



CROWN RESORTS LIMITED
Meeting of the Board of Directors
Monday, 10 August 2020 at 1.30pm
by videoconference



Crown Resorts Limited (ABN 39 125 709 953)

Meeting of the Board of Directors to be held on Monday, 10 August 2020
at 1.30pm by videoconference

RESTRICTED AGENDA


1. [ILGA Inquiry](#)
2. [Strategic Planning](#)

REDACTED - PRIVILEGE



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Crown Resorts Limited

Memorandum

To: The Board of Directors
From: Ken Barton
Date: 11 August 2020
Subject: **Strategic Plan**

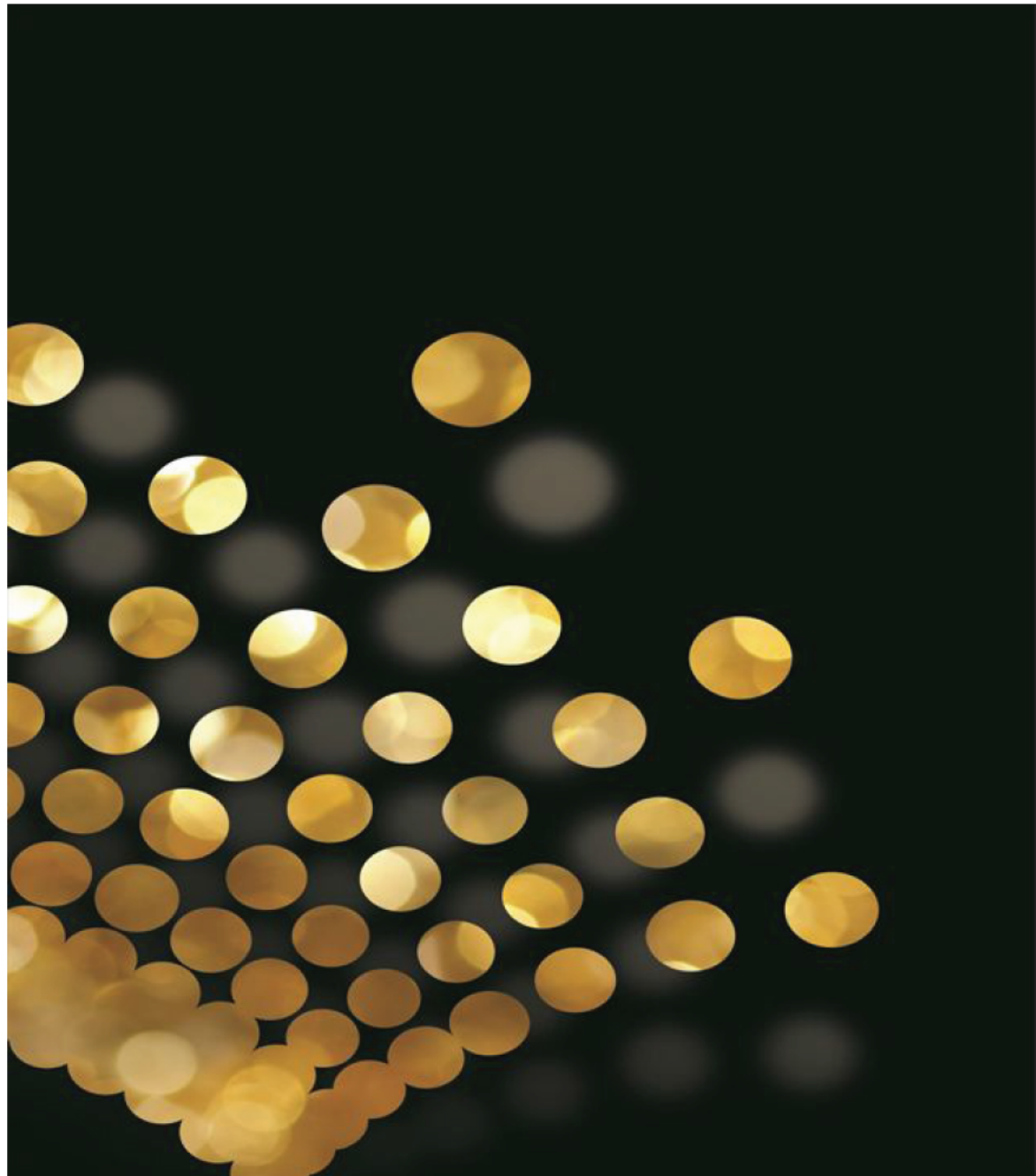
Dear Directors

At the 5 August 2020 Board meeting, the Board requested that a strategic plan be prepared to identify actions to address the perspectives and recommendations emerging from the latest round of public hearings at the ILGA Inquiry.

Attached for the Board's consideration and for discussion at the meeting are our preliminary observations on those matters.

Kind regards

Ken Barton
Chief Executive Officer



Crown Resorts

Board discussion
materials

10 August 2020

Australia's
Integrated
Resort
Company

Introduction

- Crown's licence to operate is a privilege. The maintenance of that privilege relies, among other things, on fulfilling community expectations and acting in a manner consistent with our broader 'social licence' to operate
- We must always recognise that the people with whom Crown chooses to associate ultimately reflect on Crown
- Crown has no desire to have relationships with, or allow our facilities to be used by, people who do the wrong thing and we do not have a sustainable business if it's reliant on such people
- While we currently have a number of systems and processes directed to achieving this end, we have to recognise that we can do better in our processes around reducing the risk of dealing with the wrong people, and ensuring our services are not used for the wrong ends
- We need to ensure that we are judging the people we deal with against the standard we set for ourselves and the standard the community expects from us
- We need to better empower those in our organisation charged with ensuring we are compliant, and that we operate in a way consistent with our social licence to operate. Our structures and reporting lines need to change in order to better facilitate this
- This paper considers actions taken, and further steps needed, in order to best facilitate these objectives

Background

- At the last Crown Resorts Board meeting, a number of observations were discussed arising out of the New South Wales public inquiry (ILGA Inquiry), in particular in relation to AML, junkets, organisational structure and culture
- The Board has requested management report back with a strategy to identify actions to address these matters
- This paper provides context, actions taken and management's preliminary proposals on the following areas:
 - AML
 - Junket processes
 - VIP Operations
 - People & Culture
 - Governance Structure
 - Organisational Structure
- In some areas immediate steps are proposed to be implemented. In other areas the recommendation is to continue to develop proposals and come back to the Board for final approval

AML – Context and Actions

The ILGA Inquiry has raised concerns over certain transactions which have occurred on Crown's premises or through Crown's accounts

Context

- AML compliance and reporting is a non-negotiable, but reporting alone is insufficient. There is a need to ensure that Crown acts in a way consistent with our values, standards and expectations, and those of the community
- As a result, Crown needs to keep its processes under continuous review and enhance them as required to ensure real-time, continuous and holistic analysis of all aspects of customer relationship and behaviours, including through a lens of our transactions with counterparties

Implemented Actions

- A number of measures have already been introduced in the past 12-18 months to enhance Crown's AML resources and compliance frameworks. This includes:
 - development of joint programme
 - commencing implementation of the AML Sentinel system (automated transaction monitoring tool)
 - expansion of the AML team including appointment of designated analyst and analytics resources
 - appointment of Group General Manager AML
- Other considerations and controls
 - all subsidiary accounts have since been closed
 - additional controls regarding third party transfers
 - gaming transactions between Junkets and players are required to take place at the cage
 - instructions to banks to not accept cash in Crown bank accounts

AML – Next Steps

Future actions

- Enhanced AML audit
- Separate out AML role and ultimate responsibility from operations and from other compliance functions
- Add additional (interim, part time or full time permanent) senior resource to AML team to increase core capability and provide assurance, both internally and externally (regulators, banks etc.)
- Establish direct reporting line to Board and Risk Management Committee
- Further technology enhancements – Sentinel, SMR reporting tools and dashboards
- Expansion of AML training tools and roll out to organisation (including Board)
- Implementation of joint programme
- Additional controls around receipt of funds from companies and trusts

Junkets – Context and Actions

Concerns have been raised over certain individuals and junkets with whom Crown has had historical business dealings

Context

- Crown is constrained in its ability to get full visibility around the history and associations of its potential customers
- While detailed due diligence processes are in place, due diligence carried out on some junket operators either did not identify all necessary information or was not analysed sufficiently to accurately assess the risk
- As a result, some junket relationships may need to end

Implemented Actions

- A review of junket approval processes is currently being undertaken by Deloitte
- A review of specific junket operator relationships is underway (including Suncity (CCW), Song, and two other operators) to determine whether Crown should continue to deal with those junkets
- Enhanced intelligence and information sharing processes underway, including:
 - appointment of Nick Kaldas
 - proposal to establish Australian Casino Integrity Group
 - discussions with enforcement agencies about enhanced information sharing, including with ACIC and NSW police

Junkets – Next Steps

Future Actions

- Immediate cessation of all junket relationships
- Implementation of new junket approval process and other recommendations made by Deloitte
- Additional measures (law enforcement agency engagement etc.)
- Broaden EDD to the same level for all parties junket related (reps, financiers and principals)
- Formalised information sharing protocols and memoranda of understanding with relevant law enforcement agencies
- Development of specific Financial Crime (incorporating AML) or related department within Crown separate from the operational structure with the ultimate power to enter into or terminate relationships with junkets or premium players
- Apply these new processes to all junket arrangements before recommencing relationship with any junket

VIP Operations

An aggressive sales culture can contribute to increased risk taking, which is a particular risk within the International VIP business. As a result, ultimate responsibility and accountability must be clear

Context

- Crown's International VIP team has historically run on an aggressive sales culture with a higher risk appetite than the rest of the business
- There is currently no Head of the International VIP business, with three roles reporting to the CEO Australian Resorts (President - International VIP Development; Group General Manager – International Business Operations; Senior Vice President – International Business)
 - these three roles cover Sales, Operations and Credit/Commercial
- Based on the current structure, lines of responsibility and accountability can become blurred
- Incentive structures are likely to have contributed to this aggressive sales culture

Future actions

- A single Head of VIP role should be created, who must drive a culture of compliance within the team
- Clear PD's for each role should be established or clarified to spell out the accountability and responsibility within the team – with scope to consolidate the Credit / Operations role depending on the size of the business moving forward
- Stronger controls and training over recent years have been provided by the Legal, Compliance and AML teams. However, it would be prudent to revisit the content and frequency of the training, as well as the Sales & Operations teams' incentive schemes to ensure they are aligned with the company's objectives and values
- VIP operations will remain in the Australian Resorts business unit however, under the proposed structure, critical decisions about junkets (engagement and termination) will be made by centralised compliance-related departments with total authority and accountability to the Board

People & Culture – Context

- To ensure appropriate risk and compliance processes are adhered to on a consistent basis across the entire business, Crown has three lines of defence:
 - 1) **Staff engagement and personal accountability** – our own people are the first line of defence, and appropriate standards need to be reinforced all the way through the organisation
 - 2) Review of compliance and risk behaviour consistent with approved guidelines by an **independent risk and compliance function**; and
 - 3) Continual audit of processes by an **independent internal audit function** to ensure processes are working and being complied with

People & Culture – Staff engagement and personal accountability

1. Our first line of defence – Culture and accountability

Crown must ensure its first line of defence – its staff – evidence the right risk and compliance culture. This standard must permeate from senior leadership all the way down through the organisation

- **Senior accountability**

- The right risk and compliance culture starts with senior leadership, who set the example for the rest of the business
- I will meet individually with the top 20 Executives to explore and better understand their personal perspectives on risk and compliance at Crown. This will give me an understanding of Executive attitudes and any gaps or areas of concern
- Moving forward, clear consequences must be imposed to drive the right behaviours. This must cover both monetary and disciplinary action
- In relation to monetary outcomes, Senior Executive incentive structures should be reviewed to ensure they consider behaviours, not just outcomes – with an element of both a ‘stick’ and ‘carrot’
 - Variable remuneration should include a component of deferred compensation linked to potential forfeiture (for example, as a result of subsequent regulatory issues) to ensure decision making appropriately reflects compliance and risk events that may take some time to materialise
 - KPIs should include measures related to compliance outcomes, reinforcing the importance of behaviour (not just outcome)
 - **These matters have recently been considered and supported by the PRN Committee**
- For the incentives to be effective, there has to be a right balance of rewarding the right behaviours and also taking decisive and consistent action against intentional bad behaviours (not human errors)

People & Culture – Staff engagement and personal accountability

- **Organisation wide risk and compliance message**
 - A clear and consistent risk and compliance message must be established to drive the right balance between a successful and compliant business
 - This balance will be aided by communication of a clear Corporate strategy which will drive the priorities of the business
 - Communication through traditional media and new approaches such as virtual town hall meetings and social media tools can be readily used
 - These messages must permeate all the way through the organisation. This starts with the Executives, who must be champions of risk and compliance, but the message must also be fully embedded and championed by middle management
- **Reporting tools**
 - Staff engagement surveys, pulse surveys, social tools and other two-way communication can be used to assess a risk and compliance perspective to monitor trends and progress, whilst external data points include customer complaints information
 - Tools that translate expectations into actions must be embedded in the business. Existing tools include employee code of conduct, corporate values, risk matrix, delegation policy and gaming initiative form
 - Other tools are in development including key risk and culture indicator dashboards and POI Committee with further tools to be identified and developed

People & Culture – Second and Third lines of defence

2. Our second and third lines of defence

Existing reporting lines for the Risk, Compliance and Audit functions should be reviewed to ensure appropriate independence and line of sight to the Board

- Context – existing reporting lines
 - Currently the Risk and Compliance functions (including AML) effectively report through to the Chief Legal Officer and within the Australian Resorts business unit
 - This has been identified as an area of concern by the ILGA Inquiry given a perceived lack of independence from the commercial operations and a lack of visibility to the Board
- Second line: Independent Compliance function
 - The Compliance function (including AML) should be extracted from the Australian Resorts business unit to create an independent function from any of the commercial activity reporting directly through to the CEO and Board
 - Westpac has similarly recently created an Executive position responsible for Compliance, AML and Conduct, whilst for other banks and other Australian gaming institutions, the AML function typically reports either into the Legal Counsel or the Chief Risk Officer

People & Culture – Second and Third lines of defence

- Context – independent or combined Risk and Audit functions
 - Further consideration is required regarding whether to combine the risk and audit functions under one portfolio
 - The value of having one person overseeing both functions is that the link between the two is effective and the assurance function can be well targeted towards higher risk areas and responsive to changes in the risk environment
 - The downside is the perception that the two lines may not be adequately independent. For the banking sector, APRA requires the two functions to have different reporting lines
 - Within Crown, Group General Manager – Risk and Audit is the only staff member with accountability across both the Risk and Audit functions
 - The Senior Manager – Internal Audit manages the day to day of the Internal Audit function, and only escalates matters to the GGM that are either more complex or require senior management engagement (like high rated findings or controversial issues)
 - There is also a requirement from the Victorian regulator that the position of Risk Officer report directly to the CEO
- Second and Third lines: Independent Risk and Audit functions
 - The Risk and Audit functions should be extracted from the Australian Resorts reporting line to create an independent function reporting directly through to the CEO of Crown Resorts and the Board
 - A new Group role of Chief Risk Officer could be created, with responsibility for both Risk and Audit
- There is a question of whether the Risk and Internal Audit functions should be separated and at what level in the organisation the reporting lines of those two areas should come together

Governance – Legacy Entity Structure

Crown's current Governance Structure is a legacy structure based on a listed holding company and subsidiary licence holders

- Prior to 2016, Crown's businesses operated relatively autonomously with property based CEOs reporting through to the Group CEO. Independent governance and risk arrangements existed in each Australian business and were not necessarily aligned with the other
- Following the successful Crown Sydney licence process, the strategic focus shifted to Crown's Australian Resorts, with a number of key support roles moving to Group roles (eg IT, marketing, finance) to allow consistency, efficiency and transparency across the Group. However, the underlying governance structure remained, comprising a listed company Board with listed company Board Committees, and subsidiary Boards with subsidiary Board Committees
- The current structures that exist for each of Crown's licence holding entities is set out below:

	Crown Melbourne	Crown Perth	Crown Sydney
Board Composition	Combination of Crown Resorts directors and an external director	Combination of Crown Resorts directors and an external director	Combination of Crown Resorts directors and a member of Senior Management
Committees	Audit Committee Compliance Committee	Nil	Nil
Compliance Function	Local and shared	Effectively local	Local with support from Melbourne
AML Function	Traditionally local, moving to central	Traditionally local, moving to central	To join central
Risk and Internal Audit Function	Combination of second and third lines of defence on a centralised basis	Combination of second and third lines of defence on a centralised basis	Combination of second and third lines of defence on a centralised basis

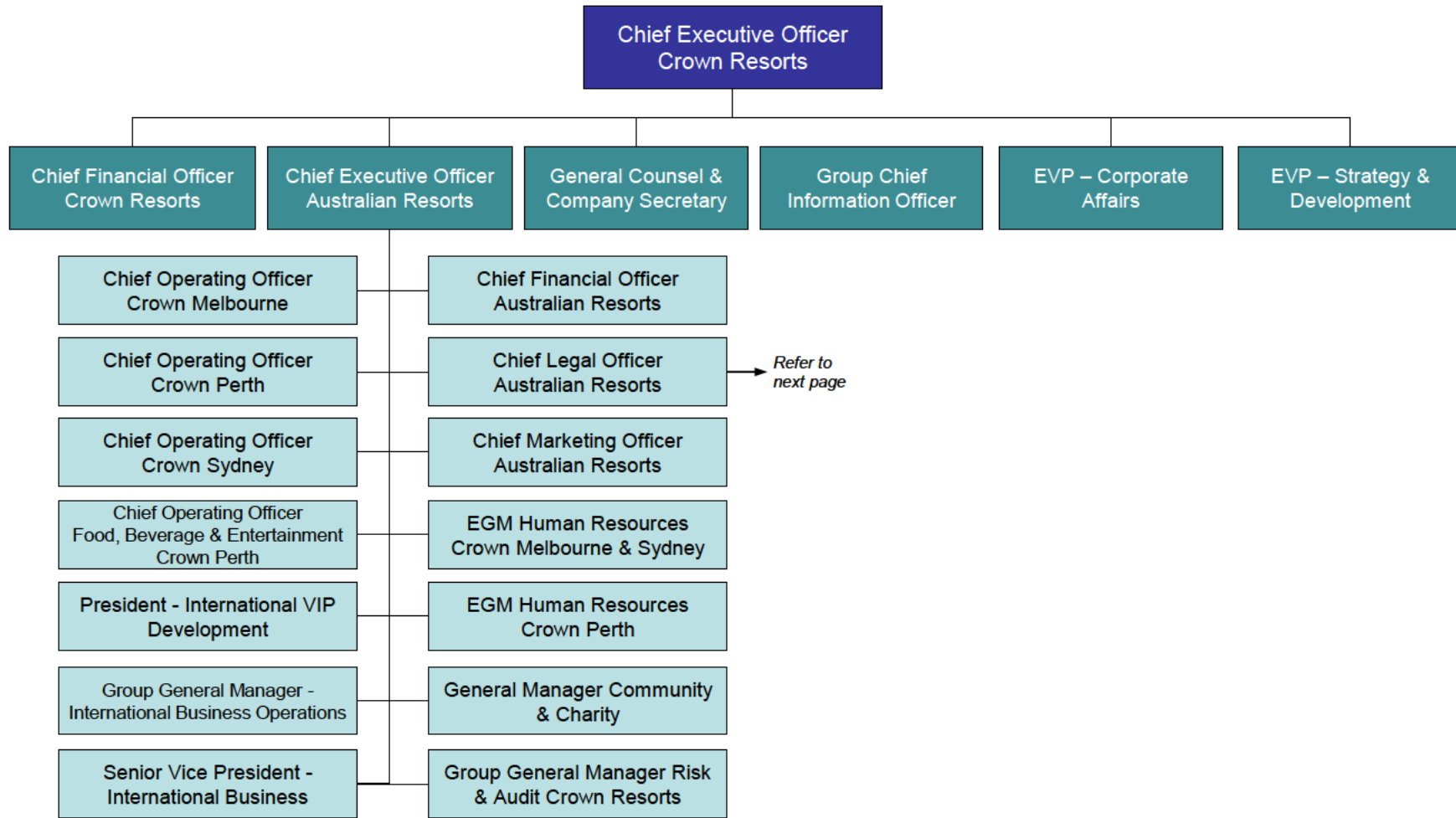
Governance Structure – Potential Group model

- There is currently clear duplication (and triplication) in governance processes, which of itself introduces a level of risk. Functions are currently interwoven between Crown Melbourne, Crown Perth and Crown Sydney and their parent, Crown Resorts
- The issues arising from this model are:
 - Potentially inconsistent approach to some compliance functions;
 - Duplication;
 - Loss of best practice across all properties;
 - Confusion about responsibility for tasks performed centrally versus at property level;
 - Lack of transparency and visibility at the Crown Resorts board level
- An approach which would address these issues would be to move to a full group model. Under this approach, key compliance and risk / governance functions would be independent of each property and centralised with board reporting / accountability
- To give effect to this all subsidiary boards and committees could be collapsed and instead be replaced by one listed company board and one set of listed company committees. The mandates of all group committees would be publicly available through the publication of committee charters resulting in greater governance transparency. A simplified structure would allow much clearer lines of reporting to be overlaid. Consistent with guidance, key functions can report directly through to a single governing body – the Crown Resorts Board

Governance Structure – Melbourne Regulatory Considerations

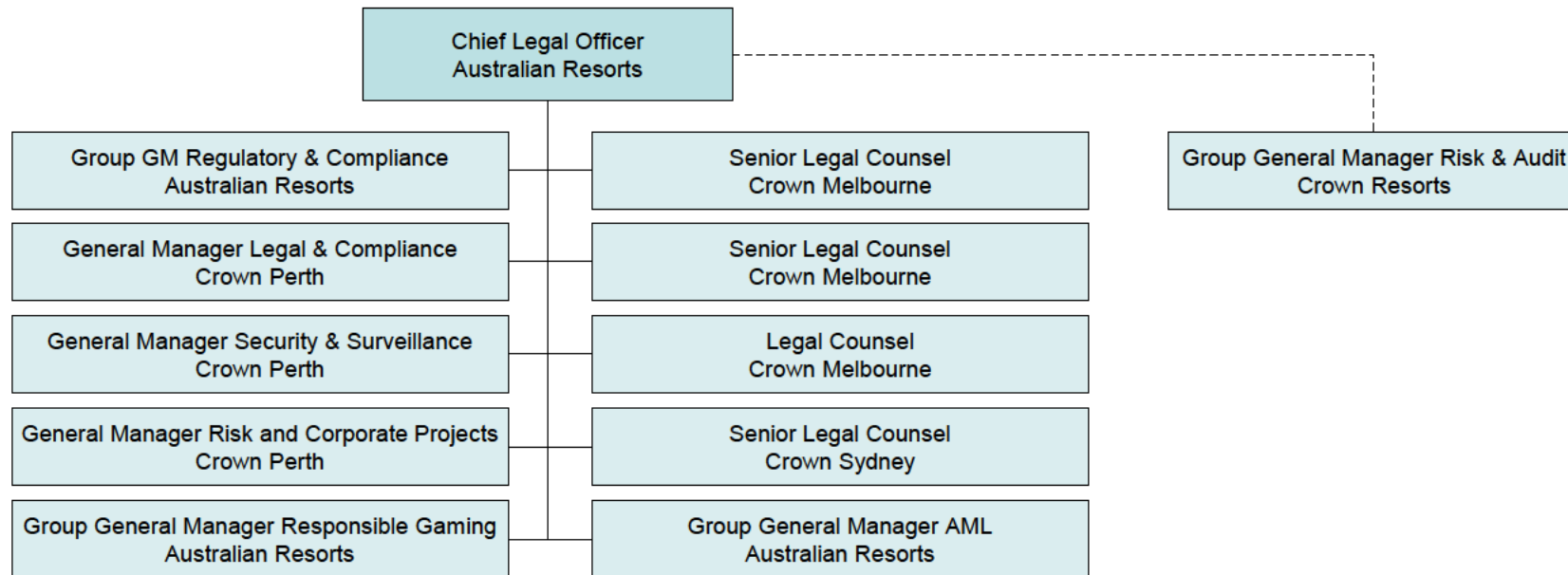
- As Board members may be aware, for Crown Melbourne, a stand alone Board and two defined subcommittees being an Audit Committee and a Compliance committee are required by the regulatory framework
 - there is no equivalent requirement for Crown Perth or Crown Sydney
 - while not required in Perth, the Burswood Board reflected the autonomous property based structure of the time
- In order to progress to a full group model, it is recommended that the following initial steps be progressed:
 - an engagement process with the VCGLR to present the merits of a group governance model; and
 - a review of licensee compliance obligations to ensure that this group model would not be prevented by the relevant legal frameworks in place, i.e. the Crown Resorts group providing services to the licensees to satisfy their respective licence obligations
- Full engagement with all our gaming regulators will obviously need to be a feature in developing and implementing this proposed change program at the appropriate time

Organisational Structure – Current Structure



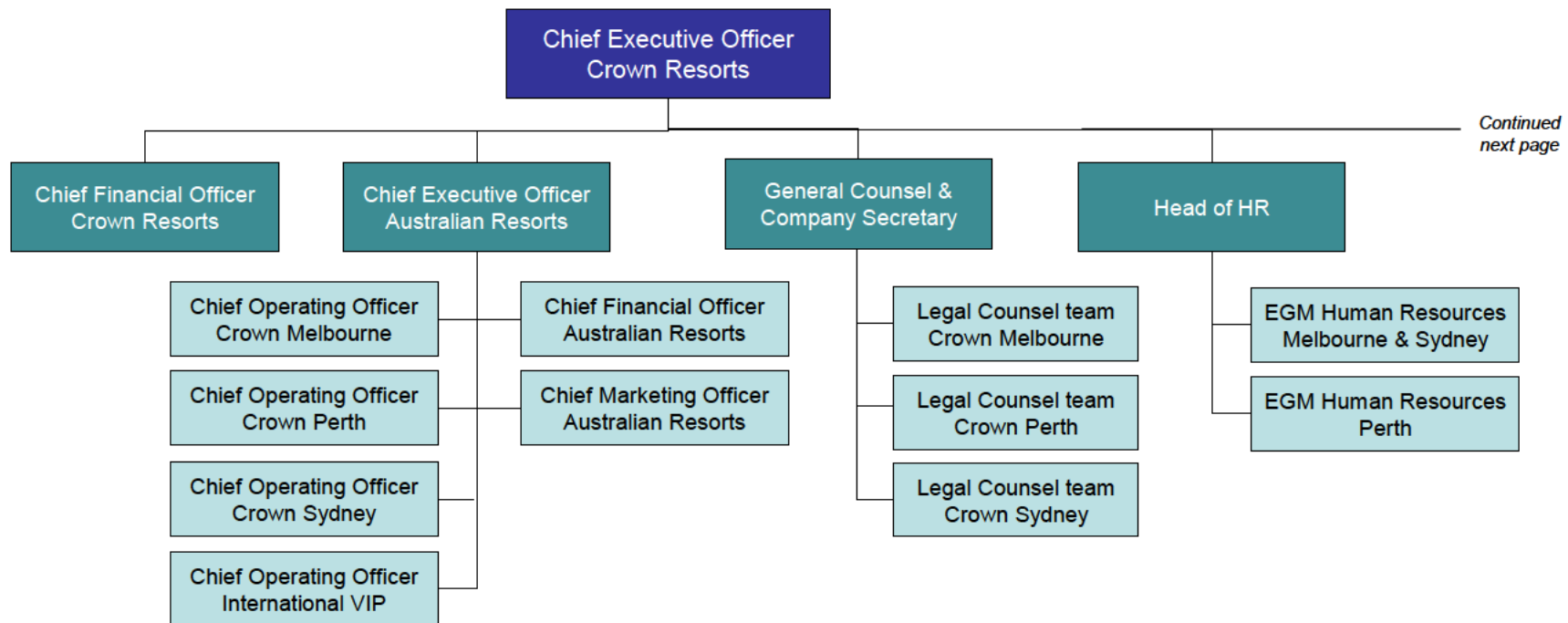
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Organisational Structure – Current Structure

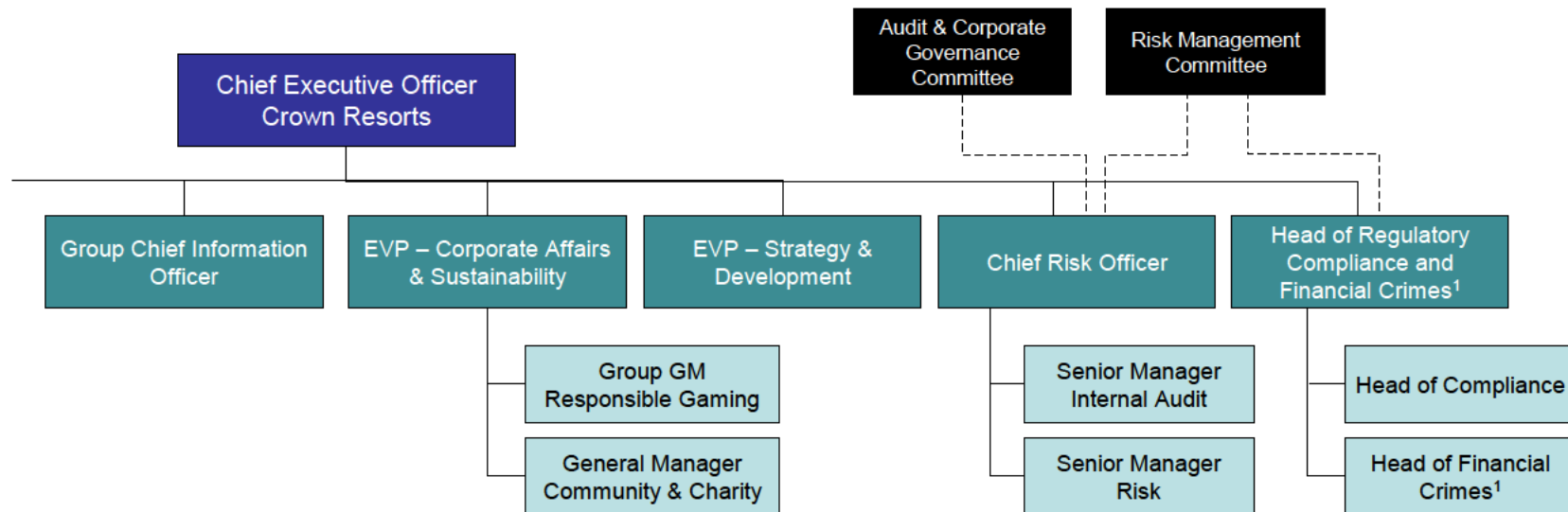


Organisational Structure – Proposed Structure (1/2)

The proposed structure below is preliminary and indicative



Organisational Structure – Proposed Structure (2/2)

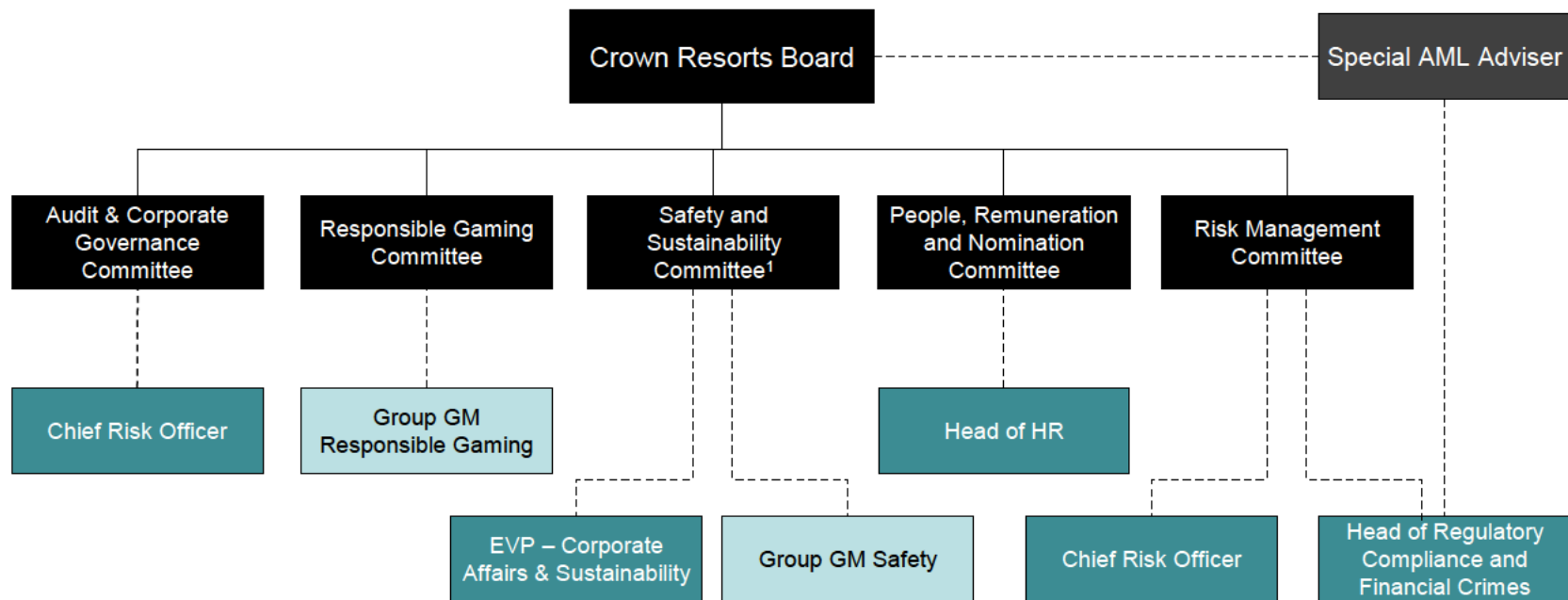


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Note:

1. Includes AML and Anti Bribery and Corruption

Organisational Structure – Proposed Committee reporting lines



2

Note:

1. It may be possible to combine the OH&S and Corporate Responsibility Committees

Immediate actions and recommendations

- An enhanced AML audit undertaken
- Suspension of all junket activity pending EDD across all junket relationships
- Continuation of proposed enhancements to AML and junket processes
- Commence the cultural change actions identified
- Continue to develop and implement the proposed governance and organizational changes, subject to input and comment from the Board