and Melbourne processes, to mature the existing framework and enhance the quality of risk management across the organisation.

Some of the changes that have been implemented since the last meeting include the following:

- The Risk Management framework was reviewed by an external advisory firm, and their input was included into the final draft of the Risk Management Strategy document which will be presented to the Crown Resorts Limited Risk Management Committee and the Crown Resorts Limited Board for approval and adoption. The engagement with the external consultant was in line with the third recommendation from the VCGLR's s25 report and will support our response to that recommendation.
- Other framework elements are still in development, including a Data Risk Management Framework and a Business Continuity Management Framework.

2.2. Corporate Risk Profile Review

The changes recommended to the consolidated Risk Profile are highlighted below:

- The 'Responsible business model' risk has been split in two: 'Ineffective responsible service of gaming' and 'Failure in responsible service of alcohol'.
- To capture other elements of 'Responsible business model' (including ABC and human rights), risk '19 – Unsustainable environmental management' has been expanded to include other ethical matters: '19 - Unsustainable environmental management and ethical standards'.
- The wording of Risk 14 – 'Major brand damage' has been adjusted to capture feedback from members of the Crown Resorts Risk Management Committee, and updated to '14 – Major reputational damage'.

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

- The disclosure of confidential discussions with Wynn Resorts Limited regarding a



potential change of control transaction following approaches by Wynn to Crown which were subsequently terminated by Wynn.

- Local economic conditions continue to be challenging, particularly in WA, with certain indicators continuing to show a downward trend.
- The proposed new Enterprise Agreement (**EA**) to replace the Crown Melbourne Limited (**CML**) Table Games and Cage Area Managers EA 2015 is still being negotiated, although the parties have progressed towards settling the terms of the new EA.

Although no steps have been taken at this stage to take industrial action, the risk remains heightened that this strategy will be utilised by unions during upcoming negotiations.

- The CML United Voice EA 2016 and the CML Property Services and Technicians EA 2015 nominally expire on 1/7/19 and 30/6/19 respectively.
- The VCGLR fined Crown \$25,000 for failing to notify the VCGLR, in accordance with Internal Controls, of the registration of a new junket operator prior to the operator commencing activity at Crown Melbourne.
- The Victorian Commission for Gambling and Liquor Regulation (VCGLR) has concluded its investigation into allegations raised by Mr Andrew Wilkie MP in April 2018 regarding plastic picks being used on continuous play machines and multiple loyalty cards issued to patrons with respect of Crown Melbourne. The VCGLR found that there was no case to answer with regard to multiple cards (although this issue has been referred to the Department of Justice for consideration from a policy perspective). The VCGLR determined that the picks were unapproved gaming equipment and that their published Rules for Crown permitting the use of a device for the depressing and holding down of a gaming machine button should not be considered approval of Crown's device for the depressing of a gaming machine button. Although they consider Crown to be in breach of the requirement to have gaming equipment approved (which we disagreed with), they will not be taking disciplinary action. As a result Crown was issued with a Direction prohibiting the use of "button picks or like items (being any item or device designed to hold down or continuously depress an electronic gaming machine button)" at Crown.
- 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.
- As part of its China investigation, the VCGLR made a further request for information which Crown responded to on 5 December 2018. The VCGLR has not yet finalised its report and will provide a copy of the draft report to Crown for comment prior to settling it. The final report will be sent to the Minister for Gaming.



- The Crown Resorts Board has endorsed an adjusted operating model for our VIP operations in Singapore and Malaysia with additional controls incorporated to manage any risk. This new adjusted model will now have staff living in Singapore and Malaysia as opposed to being based out of Hong Kong. Additional overseas jurisdictions are now being considered for an adjusted operating model.
- Provisions for international gaming bad debts remain relatively consistent with the last reporting period.

These events have not required risks or ratings to be changed in the corporate risk profile.

An updated Risk Map is provided in **Attachment 1** for discussion.

3. REGULATORY AND COMPLIANCE

3.1. Your Play

On 5 October 2018, the VCGLR (Compliance Director) wrote to Crown making enquiries of a preliminary nature, regarding the operation of the Your Play Pre-commitment Scheme at the Casino. The queries concerned multiple cards; active Your Play members; number of Casual Cards etc. and largely sought data, training and directions provided to staff and operational information; however, no allegations were made as to any wrong doing by Crown.

Crown responded to the VCGLR's letter on 26 October 2018, providing the information and data as requested.

There has been no update during the reporting period.

3.2. China Matter

It is expected that the VCGLR will shortly be finalising its draft report, which will be provided to Crown and Crown will be invited to make submissions. The finalised report will be sent by the VCGLR to the Minister for Gaming.

There has been no progress with former China based staff member Jenny Jiang.

3.3. April/May 2018 Wilkie Allegations

Allegations of compliance breaches were raised by Mr Andrew Wilkie MP relating to the use of Crown issued plastic picks to hold EGM buttons down for continuous play and multiple loyalty cards issued to patrons.

On 7 March 2019, the VCGLR concluded that button picks are considered gaming equipment pursuant to the Casino Control Act (Crown does not agree that button picks are gaming equipment), and that section 62 of the Act requires that all gaming



equipment must be approved (but has determined not to take disciplinary action on this occasion). The VCGLR issued a Direction to Crown under s 23 of the Act, which requires Crown to: 1. Crown must not issue or supply to patrons any button picks or like items (being any item or device designed to hold down or continuously depress an electronic gaming machine button) for use on any electronic gaming machine in the Melbourne casino; 2. Crown must take all reasonable steps to ensure that button picks or like items (as described above) are not used by patrons for gaming on electronic gaming machines in the Melbourne casino.

Crown was further required to provide a report to Mr Ockwell, Director, Compliance, by 8 April 2019 detailing the steps taken by Crown to comply with the Direction. On 8 April 2019, Crown responded to Mr Ockwell, outlining the measures in place to address the Direction. No feedback has been received from the VCGLR concerning Crown's report.

On 21 March 2019, the VCGLR wrote to Crown advising that it had concluded its investigation into the issue and use of multiple player cards and found that Crown had not contravened any Victorian laws. The VCGLR further noted that they have referred the matter to the Victorian Department of Justice and Community Safety to determine whether regulatory reform was necessary.

3.4. Blanking Buttons

The final matter related to the Blanking Buttons issue was for Crown to present to the Commission on its compliance framework. Subsequent to that the VCGLR advised that the Commission now required a written submission as opposed to a presentation which Crown submitted on 24 December 2018.

On 10 May 2019 the VCGLR wrote to Crown regarding its compliance framework submission stating that it intends to monitor Crown's implementation of the framework which will include:

- reviewing Executive Risk and Compliance Committee agendas, minutes and papers for the last six months;
- reviewing Compliance Committee agendas, minutes and papers for the last six months;
- reviewing Board Compliance Committee agendas, minutes and papers for the last six months;
- auditing a sample of "Gaming Initiatives" forms;
- inspecting Annual Compliance Plans for the last two years; and
- reviewing a sample of CURA system incident reports.



The letter provides that Crown will shortly be provided with a detailed request for information necessary to assist this process.

3.5. Poker Tax

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

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

The VCGLR has raised the matter periodically over more than 11 years and on 2 May 2018 served Crown with a Notice pursuant to s 26 of the *Casino Control Act 1991 (Vic)* to provide certain data for an assessment to be made. Crown responded to the Notice providing the first of two large tranches of data covering 2014 to 2018.

A second tranche of data, covering the period 2010 to 2014 was subsequently provided and Crown advised the VCGLR that no further data was available for the years preceding 2010, as it had either been destroyed and/or it is now unreadable, as Crown no longer had the historic systems required to read it (note that Crown is only required by the *Casino Control Act* to keep data going back 7 years (8 years of data was provided)).

On 6 September 2018, the VCGLR again wrote to Crown querying the circumstances of the destroyed and unreadable data. In preparing the response to this letter, further detail was sought from the IT Department and an experienced employee who had recently returned to the relevant IT team was able to write code to extract further data going back to 2003. Crown subsequently wrote to the VCGLR explaining that further data had become available and that data was provided.

On 5 December 2018, the VCGLR (Chairman) again wrote to Crown, seeking detail as to what steps would be required to recover the unreadable data; what would be the cost of rebuilding the system and what amount of time would it require (it is notable that the period for which this information was sought was for between 16 and 22 years ago – the *Casino Control Act* requires the retention of the material for 7 years). The letter sought a further tranche of data (under s 26 Notice) (for the period since data was last provided) and required Crown Melbourne to commence reporting the taking of Poker



Tournament Entry Fees in its usual Gross Gaming Revenue (**GGR**) report. Crown replied on 19 December 2018, providing all of the information requested – Entry Fees will be reported in the GGR report, but will not form part of the calculation. Crown has not yet received a response to its letter.

There has been no update to this matter during the reporting period.

3.6. EGM Continuous Play

On 27 September 2018, the VCGLR served Crown with a Notice pursuant to s 26 of the *Casino Control Act 1991* (Vic) to answer questions and provide data concerning EGM C8308, which the VCGLR allege was identified by Government Inspectors as operating in ‘Unrestricted Mode’, without YourPlay functionality activated. Crown investigated the machine with its Approved Testing Facility (ATF) (BMM) and the machine’s manufacturer (IGT). It was identified that the machine was not operating in unrestricted mode, however, it had a wiring fault, which meant that when a particular button was held down, it performed as if continuous play was in operation. It should be noted that s 62AB of the *Casino Control Act 1991* (Vic) provides:

(2)A casino operator must not allow a game to be played on a gaming machine unless each spin can be initiated only by a distinct and separate activation of the machine by the player (whether by pushing a play button, touching the screen or otherwise).

Crown responded to the Notice, advising that it was as a result of a machine hardware fault and also provided a copy of the manufacturer’s report into the machine.

On 20 December 2018, the VCGLR (on-site Inspectorate) wrote to Crown requesting clarification on several matters relating to this incident and an explanation as to why Crown breached s 62AB(2) of the *Casino Control Act 1991* (Vic) [a casino operator must not allow a game to be played on a gaming machine unless each spin can be initiated only by a distinct and separate activation of the machine by the player]. On 8 January 2019, Crown responded to the letter dated 20 December 2018, reinforcing its position as documented in Crown’s initial response dated 11 October 2018. No reply has yet been received from the VCGLR.

As a consequence of this matter; on 19 November 2018 the VCGLR (Director, Compliance) wrote to Crown advising that they are continuing to investigate the circumstances relating to the malfunction of EGM C8308. In this letter, the VCGLR sought further information from Crown as to whether regulation 18(6) of the *Gambling Regulation (Pre-commitment and Loyalty Scheme) Regulations 2014* have been complied with. On 18 December 2018, Crown responded asserting that no breach of Reg. 18(6) had occurred and attaching the VCGLR’s approval of the current operating format. No response has yet been received from the VCGLR.

As a result of this issue, various audits and reviews of similar machines have been undertaken.

There has been no update during the reporting period.



3.7. Proposal to Restrict Cash Transactions

The Federal Treasury Department issued a paper titled “Introducing an Economy-Wide Cash Payment Limit; Government Response to the Black Economy Taskforce Final Report” dated 23 May 2018 inviting submissions from the public (which were due by 24 June 2018).

Included in the resulting report is a proposal to restrict cash transactions for goods and services to under \$10,000, to address its concerns around the black economy. All transactions over \$10,000 are proposed to be by electronic transfer only.

Crown prepared a joint submission with The Star Group and Sky City to the Treasury Department seeking an exemption to the \$10,000 proposal on the basis they are already major reporters (with the banks and payment providers who are to be exempt) to AUSTRAC. To date, the Treasury Department has not provided its formal response. Informal discussions continue between Crown, the Treasury Department and AUSTRAC.

It is noted that with the recent re-election of the Liberal National Federal Government, there has been a reallocation of Ministerial portfolios. It is expected that a new minister may now have responsibility for this matter.

4. RSG

4.1. Section 25 Review Recommendations

Crown Melbourne is continuing to progress the implementation of the 11 Responsible Gaming Recommendations (s25 Recommendations) made by the Victorian Commission for Gambling and Liquor Regulation (**VCGLR**) in its Section 25 Review.

A copy of the s25 Recommendations Progress Report is attached, which was provided to the VCGLR on 2 May 2019.

4.2. Crown Model

The Crown Model trial is continuing. The Responsible Gaming team is currently working with the eighth data set of 100 members that has been provided by the Customer Analytics team. With each data set, data and operational refinements are being made. These are a product of the monthly meetings with the Customer Analytics and Responsible Gaming teams.

The Crown Resorts Responsible Gaming Board Committee has requested that the Chair of the Responsible Gambling Advisory Panel (see section 2 below), review the Crown Model Trial.



4.3. Victorian Responsible Gambling Foundation (VRGF)

On 18 March 2019, the Minister for Consumer Affairs, Gaming and Liquor Regulation, the Hon. Ms Marlene Kairouz announced the appointment of Shane Lucas as the Victorian Responsible Gambling Foundation's new Chief Executive Officer. Mr Lucas has held executive and senior management positions in the non-government, government and private sectors since 2000. He served as CEO of Early Learning Association Australia from 2013 to 2017, and most recently was a full-time member of the Administrative Appeals Tribunal.

Mr Lucas and representatives of the VRGF visited Crown Melbourne on 28 May 2019 and met with Crown Senior Management for a tour of the property and presentation on Responsible Gambling.

4.4. Responsible Gambling Ministerial Advisory Council (RGMAC)

There have been no RGMAC meetings in the reporting period.

Chris Reilly, General Manager – Tourism, Crown Resorts, has been appointed to the RGMAC in place of Sonja Bauer.

The next meeting is scheduled for 4 July 2019.

4.5. Internal Audit Activity

Internal Audit activity in this period consisted of spot audits completed by the Gaming Audit Team. A high level of compliance has been noted, with no significant issues requiring follow up.

4.6. Responsible Gaming Advisory Panel

The establishment of the Crown Resorts Responsible Gaming Advisory Panel (**Panel**) is progressing.

Prof. Alex Blaszczyński has agreed to Chair the Panel. Prof. Blaszczyński visited Crown Melbourne in April and briefly in May to undertake some initial meetings to familiarise himself with Crown Melbourne's operations and to provide feedback on the progress of the s25 Recommendations and the Crown Model.

Additionally, Barry Felstead and Prof. John Horvath have liaised with two other proposed Panel members, Ass. Prof. Paul Delfabbro and Prof. Lia Nower and have recommended their appointment as members of the Panel, which was settled at the Crown Resorts Responsible Gaming Committee Meeting on 3 April 2019.

All appointments have now been ratified and a first meeting is in the process of being scheduled.



4.7. Australasian Gaming Council (AGC)

The AGC is currently reviewing its Charter and Strategy for Responsible Gambling. The AGC Board, of which Crown Resorts is a member, appointed a Responsible Gaming Executive Committee (**RGEC**) to contribute to the review, of which Sonja Bauer is a member. The RGEC commenced work in July 2018, and most recently met on 1 April 2019, to finalise the draft for presentation to the AGC Board.

The RGEC participants include Gaming Technologies Association, Australian Hotels Association NSW, Aristocrat Technologies, The Star Casinos, Tabcorp, ALH Group and Crown Resorts.

4.8. Liquor and Gaming and the Office of Responsible Gambling (NSW)

On 20 March 2019, Natasha Mann Executive Director, Regulatory Policy & Strategy, Liquor and Gaming NSW and Natalie Wright, Director, Office of Responsible Gambling, visited Crown Melbourne. The visit included a property tour, as well as a presentation pertaining to the Facial Recognition Technology currently in use at Crown Melbourne. The visit concluded in the Responsible Gaming Support Centre, where the Responsible Gaming Framework was discussed. Ms Mann subsequently attended Crown Perth for a similar tour in May 2019.

4.9. VCGLR – approval of Responsible Service of Gaming (RSG) Training

Discussion with the VCGLR in relation to the five-yearly approval of Crown Melbourne's RSG Training program have commenced. The VCGLR will be involving the VRGF for external expert advice, similar to the previous approval discussions.

5. LEGAL (SUBJECT TO LEGAL PROFESSIONAL PRIVILEGE)

5.1. Car Parks

Crown continues to occupy the Clarke Street and Clarendon Street car parks pursuant to the monthly tenancy. DTF has advised Crown that the Victorian Assistant Treasurer has signed off on offering Crown a new long-term lease (likely to be a 10-year lease plus 2 options of 5 years each) at the rental determined by the Valuer-General. DTF has also advised that the Surveyor General is preparing updated plans for these areas and once that is completed Crown will be presented with the new lease offer.

5.2. IHG Trade Mark Matter

IHG (through Six Continents Hotels) is the owner of the CROWNE PLAZA trade mark and Crown Melbourne is the owner of the CROWN brand (as used by the Crown Resorts group and licensees). IHG and Crown are in dispute in relation to the respective use of the CROWNE PLAZA and CROWN brands for hotel services. The countries/jurisdictions of dispute include USA, UK, EU, Australia, Hong Kong, PRC (China), Taiwan and Macau.



There are currently in excess of one hundred separate trade mark disputes before the various courts and tribunals around the world relating to this matter.

Previously the use was governed by a trade mark co-existence agreement that covered the Asia-Pacific region (excluding the Americas).

REDACTED - PRIVILEGE

REDACTED - PRIVILEGE

5.3. Zantran Pty Ltd (Class action – Crown Resorts Limited)

Zantran Pty Ltd (**Applicant**) a shareholder in Crown Resorts Limited (**Crown Resorts**) has issued class action proceedings in the Federal Court against Crown Resorts.

The Applicant on behalf of other yet identified shareholders alleges that it has suffered loss and damage (fall in share price) arising out of and in consequence of Crown's operations in China during 2015 and up to the detention of Crown employees in China (**Relevant Period**).

It is further alleged that Crown Resorts during the Relevant Period failed to disclose to the share market information that was not generally available which a reasonable person would expect to have a material effect on the price or value of Crown Resorts shares. Such information included the risk of Crown's operations in China, the Chinese Government crackdown on corruption, the arrest in China of South Korean Casino employees and the risk that employees might be detained and arrested in China for alleged breaches of Chinese gambling laws.

REDACTED - PRIVILEGE



REDACTED - PRIVILEGE

The Applicant has made an application to the court for orders that the formerly detained employees be released from their employment and redundancy confidentiality obligations to enable the Applicant's lawyers to speak with those employees.

On 8 May 2019 His Honour handed down his decision and made the orders sought by Zantran allowing Zantran's lawyers to confer with the detained employees (other than Jason O'Connor and Michael Chen) and if those employees consent, take a witness statement. Crown determined to appeal the decision and duly filed its appeal papers on 22 May 2019. The parties agreed that there will be a stay on the orders until the hearing and determination of the appeal, which we anticipate will be heard during August 2019 and a decision later in the year.

We also note that the matter is listed for trial (on a six week estimate) on 4 May 2020. Mediation is scheduled for 18 June 2019. Further stages of discovery continue to be undertaken.

Class group member trading data has been provided and Crown's expert is currently analysing that data to determine the theoretical value of the claim.

The Applicant has provided its evidence on quantum upon which it intends to rely at trial by 18 April 2019 and Crown is to provide its evidence by 24 May 2019, which is currently being prepared by Crown's experts.



**Attachment 1
Crown Melbourne Corporate Risk Map – May 2019**

		<i>Material Risks</i>				
Likelihood	Almost certain					
	Likely		16- Harm to persons on property		14 - Major reputational damage	
	Possible		9 - Loss of key management 15 - Poor people management practices	6 - External disruption to demand for our services 7 - Physical Business Disruption 8 - IT business disruption 11 - Litigation 12 - Major criminal activities 13 - Ineffective responsible service of gaming (RSG) 18 - Industrial action 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
	Unlikely		17 - Breakdown in strategic partnership with third party 19 - Unsustainable environmental management and ethical standards	10 - Reduction in property standards		
	Rare					20 - Aviation accident
		Insignificant	Minor	Moderate	Major	Severe
Consequence						

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