



## Regulatory & Governance Update October 2018

### 1. AUSTRAC

#### 1.1. AUSTRAC Compliance Assessments - Closed

As foreshadowed at our August meeting, in closing its two assessments of 2017 and 2018, AUSTRAC identified, and Crown Melbourne accepted, a number of recommendations in respect of its AML Program and framework. It is noted that there were no adverse findings as a result of the assessments.

Crown Melbourne continues to work through implementing each of the recommendations from the EGMs Assessment.

#### 1.2. AUSTRAC enquiry – Suncity

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

#### 1.3. FinTel Alliance

We have had no further correspondence with AUSTRAC on this matter. We understand from discussions with some of our peers that these invitations may be pending for a number of industry participants. We have requested an update from AUSTRAC's Deputy CEO, Regulatory Strategy.

#### 1.4. AUSTRAC Reporting

In respect of Crown Melbourne's AUSTRAC reporting obligations:

- Crown has implemented the "Gate" to check Threshold Transaction Reports (**TTR**) as foreshadowed at our last meeting. This Gate assists Crown to detect and correct errors identified in its TTRs, in advance of uploading the reports to AUSTRAC;
- a similar Gate has been prepared for International Funds Transfer Instructions (**IFTIs**), and is pending release;
- the AML Team continues its verification review of IFTIs; and
- the assurance process in respect of AUSTRAC reporting (the end-to-end review) has been completed for IFTIs (with recommendations raised and being actioned), with the TTR review to commence this month.

#### 1.5. Joint Program

As previously advised, we continue to progress the development of the Joint AML/CTF Program for Perth and Melbourne. The Joint Program will also include Crown Sydney in due course. The proposed Joint Program will be independently reviewed by Minter Ellison in December and January prior to seeking its adoption in February 2019 subject to receiving the necessary internal approvals. AUSTRAC is supportive of the Joint Program initiative.



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### 1.6. General AUSTRAC relationship

Crown Melbourne is scheduled to host AUSTRAC senior management on 22 November 2018 for a site tour and presentation on our International VIP Business.

## 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 initial changes that have been implemented include the following:

- The Risk Matrix has been finalised and approved by both the CEO – Australian Resorts and the Executive Chairman – Crown Resorts, therefore all Crown entities will be using the same rating mechanism for risks. Please see attached Risk Matrix (**Attachment 1**) for your reference.
- The Board Risk Appetite is being presented for approval at all three boards (Crown Resorts Limited, Crown Melbourne Limited and Burswood Limited). Refer to Agenda Item 5.
- The Crown Melbourne corporate risk profile has been updated with the new Risk Matrix definition.
- Further enhancements to risk reporting at both Board and Executive levels continue.

### 2.2. Corporate Risk Profile Review

Two key risk framework changes have taken place that have materially impacted the Corporate Risk Profile:

1. The new Risk Matrix has been approved, which means all risks have been reassessed against the new rating criteria. As part of that process, a number of risk ratings have been updated.
2. The new risk framework provides for greater depth of risk identification and documentation, which means that the Corporate Risk Profile does not need to hold all the details of each risk. Attached for ease of reference is Crown Melbourne's draft Corporate Risk Profile (**Attachment 2**). A number of these detailed risks can now be included in the relevant Executive risk profiles and below. These profiles will be developed and/or updated in the coming months.

In addition, since the last report in August 2018, a number of internal and external events have materialised which are relevant to the overall risk profile of Crown Melbourne, and particularly its material high risk exposures.



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

- The Victorian Commission for Gambling and Liquor Regulation (**VCGLR**) finalised and published its report on the 6<sup>th</sup> Section 25 *Review of the Casino Operator and Licence* for Crown Melbourne which included making 20 Recommendations, which were largely accepted by Crown.
- The VCGLR is currently investigating 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 has not indicated its position on these allegations at this stage. The Gaming & Wagering Commission of Western Australia is also considering these matters and their relevance to Crown Perth.
- Premium gaming turnover is slightly above budget, but is tempered by materially lower win rates (0.84% vs 1.40% theoretical at September 30) than budgeted, particularly in the VIP portfolio.
- Bad debt provisions over VIP international debtors have stabilised. Although processes have been changed to reduce the risk going forward, the residual debt, particularly for Chinese patrons, has materially accrued over the past 2 years and collection challenges continue to be worked through.
- A change in Federal Government ministerial portfolios and leadership in August 2018 has required re-engagement with the relevant Government representatives to brief them on the relevance of the Black Economy Taskforce issues to Crown and the Casino industry. **This is an emerging risk for Crown Melbourne.**
- The VCGLR continues to investigate the China incident.
- The VIP International Operational structure continues to be reviewed.

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

Please note however that due to the timing of committee meetings, the draft Corporate Risk Profile was initially presented to the Executive Risk and Compliance Committee (**ERCC**) for discussion on Tuesday, 13 November 2018.

At the meeting, the rating of key risks were discussed, and two changes were adopted:

1. **Act of Terrorism on Crown Property:** with the previous Risk Matrix, the risk was rated possible/major. The 'major' rating related to the possibility of a fatality should such an event take place.

In the new Risk Matrix, which aligns with Workplace Health & Safety ratings for its 'people' impact, fatalities are associated with the 'severe' rating.



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The likelihood of 'possible' remains relevant, in line with the current national threat level, and considers the preventative and deterring measures we have in place.

Based on these parameters, the ERCC agreed the increase of the overall residual risk rating of the *Act of Terrorism on Crown Property* risk to possible/severe; which makes it a 'critical' risk, requiring the oversight of the Crown Resorts Limited Risk Management Committee (RMC) or Board.

This oversight has already been taking place, including through the convening of a special meeting of the Crown Resorts Limited OHS and Risk sub-committees on 8 March 2018, following the terror threat event that took place at Crown Melbourne on 28 February 2018.

In addition, on an ongoing basis, the risk of an act of terrorism, captured in the 'Global Event' risk, is discussed at each RMC, therefore adequate RMC and Board oversight is already in place.

The Crown Melbourne Limited Audit Committee subsequently considered the new rating and agreed with the level reached.

2. **Volatility of Gaming Revenue:** Considering the current position on the win rate on VIP gaming, particularly for the first 4 months of the financial year, but also considering the prior year results, the ERCC was of the view that the likelihood of this risk should be increased to 'possible'.

This positions the risk as a 'critical' risk, which again requires oversight of the RMC or Board.

This risk is highlighted in the Crown Resorts Risk Profile as a material high risk, and an update is provided to the RMC at each meeting. In addition, the Board considers VIP gaming performance on a regular basis therefore adequate RMC and Board oversight is already in place.

The Crown Melbourne Limited Audit Committee considered this increase in risk rating and agreed with the level reached.

An updated risk map is provided in **Attachment 3** for discussion, which is to be read with the draft Melbourne Corporate Risk Profile (**Attachment 2**).

### 3. REGULATORY AND COMPLIANCE

#### 3.1. Compliance Framework Status

The implementation of a compliance framework in Crown Melbourne, based largely on the framework currently in Crown Perth, continues to progress. The framework will assist in ensuring consistency in compliance practices within Crown Melbourne and also aims to increase awareness and accountability of compliance obligations.



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The status of the implementation of the compliance framework in Crown Melbourne is as follows.

Business units who have been integrated to the business wide compliance framework to date include:

- |  |  |
|--|--|
| ▪ AML/CTF  | ▪ Hotels   |
| ▪ Cage   | ▪ Procurement  |
| ▪ F&B (3 distinct sections)  | ▪ Property Services  |
| ▪ Finance  | ▪ Responsible Gaming   |
| ▪ Gaming Machines  | ▪ Security   |
| ▪ Gaming Machines Product  | ▪ Surveillance   |
| ▪ Regulatory and Compliance (surveys added for deployment in November) | ▪ Table Games  |
| ▪ VIP International  | ▪ Human Resources (surveys added for deployment in November) |
| ▪ IT   |  |

During the next reporting period, it is expected that Annual Compliance Plans and compliance surveys will be finalised for the following departments:

- Gaming Machines Technical
- Marketing/PR
- Events and Conferencing
- Legal
- Projects
- Showroom

### 3.2. Compliance and Regulatory Matters

#### 3.2.1. China Matter

The VCGLR has not finalised its investigation into the China matter.

The VCGLR further requested a large volume of new documentation (together with requests for documentation that had already been provided), which Crown and Minter Ellison has now provided.

On 2 October 2018, the VCGLR wrote to Crown Melbourne regarding the employment of Ms Jane Pan, noting that they are aware of her employment at Crown Perth and requested advance notice of any intention for her to work at Crown Melbourne. Crown responded, acknowledging the VCGLR's request.



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Crown has settled with one (Frank Cao) of the two remaining China based staff. REDACTED -  
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Discussions concerning Jason O'Connor's proposed return to work, which remains subject to any required regulatory approvals, are progressing.

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### 3.2.2. April/May 2018 Wilkie Allegations

There has been no progress on this matter since the previous update.

### 3.2.3. 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 s26 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



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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. Crown has not yet received a response to these letters.

If Crown is required to pay the gaming tax, the quantum to date is estimated at approximately \$9 million.

### 3.2.4. EGM Continuous Play

On 27 September 2018, the VCGLR served Crown with a Notice pursuant to s26 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 actually 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 s62AB 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. The VCGLR has not provided a response to date.

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

### 3.2.5. 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 response.



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Mr Barton and Mr Preston recently met with Minister Stuart Robert, the new Minister responsible for this matter, to articulate Crown's position.

### 4. RSG

#### 4.1. Cross Property Self Exclusion

On 16 October 2018 the VCGLR provided approval for Crown Melbourne to share its self exclusion lists to the following entities for the nominated purpose to move from an "opt in" cross property self exclusion process to a mandatory cross property self-exclusion process between Crown Melbourne and Crown Perth and to enhance responsible gaming measures with Betfair:

- Burswood Nominees Limited to facilitate a self exclusion program at the Crown Perth Casino and entertainment complex; and
- Betfair Pty Ltd to cease promotion and market to self excluded individuals.

This approval is conditional on the person self excluding being advised as part of the self exclusion form to have:

- a) been advised of the purposes for which the information will be used; and
- b) consented to the release of this information for the purposes identified.

The implementation is scheduled for early December 2018.

#### 4.2. Gaming and Responsible Gaming Interactions – Play Periods

Further to the update in the February to June 2018 report, the Responsible Gaming department is working with IT to develop a more operationally focussed dashboard, and ultimately, an Application based alert and recording system.

'Play Period' is the observation/interaction of Crown Rewards members who have recorded play of 12 hours or more, with touch points continuing at 16 and 20 hours (or earlier as may be required due to observable signs). At these touchpoints, conversations, breaks in play, or a request to leave, are determined, dependent on the assessment of the circumstances made during the observation/interaction. In line with the existing process, members will still however be required to leave if their play extends to 24 hours (excluding international VIPs).

#### 4.3. Crown Model

The Crown Model trial is continuing. The Responsible Gaming team is currently working with the third 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. There are



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some early indicators that play behaviour is changing with those that have had interactions, however, this should be treated with caution as the sample size is small and the nature of the model requires some time to pass for proper analysis.

### 4.4. Harm minimisation campaigns

Responsible Gaming and Security Services have continued focussed joint operations in relation to car park patrols, on average conducted once per week.

The Briefings and Muster campaign, which runs every three months, and focuses on aspects of the Responsible Gambling Code of Conduct, was delivered in October 2018 to gaming employees by Responsible Gaming Liaison Officers. The October 2018 sessions also included information about Gambling Harm Awareness Week.

### 4.5. Gambling Harm Awareness Week

Gambling Harm Awareness Week (**GHAW**) was delivered as part of a State-wide initiative supported by industry, Government and the community and led by the Victorian Responsible Gambling Foundation and is designed to encourage community discussions about why gambling harm matters.

Crown Melbourne has supported this initiative since its inception in 2006, previously known as Responsible Gambling Awareness Week.

This year Crown Melbourne supported the week with customer and employee communications and events, including a special afternoon tea at Groove Bar on 10 October 2018, which was well attended by stakeholders, Executive, management, employees and patrons. Crown Resorts Limited non-executive Director, Prof. John Horvath, was guest speaker at this event.

For patrons, a staffed GHAW booth was located on the main gaming floor while employees had access to an information desk outside ID's, as well as the opportunity to participate in a competition via the employee kiosk, ERIKA. This attracted 779 entries, which is considered excellent.

### 4.6. Victorian Responsible Gambling Foundation (VRGF)

The VRGF CEO, Louise Glanville, accepted a new role as the Managing Director of Victoria Legal Aid and was replaced in October 2018 by an interim CEO, Janet Dore. With the imminent care-taker period and the Christmas break, it is estimated that this period will be six to nine months until a permanent CEO is appointed. Crown Melbourne Management will be meeting with Janet Dore in December 2018.



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

At a meeting of the RGMAC on 26 July 2018, participants were informed that it was considering a list of matters which should be included in Responsible Gambling Codes of Conduct for gaming venue operators.

The proposed features presented by RGMAC for Codes of Conduct would not currently affect Crown Melbourne, however, this has not been formally ruled out.

Some of these features mirror a number of the suggestions made in the s25 Recommendations for Responsible Gaming.

The RGMAC Working Group on 'Emerging Gambling Products', on which Crown Melbourne was represented, which is particularly interesting to Crown given its involvement in Chill Gaming, delivered its Report.

Products identified as requiring detailed consideration included emerging gaming machine products, synthetic lotteries, skins gambling, loot boxes and daily fantasy sports. A number of recommendations were made to RGMAC, but many did not receive consensus and this is reflected in the Report.

### **4.7. Internal Audit Activity**

The F19 Responsible Service of Gaming audit was completed in August 2018. The overall audit rating was 'Excellent' with no findings identified. Internal Audit is satisfied that Crown Melbourne has controls in place to monitor compliance with the Responsible Service of Gaming Code of Conduct and relevant regulations.

### **4.8. Community Engagement Group**

On 6 September 2018, John Horvath, Barry Felstead, Ken Barton, Karl Bitar and Sonja Bauer met with Tim Costello, Stephen Mayne, Anna Bardsley and at their request, Susan Rennie to discuss the following items:

1. the release of Electronic Gaming Machines revenue at the full year results;
2. the draft policy relating to the cessation of marketing to persons identified as having potential problem gambling behaviours; and
3. the establishment of a Community Engagement Group, the membership composition, Charter and meeting schedule. Mr Felstead asked Ms Bardsley if she would be part of this Community Engagement Group and take the role of Chairperson, and for Ms Bardsley to nominate further members for Crown's review. Ms Bardsley is currently considering her position in regard to this initiative.



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### 4.9. Responsible Gaming Advisory Panel

The Crown Resorts Responsible Gaming Board Committee has recommended the establishment of a Crown Resorts Responsible Gaming Advisory Panel which management is progressing.

## 5. LEGAL

### 5.1. Car Parks

Crown Melbourne has transitioned from the temporary car park at Montague Street back to Clarke and Clarendon Street car parks and Vic Roads have now finished their works related to the Citylink/Tulla Widening Project at these car parks.

To date, all of Crown's compensation claims in relation to the occupation of the car parks have been paid in full and we are currently negotiating Crown's final claim with Vic Roads.

Crown had preliminary discussions with the State in relation to a potential purchase of these car parks however as previously reported the Department of Treasury and Finance (DTF) advised that a sale was unlikely and that Crown would likely have to negotiate another long-term lease of the land. In this respect, David Martine (Secretary of the DTF) has advised Crown that:

- Crown will likely be offered a long-term lease, but the Minister is still yet to make a decision.
- That decision will not be made until after the State election (24 November 2018).
- If and when negotiations related to the lease take place, Crown may be able to be granted a first right to purchase the land if the Government ever decided to sell it.

In the meantime, Crown continues to occupy the land pursuant to the monthly tenancy.

### 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).



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The parties are attempting to reach a global settlement. The main stumbling blocks to settlement are in respect of the USA and the translations of CROWN into Chinese (as used throughout Asia).

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Crown is currently reviewing the revised Settlement Agreement recently provided to it by IHG.

The parties have agreed in the meanwhile to suspend court and tribunal proceedings where possible (including, in the USA) in an attempt to seek to resolve matters.

### 5.3. Navin Kumar Aggarwal – K&L Gates (Lawyers)

Crown (Crown Melbourne Limited, Burswood Nominees Limited and Southbank Investments Pty Ltd) and the Plaintiff have now agreed to settle this matter on the basis of a denial of liability with full releases and Crown paying HKD11,500,000 (approximately A\$2.1 million) which has been fully provided for.

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

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

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

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

Crown Resorts has filed its defence denying the allegations. The parties are currently going through the lengthy process of discovery which is the provision and exchange of documents under a strict confidentiality regime relevant to the facts in issue. Crown Resorts has completed stage 1 and stage 2 of discovery.

A case management hearing occurred on 12 November 2018 where the Court made various timing orders as to production of expert evidence, mediation (June 2019) and a hearing date (May 2020). The Court also heard an application by Maurice Blackburn seeking to have the former China staff relieved of their obligations of confidentiality to Crown in order to interview the former staff. This application was adjourned for the parties to prepare and submit further evidence and submissions.