



Special Manager's Interim Report June 2022

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Foreword

This is the first interim report of the Special Manager for the Melbourne casino operator, provided under section 36G(1) of the *Casino Control Act 1991* (Vic). This report outlines the performance of the Special Manager's functions for the period 1 January to 30 June 2022.

The principal functions of the Special Manager are to independently monitor and assess Crown Melbourne's operations, and Crown's reform program to address the significant issues and failings identified by the Royal Commission into the Casino Operator and Licence by Commissioner the Honourable Ray Finkelstein AO, QC.

In December 2023 I will submit a final report to the Victorian Gambling and Casino Control Commission (VGCCC) and the Minister for Consumer Affairs, Gaming and Liquor Regulation, evaluating the reform efforts of the Melbourne casino operator to assist the VGCCC in determining whether the operator is a suitable person to hold its casino licence.

The first six months of operation have focused on establishing the Office of the Special Manager (OSM), understanding the work of Crown to transform its operations as it seeks to return to suitability, and developing our own work plan to evaluate Crown's progress.

To inform this work, the OSM has sought and obtained a large number of documents and other information from Crown, utilising powers under the Casino Control Act. We have also attended Board and relevant committee meetings to build our understanding of Crown's operations and reform program, and potential associated issues and risks. Engagement with a range of stakeholders across government, industry and community sectors has also provided valuable insights to inform our work, particularly in relation to gambling harm minimisation.

I acknowledge positive changes Crown has made or is making to governance structures, senior personnel, policies, procedures, systems and controls to address a range of issues identified by the Finkelstein Royal Commission. I also acknowledge the cooperation of, and open dialogue with, relevant Crown Chairs and Board members, CEO Steve McCann and other senior executives.

However, an early observation is that there are risks to Crown's efforts to return to suitability. Crown has been found unsuitable to hold or to continue to hold casino licences in three jurisdictions; the improper and illegal conduct that gave rise to these findings is varied and serious, and permeated with significant cultural shortcomings. Hence its return to suitability or otherwise is an outcome for which Crown alone is responsible. Although considerable remedial activity is underway (at the Crown Resorts level, as well as within Crown Melbourne, Crown Sydney and Crown Perth), this work is occurring within a challenging environment with many moving parts, including the acquisition bid by Blackstone Inc. and efforts to obtain regulatory approval to commence gaming operations at the Crown Sydney casino, along with continuing workforce and business impacts of the COVID-19 pandemic.

On 15 June 2022, following state regulatory approvals, the acquisition of Crown by Blackstone Inc. was approved by the Federal Court of Australia and took effect on 24 June 2022, post much of the drafting of this report. While at this stage, any potential impact of the acquisition on Crown's reform program is not known, I am encouraged by my early dealings with senior Blackstone Inc. representatives that good progress will continue in this regard. This program is now underpinned by stringent approval conditions imposed on Blackstone Inc. by the VGCCC.

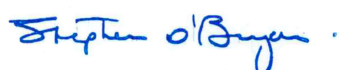
It is noted that Blackstone Inc.'s business model implies that future separation and disposal of Crown principal assets, particularly casino and hotel assets, is likely. However, regardless of the entity's ownership, the Melbourne casino operator is still required to demonstrate it has undertaken the required reforms and is a suitable person to retain its casino licence beyond 2023. I look forward to ongoing dialogue with Blackstone Inc. regarding the importance of maintaining Crown's commitment to reform, as well as a level of cooperation that equates with that of Crown to date.

Importantly, organisational transformation is required to achieve real and lasting change. The transformation should be supported by a clear purpose that aligns Crown's business objectives with its responsibility to conduct itself lawfully, responsibly and in accordance with its obligations. However, in this reporting period, it is evident that Crown's work in this area remains in its early stages, despite it being openly acknowledged by Crown very early in my term of appointment as something that its senior executives appreciated needed to be addressed.

Ultimately Crown needs to demonstrate through implementation of a well-articulated transformation strategy and its current operations that it has 'thoroughly re-made' itself and in substance has become a 'different' corporation in terms of 'a different persona, reputation, culture, management and ownership'.¹ This goes well beyond remediation – which suggests a focus on fixing a myriad of individual problems and plugging gaps – and involves real transformation.

In June 2022, I provided draft interim report content on Crown's reform program (section 3 of this report) and relevant draft content on the OSM's general oversight of Crown's current operations (section 2.3) to Crown for fact checking purposes. Crown's responses were given due consideration resulting in some amendments being made to the report. This process was beneficial in helping to confirm the OSM's understanding of Crown's reform work to date, which will act as the baseline for the OSM's monitoring and assessment work in future reporting periods.

Over the remainder of my term of special management, my team and I will be monitoring the progress of Crown's transformation strategy and reform work, and will be looking for Crown to demonstrate that its reforms are integrated and appropriately resourced, prioritise key actions that will have the greatest impact on improving outcomes for people (customers, employees and the community), and are subject to effective Board oversight and other governance to ensure focused effort and sustained change.



Stephen O'Bryan QC

Special Manager

¹ Royal Commission into the Casino Operator and Licence, *The Report – Volume 3*, October 2021, p. 71.

1. Executive summary

Following three independent commissions of inquiry over the past two-and-a-half years, Crown¹ has been found unsuitable to hold or to continue to hold casino licences in the Australian jurisdictions in which it operates casinos (Victoria, New South Wales and Western Australia).

In Victoria, the 2021 Royal Commission into the Casino Operator and Licence (Finkelstein Royal Commission) found that Crown Melbourne Limited had engaged in conduct it described as 'illegal, dishonest, unethical and exploitative'.² It recommended that Crown be permitted to continue operating the casino for a further two years subject to the effective implementation of a reform program (incorporating the Royal Commission's recommendations) and the appointment by the Victorian Government of an independent Special Manager with strong oversight powers.

Stephen O'Bryan QC, the inaugural Commissioner of Victoria's Independent Broad-based Anti-Corruption Commission, was appointed Special Manager for Crown Melbourne, commencing 1 January 2022. The Special Manager will oversee Crown Melbourne's casino operations and monitor and assess Crown's implementation of its reform program until 31 December 2023.

1.1 Purpose of this report

The Special Manager is required to report every six months to the Victorian Gambling and Casino Control Commission (VGCCC) and the Minister for Consumer Affairs, Gaming and Liquor Regulation (the Minister) on the performance of his functions. This includes assessing the progress of the Melbourne casino operator in implementing the Finkelstein Royal Commission's recommendations and in addressing the issues outlined in Appendix I of the Finkelstein Report.

In December 2023, the Special Manager will provide a final report to the VGCCC and the Minister. As well as assessing Crown's progress in reforming its operations, the final report will also consider whether the casino operator has engaged in any maladministration, illegal or improper conduct, or conduct that may give rise to a material contravention of any law.³ That report will play a key role in informing the VGCCC's decision as to whether Crown Melbourne has returned to suitability.

This first interim report covers the initial six months of the operation of the Special Manager. It outlines:

- the establishment of the Special Manager and his supporting office (section 2.1)
- the exercise of statutory powers to date (section 2.2)
- the initial work undertaken to oversee Crown's current operations (section 2.3)
- the preliminary work undertaken to monitor and assess Crown's reform program (section 3)
- the proposed work plan going forward, which includes monitoring Crown Melbourne's operations as well as monitoring and assessing the implementation of Crown Melbourne remediation activities in response to the Finkelstein Royal Commission (sections 4 to 6).

¹ In this report, the Crown group of companies will be referred to generically as Crown unless the particular context is more accurately served by referring to individual members of the group.

² Royal Commission into the Casino Operator and Licence, *The Report – Volume 1*, October 2021, p. 2.

³ *Casino Control Act 1991* (Vic), s 36G.

1.2 Key activities of the Special Manager

In the first six months of operation, the Special Manager has:

- established the Office of the Special Manager (OSM), supported by two Deputy Special Manager positions
- engaged professional services firm FTI Consulting to support the work of the Special Manager in assessing Crown's reform program, following a competitive procurement process
- worked to develop a constructive working relationship across different levels of Crown (including Boards, key committees and senior executives)
- met regularly with key stakeholders including regulators (such as the VGCCC and AUSTRAC), law enforcement agencies, community organisations (such as the Alliance for Gambling Reform and Turning Point Addiction and Resource Centre), and counterparts overseeing Crown's reform work in other jurisdictions (in particular the Independent Liquor & Gaming Authority and Kroll in New South Wales)
- issued eight detailed Information Requests, to which Crown has generally been responsive but has on occasion sought to put limits on the information being provided to the OSM
- issued 12 Directions, with which Crown has generally complied
- attended meetings of both the Crown Melbourne and Crown Resorts Boards, as well as various Crown Board committee and management committee meetings (Crown Melbourne and Crown Resorts)
- prepared the first six-monthly interim and activity reports for the VGCCC and the Minister, as required.

In addition to overseeing Crown's current operations, the OSM has built its understanding of the current state of Crown's reform program and commenced preliminary work on monitoring and assessing its progress.

These activities are discussed further in section 2.

1.3 Crown's reform work

The OSM acknowledges that Crown Resorts and its entities are engaged in a range of activities to address the failings identified by the three commissions of inquiry. While Crown has made progress in relation to some activities, in recent months the Special Manager has raised the need for Crown to establish a clear transformation strategy and coordinated approach to driving the implementation of these activities, and for a detailed plan for actioning the specific reforms the Finkelstein Royal Commission recommended for Crown Melbourne.

The program of reform work to be undertaken by Crown is significant. In addition, Crown's transformational challenge is complex – it needs to transform its corporate strategy, operations and culture, and needs to coordinate its reform work across three jurisdictions, each with its own regulatory regimes, licensing processes and associated timeframes.

Crown's position is that several factors have impacted progress of the remediation, including COVID-19-related operational restrictions, the recruitment of new senior management, and the Blackstone Inc. acquisition. As the acquisition has now been completed, there will also be challenges associated with the transition to new ownership, including onboarding a new Board and potentially changes to the senior management team. This transition will be occurring while considerable work remains for Crown to implement effective and enduring change.

The Special Manager will monitor and assess Crown Melbourne's reform work in the areas detailed in Appendix I of the Finkelstein Report:

- cultural change
- risk management, governance and compliance
- responsible service of gambling to minimise gambling-related harm
- financial crime, in particular anti-money laundering/counter-terrorism financing (AML/CTF).

In addition, the Special Manager will be looking for Crown to demonstrate that it has implemented a robust transformation program that is designed to deliver embedded change across the business – that is, a program that is well governed and coordinated, as well as appropriately prioritised, resourced, people-centric and outcomes focused.

The OSM's work plan for the next six month reporting period is provided at Appendix A. This is subject, of course, to any adjustments that might need to occur as a result of changes to Crown's reform program that Blackstone Inc. may instigate.

1.3.1 Transforming Crown

An important task for the OSM is to evaluate whether Crown has effectively initiated a reform and transformation program. Crown has developed, or is developing, remediation plans to address areas of concern. In Melbourne, the Melbourne Remediation Action Plan (MRAP) was delivered at the direction of the Special Manager in March 2022. The Crown Melbourne Board endorsed the draft MRAP on 3 June 2022 and a further updated draft MRAP was provided to the Special Manager on 10 June 2022.

The current draft MRAP comprises around 160 remediation activities, with design and implementation criteria related to recommendations made and issues identified by the Finkelstein Royal Commission.

While Crown now has a draft MRAP, its work on developing a coordinated and prioritised transformation strategy is only in its early stages. An emerging issue has been the absence of a transformation strategy and governance to oversee and drive the implementation of the MRAP.

At the Special Manager's instigation, Crown is now putting in place a governance structure that will oversee Crown's transformation, including through the strategic implementation, coordination and prioritisation of the MRAP. On 3 June 2022, the Crown Melbourne Board endorsed the Crown transformation program and the establishment of the Group Transformation Program Management Office to manage the governance and reporting on the various change programs and remediation plans, including reporting on the status of the MRAP.

The transformation strategy should also be underpinned by a root cause analysis to ensure the right reforms are being implemented. As the Finkelstein Report highlighted, ‘a “root cause analysis” of why things went wrong’ is a key step on the road to reform.⁴ Crown has advised that it is undertaking a root cause analysis in a three-stage process which, according to a draft June 2022 phase 1 root cause analysis report, is scheduled to be completed by 16 December 2022.

Given that such an analysis is critical to informing a successful transformation and the ‘road to reform’, the Special Manager is concerned that Crown did not initiate this analysis earlier. The OSM will review Crown’s phase 1 deliverables arising from the root cause analysis in the next reporting period to assess the extent to which the remaining phases of the work are likely to provide the confidence that the MRAP and broader transformation program are appropriately targeted.

In the next six-month reporting period, the OSM will assess the design, implementation and operation of Crown’s transformation program. This will include assessing whether the Crown transformation program addresses the fundamental issues identified in the Finkelstein Royal Commission and is appropriately informed by preliminary work on Crown’s root cause analysis.

1.3.2 Cultural change

Poor organisational culture was at the heart of many of Crown’s failings highlighted by the three commissions of inquiry. Crown has taken important first steps towards reforming its corporate culture, including refreshing Board directors and executive management. A Culture Reform Program has been designed and is progressing.

The OSM’s evaluation of Crown’s Culture Reform Program will consider how well it is integrated into the overall Group transformation program and the other areas of reform, and the extent to which it appropriately prioritises customer and staff wellbeing outcomes. The OSM will also evaluate the effectiveness of Crown’s reform program in achieving buy-in and role-modelling not just at senior management levels but also at the influential middle management and supervisor levels. In the context of Blackstone Inc.’s recent acquisition, the OSM will be looking for the leadership group to continue to drive the cultural change program and the transformation more broadly.

In the next reporting period, the OSM will need to assess the extent to which Crown’s implementation strategy is likely to result in embedded cultural change. It is important that a reformed, customer-focused culture, and reforms in all other areas covered by the MRAP, endure beyond the Special Manager’s term.

1.3.3 Risk management, governance and compliance

The Finkelstein Royal Commission identified significant deficiencies in Crown’s overall corporate governance, risk management and compliance. The shortcomings were wide ranging and encompassed failures not only in Crown’s foundational risk management frameworks, but also in effective governance and day-to-day risk and compliance management.

⁴ Royal Commission into the Casino Operator and Licence, *The Report – Volume 3*, October 2021, p. 76.

Crown conceded there were significant deficiencies in its corporate governance, risk management and compliance structures. It started addressing relevant recommendations by making significant changes to its Board membership, senior management and committee structures. Crown is also changing its risk management governance and frameworks, including by undertaking a Policy Uplift Program and implementing a Risk Uplift Plan. It commenced mapping key legislative obligations and proposing further uplifts of its compliance system and processes. However, Crown will need to go further to ensure that its risk management and compliance frameworks are properly understood and effectively applied. This will require a major cultural shift in the organisation.

Given the relative infancy of Crown's risk management, governance and compliance reform program compared to reforms in some other areas, most of the OSM's analysis regarding these programs will take place during the next reporting period, and will focus on verifying the status of Crown's reforms to date and ensuring that they are fit-for-purpose.

The OSM will continue to monitor and evaluate any changes made to governance arrangements in light of the change to new ownership by Blackstone Inc.

1.3.4 Responsible service of gambling

The Finkelstein Report described Crown's conduct in relation to its responsible service of gambling (RSG) and failure to prevent gambling harm as arguably the Royal Commission's 'most damning discovery'.⁵

RSG reform undertaken by Crown has not advanced as quickly as might have been expected. Given the critical emphasis in the Finkelstein Report on gambling harm minimisation in considering Crown's return to suitability to retain its licence, Crown will need to ensure that its approach to harm minimisation is comprehensive and that it is well advanced during the Special Manager's term.

Crown has developed an enterprise-wide Responsible Gaming Change Program (RGCP). However, this RGCP remains in draft form and its prioritisation and resourcing is yet to be confirmed. The OSM also notes that the revised RGCP will need to be clearly integrated with the MRAP and Crown's overall transformation program.

The OSM will monitor the finalisation of the RSG reform program (RGCP and MRAP) in the coming months, and will assess the design and implementation of various RSG activities over the next six months.

1.3.5 Financial crime

The Finkelstein Royal Commission and other two commissions of inquiry each revealed that Crown had failed to prevent financial crime, with money laundering having occurred across Crown casinos in Melbourne, Sydney and Perth.

Crown's remediation work around financial crime is relatively advanced, compared to other reform areas. The Special Manager recognises that Crown has made significant progress in improving its AML/CTF framework. In particular, Crown has developed and commenced implementation of a Board-approved Financial Crime and Compliance Change Program (FCCCP). Crown has also recruited experienced leaders in the AML/CTF field who are supported by a better resourced Financial Crime and Compliance team to deliver that program.

⁵ Royal Commission into the Casino Operator and Licence, *The Report – Volume 1*, October 2021, p. 3.

A risk assessment to identify all customer, product, channel and jurisdictional risks at an entity level was endorsed by Crown's Board in December 2021. The OSM understands Crown is continuing to develop its risk assessment; the OSM will monitor this work.

In the first six months of operation, the OSM has reviewed the FCCCP and the current draft MRAP, including relevant external reports and Crown's commitment register. The Special Manager is satisfied that all recommendations and requirements are incorporated across these two documents.

However, the Special Manager notes that Crown must still undertake a considerable amount of further work. The OSM has identified several critical risks that may impact Crown's ability to successfully implement the FCCCP, including the complexity of the change program and challenging timelines. Crown will need to be alert to these risks.

Over the next reporting period, as required, the Special Manager will evaluate Crown's implementation of the FCCCP and the recommendations made in various external reports, the effectiveness of the Joint AML/CTF Program and the adequacy of its resourcing, then provide an assessment of whether Crown Melbourne's Board effectively oversees the AML/CTF Program. The Special Manager will also assess whether the changes have been implemented effectively and are embedded as standard operating practice in day-to-day business operations.

Importantly, across all areas, the Special Manager's oversight of how Crown operates, makes decisions and complies with its legal, regulatory and other obligations will provide important insights on the progress of Crown's transformation to suitability. It will help inform the OSM's assessment of whether Crown has transformed itself into an organisation that operates lawfully, responsibly and cooperatively with regulators and other key stakeholders.

1.4 Prescribed matters for reporting

Under section 2.2.3 of the Special Manager's Instrument of Appointment, he is required to report on reviews, evaluations and investigations that he may conduct as a result of performing statutory functions and powers. No investigations have been commenced. The reviews and evaluations that have been started are outlined in this report.

The Special Manager is also required to report on each Direction and Notice (seeking information) given to Crown Melbourne under sections 36E and 36F of the *Casino Control Act 1991 (Vic)* respectively, and whether they have been complied with. Again, these matters are addressed in this report.

2. Key activities of the Special Manager: 1 January – 30 June 2022

2.1 Establishment

The Special Manager was established in accordance with Part 3, Division 4 of the *Casino Control Act 1991* (Vic). Stephen O'Bryan QC was appointed Special Manager by Governor-in-Council, effective 1 January 2022, to independently oversee Crown Melbourne's operations and to keep a 'watchful eye' on the progress of its reforms over a two-year period.

The Special Manager has significant statutory powers, including all the powers, rights and privileges of a Crown Melbourne director (except the right to vote). The Special Manager can access all books and records, require the provision of information, and direct Crown Melbourne to act or to refrain from acting.

It is unique for a monitor overseeing a solvent company to have such extensive supervisory powers. The powers of other significant monitorships over solvent companies (such as those overseeing WorldCom in 2002 and Volkswagen in 2018) have included the power to access information and to make recommendations regarding corporate governance, but not to direct a company to take, or to veto, action. These significant supervisory powers, analogous to those of a corporate administrator, have been enacted in light of the damning finding that Crown Melbourne is unfit to hold a casino licence, and the importance of the Victorian Gambling and Casino Control Commission (VGCCC) being fully informed about the suitability of Crown to retain its licence by the end of the two-year term of special management.

The monitoring role of the Special Manager also differs from the arrangements in New South Wales and planned for Western Australia. A monitor has been or is being put in place in those jurisdictions to assess the adequacy of Crown's reform efforts, but they do not have supervisory powers equivalent to those of the Special Manager.

2.1.1 Functions and responsibilities

Pursuant to the *Casino Control Act*, the prescribed functions of the Special Manager are to:

- oversee the affairs of the Melbourne casino operator, including the casino operations⁶
- report every six months to the Minister for Consumer Affairs, Gaming and Liquor Regulation (the Minister) and the VGCCC on investigations the Special Manager has carried out and on his performance of other functions⁷
- by 31 December 2023, provide a final report to the Minister and the VGCCC, which considers matters including whether there is evidence of maladministration, illegal or improper conduct, or material contraventions of any law by the casino operator. The report will also consider the progress of Crown's reform program.⁸

Within 90 days of receiving the Special Manager's final report, the VGCCC will consider whether Crown Melbourne is a suitable person to continue to hold a casino licence.⁹

⁶ *Casino Control Act 1991* (Vic), s 36C(1)(a).

⁷ *Casino Control Act 1991* (Vic), ss 36C(1)(c), 36G(1).

⁸ *Casino Control Act 1991* (Vic), ss 36G(2), (3).

⁹ *Casino Control Act 1991* (Vic), ss 36H(1), (2).

The Instrument of Appointment stipulates further duties and responsibilities of the Special Manager. The Special Manager must:

- supervise the Crown reform program designed to return it to suitability¹⁰
- investigate any matter the Special Manager considers requires investigation¹¹
- investigate, review and evaluate, as relevant, the matters listed in Appendix I of the Finkelstein Report¹²
- prepare four six-monthly activity reports for the Minister and the VGCCC, which will be published¹³
- prepare budget forecasts and provide the VGCCC a financial statement each six months that sets out actual operating costs and expenses incurred by the Office of the Special Manager (OSM).¹⁴

The term of the Special Manager expires on 30 June 2024, by which time it is expected either Crown will remain licensed or a new casino licence will be in place.

Appendix I of the Finkelstein Report is attached to this report as Appendix B.

2.1.2 Powers of the Special Manager

The powers of the Special Manager are prescribed in sections 36D to 36F of the Casino Control Act.

Pursuant to section 36D, the Special Manager has all the powers necessary to perform his functions, some of which are delegable. These powers include:

- a. unrestricted access to all the books and records of the casino operator
- b. the ability to engage any third party to provide advice or other services in connection with the performance of the Special Manager's functions
- c. all the powers, rights and privileges of a director of the casino operator, except the right to vote
- d. the ability to attend any meeting of the casino operator or its board of directors, or any committee or subcommittee of the operator or the board
- e. the ability to enter the casino and any other premises that the casino operator occupies in connection with casino operations.¹⁵

¹⁰ Instrument of Appointment, Appointment of the Special Manager, 21 December 2021, paragraph 1.3.

¹¹ Instrument of Appointment, Appointment of the Special Manager, 21 December 2021, paragraph 2.1.1.

¹² Instrument of Appointment, Appointment of the Special Manager, 21 December 2021, paragraph 2.1.2.

¹³ Instrument of Appointment, Appointment of the Special Manager, 21 December 2021, paragraph 2.3.

¹⁴ Instrument of Appointment, Appointment of the Special Manager, 21 December 2021, paragraph 2.4.

¹⁵ *Casino Control Act 1991* (Vic), s 36D(2).

Power to direct

Section 36E of the Casino Control Act empowers the Special Manager to direct the casino operator to take action and veto action.¹⁶ This power is non-delegable.¹⁷ A Direction can only be given if the Special Manager:

- a. suspects maladministration by the casino operator
- b. believes the Direction is in the best interests of the casino operator, having regard to the Special Manager's objectives
- c. believes the Direction is necessary to ensure compliance with any legislation applicable to the casino operator.¹⁸

A failure by Crown to comply with a Direction may attract penalties.¹⁹

Details of the Special Manager's exercise of powers under section 36E during the six-month reporting period to 30 June 2022 are provided in section 2.2 of this report.

Power to request information

Under section 36F of the Casino Control Act, the Special Manager may require the casino operator or an officer, employee or agent of the operator to provide any information necessary to facilitate the Special Manager's work. This power is also non-delegable.²⁰ The Special Manager's power to obtain information and documents from Crown is not constrained by any legal restraints imposed by confidentiality restrictions or other legally recognised privileges.²¹

A failure to comply with a notice to provide information may attract penalties.²²

Details of the Special Manager's exercise of power under section 36F during the reporting period are provided in section 2.2 of this report.

2.1.3 Structure and resources

As at 30 June 2022, the Special Manager was supported by a team of 11 officers at 9.7 FTE. The OSM has engaged one contractor at 0.4 FTE.

Two Deputy Special Manager positions assist the Special Manager in leading a multidisciplinary team with expertise across key areas including corporate governance, integrity, compliance, risk management, organisational change, financial crime and public harm minimisation.

Professional services firm FTI Consulting has been engaged to support the work of the Special Manager in assessing Crown's reform program.

The appointment of FTI Consulting occurred following a competitive procurement process led by the Department of Justice and Community Safety (DJCS).

The Minister approved the engagement of FTI Consulting on 30 March 2022. FTI Consulting commenced working with the OSM on 12 April 2022.

¹⁶ *Casino Control Act 1991* (Vic), s 36E(1).

¹⁷ *Casino Control Act 1991* (Vic), s 36K(3).

¹⁸ *Casino Control Act 1991* (Vic), s 36E(2).

¹⁹ *Casino Control Act 1991* (Vic), s 36E(6). The penalty is 120 penalty units.

²⁰ *Casino Control Act 1991* (Vic), s 36K(3).

²¹ *Casino Control Act 1991* (Vic), ss 36F(5), (7).

²² *Casino Control Act 1991* (Vic), s 36F(3). The penalty is 120 penalty units. It is also an offence under the *Gambling Regulation Act 2003* (Vic) to provide false or misleading information.

2.1.4 Stakeholder engagement

Engagement with Crown

In its first six months of operation, the OSM has worked to develop a constructive working relationship across different levels of Crown to assist the Special Manager in performing his functions. The focus of engagement has been on understanding Crown's business and reform work, and establishing effective working relationships. The Special Manager acknowledges the cooperation of Crown in this engagement.

The Crown Melbourne Board met twice in this six-month period. The Special Manager and Deputy Special Managers attended both meetings. The Special Manager and/or OSM representatives have also attended or engaged with the work of relevant Crown committees as outlined in section 2.3.1 and Appendix C of this report.

The Special Manager has:

- met with Crown Melbourne Board directors individually to discuss the functions and powers of the Special Manager, and the scrutiny required of the Board in helping to drive Crown's transformation program
- met with senior executives leading the reform work one-on-one to better understand their individual roles and hear their insights into Crown's reform program
- generally met weekly with Crown CEO Steve McCann and monthly with recent former Crown Resorts Chair Dr Ziggy Switkowski AO, with these meetings providing an opportunity to discuss issues relevant to Crown's operations and the progress of its reform agenda, and to raise any issues or concerns.

Regular meetings are also occurring between the OSM and Crown at officer level, to understand Crown's reform work and to facilitate the OSM's information gathering. Crown has facilitated site tours for OSM staff and provided dedicated office space for the OSM within the Crown Melbourne complex. The OSM's use of this space helps to facilitate ongoing engagement and information sharing between Crown and OSM staff.

The OSM has met with United Workers Union (UWU) workplace delegates from various areas within Crown Melbourne to discuss issues facing Crown and its staff. The OSM will engage further with the UWU as work progresses on monitoring and assessing Crown's reform program.

The Special Manager is also committed to engaging more broadly with Crown staff. The Special Manager intends communicating with Crown staff regarding the release of the first public activity report. Staff will also be invited to contact the Special Manager, in strict confidence, if they wish to share insights about Crown's operations that are relevant to the OSM's work.

Engagement with VGCCC

The Special Manager has met and liaised with the Chair of the VGCCC on several occasions to discuss issues of mutual interest and concern. This engagement is critical given the VGCCC's ongoing regulatory role in relation to Crown, and the obligation on the Special Manager to deliver his final report to the Chair of the VGCCC and the Minister by 31 December 2023. The VGCCC is to consider the final report when determining whether the Melbourne casino operator is suitable to continue to hold its casino licence.

Ongoing close liaison to facilitate information sharing, especially regarding compliance by Crown, is also occurring with the VGCCC at officer level.

Broader stakeholder engagement

There are a range of government and community stakeholders who participated in, or otherwise have significant interest in the findings and recommendations of the Finkelstein Royal Commission. The Special Manager has sought to engage with key stakeholders during the first six months to raise awareness of his role and functions, and to gather information to support the OSM's work and development of its forward work plan.

Financial crime, governance and compliance

In relation to financial crime, governance and compliance, the OSM has engaged with state and federal agencies, including AUSTRAC, Victoria Police, the Australian Federal Police (AFP), the Australian Criminal Intelligence Commission (ACIC), the Australian Securities and Investments Commission (ASIC) and the Australian Taxation Office (ATO). Initial meetings focused on discussing respective roles, potential areas of mutual interest and opportunities to share information.

The ACIC has advised it has finalised and signed a Memorandum of Understanding (MOU) with Crown to support information and intelligence sharing; similar MOUs between Victoria Police and Crown, and the AFP and Crown are also under development. The development of these MOUs is giving effect to recommendations 4 and 5 of the Finkelstein Royal Commission.²³

Gambling harm minimisation

In relation to gambling harm minimisation, the OSM has engaged with the Victorian Responsible Gambling Foundation (VRGF), the Alliance for Gambling Reform and Turning Point addiction research and education centre (part of Eastern Health). Engagement will be ongoing, and will help the OSM to monitor and assess Crown's reform program.

Interstate regulators and monitors

The OSM has established regular engagement with the New South Wales Independent Liquor & Gaming Authority (ILGA) and Kroll, the independent monitor of Crown Sydney, particularly about the Agreed Remediation Action Plan. Given Crown's centralised transformation program governance structure and marked commonality in many of the issues Crown Melbourne and Crown Sydney need to address, the OSM has proposed to establish monthly meetings with Kroll, commencing in July 2022, to support information sharing and a coordinated approach to assessing Crown's reform program.

Kroll has provided the OSM, on a confidential basis and with the consent of Crown and ILGA, its phase 1 report. This information sharing is appreciated, as it has assisted the OSM's understanding of the common issues and the development of its work plan for the next six months.

²³ Royal Commission into the Casino Operator and Licence, *The Report – Volume 1*, October 2021, p. 200.

The Special Manager met with the Western Australian Minister for Racing and Gaming following the tabling of the March 2022 report of the Owen Royal Commission²⁴ to help inform the Minister's consideration of the independent monitoring arrangements being developed in that state. The OSM will also seek to establish regular liaison with the independent monitor for Crown Perth, once appointed.²⁵

The OSM will continue to actively engage with key stakeholders to inform its oversight and evaluation of Crown's reform program.

2.2 Statutory powers of the Special Manager

2.2.1 Exercise of Information Requests power

As the Special Manager's oversight activity has increased, there has been a commensurate increase in requests for the timely production of pertinent information from Crown. Whilst some information has been obtained informally, most information is obtained through formal statutory requests (Information Requests) under section 36F of the Casino Control Act, enabling the Special Manager to obtain documents and any information required notwithstanding any pre-existing duty of confidentiality, statutory prohibition or legal privilege.

To date, eight multi-faceted Information Requests have been made by the Special Manager to Crown. In response to these requests, Crown has provided numerous documents required by the OSM in the performance of its functions.

Appendix D details each Information Request, and summarises Crown's response. Each request is also briefly outlined below:

- Request 1 (11 January 2022): information concerning Crown's organisational structure, committees and key decision-making groups, legal compliance obligations, Board and committee papers, reform program, external matters of concern to Crown, corporate strategy and risk management, and Kroll's independent monitoring of Crown Sydney
- Request 2 (11 February 2022): current Audit Committee papers and referenced documents, as well as Crown Melbourne Board papers for its next meeting
- Request 3 (18 February 2022): minutes and meeting schedules for Crown Melbourne and Crown Resorts committees and working groups
- Request 4 (2 March 2022): the Crown Remediation Plan devised under the Kroll monitorship, as well as its Policy Uplift Program
- Request 5 (17 March 2022): documents relevant to Crown's Policy Uplift Program, including a detailed status report, relevant policies and Crown's current Code of Conduct
- Request 6 (7 April 2022): various Crown Resorts documents, including documents referenced at its Financial Crime Oversight Committee and Responsible Gaming Committee meetings in February and March 2022; also documents referenced at Crown Resorts' April 2022 Board meeting and intended to be referenced or tabled at its June Board meeting. In addition various submissions, reports and associated documents

²⁴ Perth Casino Royal Commission, *Final Report – Volume I*, March 2022.

²⁵ In June 2022, the Western Australian Government introduced a Bill into Parliament for amendments to the casino legislation which, inter alia, permit the responsible Minister to appoint an independent monitor to approve, monitor and report on Crown's remediation plan for its casino operations in that state.

referred to in the Finkelstein Report were requested. Finally, Crown Resorts Board and Committee papers intended to be referenced or tabled at subsequent Crown Melbourne Board meetings were requested on an ongoing basis. This will enable the OSM to have visibility of issues pertaining to Crown Melbourne in a more timely way

- Request 7 (13 May 2022): a range of documents relevant to Crown's Culture Change Program as referenced in the Crown Culture Project Plan
- Request 8 (2 June 2022): additional documents relevant to Crown's Culture Reform Program, documents relevant to Crown's Risk Uplift Plan, responsible service of gaming documents and the most recent version in Crown's possession of the Kroll Crown Monitorship – Phase 1 Report.

Crown has generally been responsive to the Information Requests but has on occasion, and in relatively narrow circumstances, sought to put limits on the information being provided to the OSM, such as those involving Commonwealth legislative secrecy requirements. The OSM has actively engaged with Crown to work through any issues, including by arranging to view original documents subject to potential privilege claims and agreeing to redactions of sensitive information not required for the Special Manager's purposes.

2.2.2 Exercise of Directions power

As discussed in section 2.1.2, the Special Manager has supervisory powers to give Directions under section 36E of the Casino Control Act to the Melbourne casino operator either to take any action specified, or to refrain from taking action. As previously stated, there are three grounds for exercising these powers: suspected maladministration, Crown's best interests, and to ensure compliance with Crown's statutory obligations.

Twelve Directions have been made to Crown to date, each based on Crown's best interests having regard to the Special Manager's objectives and functions.

On two occasions and in accordance with its right to do so, Crown responded to a Notice of Intention to give Directions with written submissions under the hand of its CEO, Mr McCann. On one occasion, a slightly modified Direction was then issued by the Special Manager. Where no submissions were received from Crown, the initiating Notice has stood as Direction(s) given.

Appendix E details each Direction made by the Special Manager to Crown. A summary of each Direction is also outlined below:

- Directions 1, 2 and 5–8 support aspects of certain Information Requests. In particular:
 - Directions 1, 6 and 7 impose time limits for compliance
 - Direction 2 ensures that documents requested are provided to the Special Manager when they are gathered, rather than being held back until the due date for all information sought
 - Direction 5 requires Crown to refrain from subjecting requested information to classification prior to provision (for example, proposed confidential and/or commercial sensitivity), an activity the Special Manager considered was causing unnecessary delay
 - Direction 8 requires Crown's timely assurance that individual Information Requests have been fully complied with.
- Direction 3 requires the Special Manager to be provided with Crown Melbourne Board and committee papers at the same time and in the same manner as members of the Board

and committees receive them. Prior to the Blackstone Inc. acquisition, the OSM was, with Crown's cooperation, able to achieve the same outcome for relevant Crown Resorts Board and committee papers through its Information Request 6.

- Directions 4 and 11 require that specified kinds of communications with both Commonwealth and state governments and agencies be provided to the Special Manager. As this category potentially covers a large volume of often transactional material, the OSM regularly liaises with Crown to narrow its focus to information that will best assist the OSM's work.
- Direction 9 requires Crown Melbourne to provide a detailed remediation action plan specific to its Melbourne operations to address the findings and recommendations of the Finkelstein Royal Commission. Direction 10 requires Crown to provide the OSM with a draft of the plan by 31 March 2022. A high-level draft Melbourne Remediation Action Plan (MRAP) was provided to the OSM on 31 March 2022. The Special Manager advised Crown Melbourne in May 2022 that he considered Crown had partially complied with Directions 9 and 10, as it was understood that more detailed versions of the draft MRAP existed, but had not been provided to the OSM.²⁶ Correspondence in relation to this Direction is provided at Appendix F. The OSM received an updated, detailed version of the draft MRAP when it was provided as part of the papers for the Crown Melbourne Board meeting on 3 June 2022. A further revised version of the MRAP was provided to the OSM on 10 June 2022.
- Direction 12 complements Directions 9 and 10 by requiring monthly updates from Crown on its progress against the MRAP.

Crown has been prompt in responding to, and in complying with Directions given to date, noting that certain Directions require ongoing liaison between Crown and the OSM.

It is, however, unfortunate that Crown was not prepared to share its fully detailed draft MRAP with the OSM when it was first prepared, and as requested by the Special Manager, in March 2022. This has affected the OSM's ability to understand the current state of Crown's reform initiatives and work program, as required to inform the OSM's reporting for this period and its forward work plan to assess Crown's reforms.

2.2.3 Opportunities to strengthen the Special Manager's statutory powers

Notice of Directions

The Casino Control Act stipulates timelines for the Special Manager's making of Directions.²⁷ Unless the Special Manager considers the Direction urgent, he must notify the casino operator in writing of his intention to make a Direction. Then, in the three days following the notice, the casino operator can make submissions to the Special Manager regarding the proposed Direction. The Special Manager is required to consider any such submissions, and determine whether he will make a Direction, within three days of the submissions being made.

²⁶ Special Manager correspondence to Steve McCann, CEO Crown Melbourne, 10 May 2022, Notice of Intention to give Direction No. 12.

²⁷ *Casino Control Act 1991* (Vic), s 36E(3).

The Special Manager considers it is desirable to allow more than three days to determine whether a Direction should be made, following receipt of submissions from the casino operator. During the submission process, Crown may raise issues that the Special Manager may need to examine more closely and/or consult further on in order to make an informed decision.

Therefore, the Special Manager has proposed that section 36E(5) of the Act be amended to allow a decision to be made within a reasonable time or alternatively, within not less than 10 days. The Special Manager has raised this issue with the DJCS and understands it will be subject to consideration by the Victorian Government.

Access to Crown Resorts meetings and information

Crown's organisational structure involves a number of centralised functions, including those of relevance to the transformation program. Accordingly, associated governance is centralised at the Crown Resorts level, with key committees and working groups reporting to the Crown Resorts Board (this is discussed further in section 2.3.1). Consequently, much of this work that is relevant to Crown Melbourne is not reported to the Crown Melbourne Board until shortly before it meets. This inevitably compromises the degree to which the Special Manager can have 'real time' oversight of meetings and decisions that affect Melbourne casino operations.

For this reason and because the corporate culture at Crown Melbourne is naturally influenced by that of Crown Resorts (found by the Bergin Inquiry²⁸ to be unsuitable to be an associate of casino licensee Crown Sydney), the Special Manager requested to attend Crown Resorts' Board and committee meetings insofar as they involve matters pertaining to Crown Melbourne operations. This request was made through the respective Crown Melbourne and Resorts Chairs, Mr Nigel Morrison and Dr Switkowski, and Mr McCann, whose cooperation in facilitating prompt access to all meetings is acknowledged.

In May 2022, the Special Manager raised with the DJCS the possible strengthening of the legislative powers of his office to include access to all meetings, books and records of associates of Crown Melbourne, in particular Crown Resorts, at least insofar as the affairs of Crown Melbourne are concerned. This was considered important in the context of a likely new private equity owner (namely Blackstone Inc.), whose level of cooperation was, at that stage, unknown.

However, as a condition of approval of the 'major change'²⁹ represented by Blackstone Inc.'s acquisition of Crown Resorts, the VGCCC has helpfully enshrined an acknowledgement and agreement via Deed Poll from both the Blackstone Inc. and Crown Resorts that the Special Manager's powers conferred under section 36D of the Casino Control Act include powers to access the books, records and meetings of Crown Resorts insofar as they relate to the affairs of Crown Melbourne. The Special Manager considers this obviates the need for legislative reform.

²⁸ Inquiry under section 143 of the Casino Control Act 1992 (NSW), February 2021.

²⁹ *Casino Control Act 1991 (Vic)*, s 28.

2.3 General oversight of Crown's current operations

Under the Casino Control Act, the Special Manager has two complementary roles. The first is a general oversight role: 'to oversee the affairs of the Melbourne casino operator, including the casino operations of the operator'.³⁰ This requires oversight of the conduct of the business owner itself, as well as of current business activities, in particular the casino's gaming operations. This oversight must occur whilst keeping 'a watchful eye on the progress of reform',³¹ and where the Special Manager 'has the final say over important issues' via statutory powers to give directions designed 'to make sure nothing improper happens'.³² In reporting, the Special Manager must consider the conduct of Crown's casino operations, and any evidence of maladministration, of illegal or improper conduct, or of any conduct that may give rise to a material contravention of the law.³³

The above role complements the Special Manager's second role, being to monitor and assess Crown's transformation program. Overseeing how Crown operates, makes decisions and complies with its legal, regulatory and other obligations will provide important insights into the progress of Crown's reforms in other areas; it will help indicate whether Crown has transformed itself into an organisation that operates lawfully, responsibly and cooperatively with regulators and other key stakeholders.

As set out earlier, the Special Manager has legislated powers to support these roles, including unfettered access to the casino operator's books and records, attendance at all meetings, and full director rights, powers and privileges (apart from the right to vote at meetings, which is unnecessary due to the Special Manager being 'the ultimate decision maker' at Crown for its Melbourne operations³⁴).

The next section sets out how the Special Manager has fulfilled his general oversight function in relation to the casino's operations over the first six months of establishment.

2.3.1 OSM interaction with Crown Boards, committees and senior management

Crown's organisational structure involves a number of centralised functions, including those relevant to the transformation program. Accordingly, associated governance is centralised at the Crown Resorts level, with a number of key committees and working groups reporting to the Crown Resorts Board. The Finkelstein Report was critical of this approach and recommended changes to ensure appropriate local management focus in all crucial areas of Crown Melbourne operations.³⁵ It is noted that among the VGCC conditions of approval permitting the Blackstone Inc. takeover, the Crown entities are required to make such changes in their Melbourne operations.

Outlined in Figure 1 are the current governance arrangements for Crown Resorts and Crown Melbourne.

³⁰ *Casino Control Act 1991* (Vic), s 36C(1)(a).

³¹ Royal Commission into the Casino Operator and Licence, *The Report – Volume 1*, October 2021, p. 4.

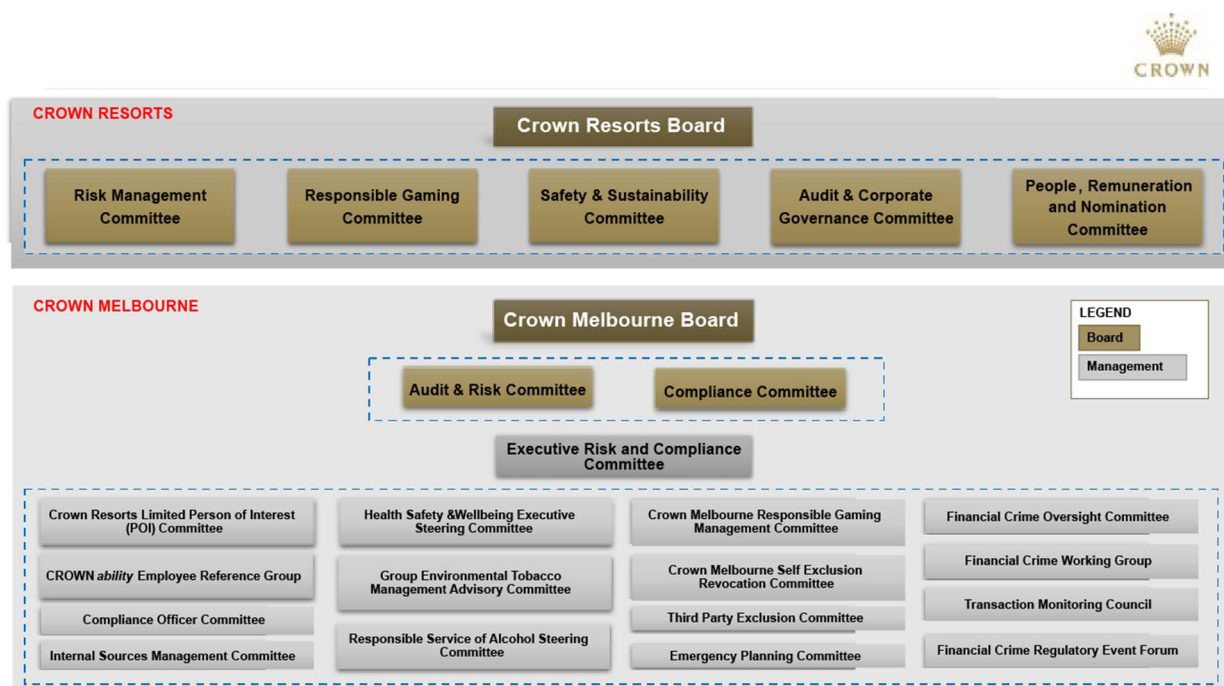
³² Royal Commission into the Casino Operator and Licence, *The Report – Volume 3*, October 2021, pp. 78–9.

³³ *Casino Control Act 1991* (Vic), ss 36G(3)(a)–(d).

³⁴ Royal Commission into the Casino Operator and Licence, *The Report – Volume 1*, October 2021, p. 4.

³⁵ Royal Commission into the Casino Operator and Licence, *The Report – Volume 3*, October 2021, pp. 40–5.

Figure 1. Crown Boards, Board committees and management committees



Source: Crown Board and Management Committees, 24 May 2022.

The Special Manager and/or OSM officers with delegated authority have attended meetings of the Crown Melbourne Board, as well as various Board committee and management committee meetings.³⁶ Appendix C lists the meetings the OSM has attended to date.

The Crown Melbourne Board, until recently chaired by Mr Morrison, traditionally meets quarterly, while the Crown Resorts Board, until recently chaired by Dr Switkowski, meets far more often.

At the suggestion of the Special Manager in April 2022, the Crown Melbourne Board has committed to regular monthly meetings (from July 2022) to increase oversight of Crown’s transformation program and the MRAP. The OSM considers it critical that the Crown Melbourne Board has a regular focus on the transformation program and MRAP to ensure strategic planning and oversight, and to monitor resourcing and progress.

In April 2022, the Special Manager commenced attending relevant parts of Crown Resorts Board meetings. This is important given the significant role that Crown Resorts plays in driving a centralised approach across its various casino operations, including Crown Melbourne. This issue is discussed further in section 2.2.3.

³⁶ It is noted that the Executive Risk and Compliance Committee has not met since May 2021.

In addition to attending committee meetings, the OSM has also been meeting with senior Crown officers at many levels relevant to compliance including:

- Group General Manager – Internal Audit
- Group Executive General Manager – Regulatory and Compliance
- General Manager – Regulatory and Compliance
- Group Executive General Manager – Financial Crime and Compliance Operations
- Deputy General Counsel
- General Manager – Legal (Melbourne).

The OSM looks forward to ongoing and constructive working relationships with senior Crown officers in these and other critical compliance-related functions. The OSM also intends to engage with Crown’s internal audit co-source provider, Ernst & Young, and external auditor, KPMG, whose insights and observations are expected to contribute to the OSM’s understanding and assessment of Crown’s current attitude to, capability in and approach to compliance.

In addition, the OSM is also monitoring Crown’s involvement in all litigation and regulatory proceedings in order to consider whether high-level instructions are being provided and decisions are being made lawfully and responsibly.

2.3.2 Regulatory compliance

As part of its general oversight of Crown’s current operations, the OSM monitors Crown’s compliance with its legal, regulatory, and other external obligations and requirements.

The OSM has sought relevant information via various Information Requests and Directions about Crown’s external compliance obligations, and about its current processes and performance in relation to those obligations (as detailed in section 2.2). Information Request 1 required Crown to provide documentation of its legal compliance obligations, including copies of all applicable legislation, regulations and codes. In response to the request, Crown noted that it is subject to hundreds of items of legislation due to its diverse business operations. It therefore proposed to focus its response on legislation, regulations and codes that apply to it by virtue of being a licensed casino operator in Victoria.

The Special Manager has accepted this approach for now, and Crown has produced a list of Acts, regulations, Ministerial Directions, Victorian Commission of Gambling and Liquor Regulation Directions and Crown internal control statements, as well as copies of the listed documents. However, a clearly documented set of Crown’s legislative obligations across its business operations is a crucial foundation for developing and applying an effective compliance strategy.

The current draft MRAP includes an ‘obligations mapping’ deliverable under the heading of ‘compliance with statutory and contractual obligations’, the scope of which is relatively consistent with Appendix I of the Finkelstein Report.³⁷

³⁷ Melbourne Remediation Action Plan, Item 18 and Annexure 6 – Compliance, 10 June 2022.

The Special Manager has issued Directions to Crown to require it to keep the OSM informed of all its dealings with various regulators and government agencies. The relevant Directions include:

- Direction 4, regarding dealings with the Victorian Government and its departments and agencies, such as the VGCCC, DJCS, the VRGF and Victoria Police.
- Direction 11, regarding dealings with the Commonwealth Government and its departments and agencies including AUSTRAC, the AFP, ASIC, Australian Border Force, ATO and ACIC.

These Directions facilitate the ongoing provision of important information to the OSM about Crown's compliance with state and federal laws and regulatory requirements, which will inform the OSM's monitoring and assessment of Crown's transformation. The information provided will be an indicator of how Crown is communicating with these agencies, and how proactively it is reporting issues and responding to regulator and law enforcement inquiries and investigations. The OSM has also established ongoing dialogue with these regulators and agencies to ensure it is well informed about potential Crown Melbourne compliance issues.

The OSM is currently monitoring a range of compliance issues. These include gambling-related regulation compliance issues (such as 'significant breaches' notified under new section 27A of the Casino Control Act), regulatory matters arising out of the commissions of inquiry (involving, for example, AUSTRAC and ASIC) and other compliance matters (such as building cladding, and pool and food safety).

2.3.3 Casino tax obligations

In June 2021, the Finkelstein Royal Commission hearings uncovered a large underpayment of casino tax payable to the Victorian Government pursuant to the Management Agreement between Crown Melbourne and the State dated 20 September 1993 (as subsequently amended by 10 Deeds of Variation). The underpayment issues relate to Crown's treatment of various promotional benefits provided to members of Crown's loyalty program, Crown Rewards. In essence, Crown had been treating various customer benefits as deductions for the purposes of calculating Gross Gaming Revenue, the main component in the calculation of casino tax owing.

The Royal Commission looked at eight categories of promotional activities in respect of which deductions may have been inappropriately claimed, thus understating Crown's casino tax obligations.

During the Royal Commission, Crown executives accepted that deductions in respect of two of those eight categories (Category 8: Bonus Jackpots and Category 5: Jackpot Payments) had been inappropriately treated over a period of several years, and Crown calculated that a sum of approximately \$61 million (comprising tax of \$37 million and associated penalty interest of \$24 million) had been underpaid. In regard to the remaining categories of promotional activity (Categories 1, 2, 3, 4, 6 and 7) the Royal Commission left open the question of whether more tax is due.

As well as identifying a liability for underpayment of casino tax, the hearings raised significant questions about the underlying culture that gave rise to the deductions being inappropriately claimed, and about the level of Crown's disclosure and transparency in respect of this issue.

Based on the OSM's analysis and enquiries to date, there appear to be four outstanding (or potentially outstanding) issues regarding Crown's compliance with its casino tax obligations:

- Category 8: Bonus Jackpots – Crown's calculation of a \$61 million liability (which has been paid) has been verified by the VGCCC; however, VGCCC analysis resulted in an unexplained variance of \$900,000 being detected. The OSM understands discussions between Crown and the VGCCC are ongoing to resolve this discrepancy.
- Category 3: Pokie Credits (Matchplay) – the OSM understands that this category of promotional activity is still under review by the DJCS on behalf of the State of Victoria as to potential liability and quantum.
- Penalty interest on tournament fees – Crown has calculated and paid \$7.5 million in respect of its primary tax liability (although this figure may be subject to slight variation based on VGCCC analysis). The issue of liability for penalty interest remained a point of discussion between Crown and the VGCCC prior to Crown paying an additional amount of \$12.8 million in penalty interest in May 2022. The VGCCC has advised the OSM that it is in the process of verifying this payment.
- Player Program Revenue Report – Crown believes that it has overpaid an amount of approximately \$470,000 in tax and associated penalties relating to this issue, due to an incorrect classification of a coding error. The VGCCC has advised the OSM that this issue will be reviewed in due course.

In addition, the following matters regarding Crown's casino tax obligations have recently been resolved between Crown and its regulators:

- 'SHOP Jackpot' gift cards – Crown identified a \$219,000 underpayment in respect of tax relating to 'SHOP Jackpot' gift cards (a category of the Bonus Jackpot). Crown paid this amount in April 2022 and the VGCCC has advised the OSM that this payment has been verified.
- New Product Gaming Tax – Crown calculated and paid around \$32 million in respect of its primary tax liability in three tranches between December 2021 and April 2022. As with Crown's payments of casino taxes associated with tournament fees, the issue of liability for penalty interest remained a point of discussion between Crown and the VGCCC for a brief period prior to Crown paying an additional amount of \$1.8 million in penalty interest in May 2022. The VGCCC has advised the OSM that these payments have been verified.

To date, the OSM has had discussions with the VGCCC and DJCS, has met with Crown's Chief Financial Officer and Crown's Global Head of Tax, and has monitored Crown's dealings with state regulators via documents obtained pursuant to a range of Information Requests and Directions.

The OSM will continue to monitor the resolution of outstanding taxation matters and Crown's ongoing compliance with tax obligations going forward.

2.3.4 Internal compliance

Recent internal audit reports³⁸ have stated that the root causes of adverse audit findings relate to insufficient policy and procedural documentation, and a lack of clear ownership and accountability for implementation of policies and procedures and monitoring compliance with those policies and procedures.

As highlighted in the Finkelstein Report, the review of Crown's culture undertaken by Deloitte in 2020/21 found that Crown employees perceived there to be a conflict between achieving profits, 'appeasing' customers, and adhering to policies and processes. Policies were also perceived to be overly complex, poorly written and/or lacking relevance, and employees did not always know how to access them.³⁹

Crown Melbourne is currently monitoring compliance with around 47 Crown Resorts policies that apply across various Crown property locations and a further 84 policies that are specific to Crown Melbourne. The OSM has requested and received a range of policy and procedures relevant to both its monitoring of Crown Melbourne's compliance and its remediation activities.

Crown has commenced a Policy Uplift Program, which aims to streamline policies and procedures across key risk areas to improve consistency for staff, customers and other stakeholders. The Policy Uplift Program, which forms part of the current draft MRAP, is discussed further in section 3.3.2.

³⁸ Crown Internal Audit Activity Report November 2021 – January 2022, presented to the Crown Melbourne Audit Committee.

³⁹ Royal Commission into the Casino Operator and Licence, *The Report – Volume 1*, October 2021, p. 147.

3. Crown's reform work

3.1 Transforming Crown Melbourne

Considerable reform and remediation activity is underway at the Crown Resorts level, as well as within Crown Melbourne, in an effort to return to suitability.

This activity is occurring within a challenging operating environment. Possibly the dominant operational issue facing Crown's Board and executive team has been the Blackstone Inc. acquisition, which was approved by the Federal Court on 15 June 2022 and took effect on 24 June 2022. Crown has also been facing operational pressures, including its bid to gain regulatory approval to commence gaming operations at the Sydney casino at Barangaroo, continuing uncertainty associated with the COVID-19 pandemic (notably revenue and staffing impacts) and increased competition in the gambling sector, including from online gambling.⁴⁰

Crown is also dealing with the fallout from the Finkelstein Royal Commission and other commissions of inquiry. Crown has been subject to disciplinary proceedings arising from the Finkelstein Royal Commission, including an \$80 million fine imposed by the VGCCC in response to Crown's process of evading currency restrictions in China and facilitating the illegal transfer of funds from China to enable Chinese customers to gamble at the casino.⁴¹ In addition, AUSTRAC has commenced civil penalty proceedings in the Federal Court against Crown Melbourne and Crown Perth for alleged serious and systemic non-compliance with the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth).⁴² It is expected that further disciplinary proceedings arising from the Finkelstein Royal Commission are likely.

In light of this challenging environment, the Special Manager has raised concerns with the Board Chairs and CEO regarding the risk of Crown being distracted from the task of demonstrating a return to suitability as the Melbourne casino operator. There are also risks to Crown's transformation, including potentially conflicting priorities, 'stretched resources and change fatigue'.⁴³

Accordingly, in March 2022, the Special Manager directed Crown to provide the OSM with a draft MRAP detailing the activities underway to respond to the specific issues raised and recommendations made by the Finkelstein Royal Commission in relation to Crown Melbourne.

As the Finkelstein Report noted, Crown must demonstrate that it has 'thoroughly re-made' itself and in substance has become a 'different' corporation in terms of having 'a different persona, reputation, culture, management and ownership'.⁴⁴

While the MRAP is essential to guide Crown's reform efforts, in isolation and as currently drafted, it may not be sufficient to affect the degree of change the Finkelstein Royal Commission found would be required to ultimately demonstrate to the VGCCC that Crown Melbourne has returned to suitability. Accordingly, the Special Manager has raised with Crown that it requires a clear, overarching purpose and an integrated transformation strategy. To ensure change is enduring, it will need to be embedded in Crown's culture. Crown's business

⁴⁰ EconoTimes, *The Australian Casino Industry: An Outlook for 2021–2026*, 18 November 2021; IMARC Group, *Australia Online Gambling Market 2021: Industry Overview, Size, Share, Trends, Growth and Forecast Till 2026*, 2 February 2022.

⁴¹ Victorian Gambling and Casino Control Commission, *VGCCC imposes \$80 million fine on Crown Melbourne for China Union Pay process*, Media Release, 30 May 2022.

⁴² AUSTRAC lodged a notice of filing on 1 March 2022.

⁴³ Exiger, *Independent Review of AML/CTF Program (Part A) Crown Resorts Limited, Final Report*, 31 March 2022, p. 11.

⁴⁴ Royal Commission into the Casino Operator and Licence, *The Report – Volume 3*, October 2021, p. 71.

and financial objectives will need to be aligned with its social licence to operate, which means it needs to act lawfully, honestly, responsibly and cooperatively. To fully address the findings of the Finkelstein Royal Commission and the other inquiries, Crown's way of working needs to become people-centred, with a focus on staff and customer wellbeing, and with a greater openness to the views and inputs of a range of stakeholders, including people who have experienced gambling harm.

Crown has acknowledged the importance of adopting a more strategic and integrated approach to its reform activities, although its work on a transformation strategy is in its early stages. On 3 June 2022 the Crown Melbourne Board endorsed the Crown Group Transformation Program and the establishment of the Group Transformation Program Management Office (PMO) to manage the governance and reporting on the various change programs and remediation plans, including reporting on the status of the MRAP to the OSM. The relevant Board paper is provided at Appendix G.

The Special Manager welcomes this. The OSM understands that Crown is now working to establish the PMO and governance arrangements to support the Group transformation program.

The transformation program should also be underpinned by a root cause analysis, as discussed in section 3.1.2. Further, transformation must be supported by better IT and other systems, including systems that facilitate compliance with regulatory obligations, and help mitigate financial crime and gambling harm risks.

The Special Manager will look for Crown to demonstrate the implementation and effectiveness of the Group transformation program. In particular, the Special Manager will seek evidence not only of the specific remediation actions undertaken pursuant to the MRAP and other change programs, but also of Crown's likely effectiveness in implementing and embedding further changes and reforms in the periods beyond the Special Manager's term. The OSM's approach to monitoring Crown's transformation program is outlined in section 5.4.1.

It is critical that Crown's transformation program is implemented without further delay.

3.1.1 Planning and delivering an effective transformation

A business transformation differs from a reform or improvement program. It involves a more fundamental realignment of an organisation's goals, business operations and culture.

In the case of Crown Melbourne, the transformation involves changing the organisation from one that the Finkelstein Royal Commission found to be focused on revenue and profit at all costs, to one that puts the wellbeing of people – staff, customers and the community – first, complies with the law and aspires to best practice, has a positive culture, and is open and accountable to regulators, government and community stakeholders.⁴⁵

The imperative for Crown to undergo organisational transformation has parallels with that confronting the Australian financial services sector following the 2019 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry⁴⁶ (the Hayne Royal Commission).

⁴⁵ Royal Commission into the Casino Operator and Licence, *The Report – Volume 1*, October 2021, pp. 117–21.

⁴⁶ Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report*, February 2019.

The failures identified by the Hayne Royal Commission were widespread and encompassed some of the same failings identified by the Finkelstein Royal Commission. The Hayne Royal Commission found that various banking, superannuation and financial institutions had blatantly disregarded customers in favour of profits, had been involved in money laundering, turned a blind eye to terrorism financing, ignored statutory reporting responsibilities and engaged in impropriety in foreign exchange trading.

Like Crown, the financial services sector was compelled to undergo significant transformation that involved moving to a different way of operating. It needed to put customers first, effect cultural change, place a greater focus on compliance with stronger laws, and be held to account.

There are several elements of a successful transformation that the OSM expects will need to be reflected in Crown's transformation program, as outlined in Figure 2 and below.

Figure 2. Elements of successful transformation



- *Clear understanding of root causes of failures* – to develop a clear vision and strategy, Crown must fully understand its current state, then identify what it wants to be and how it can bridge the gap. Crown has initiated a root cause analysis, which is intended to inform and underpin the transformation programs in each specific work stream, and the overall transformation program.
- *A clear vision and strategy* – Crown needs to establish a clear vision aligned with clearly defined strategic goals, to guide its transformation strategy. In undertaking this work, it would be beneficial for Crown to engage with relevant stakeholders to demonstrate an openness to a broad range of views and perspectives (including hearing from community stakeholders with lived experience of gambling harm).

- *Effective leadership* – Crown’s transformation program needs to be overseen and supported by the Board and senior leaders. It is understood that Crown has appointed a Group Program Director – Transformation to provide central program management oversight and strategic support for the overall transformation program. It is also important that buy-in for the transformation occurs at the middle management level.
- *A clear and effective plan* – a detailed enterprise-wide transformation plan or roadmap is essential, with each project or initiative having clear objectives, milestones, scope, timeframes and budget. It is also important to identify all the work streams, functional areas, people, processes and systems that will be affected or involved in the transformation. Crown should consider how it prioritises actions under the plan – to focus on areas of greatest need and potential benefit, and to demonstrate early success to generate momentum towards change.
- *Resource commitment* – a transformation plan must be adequately resourced, both with appropriate budget and executive capability. In a challenging environment, such as that facing Crown, it is unrealistic to expect that effective transformation can be driven and implemented by the current executive team, in addition to business-as-usual activities. Leaders should be appointed for each work stream to manage the transformation. It is important those work streams are aligned with the transformation, and that leaders have the capacity, data and skills to inspire teams and make change happen. The current draft MRAP includes a functional/subject matter expert lead for each of the work streams. The delivery of the MRAP is being managed by the Group transformation team, which includes a dedicated Melbourne remediation lead and a central PMO team.
- *Governance and reporting* – it is important that Crown’s transformation is subject to robust Board and other governance oversight, with regular reporting on progress, risks, issues and outcomes. Crown’s PMO should have the appropriate authority to monitor and report status, risks and issues to the transformation sponsor and the Board. At the suggestion of the Special Manager, the Crown Melbourne Board has also agreed to meet monthly to provide focused oversight of this work, commencing in July 2022.
- *Evaluation and adjustment* – an organisational transformation program does not end once the key changes have been implemented. Embedding and integrating new ways of working and new systems into a business takes time and can be complex. Crown will need to continuously evaluate, update and improve its transformation program to ensure that it achieves its strategic objectives.

The OSM’s approach to assessing Crown’s transformation is further discussed in section 5.4.1.

3.1.2 Understanding the root causes of Crown's failings

A root cause analysis of key failures at Crown is the crucial first step to developing an effectively targeted transformation plan. Without an informed understanding of the reasons for Crown's failures, there is a risk that current remediation activities and plans will not address the fundamental concerns outlined in successive commissions of inquiry.

The Finkelstein Report urged Crown Melbourne to undertake a root cause analysis into the failures it had identified, as well as those detailed in the Bergin Report.⁴⁷ It outlined the steps required to undertake a root cause analysis:

- determine the need, purpose and scope of the analysis
- collect information to establish the facts that led to the undesired event
- analyse the potential causes
- validate the findings.

Crown has initiated a root cause analysis, which it plans to complete in three phases:

- Phase 1 will involve agreeing the scope and identifying a list of potential root causes (a draft of which was supplied to the OSM on 24 June 2022)
- Phase 2 will validate and confirm those root causes (by November 2022)
- Phase 3 will involve conducting a gap analysis to determine if the remediation plan sufficiently addresses the root causes identified. In the 24 June 2022 draft of the phase 1 root cause analysis report, the scheduled date for completion of phase 3 is 16 December 2022.

This root cause analysis is being undertaken by the internal audit division with support from Ernst & Young.

Given how critical such an analysis is to informing a successful transformation and the 'road to reform', the Special Manager is concerned that Crown did not initiate the root cause analysis earlier. The extent to which a delayed root cause analysis undermines confidence that Crown's transformation program will address the fundamental issues identified by the Finkelstein Royal Commission will require assessment in future reporting periods.

The OSM will review Crown's phase 1 deliverables in the next reporting period with a view to assessing the extent to which the remaining phases of the work are likely to provide the confidence that the MRAP and broader transformation program are appropriately targeted.

3.1.3 MRAP and other reform plans

In 2021, Crown Resorts developed an initial Remediation Action Plan (RAP) in response to issues being raised in the Bergin Inquiry. This RAP was a high-level document developed specifically in relation to Crown Sydney, and included some reforms at Group level that had some application to Crown's Melbourne and Perth casino operations. The RAP was prepared before the Finkelstein and Owen Royal Commission Reports were tabled.

⁴⁷ Royal Commission into the Casino Operator and Licence, *The Report – Volume 1*, October 2021, p. 142.

The initial view of Kroll, the independent monitor of Crown Sydney, was that the RAP did not provide a sufficient basis for assessing Crown Resorts' and Crown Sydney's capability to make the changes required to address the matters set out in the Bergin Report. The view of Kroll was that more detail was required on the specific milestones, delivery timeframes, resourcing and funding requirements, ownership, governance arrangements and assurance activities to be undertaken across each of the line items.⁴⁸ In response, Crown in conjunction with Kroll and ILGA developed a revised plan referred to as the Agreed Remediation Action Plan (ARAP).

The RAP was initially overseen by an executive-level steering committee supported by the Transformation Office. Crown has advised that this steering committee generally met weekly.

While it is appropriate to draw on the enterprise-wide reforms being undertaken as part of the ARAP, the Special Manager identified that Crown needed to consider more specifically how the relevant recommendations and issues raised in the Finkelstein Report and other expert review reports are being addressed for Crown Melbourne.

Under direction of the Special Manager, Crown provided a high-level draft of the MRAP in March. Similar to Kroll's initial findings with respect to the RAP developed for Crown Sydney, the initial draft MRAP provided to the OSM lacked sufficient detail about project deliverables, scope, milestones and accountabilities.

On 3 June 2022, the Crown Melbourne Board endorsed, as a working draft, an updated MRAP comprising around 160 line items with design and implementation criteria related to the implementation of Finkelstein Royal Commission recommendations and issues identified in Appendix I. An updated version of the MRAP was provided to the OSM on 10 June 2022 (provided at Appendix H).

There are other, more detailed programs and 'plans' that apply to specific areas of focus in Crown Melbourne, including plans seeking to address issues highlighted in the Finkelstein Report. These plans include the Financial Crime and Compliance Change Plan (FCCCP), the Risk Uplift Plan, the Policy Uplift Program, and the Culture Reform Program. However, to date, there does not appear to have been clear coordination and oversight across the current draft MRAP and each of these more detailed change plans, nor integration with an enterprise-wide transformation strategy.

It is also clear that some key plans, such as the Responsible Gambling Change Plan, remain in draft form and are contingent on critical decisions about resourcing and timeframes for delivery.

An overarching transformation strategy, with appropriate resourcing and governance structure to support its implementation, must capture all the current plans under one program of work. While each of the above plans may be implemented over different timeframes, the central pillar supporting them all – the transformation strategy – must remain constant for the life of the program.

As noted above, Crown has advised that a central PMO team will now oversee the MRAP and other reform plans, as part of the new Group transformation program.

The OSM will monitor Crown's implementation of the MRAP (as amended) and other reform plans, and how they are implemented, as part of the Group transformation program.

⁴⁸ Kroll, *Crown Monitorship – Phase 1 Report*, 8 June 2022, p. 6.

3.1.4 Enterprise-wide system improvements

Crown Resorts will require new IT capabilities and functions to support its transformation program and to meet its ongoing regulatory requirements. As at May 2022, Crown Resorts had 273 IT systems across its locations, of which 171 are used in Crown Melbourne. Of the 273 IT systems, a number are legacy systems that are due to be replaced or upgraded.

In March 2022, the Crown Resorts Board approved an IT strategy. The objective of the strategy is to provide a stable and secure operating environment for the business while allowing new capabilities and functions to be added to meet customer, growth and regulatory needs. The strategy, to be delivered over the next five years, includes five core IT capability uplift programs:

- Casino Management Uplift
- Systems Consolidation
- Cyber Security
- IT Uplift
- Modular Business Services.

Crown has advised that the five programs are at various stages of planning and delivery, and that budget allocation has not yet been fully committed. An independent review of the IT capability uplift programs has not yet occurred. However, Crown has advised that elements of the programs will be independently reviewed as appropriate.

Further to the broader IT strategy, Crown Resorts provided the OSM with an overview of the five system improvements intended to provide more comprehensive and interconnected capability for addressing financial crime and compliance, including an automated case management tool to apply across financial crime and responsible service of gambling (RSG), and an automated solution for Crown's governance, risk and compliance functions. These system requirements have been incorporated into a three-year program of works, to be prioritised and sequenced by the PMO. The PMO will be the primary interface with the broader Crown Transformation Steering Committee.

The OSM will closely monitor and assess the planning and delivery of the IT strategy at Crown Melbourne and its integration within the Group transformation program, with a focus on capability uplift in the areas of financial crime and compliance, on broader reforms and on how Crown meets its ongoing regulatory requirements.

3.2 Culture change

Poor organisational culture was at the heart of many of Crown's failings highlighted by the three commissions of inquiry. Crown's prevailing culture was found to have prioritised revenue and profit over ethical and lawful conduct, prudent compliance and risk management, and the welfare of employees and customers. At Crown Melbourne, this manifested in illegal and improper conduct, including a failure to address gambling harm, facilitation of money laundering, evasion of state casino tax, and an aggressive and non-transparent relationship with the regulator.

For Crown to ultimately be able to demonstrate to the regulator that it has returned to suitability to retain its casino licence, it must fundamentally transform its organisational culture. As noted in the Finkelstein Report, without this, there can be little confidence that Crown's failures in relation to risk management, compliance, governance, financial crime and RSG will be addressed.⁴⁹

Elizabeth Arzadon, a corporate culture expert engaged by the Finkelstein Royal Commission and the Owen Royal Commission, noted Crown must develop and embed a purpose-driven culture that effectively balances multiple objectives:⁵⁰

[Crown] needs to transform its culture to perform sustainably in the future, meeting the expectations of all its stakeholders. This will require ... solutions that somehow deliver financial results within a frame of good conduct – not simply without breaking the law.⁵¹

Organisational culture determines the extent to which employees at all levels will role-model and actively support good governance, effective risk management, compliance and harm minimisation. An important element of this culture, as Deloitte noted,⁵² is providing employees with a psychologically safe work environment where they are empowered to speak up if they suspect improper, inappropriate or unethical behaviour. In fact, because it is so closely tied to employees' mindsets and behavioural norms, cultural reform is not only a program of work in itself, but also underpins an organisation's ability to achieve sustainable and enduring change in all of its business areas.

Crown, after denying it had a dysfunctional organisational culture in submissions to the Bergin Inquiry,⁵³ accepted at the Finkelstein Royal Commission that it needed to improve its culture.⁵⁴ The Finkelstein Report welcomed this and recognised Crown's work to change its culture, including its engagement of Deloitte in late 2020 to conduct a Current State Assessment of culture, co-design aspirational culture and recommend a roadmap for cultural reform. However, the Finkelstein Report highlighted that 'many cultural problems still exist ... [and] many of them may be difficult to overcome'.⁵⁵

⁴⁹ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 150.

⁵⁰ Elizabeth Arzadon, *Cultural change at Crown Melbourne*, Expert Opinion, June 2021, p. 22. Tendered to the Royal Commission into the Casino Operator and Licence, COM.0007.0001.0178.

⁵¹ Elizabeth Arzadon, *Cultural change at Crown Melbourne*, Expert Opinion, June 2021, p. 25. Tendered to the Royal Commission into the Casino Operator and Licence, COM.0007.0001.0178. Original emphasis.

⁵² Royal Commission into the Casino Operator and Licence, Transcript of Victoria Whitaker, 9 June 2021, p. 1919.

⁵³ Crown Resorts, *Crown Sydney Submission to Suitability Review*, Bergin Inquiry, 25 November 2020. Tendered to the Royal Commission into the Casino Operator and Licence, 27 August 2021, CRW.518.005.0665.

⁵⁴ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 149.

⁵⁵ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 149.

Appendix I of the Finkelstein Report requires the Special Manager to determine whether Deloitte completed the final stage of its work for Crown, and to evaluate the implementation and effectiveness of Crown's Culture Reform Program.

Reforming the culture across all levels of the organisation, and ensuring these reforms cascade through to its risk, compliance and customer cultures, will be challenging for Crown, with real and embedded change not expected to take full effect for three to five years.⁵⁶ Crown faces considerable barriers and risks to its Culture Reform Program – including the challenge of developing the right vision for the organisation, grappling with the strategic balance between compliance and reaching for best practice, ensuring adequate resourcing, achieving buy-in across a change-fatigued organisation, and implementing and assessing longer-term actions that will bring about real change.⁵⁷ And this is all within the context of the likely major change associated with its acquisition by Blackstone Inc.

There are many examples in the corporate world of failed attempts to achieve lasting positive cultural change, with apparent changes being short lived or illusory. The OSM's evaluation of Crown's Culture Reform Program will consider how well it is integrated into the overall Group transformation program and the other programs of work under the MRAP, and how well it prioritises customer and staff wellbeing outcomes.

The OSM will also evaluate the effectiveness of Crown's reform program in achieving buy-in and role-modelling at middle management and supervisor levels. This cohort is critical to effective organisational change, as they have a substantial impact on an organisation's day-to-day conduct and in providing psychological safety for the employees they manage.

Over the next year, the OSM will also need to assess the extent to which Crown's change management strategy is likely to result in embedded cultural change, which will be required if Crown's reformed culture is to endure beyond the Special Manager's term.

3.2.1 Background

Finkelstein Royal Commission

The Finkelstein Royal Commission found that Crown's culture prioritised profit above all else.⁵⁸

The Finkelstein Report described organisational culture as being comprised of the shared values and norms that shape behaviour and mindsets within an organisation, influencing how people operate within it. It stated culture is comprised of three elements: visible organisational structures and processes; expressed values in key areas of strategy, goals and philosophies; and the organisation's 'unwritten ground rules'.⁵⁹

The Finkelstein Report also discussed what a good – or the 'right' – corporate culture is, in terms of ensuring adherence to basic norms of behaviour; that is, obeying the law and acting fairly, but also taking into account the interests of multiple stakeholders.⁶⁰ A good culture involves a shared sense of purpose across the organisation to meet society's expectation that

⁵⁶ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 151; Elizabeth Arzadon, *Cultural change at Crown Melbourne*, Expert Opinion, June 2021, p. 25. Tendered to the Royal Commission into the Casino Operator and Licence, COM.0007.0001.0178.

⁵⁷ Elizabeth Arzadon, *Cultural change at Crown Melbourne*, Expert Opinion, June 2021, pp. 22–3. Tendered to the Royal Commission into the Casino Operator and Licence, COM.0007.0001.0178.

⁵⁸ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 99.

⁵⁹ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 124.

⁶⁰ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 125.

the organisation will make a positive contribution to the community – especially by minimising harm. It must be focused on more than delivering financial outcomes.

The Finkelstein Report concluded that within a casino environment, the right culture is one that embeds norms of behaviour imposed by the law and expected by the community: a casino operator should obey the law, act honestly, deter illegal and immoral behaviour among customers, not exploit customers, take active steps to minimise gambling harm, and cooperate fully and candidly with its regulators.⁶¹

The Finkelstein Royal Commission found that Crown did not have a healthy organisational culture. Rather, Crown's behaviour was variously illegal, dishonest, unethical and exploitative. This culture had persisted for more than a decade.⁶²

Adding to the serious failings identified in the Bergin Inquiry, the Finkelstein Royal Commission found Crown had engaged in bullying behaviour that included providing the regulator with false or misleading information. Crown generally frustrated the regulator's investigations, including through substantial delays in responding to information requests, excessive privilege claims and unwarranted document redactions. Other cultural deficiencies included Crown's failures to protect many vulnerable customers from gambling harm and its evasion of casino tax.

Deloitte was engaged by Crown in November 2020, while the Bergin Inquiry was being conducted, to review its culture. This review was called Project Darwin by Deloitte. Deloitte conducted interviews with the then Crown Resorts CEO and former Executive General Manager – Human Resources at Crown Melbourne in late 2020 and early 2021. These officers observed the following about Crown's culture:

- the Board did not provide feedback
- middle management was resistant to change (described as 'permafrost')
- people were not held to account
- there was a lack of clarity around how to escalate issues
- people were not confident action would be taken if they did report issues.⁶³

At the time of the Finkelstein Report, Crown advised the first three phases of the Deloitte cultural review had been undertaken. The final phase (phase 4) concerned the development of a roadmap to underpin the Culture Reform Program. Pursuant to Appendix I of the Finkelstein Report, the Special Manager is required to determine whether Deloitte completed phase 4, and to evaluate the implementation and effectiveness of Crown's Culture Reform Program.

⁶¹ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 127.

⁶² Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 60.

⁶³ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, pp. 146–7.

Bergin Inquiry

The Bergin Inquiry found that many of the issues that resulted in Crown Sydney being deemed unsuitable to give effect to a restricted gaming licence stemmed from a poor corporate culture, as well as poor corporate governance, risk management structures and processes.⁶⁴ The Bergin Report stated cultural change needed to come from within Crown, rather than from the regulator.⁶⁵ After initial resistance, Crown recognised the need for cultural change.

Owen Royal Commission

The Owen Royal Commission echoed the concerns with culture highlighted by the Finkelstein Royal Commission and the Bergin Inquiry. The Owen Report quoted senior Crown executives, including a Board director, who agreed there was a need for 'massive' cultural change 'the whole way down the organisation'.⁶⁶

The Owen Royal Commission considered the cultural reform work underway within Crown, largely under the auspices of Deloitte. Although it welcomed this work, the Owen Report highlighted the large number of documents prepared by either Crown or Deloitte about cultural change, and some uncertainty regarding the status of these documents, including whether the Board had approved key documents.⁶⁷

Notwithstanding, the Owen Report acknowledged that the Deloitte culture roadmap was being implemented, with a completion date of December 2023.⁶⁸

The Owen Royal Commission engaged Ms Arzadon to review the July 2021 Deloitte final report into the state of Crown's culture and to provide her observations. Ms Arzadon observed that there is a need for new formal and informal mechanisms to reinforce new, desired behaviours, that middle managers need to be empowered to model and support cultural change, and that consideration should be given to immediate intervention in three business units at Crown Perth (surveillance, VIP gaming, and legal and regulatory) that displayed high-risk cultural characteristics.⁶⁹ The Owen Report suggested Crown give due consideration to Ms Arzadon's opinions in its Culture Reform Program.

The Owen Royal Commission concluded that Crown has demonstrated its commitment to implement a roadmap to achieve meaningful cultural change. However, it sounded a note of caution that cultural change can take years, and Crown will need to make a concerted effort to address the inevitable barriers to change.⁷⁰

3.2.2 Crown's cultural reform response

Crown has taken important first steps towards reforming its corporate culture, including refreshing Board directors and executive management. Considerable other activity is underway and further changes are expected, as set out in this section.

⁶⁴ Inquiry under section 143 of the Casino Control Act 1992 (NSW), *Report – Volume 2*, February 2021, p. 568.

⁶⁵ Inquiry under section 143 of the Casino Control Act 1992 (NSW), *Report – Volume 2*, February 2021, p. 568.

⁶⁶ Perth Casino Royal Commission, *Final Report – Volume I*, March 2022, p. 171.

⁶⁷ Perth Casino Royal Commission, *Final Report – Volume I*, March 2022, p. 188.

⁶⁸ Perth Casino Royal Commission, *Final Report – Volume I*, March 2022, p. 189.

⁶⁹ Perth Casino Royal Commission, *Final Report – Volume I*, March 2022, pp. 187–8.

⁷⁰ Perth Casino Royal Commission, *Final Report – Volume I*, March 2022, p. 190.

Deloitte's Project Darwin

As stated in the Finkelstein Report:

*To bring about change, a corporation must form a view of its culture, identify problems, develop and implement a plan to deal with them, and determine whether the planned changes can be effective.*⁷¹

In late 2020 Crown engaged Deloitte to undertake 'Project Darwin', a review of Crown's enterprise-wide organisational culture. The review was conducted over four phases:

- Phase 1: Assess the then current culture framework, including Crown's 'cultural artefacts' and Crown's ability to manage and measure organisational culture. The Cultural Architecture Review was delivered to Crown on 29 January 2021.
- Phase 2: Measure the then current state of Crown's culture using a Culture at Crown Survey, interviews with employees, focus groups with employees and other observations. The results of the Culture at Crown Survey were delivered to Crown on 9 September 2021.
- Phase 3: Use the insights developed in Phase 2 to complete a Current State Assessment, measuring Crown's actual culture against its stated values. The Current State Assessment (also known as the Phase 2–3 Report), was delivered to Crown on 30 July 2021.
- Phase 4: Define Crown's 'aspirational culture' in Crown's Ethical Compass and Aspirational Culture document and provide Crown with a roadmap to achieve its aspirational culture.

The Deloitte Roadmap identified nine work streams Crown needs to undertake to implement effective cultural reform:

- enable aspirational culture and capability
- communications, engagement and external stakeholder relationships
- measure impact and respond
- leadership behaviour and commitment
- people and performance practices
- operating model and ways of working
- accountability, risk and compliance
- policy alignment, implementation and review
- controls effectiveness and business processes.

Each of these work streams contains a number of initiatives. These should, according to Deloitte, enable Crown to move from its 'current state' to its 'aspirational culture'.

⁷¹ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 127.

Crown's Culture Reform Program

Crown, in conjunction with Deloitte and informed by the phase 4 documents, has developed a strategy and an Organisational Culture Change Program – Project Plan to guide its cultural reform efforts. The project plan lists seven work streams (consolidated from the nine work streams, in consultation with Deloitte⁷²). The seven work streams, which comprise numerous initiatives, are:

- change and measurement
- communications, engagement and external stakeholder relationships
- leadership behaviour and commitment
- people and performance practices
- operating model and ways of working
- risk behaviours and mindsets
- policy alignment.

As at 1 June 2022, according to the project plan, Crown has completed 67 key initiatives and activities, with 46 'on track' and 87 'not started'. As stated in a report to the Crown Melbourne Board on 3 June 2022, key initiatives and activities include:

- the development of the Culture Reform Program strategy
- a tailored leadership program for Crown executives that includes team development and capability-building activities
- performance development related to behavioural, organisational and individual objectives
- the foundations of a Crown-wide change network of employees from all areas and levels of the business.

Leadership and governance

Leadership

The championing of organisational transformation by senior leaders (Board and senior executives) is critical for success. As noted in the Finkelstein Report, a good culture is one where the directors and senior management clearly set out the expectations of the organisation and lead by example.⁷³

As both the Finkelstein and Bergin Reports make clear, Crown was not well served by its leadership. As stated in the Finkelstein Report:

First, Crown Melbourne's board failed to carry out one of its prime responsibilities; namely, to ensure that the organisation satisfied its legal and regulatory obligations. Perhaps the board was not told what was going on. The alternative, to adopt an old expression from the railroad industry, is that the board 'fell asleep at the wheel'.

⁷² The Deloitte work streams 'enabling aspirational culture and capability' and 'measure impact and respond' were consolidated into the 'change and impact' work stream. The 'accountability, risk and compliance' work stream was consolidated with 'controls effectiveness and business practices' into 'risk behaviours and mindsets'.

⁷³ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 125.

*Second, many senior executives involved in the misconduct were indifferent to their ethical, moral and sometimes legal obligations. Some were motivated by a drive for profit. Some simply did what they did because they could.*⁷⁴

Major changes have since occurred at the Crown Board and senior management levels. The Crown Resorts Board was renewed into early 2022, with only one pre-inquiry Board member still a director. The executive leadership team has also undergone significant change: appointments include a new Crown Resorts and Crown Melbourne CEO and new senior executives, including the Group Chief People and Culture Officer who leads Crown's Culture Reform Program, Mr Tony Weston.

Some of these changes occurred during the Finkelstein Royal Commission; indeed, the report noted that the reform program Crown had embarked upon was 'led by people of good will and skill'.⁷⁵ The Special Manager concurs that the new Board members and senior executives have demonstrated significant experience and skills in the areas in which Crown needs to reform, with experienced executives drawn from a variety of relevant industries, including the financial services sector. It is also noted that the Blackstone Inc. acquisition of Crown is likely to result in further changes to Crown's Boards and senior management team.

While changes at the Board and executive leadership team levels were necessary, renewal, buy-in and role-modelling at middle management level will be vital to success. As noted by Ms Arzadon, this cohort greatly influences an organisation's day-to-day conduct and their enthusiastic support will be critical to the success of the Culture Reform Program.⁷⁶

Governance

Crown has put in place governance arrangements to guide the Culture Reform Program, with oversight by the Board, a program sponsor at executive level, a Culture Change Program team, and individuals assigned to lead specific work streams.

It is noted that some elements of the governance arrangements are not yet operational. The Culture Working Group, comprised of the 'work stream accountable leads providing subject matter expertise and direction to the Culture Reform Program initiatives',⁷⁷ is one of these. Similarly, there appear to be a number of gaps in the Culture Change Program team; however, Crown advises that all project leads have been appointed.

Given the centrality of cultural change to the effectiveness of Crown's broader reform program, as noted in section 3.1, it will be important that the Culture Reform Program is appropriately aligned and prioritised as part of the recently established Group transformation program. It is acknowledged that the March 2021 Crown Resorts RAP included deliverables associated with the Culture Change Program, and was previously overseen by a Group executive-level transformation steering committee.

⁷⁴ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 3.

⁷⁵ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 4.

⁷⁶ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 152.

⁷⁷ Culture Reform Program 2022 Reset (CRW.598.007.0156), January 2022, p. 6.

3.2.3 Special Manager's oversight of Crown's cultural reforms

Phase 4 of Deloitte's Project Darwin

Pursuant to Appendix I of the Finkelstein Report, the Special Manager is required to determine whether Deloitte has completed phase 4 of Project Darwin. As stated above, the phase 4 documents – the Ethical Compass and Aspirational Culture document and the Roadmap – were delivered to Crown in August 2021. Therefore, it is considered that this requirement of Appendix I is complete.

However, the OSM notes the phase 4 documents were provided to Crown before the phase 3 deliverables (the Current State Assessment and the Culture at Crown Survey results). This raises questions as to whether the assessment results were appropriately used to inform and develop the Ethical Compass and Aspirational Culture document, and whether the survey results were sufficiently considered to ascertain the specific cultural issues for Crown Melbourne. The OSM will seek to verify this issue in the next reporting period.

Crown's Culture Reform Program

Appendix I of the Finkelstein Report also requires the Special Manager to determine the effectiveness of Crown's Culture Reform Program.

The OSM's priority in its first six months of operation has been to identify and understand the cultural issues facing Crown, as highlighted in the three commissions of inquiry. The OSM has also commenced the process of assessing and monitoring the design phase of Crown's Culture Reform Program, including the extent to which the Project Darwin documents informed the design of Crown's overall Culture Reform Program and its initiatives.

To date, the OSM has considered Crown's Culture Reform Program strategy, the change program project plan and other relevant documents to determine:

- the validity and current state of those documents
- the progress of Crown's Culture Reform Program against those documents
- how those documents respond to and map against the issues raised in the Finkelstein Report and other relevant reports.

The OSM's assessment of the effectiveness of Crown's Culture Reform Program strategy and project plan will be undertaken in conjunction with the evaluation of the overall Group transformation program. That is, an assessment of Crown's approach will include consideration of:

- information and other inputs (including the Deloitte work) that informed the development of the program and its initiatives
- project governance, accountability and oversight
- the sequencing of the program components
- the adequacy of the resourcing allocated to the project
- the responsiveness of the program to the experience gained through the implementation process.

The OSM is reviewing Crown's Culture Reform Program strategy and project plan to assess the stated cultural change goals against the issues identified in the Finkelstein Royal Commission . Evaluation criteria will be developed over the next reporting period, and will include criteria for assessing how well the Culture Reform Program is integrated into Crown's overall Group transformation program and other work under the MRAP, and prioritises customer and staff wellbeing. The OSM will also evaluate the effectiveness of Crown's reform program in achieving buy-in and role-modelling at the critical middle management and supervisor levels.

3.3 Risk management, governance and compliance

In Australia, casino operators operate in highly complex and regulated environments, and must manage considerable risks and compliance requirements. Effective governance and risk management are critical to a casino operator such as Crown, which needs to manage risks in relation to financial crime, criminal influence, regulatory and legal obligations, tax and gambling harm.

The Finkelstein Royal Commission, Bergin Inquiry and Owen Royal Commission each identified significant deficiencies in Crown's overall corporate governance, risk management and compliance. The shortcomings were wide ranging and encompassed not only the foundational risk management frameworks, but also day-to-day risk and compliance management. This ultimately resulted in the Crown Resorts and Crown Melbourne Boards and senior management taking inappropriate risks to maximise profitability, and failing to ensure that Crown satisfied its legal and regulatory obligations.

Crown has acknowledged there were significant deficiencies in its corporate governance, risk management and compliance structures. It has started addressing relevant recommendations of the Finkelstein Royal Commission and other external reports, including by making significant changes to its Board membership, senior management and committee structures. It has also changed its risk management governance and frameworks: it has reviewed and updated policies and procedures, and is revising its compliance system and processes.

While the proposed changes to these governance and foundation frameworks are important, they will go only so far in bringing about effective management of risk and compliance. Crown will need to go further to ensure that its risk management and compliance frameworks are properly understood and are applied in an effective manner. This will require a major cultural shift in the organisation. The implementation of risk management, governance and compliance reforms should also be informed by the root cause analysis that Crown is undertaking.

Moving forward, the OSM's work program will focus on verifying the extent to which Crown's reforms to date have adequately addressed the issues raised in the Finkelstein Royal Commission and on monitoring the effectiveness of those reforms. Appendix I of the Finkelstein Report requires the OSM to evaluate whether Crown Melbourne has:

- undertaken a root cause analysis of the failures identified by the Finkelstein Royal Commission
- effectively implemented the recommendations of the 2021 Deans Report on Crown's risk management frameworks and systems (discussed further below)
- conducted an external review into the effectiveness of Crown Melbourne's risk management framework, systems and processes, and implemented any associated recommendations.

Given that many of the most significant reforms are in their early stages, the effectiveness of the actions Crown has taken to date and whether they are translating into real change can only be evaluated in future reporting periods.

Full implementation of these actions will require ongoing effort by Crown. Crown will need to remain focused to maintain the momentum of change, particularly when addressing the operational and cultural requirements of risk and governance. Evaluation of the reforms by both the OSM and external reviewers, along with periodic reviews of how the remaining actions are progressing, will be important in ensuring the ongoing success of the full program.

3.3.1 Background

The findings and conclusions across the three commissions of inquiry in relation to risk management and governance are broadly consistent. All identified significant deficiencies across Crown's business, with a focus on its disregard of best-practice risk management. This was evident, for example, in Crown's lack of risk management in relation to its China-based staff, as well as the organisation-wide disregard for maintaining a proper risk culture and for the value of risk management in general.

Other failures identified across the three inquiries included:

- the failure of the Crown Board and other responsible persons (for example, risk subcommittees) to undertake their duties to monitor and mitigate risks
- deeply inadequate frameworks and formal controls (for example, the risk appetite statements), or the disregard of such frameworks and controls when they were adequate
- the prioritisation of commercial gain over risk, governance and compliance concerns.

Finkelstein Royal Commission

The Finkelstein Royal Commission found that Crown's approach to risk management, corporate governance and compliance was inadequate. It highlighted specific failings regarding risk management and governance, including:

- failures of key Board members, directors, senior managers and subcommittees to effectively escalate risk matters to the Board
- poorly communicated and established lines of reporting, resulting in lack of escalation and inadequate responses to risks when they eventuated
- a poor risk and governance culture that prioritised profits and commercial gain over compliance
- minimal oversight or management of the risk appetite, and a stated risk appetite that was not consistent with Crown's illegal actions and non-compliance.

The Finkelstein Royal Commission engaged a risk management specialist, Mr Peter Deans, to provide an opinion on the effectiveness and robustness of Crown Resorts' risk management frameworks and systems, and to identify any enhancements. Mr Deans assessed that the fundamentals of a risk management framework were in place, but made 22 recommendations to improve Crown's risk management governance, frameworks and reporting.

Ultimately, the Finkelstein Royal Commission concluded that Crown's existing risk management framework, systems and processes would benefit from:

- a detailed root cause analysis into the failures highlighted in its report, and the Bergin Report
- implementing the recommendations made in the Deans Report to improve its risk management governance, frameworks and reporting
- a regular external review of the robustness and effectiveness of the risk management framework, systems and processes and their appropriateness to Crown Melbourne as a casino operator

- the Chair of the Risk Management Committee personally overseeing these reviews
- rewriting its documents in plain English.⁷⁸

Appendix I of the Finkelstein Report requires the Special Manager to evaluate whether Crown has implemented these actions.

Bergin Inquiry

The Bergin Inquiry identified a series of failures of risk management at Crown. These included:

- the failure of the Board in its fundamental responsibility to set, monitor and communicate Crown's risk appetite
- risk decisions by senior executives being dominated by a pursuit of profit over the welfare of Crown employees, and over Crown's compliance with the object of the *Casino Control Act 1992* (NSW) of protecting the casino from criminal exploitation
- demands by the Board of the VIP International business unit, and incentivising and encouraging management to take inappropriate risks in pursuing the success of that business
- the ineffectiveness and underutilisation of Crown's risk management and compliance structures
- deficiencies in various documents designed to capture risks.⁷⁹

The Bergin Inquiry concluded that Crown's lack of effective risk management had facilitated money laundering, and that it had broadly caused Crown to disregard the welfare of its staff in favour of commercial gain, and to enter into commercial relationships with junket operators linked to organised crime.

Owen Royal Commission

The Owen Royal Commission reached similar conclusions regarding Crown's risk management failures to those of the Finkelstein Royal Commission and the Bergin Inquiry. These included:

- a failure to safeguard the welfare of Crown's China-based staff and to escalate risks through the appropriate corporate risk management structures⁸⁰
- compromised risk management and corporate governance structures, leading to Board directors being uninformed of risks⁸¹
- a poor risk management culture, resulting in the organisation acting in a way that was inconsistent with its stated risk appetite.⁸²

3.3.2 Crown's risk management, governance and compliance reform work

In response to the Finkelstein Royal Commission and the other commissions of inquiry, Crown undertook several internal reviews and prepared various documents to address its

⁷⁸ Royal Commission into the Casino Operator and Licence, *The Report – Volume 1*, October 2021, p. 142.

⁷⁹ Inquiry under section 143 of the Casino Control Act 1992, *Report – Volume 1*, February 2021, p. 347.

⁸⁰ Perth Casino Royal Commission, *Final Report – Volume II*, March 2022, p. 410.

⁸¹ Perth Casino Royal Commission, *Final Report – Volume I*, March 2022, p. 135.

⁸² Perth Casino Royal Commission, *Final Report – Volume I*, March 2022, p. 140.

risk management, governance and compliance issues. This work included contracting Deloitte to perform a risk review and providing Crown with a series of recommendations (the Deloitte Review).

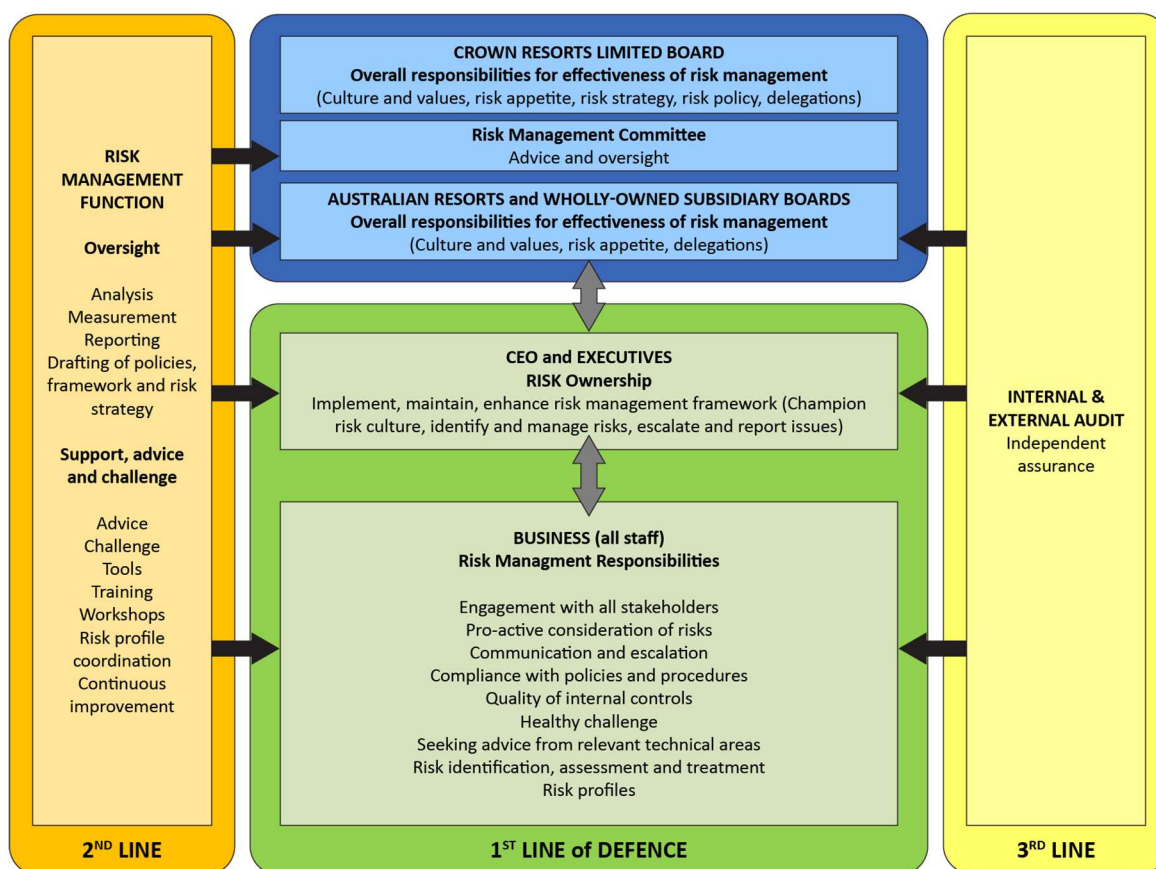
Crown’s current draft MRAP identifies the need to implement the Deans Report recommendations along with the three key risk and governance recommendations from the Finkelstein Royal Commission. A more detailed work plan or approach is needed if this implementation is to occur.

The following sections highlight the actions that Crown has committed to and initiated to date in order to address the deficiencies in its risk management, governance and compliance systems and processes. The OSM is yet to comprehensively review the status of these initiatives, verify whether they have indeed been completed, and ascertain whether the actions taken to date completely and effectively address the recommendations and issues identified in the Finkelstein Royal Commission. This will be a future focus of the OSM.

Risk management

Crown proposes to restructure its risk management function around a ‘three lines of defence’ (3LOD) approach, and to revise its supporting risk management frameworks and processes. The 3LOD model, roles and responsibilities as set out in Crown Resorts’ Risk Management Strategy is illustrated in Figure 3.⁸³

Figure 3. Crown’s risk governance framework, including the ‘three lines of defence’ model



Source: Crown Resorts, Risk Management Strategy, April 2021, p. 6.

⁸³ Crown Resorts, Risk Management Strategy, as approved by Crown Resorts Board on 23 April 2021.

This new approach is intended to create effective segmentation of responsibilities and authority around risk management (for example, by empowering internal auditors with greater autonomy), and to clarify reporting lines and responsibilities.

In November 2021, Crown finalised a Risk Uplift Plan to address risk-related requirements under phase 1 of Kroll’s monitorship of Crown Sydney. The plan builds upon Crown’s existing risk management infrastructure, including the risk management framework, Risk Management Strategy (RMS) and Risk Appetite Statement (RAS).

The Risk Uplift Plan is intended to deliver a number of outcomes, including:

- enhanced, operationalised 3LOD with clear roles and accountabilities
- effective collaboration and dependency management across Line 2 (risk, compliance, financial crime and responsible gaming)
- a fit-for-purpose operating model for risk management across Crown, resourced with the required capabilities
- increased strategic, executive engagement, and input from risk into strategic decision making
- an updated RAS and reporting that supports it
- an effective Controls Assurance Program (including a Controls Framework, Line 2 involvement and oversight)
- clarity about and implementation of the linkage between performance management, remuneration and management of risk.

The Risk Uplift Plan is to be delivered via four initiatives, as illustrated in Figure 4.

Figure 4. Four initiatives underpinning Crown’s Risk Uplift Plan

Risk governance and operating model	Risk frameworks	Risk capability and accountability	Operationalise the risk framework
<ul style="list-style-type: none"> • Three lines of defence design and operation • Line 2 collaboration • Risk management governance responsibilities • Risk input into strategic decision making • Risk target operating model 	<ul style="list-style-type: none"> • Risk Management Strategy review and update • Risk Appetite Statement (RAS) review and update • Controls assurance program design (including Line 2 oversight) • Independent review of risk management 	<ul style="list-style-type: none"> • Risk capability assessment • Risk induction and training program • Risk input to performance management and remuneration • Risk metrics for senior management/leaders • Risk and compliance culture framework review and update 	<ul style="list-style-type: none"> • RAS and breach trend reporting and monitoring • Risk profiles • ICMs and SOPs review • Controls Assurance Program Implementation

Crown projected that it would implement the Risk Uplift Plan in three stages: by December 2021, March 2022 and June 2022. An independent risk management review was expected to be completed by July 2022. However progress implementing the Risk Uplift Plan has been delayed. Actions completed to date include:

- development and approval of the risk target operating model
- advertising to fill new risk assurance roles (including the Group General Manager – Risk), although recruitment to fill eight of the 15 new roles has been paused
- updates of Crown’s RAS and RMS.

The Risk Uplift Plan does not refer to the Deans Report recommendations, which the Finkelstein Royal Commission recommended Crown adopt. The Owen Report noted that Crown had implemented nine of the 22 Deans Report recommendations. Of the remaining 13 recommendations, the Deans Report had indicated there was a risk that failing to implement four of these may render Crown’s risk management framework and system ineffective.⁸⁴

According to the current draft MRAP, Crown has now actioned all recommendations of the Deans Report including making adjustments to the RMS and RAS. Crown also retained Mr Deans to assess whether the changes made to the RAS and RMS were suitable from a best-practice point of view; following this the OSM has also consulted with him. In addition Crown has advised that further adjustments are being made to the RAS based on feedback received during the Risk Management Committee meeting on 1 June 2022, and the amended document will be re-circulated to the Risk Management Committee members. The Risk Management Committee has approved the RMS and recommended that it be submitted to the Board for approval.

Governance

The Finkelstein Royal Commission identified many concerns regarding Crown’s approach to internal governance, including issues relating to reporting structures, Board membership and oversight powers. Crown has taken a number of actions in response to these concerns.

Board governance, reporting and operating model

The Risk Uplift Plan seeks to create an effective risk governance and operating model based on the 3LOD framework. Crown advises it will define and implement an effective 3LOD approach that will clarify governance and provide a fit-for-purpose risk management operating model.⁸⁵

The activities Crown has outlined include:

- clarifying all roles and responsibilities across risk, compliance, financial crime and RSG, and implementing processes and tools to enable clear reporting lines and dependency management
- designing and implementing a fit-for-purpose risk target operating model
- designing and implementing mechanisms to evidence executive engagement and risk input into strategic decision making
- reviewing and updating all key charters.

⁸⁴ Perth Casino Royal Commission, *Final Report – Volume 1*, March 2022, pp. 180–1.

⁸⁵ Crown Resorts, Risk Uplift Plan, November 2021.

As noted above, these actions were due to be completed by June 2022.

Under the 3LOD model, a critical aspect of Crown's plan to improve the management of risks within the business is the risk team overseen by the Chief Risk Officer (CRO). The risk team will be overseen by a Group General Manager – Risk Assurance, who will commence on 20 June 2022. The risk management function (which comprises the risk team and is supported by the Financial Crime and Compliance (FC&C) Assurance team) comprises 22 roles. Fifteen roles sit within the FC&C Assurance team (with one vacancy) and seven roles have been filled in the newly restructured risk function. A further review of the risk structure will be undertaken upon the commencement of the Group General Manager – Risk.

In light of this, the Controls Assurance Program and broader implementation of the second line of defence is delayed and cannot be considered effective at this time.

The OSM will verify the implementation of Deans Report recommendations to strengthen the risk management framework documents and will continue to monitor the implementation of the Risk Uplift Plan, including changes to the operating model. Once the plan is fully implemented, the OSM will undertake a detailed assessment to validate whether these changes have been fully and effectively implemented.

Committee operations and charters

In keeping with the recommendations made by the Finkelstein Royal Commission and the Deans Report, important reforms are required to the Board and management committees within Crown Resorts and Crown Melbourne. These reforms are intended to cover a variety of areas, including:

- amending the committee charters to clearly define the roles of particular members on Board committees, including membership, authority and key reporting lines
- reforming the day-to-day functionality of the committees, including record keeping, agendas, and meeting schedules
- creating clear lines of communication and communication protocols, both formal and informal, between the Risk Management Committee (and other bodies) and the CRO
- ensuring that the necessary independence and resources for the effective operation of the risk management function are guaranteed
- granting committees, particularly the Risk Management Committee, specific responsibility for the oversight, review and assessment of the RMS and the RAS.⁸⁶

Crown has advised that the re-design of its committees and charters has been completed to address the recommendations and expectations of the Finkelstein Royal Commission and the Deans Report. The OSM will examine how effectively these committees are functioning, including their composition, role in decision making, and monitoring of relevant risks.

⁸⁶ Peter Deans, *Expert Report on the Risk Management Frameworks and Systems of Crown Resorts Limited*, 29 June 2021, p. 36.

Internal audit function

Both the Finkelstein Royal Commission and the various reviews of Crown's risk management considered the role and operations of Crown's Audit Committees at both Crown Resorts and Crown Melbourne. Significant deficiencies were identified with the charters defining the roles of different Audit Committees, their leadership, day-to-day function, powers, membership and record keeping.

Crown has noted that the internal audit function represents the crucial third line of defence in the 3LOD framework, and has proposed reforms to improve that function. These include a number of changes to the Internal Audit Committee Charter, as well as reforms to the reporting requirements, authority and resources of the internal audit function more broadly. These reforms include:

- ensuring that the ambit and authority of the internal audit function and committee are clear, and that their authority and roles are consistent with international best practice regarding risk management, internal audit and corporate governance⁸⁷
- clearly defining the roles of particular committee members on the Internal Audit Committee, including their authority and key reporting lines⁸⁸
- reforming the day-to-day functionality of the committees, including record keeping, agendas and meetings schedules⁸⁹
- creating clear lines of communication and communication protocols, both formal and informal, between the internal audit function and the CRO, and establishing a more regular internal audit meeting and risk review schedule⁹⁰
- guaranteeing the necessary independence and sufficient resourcing for the effective operation of the internal audit function⁹¹
- empowering the Audit and Corporate Governance Subcommittee with greater oversight over internal audit matters, including ensuring that it has adequate resourcing and authority.⁹²

Most of these reforms were recommended in the Deans Report. Crown advises that these recommendations have been implemented, a matter to be verified by the OSM.

⁸⁷ Peter Deans, *Expert Report on the Risk Management Frameworks and Systems of Crown Resorts Limited*, 29 June 2021, p. 43.

⁸⁸ Peter Deans, *Expert Report on the Risk Management Frameworks and Systems of Crown Resorts Limited*, 29 June 2021, p. 43.

⁸⁹ Peter Deans, *Expert Report on the Risk Management Frameworks and Systems of Crown Resorts Limited*, 29 June 2021, pp. 38–9.

⁹⁰ Peter Deans, *Expert Report on the Risk Management Frameworks and Systems of Crown Resorts Limited*, 29 June 2021, p. 39.

⁹¹ Peter Deans, *Expert Report on the Risk Management Frameworks and Systems of Crown Resorts Limited*, 29 June 2021, p. 43.

⁹² Peter Deans, *Expert Report on the Risk Management Frameworks and Systems of Crown Resorts Limited*, 29 June 2021, p. 43.

Shareholder interests

The Finkelstein Royal Commission made several recommendations regarding the shareholding and control of Crown. These recommendations primarily relate to the permitted size of shareholdings within Crown. The key recommendation is:

No person shall have or acquire a relevant interest in 5 per cent or more of the issued capital in a casino operator or 5 per cent or more of the issued capital in the holding company or intermediate holding company of which the casino operator is a subsidiary, without the regulator's approval.⁹³

The acquisition of Crown by Blackstone Inc. is likely to result in significant changes to – and impacts on – the approach required to implement the above recommendations.

Compliance

Policy Uplift Program

Crown Melbourne employees are required to comply with around 47 enterprise-wide policies, as well as 84 subsidiary-level policies.⁹⁴ These policies cover a range of areas, including anti-money laundering and counter-terrorism financing (AML/CTF), compliance, gaming, governance, finance, risk management, employees – conduct and other, security, OH&S/guest management, procurement and technology. Crown Resorts is undertaking a Policy Uplift Program to rationalise existing policies to improve governance and compliance across its three properties.

The Policy Uplift Program is included as part of Crown's draft MRAP. Responsibility for the program has now been transferred to the Group Executive General Manager – Compliance and Regulatory Affairs under the Group CRO. The OSM understands that delivery of the program is largely outsourced to PwC. According to the current draft MRAP, the Policy Uplift Program will '[u]plift Crown's documented policies and procedures across key risk areas to ensure consistent expectations for staff, customers and stakeholders on practices to be met across the organisation'. Crown intends to consolidate policies at an enterprise level where possible. Its stated intention is that the policies should, inter alia:

- provide complete coverage of compliance obligations and key risk areas for the organisation
- describe how they support and align with Crown's values and behaviours.⁹⁵

Periodic review of policies and procedures is important to ensure they remain current, consistent and fit-for-purpose in supporting an organisation's compliance with its legal and other obligations.

In light of Crown's large number of policies, phase 1 of the Policy Uplift Program focused on understanding the existing policy environment for the Crown Group, including Crown Resorts, Crown Melbourne, Crown Sydney and Crown Perth. This resulted in the creation of an 'As-is Policy Register' and the identification of a 'target state'. Phase 2 involves developing and implementing a roadmap and prioritising the uplift of higher risk policies. Phase 2 is ongoing.

⁹³ Royal Commission into the Casino Operator and Licence, *The Report – Volume 3*, October 2021, p. 34.

⁹⁴ Crown Resorts, Policy Uplift Program, Presentation slides, May 2022, p. 2.

⁹⁵ Policy Uplift Program, Target State Policy Framework, Presentation slides, October 2021.

Compliance systems and processes

Crown's current draft MRAP indicates that it will: develop an obligations register for Crown Melbourne's obligations under the Casino Control Act, the *Gambling Regulation Act 2003* (Vic), the Casino Agreement and the Management Agreement; map key controls to these obligations; perform a control design effectiveness assessment for the identified key controls; and identify associated control gaps and weaknesses. In addition, Crown has initiated a project to substantially enhance its compliance systems and processes. The Executive General Manager–Compliance and Regulatory Affairs is developing a business case and roadmap for an enterprise-wide Compliance and Regulatory Affairs Uplift Program. This will include a targeted focus on the following elements to increase the maturity of management of compliance risk over the medium term:

- development of an overarching compliance framework: outlining the core elements of a compliance system, roles and responsibilities across the 3LOD, and undertaking a maturity self-assessment against each of the core elements
- policy uplift: continuing to progress the work in relation to the Policy Uplift Program, taking a phased approach given the breadth of the work
- obligations and controls mapping: continuing to progress the work in relation to obligations and controls mapping, taking a phased approach
- regulatory engagement policy: implementing the new policy, and setting engagement plans and protocols for key regulators
- incident management and breach reporting: implementing the new policy, and setting an incident escalation process and a breach reporting operating procedure
- compliance and regulatory affairs function: uplifting the capacity, effectiveness and capability of the function.

3.3.3 Special Manager oversight of Crown's reforms

A priority for the OSM in the first six months of operation has been to identify and understand the key risk and governance issues identified in the reports of the Finkelstein Royal Commission, the Bergin Inquiry, the Owen Royal Commission, and other key reports (such as the Deans Report and Deloitte Review). Additionally, the OSM has focused on understanding the changes that Crown has made to date, including changes to the Board and committee structure, improvements to the internal audit function, changes to the RAS and RMS and other key reform initiatives in relation to the Policy Uplift Program and Risk Uplift Plan.

While changes have been made to the Board and committee structures at both the Crown Resorts and Crown Melbourne levels to provide greater oversight of Crown's management of risk, implementation of risk improvements remains at a relatively early stage. Therefore, the OSM has not yet been able to validate whether Crown has:

- fully implemented the recommendations outlined in the Deans Report and the Finkelstein Report
- fully implemented a 3LOD risk and governance system
- completed the actions identified in the current draft MRAP and other detailed plans such as the Policy Uplift Program and the Risk Uplift Plan.

Operationalising new resources in the risk management team should expedite the progress in and timelines for implementing these critical reforms.

Given much of this work is still underway, the OSM's focus to date has been:

- assembling all current and draft versions of relevant risk framework documentation, including those still under development, to ascertain the progress made by Crown in reforming these aspects of its business
- attending various Crown Resorts and Crown Melbourne audit, risk and compliance committee meetings to monitor the nature of risk information being provided to support these committees in their risk monitoring role
- reviewing the current status of various uplift plans, particularly the Risk Uplift Plan and Policy Uplift Program, and consulting with Crown's CRO to understand the extent to which they remain current
- reviewing the current status of the 3LOD system design and assessing existing progress against previously set timelines
- understanding Crown's current compliance systems and processes, including plans to uplift the existing systems and processes.

As identified in several reports and investigations, a key priority for Crown has been to enhance its risk management framework documents including the RMS, the RAS and various committee charters. The OSM understands that the Crown Resorts Board approved changes to both the RMS and the RAS on 14 May 2022. However, further consideration is being given to the RAS metrics and risk reporting to enable the Risk Management Committee and the Board to effectively monitor and oversee the management of risk within the organisation. The final updated documents, particularly the updated RAS metrics, are expected to be submitted to the Risk Management Committee at the August 2022 meeting.

Given the relative infancy of Crown's risk management, governance and compliance reform program compared to reforms in other areas, the OSM anticipates that most analysis regarding these programs will take place during the next reporting period, and will focus on verifying the status of reforms undertaken and assessing whether they are fit-for-purpose.

3.4 Responsible service of gambling

The Finkelstein Report described Crown's conduct in relation to its responsible service of gambling (RSG) as arguably the Royal Commission's 'most damning discovery'.

The report stated:

Crown Melbourne had for years held itself out as having a world's best approach Nothing can be further from the truth. The Commission heard many distressing stories from people whose lives were ruined by gambling but whose situation might have been improved if casino staff had carried out their obligations under Crown Melbourne's Gambling Code.⁹⁶

In describing the appropriate norms of conduct for a casino operator, the Finkelstein Report stated that Crown should not exploit its customers and that it should take active measures to minimise the harm caused by gambling.⁹⁷

The Finkelstein Royal Commission made nine recommendations to minimise gambling harm, specifically concerning carded play, pre-commitments and time limits, the imposition of positive duties via the gambling code of conduct, and data collection and access. Appendix I of the Finkelstein Report also specified areas for the OSM to assess, including the effectiveness of Crown's RSG service delivery and enhancements approved by the Board in May 2021.

Following the tabling of the Finkelstein Report, in December 2021, the Crown Melbourne Board noted a draft of a Responsible Gaming Change Program (RGCP) – a proposed enterprise-wide response that seeks to align Crown's approach to RSG with its broader Culture Reform Program. The draft RGCP's stated goal is to implement 'global best practices for a casino operator of Crown's size and stature'.⁹⁸

However, RSG reform at Crown has not advanced as quickly as might have been expected, given the Finkelstein Report's strong emphasis on Crown's need to address gambling harm if it is to retain its licence. Crown has advised that the draft RGCP and the draft MRAP recently endorsed by the Crown Melbourne Board together capture the recommendations of the Finkelstein Royal Commission, the issues outlined in Appendix I and recommendations from previous external reports, but this remains to be verified by the OSM. The RGCP remains in draft form, and Crown advises that a 'reframed' document that outlines priorities and timelines is expected in late July or in August 2022.⁹⁹ Similarly, the MRAP remains in draft form.

The OSM notes that the revised RGCP will need to be clearly integrated with the MRAP and Crown's overall transformation program. In addition to outlining priorities and timelines, resourcing for key initiatives needs to be confirmed. Further, the RGCP and MRAP will need to reflect Crown Resorts' forward business strategy, bringing together corporate purpose, gambling harm minimisation and revenue generation.

The OSM acknowledges that the approach to implementing some key recommendations from the Finkelstein Royal Commission is still subject to government consideration, with a further tranche of legislative reforms expected to be introduced later this year. However, addressing the RSG-related matters set out in Appendix I and elsewhere in the Finkelstein Report does not

⁹⁶ Royal Commission into the Casino Operator and Licence, *The Report – Volume 1*, October 2021, p. 3.

⁹⁷ Royal Commission into the Casino Operator and Licence, *The Report – Volume 1*, October 2021, p. 127.

⁹⁸ Crown Resorts Limited, DRAFT – Responsible Gaming Change Program, 24 December 2021, p. 3.

⁹⁹ Crown Resorts Limited Responsible Gaming Committee, Board pack, 1 June 2022, p. 11, with dates revised further to August 2022 by the CEO in his verbal briefing to the Board.

depend on legislative change, and Crown can progress and implement reforms in this area. Crown also has an opportunity to demonstrate how it is preparing to address the matters that will be subject to further legislative change.

The OSM will monitor the finalisation of the RSG reform program (RGCP and MRAP) in the coming months and assess the program's implementation and effectiveness over the next year and a half.

3.4.1 Background

Finkelstein Royal Commission

The Finkelstein Royal Commission identified the following specific failings in Crown's efforts to minimise gambling harm:

- Crown Melbourne consistently failed to comply with its Gambling Code and Play Periods Policy, with customers gambling continuously for 12 hours or more without any observation by or interaction with staff¹⁰⁰
- support measures implemented by Crown Melbourne such as the Self-Exclusion Program and Time Out Program are not effective¹⁰¹
- voluntary pre-commitment under the YourPlay scheme has not been successful¹⁰²
- to a significant extent, staff encouraged customers towards high-risk gambling (for example, not discouraging the use of picks or the play of multiple machines),¹⁰³ rarely asking them to take breaks, and perhaps even discouraging them from self-excluding¹⁰⁴
- many customers engaging in risky gambling escaped attention¹⁰⁵
- marketing promotions and the loyalty program encouraged gambling by rewarding high-turnover customers,¹⁰⁶ and one program directly targeted vulnerable or financially constrained people¹⁰⁷
- Crown Melbourne has been reluctant to support research into and evaluation of gambling harm, including independent research.¹⁰⁸

The Finkelstein Report noted the then regulator had raised concerns with Crown Melbourne regarding its approach to harm minimisation. These concerns included poor use of data and lack of measurement of outcomes, inadequate staffing levels, inadequate engagement with people who may be experiencing gambling harm, and an almost exclusive reliance on observable signs of harm and people self-identifying as experiencing harm.¹⁰⁹ The concerns raised were not actively addressed until very recently.

¹⁰⁰ Royal Commission into the Casino Operator and Licence, *The Report – Volume 2*, October 2021, p. 22.

¹⁰¹ Royal Commission into the Casino Operator and Licence, *The Report – Volume 2*, October 2021, pp. 22–3.

¹⁰² Royal Commission into the Casino Operator and Licence, *The Report – Volume 2*, October 2021, p. 40.

¹⁰³ Royal Commission into the Casino Operator and Licence, *The Report – Volume 2*, October 2021, p. 44. Note that this conduct is now prohibited under Rules 9 and 10 *Victorian Gambling and Casino Control Commission Gaming Machine Rules (Casino)* issued on 28 April 2022.

¹⁰⁴ Royal Commission into the Casino Operator and Licence, *The Report – Volume 2*, October 2021, p. 43.

¹⁰⁵ Royal Commission into the Casino Operator and Licence, *The Report – Volume 2*, October 2021, p. 45.

¹⁰⁶ Royal Commission into the Casino Operator and Licence, *The Report – Volume 2*, October 2021, pp. 47–8.

¹⁰⁷ Royal Commission into the Casino Operator and Licence, *The Report – Volume 2*, October 2021, p. 48.

¹⁰⁸ Royal Commission into the Casino Operator and Licence, *The Report – Volume 2*, October 2021, p. 49.

¹⁰⁹ Royal Commission into the Casino Operator and Licence, *The Report – Volume 2*, October 2021, p. 55.

The Finkelstein Royal Commission made nine recommendations relevant to gambling harm minimisation:

- two recommendations specifically targeted at dealing with gambling harm:
 - the imposition of time and spending limits, by mandating the YourPlay pre-commitment system for Australian residents gambling on electronic gaming machines (EGMs) at the Melbourne casino (recommendation 10)
 - the making of a new Ministerial Direction that would require the casino operator to supervise the gaming floor more effectively by imposing positive duties on the operator (recommendation 11)
- four recommendations to facilitate data collection to support research into gambling harm, and the evaluation of gambling products and programs, including the establishment of an independent gambling data committee (recommendations 9, 12, 13 and 14)
- three anti-money laundering recommendations also relevant to gambling harm minimisation: improved identification, carded play and cashless play (recommendations 1, 2 and 3).

Bergin Inquiry

Because Crown's Sydney casino was not operational at the time, the Bergin Inquiry did not address RSG specifically. However, its terms of reference asked it to inquire into 'the efficacy of the primary objects under the Casino Control Act [1992 (NSW)] in an environment of growing complexity of both extant and emerging risks for gaming and casinos'.¹¹⁰ These primary objects include 'containing and controlling the potential of a casino to cause harm to the public interest and to individuals and families'.¹¹¹

The NSW Government's response to the Bergin Inquiry noted the government would 'continue to monitor the current casino Royal Commissions in Victoria and Western Australia and consider any proposals for regulatory reform recommended by those inquiries, including stronger gambling harm minimisation measures'.¹¹²

As evidence emerged from the Finkelstein Royal Commission, ILGA requested Kroll, the independent monitor of Crown Sydney, to extend its work plan to specifically consider RSG in its assessment of whether Crown had made sufficient progress to enable VIP gaming operations to commence at the Sydney casino (phase 1 of the monitorship). Kroll will continue to monitor RSG matters as part of its ongoing assessment of Crown's reform program (phase 2 of the monitorship) and Crown's progress on the ARAP, which includes RSG initiatives.

The OSM will look to work closely with Kroll on matters of common interest to both the Sydney and Melbourne casinos, such as assessing the effectiveness of the approved RGCP in preventing and reducing gambling harm in relation to VIP customers.

¹¹⁰ Terms of Reference, Inquiry by the Honourable Patricia Bergin SC under section 143 of the *Casino Control Act 1992* (NSW).

¹¹¹ *Casino Control Act 1992* (NSW), s 4A(1).

¹¹² NSW Government, *NSW Government response to Bergin Inquiry*, Media Release, 18 August 2021 (accessed at www.nsw.gov.au/media-releases/nsw-government-response-to-bergin-inquiry on 2 June 2022).

Owen Royal Commission

The Owen Royal Commission found Crown failed to operate in a socially responsible manner by prioritising profit over minimising the risk of gambling harm.¹¹³

Consistent with the Finkelstein Report, the Owen Report highlighted failures in Crown's approach to harm minimisation, including inadequate resourcing of the RSG function, and deficiencies in the design and enforcement of both the Play Periods Policy and the RSG Code of Conduct.¹¹⁴ It also noted the difficulties in relying exclusively on observable signs to detect harmful gambling¹¹⁵ as opposed to also collecting and using data and data algorithms.

The Owen Royal Commission assessed the reasonableness of Crown's actions in relation to minimising gambling harm. The report stated that in considering whether an initiative is a reasonable one to minimise harm, it would be necessary to consider at least:

- the prevalence and severity of the harm or risk of harm
- the burden the initiative imposes on the licensee – in terms of cost of implementation, physical resourcing and management, and business or financial impacts
- the likely efficacy of the initiative, considered alone and having regard to other harm minimisation strategies or steps that are in place or proposed, noting that lack of evidence should not prevent action, as the public health precautionary principle¹¹⁶ should always be applied
- the impact the initiative has on the recreation and enjoyment of those who gamble without experiencing harm.¹¹⁷

The Owen Royal Commission made numerous recommendations regarding RSG, including:

- that the licensee be required to introduce a full, mandatory, binding loss pre-commitment and play period limits scheme for EGM play at Perth Casino as soon as practicable (noting Crown's monopoly in the provision of EGMs in Western Australia)¹¹⁸
- that the licensee be directed to collect key player data, to the extent practicable¹¹⁹
- that access to data be provided to independent researchers through an independent advisory body.¹²⁰

It also recommended that Crown require customers to provide evidence of financial capacity upon applying for membership of the Pearl Room (a 'high roller' room) and at further intervals (to be determined by the regulator).¹²¹

¹¹³ Perth Casino Royal Commission, *Final Report – Volume III*, March 2022, p. 684.

¹¹⁴ Perth Casino Royal Commission, *Final Report – Volume III*, March 2022, p. 672.

¹¹⁵ Perth Casino Royal Commission, *Final Report – Volume III*, March 2022, p. 674.

¹¹⁶ That is, 'where there is a risk of serious harm, lack of full scientific certainty should not be used as a reason to postpone measures to prevent or reduce that harm' (Perth Casino Royal Commission, *Final Report – Volume III*, March 2022, p. 703); see also *Public Health and Wellbeing Act 2008* (Vic), s 6.

¹¹⁷ Perth Casino Royal Commission, *Final Report – Volume III*, March 2022, p. 703.

¹¹⁸ Perth Casino Royal Commission, *Final Report – Volume III*, March 2022, pp. 704–5.

¹¹⁹ Perth Casino Royal Commission, *Final Report – Volume III*, March 2022, p. 706.

¹²⁰ Perth Casino Royal Commission, *Final Report – Volume III*, March 2022, pp. 706–7.

¹²¹ Perth Casino Royal Commission, *Final Report – Volume III*, March 2022, pp. 707–8.

The Owen Report, which was tabled in March 2022, noted Crown had taken, and continued to take, some enterprise-level action to reform its harm minimisation function following the tabling of the Finkelstein Report, including dedicating more senior resources to the function and the development of the RGCP (discussed further in section 3.4.2).¹²²

However, it raised concerns about the adequacy of resourcing, querying whether the mandate of the then Chief Compliance and Financial Crimes Officer (CCFCO, now Chief Risk Officer) was too extensive, given his responsibility for gambling harm minimisation and financial crime.¹²³ It also noted there was a six-month period between October 2021 and March 2022 during which there was no executive lead for the RSG function.

In addition the Owen Report acknowledged the establishment of the Responsible Gambling Advisory Panel (RGAP) in 2019, but recommended that Crown consider limited tenure for members to ensure the panel's independence. The shifting composition of the panel would also enable 'lively and ongoing debate' on the different approaches to harm minimisation.¹²⁴

The OSM notes Crown's stated intentions to evolve the RGAP and support an independent gambling data committee, but also notes that these are not yet fully and clearly addressed in the draft RGCP and current draft MRAP.

3.4.2 Crown's responsible service of gambling reform work

Crown's preliminary work

Following the commencement of the Finkelstein Royal Commission in February 2021, Crown took steps to improve its approach to RSG, including:

- creating a new Executive General Manager – Responsible Gaming role (filled by Dr Jamie Wiebe, who commenced in late March 2022) to drive a focus on customer health and wellbeing
- extending the responsibility of the then CCFCO (Mr Steven Blackburn) to include the RSG
- implementing clearer governance processes, including having an RSG update as a standing item at both enterprise and property-level Board and committee meetings
- developing and implementing RSG enhancements that the Crown Board endorsed in May 2021
- starting work on the enterprise-wide draft RGCP, which was presented to the Crown Melbourne Board in December 2021 and the Crown Resorts Responsible Gaming Committee in February 2022, and provided to the VGCC and VRGF in January 2022 for consultation and feedback (see section 3.4.2 below)
- capturing the Melbourne-specific RSG initiatives in the current draft MRAP (see section 3.4.2 below).

Although these actions are welcome, as noted earlier, Crown's work in relation to RSG and harm minimisation reform at the Melbourne casino has not advanced quickly.

¹²² Perth Casino Royal Commission, *Final Report – Volume III*, March 2022, p. 695.

¹²³ Perth Casino Royal Commission, *Final Report – Volume III*, March 2022, p. 695.

¹²⁴ Perth Casino Royal Commission, *Final Report – Volume III*, March 2022, p. 684.

Between October 2021 and March 2022, there was no person in the role of Executive General Manager – Responsible Gaming to lead this important work from an enterprise-wide perspective, and specifically in relation to Melbourne, where most of the legacy RSG issues reside and much of the reform effort needs to be directed. Crown has advised this was due to delays in the recruitment and onboarding (including visa processes) of Dr Wiebe.

Responsible Gaming Change Program

Crown’s enterprise-wide draft RGCP of 24 December 2021 has as its objective ‘to enhance Crown’s approach to responsible gaming with the goal of implementing global best practices for a casino operator of Crown’s size and stature’.¹²⁵

The draft RGCP outlines proposals for ‘enhancing and uplifting Crown’s approach to the management of gaming-related harm and problem gaming’,¹²⁶ and has been prepared to reflect issues identified through workshops led by Crown’s Responsible Gaming team, through consultation with the RGAP and through the hearings, outcomes and recommendations of the various commissions of inquiry (excluding Perth to date).

The draft RGCP comprises five key components, each incorporating various initiatives.¹²⁷ These appear broadly consistent with the initiatives outlined in the current draft MRAP. A high-level summary of the five components is highlighted in Figure 5.

Figure 5. Summary of the five key components of the draft RGCP



¹²⁵ Crown Resorts Limited, DRAFT – Responsible Gaming Change Program, 24 December 2021, p. 1.

¹²⁶ Crown Resorts Limited, DRAFT – Responsible Gaming Change Program, 24 December 2021, p. 1.

¹²⁷ Crown Resorts Limited, DRAFT – Responsible Gaming Change Program, 24 December 2021, p. 5.

In summary, the draft RGCP refers to:

- developing appropriate risk assessment processes to reduce and prevent gambling harm
- focusing on evaluation to measure success and improve outcomes
- sharing research and data
- more actively promoting exclusion options
- increasing knowledge and training among staff
- strengthening referral pathways for those seeking treatment and support to address gambling harm.

The OSM agrees with the Owen Report assessment that the draft RGCP is a substantive attempt to formulate a strategic and systemic approach to harm minimisation, reflecting significant effort over several months, but that ‘there remains significant uncertainty as to what changes will ultimately result ... and when those changes might be implemented’.¹²⁸

The OSM also concurs with the combined feedback provided to Crown by the VGCCC and VRGF in May 2022, including the need for the RGCP to:

- more directly address the matters raised in the Finkelstein Report
- establish additional benchmarking to best-practice harm minimisation and a public health approach to harm minimisation, using the Finkelstein Report as a starting point (discussed further in section 3.4.3)
- avoid stigmatising language
- set measurable outcomes and success indicators that demonstrate a reduction in harm and risk of harm occurring at the Melbourne casino
- show a clear orientation to commissioning independent research and sharing the methodology and findings of Crown’s own research.¹²⁹

Melbourne Remediation Action Plan

The current draft MRAP contains an updated and detailed list of RSG initiatives that broadly align with the draft RGCP, are Melbourne-specific and more directly address the matters raised in the Finkelstein Report.

The timelines appear aspirational, however, as prioritisation of initiatives in the MRAP and resourcing are yet to be confirmed. Crown is also yet to establish how the MRAP connects and aligns to an integrated transformation program.

It is also unclear at this stage whether the issues identified and recommendations made in the Finkelstein Report have been fully and appropriately addressed.

Despite these reservations, the MRAP does provide the most recent status update on the various initiatives that are already underway, and the OSM will verify this progress over the coming months.

¹²⁸ Perth Casino Royal Commission, *Final Report – Volume III*, March 2022, p. 699.

¹²⁹ Victorian Gambling and Casino Control Commission, Feedback on the Crown Casino Responsible Gambling Change Program, correspondence between the VGCCC and Crown Resorts Limited, 2 May 2022.

3.4.3 Special Manager’s oversight of responsible service of gambling reform

The Finkelstein Report requires the Special Manager to examine:

- whether Crown is conducting its casino operations in a manner that has regard to the best operating practices in casinos of a similar size and nature to the Melbourne casino
- whether Crown has revised its RSG practices to take account of the concerns highlighted in the Finkelstein Report
- whether Crown has adopted policies, processes and structures that will enable it to comply with its current RSG Code of Conduct, or is complying with its RSG Code of Conduct (with an emphasis on the Play Periods Policy)
- the effectiveness of:
 - RSG services provided, including the adequacy of staff training, staff numbers and program funding
 - Crown’s various exclusion programs
 - the RSG enhancements approved by Crown’s Board in May 2021.¹³⁰

A priority for the OSM in this first reporting period has been to liaise with Crown regarding the development of its RSG reform program (the RGCP and MRAP) and the status of the various initiatives that are underway. The OSM has also undertaken some preliminary work on identifying best-practice gambling harm minimisation approaches.

Responsible service of gambling best practice

The Finkelstein Report asked the Special Manager to consider whether the Melbourne casino operator is conducting itself having regard to ‘best operating practices in casinos of a similar size and nature’.¹³¹ This framing is reflected in the objective of Crown’s draft RGCP, namely to implement international best practice in relation to RSG.

What constitutes best operating practices in the safe delivery of gambling activities is contested. Industry, governments, experts, customers and communities hold a range of views about how to address the risks – and limit the disruption to those who gamble without harm.

Globally, as the impacts of gambling harm are becoming better understood, there has been a shift away from considering an informed consent model¹³² (which focuses on reducing problem gambling and places the onus on customers to ‘gamble responsibly’) sufficient, towards a public health approach¹³³ and broader harm minimisation strategies (which focus on minimising the risk of harm from a population perspective – that is, preventing harm – and place the onus on industry and government, as well as customers), similar to modern regulatory approaches to alcohol and drugs.¹³⁴

¹³⁰ Royal Commission into the Casino Operator and Licence, *The Report – Volume 1*, October 2021, pp. 10–11 (recommendation 22) and *Volume 3*, p. 139 (Appendix I).

¹³¹ Royal Commission into the Casino Operator and Licence, *The Report – Volume 1*, October 2021, p. 13.

¹³² A Blaszczyński, R Ladouceur and HJ Shaffer, ‘A Science-Based Framework for Responsible Gambling: The Reno Model’, *Journal of Gambling Studies*, 20 (3), 2004.

¹³³ See, for example, ‘Editorial – Gambling: A Neglected Public Health Issue’, *The Lancet Public Health*, 6(1), 2021; A Price, M Hilbrecht and R Billi, ‘Charting a path towards a public health approach for gambling harm prevention’, *Journal of Public Health*, 29, 2021.

¹³⁴ See, for example, Commonwealth of Australia (Department of Health), *National Drug Strategy 2017–2026* and McMahon, N., et al, ‘Effects of prevention and harm reduction interventions on gambling behaviours and gambling related harm: An umbrella review’, *Addictive Behaviours*, 90, 2019.

Internationally, some casinos have adopted broader harm minimisation measures,¹³⁵ and New Zealand has legislated a public health approach in its *Gambling Act 2003*.

In Victoria, a public health approach to gambling harm is reflected in recent legislation introduced to embed harm minimisation as a core objective of the VGCCC¹³⁶ and is a key component of the VGCCC's June 2022 statement of expectations to both Crown and Blackstone Inc.,¹³⁷ which in turn reflects the Finkelstein Report. The approach was previously endorsed by the Victorian Auditor-General's Office in its 2021 performance audit, *Reducing the Harm Caused by Gambling*.¹³⁸ The approach has also been adopted by some other Australian jurisdictions.¹³⁹

Recognising the prevention of gambling harm as a shared responsibility between industry, government and community stakeholders leads to a greater emphasis on RSG, including an active consideration of customer and community health and wellbeing as part of the casino operator's social licence to operate.

The OSM has had preliminary discussions with Crown, including with the Executive General Manager – Responsible Gaming, about its proposed approach to RSG moving from the current primarily reactive/compliance-driven model to a more innovative, industry-leading approach, which focuses on evidence-based ways to improve customer health and wellbeing outcomes, and minimise gambling harm. The Executive General Manager has also signalled her intention to conduct research among Crown Resorts staff to identify any staff with potential gambling harm issues and to put systems in place to address these.

The OSM welcomes Crown's desire to innovate and lead industry practice in RSG, and acknowledges the critical interdependency with Crown's transformation and culture change programs. Crown's successful transition to best practice in gambling harm minimisation is reliant on the success of the change programs and, in turn, an enhanced focus on harm prevention will be important evidence of the success of those programs.

The OSM will also look for Crown's finalised RSG reform program to be underpinned by a people-centred 'know your customer' approach, noting that analysis of a casino's customer base is important to manage risks for various sub-populations; for example, by:

- ensuring customers know the risks of gambling (for example, through appropriate communication and education for culturally and linguistically diverse, and other, communities)
- considering whether customers are limited in how much they can afford to gamble (for example, in marketing to VIP customers)

¹³⁵ For example, SkyCity Auckland (<https://skycityauckland.co.nz/about-us/host-responsibility>) and the British Columbia Lottery Corporation (BCLC) (<https://corporate.bclc.com/player-health/our-ambition.html>).

¹³⁶ The Hon. Melissa Horne, *Delivering stronger powers to regulate gambling*, Media Release, Victorian Government, 24 May 2022 (accessed at www.premier.vic.gov.au/delivering-stronger-powers-regulate-gambling on 2 June 2022); proposed section 8A(b) in the Casino and Liquor Legislation Amendment Bill 2022 (Vic).

¹³⁷ Recital G, Crown Major Change Approval Deed Poll dated 9 June 2022 and Blackstone Major Change Approval Deed Poll dated 9 June 2022.

¹³⁸ Victorian Auditor-General's Office, *Reducing the Harm Caused by Gambling*, Independent assurance report to Parliament 2020–21, March 2021.

¹³⁹ See, for example, Queensland Government, *Gambling Harm Minimisation Plan for Queensland 2021–2025*, July 2021; ACT Gambling and Racing Commission, *Strategy for Gambling Harm Prevention in the ACT: A Public Health Approach 2019–2024*, 2019.

- understanding customer risk tolerance (for example, this may be higher for those from a wealth-based gambling culture)
- enabling help seeking (for example, by breaking down language and cultural barriers).

A people-centred approach will also require tailored approaches to RSG across Crown's three Australian properties, given the significant differences between these three properties and the regulatory environments in which they operate.

Crown Melbourne has been operating since 1994 and primarily services the mass market, including through 2,628 EGMs, 1,000 of which operate in unrestricted mode. By comparison, Crown Sydney is a greenfield site, primarily designed to service VIP customers (73 per cent) through table games, with an intention to operate only 70 EGMs. Crown Perth is the only EGM operator in Western Australia and has 2,500 EGMs in restricted mode.

Further, the OSM notes that adopting an integrated customer-centred approach that focuses on preventing harm may prompt Crown to consider reform initiatives that would benefit other key business areas (such as financial crime), and could also lead to broader organisational and cultural benefits by helping to break down silos and foster more collaborative ways of working across teams and functions. For example, Crown could consider embedding preventative approaches into whole-of-business staff training and staff key performance indicators, and through integrated IT (and other) systems and policies.

3.5 Financial crime

The Finkelstein Royal Commission, the Bergin Inquiry and the Owen Royal Commission each revealed that Crown had failed to prevent financial crime, with money laundering having occurred across Crown casinos in Melbourne, Sydney and Perth.

As a result of the three commissions of inquiry, Crown is required to implement a significant change program to ensure that its financial crime risks are appropriately identified, mitigated and managed. To this end, Crown has developed and commenced implementation of a Board-approved FCCCP, which aims to minimise the risk of Crown being subject to money laundering, terrorism financing or other financial crimes, and ensure that Crown meets its obligations under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth)*, the *Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007 (No. 1) (Cth)* and state-based casino control legislation.

Crown has advised the OSM that the FCCCP and the current draft MRAP document actions to address the relevant recommendations of the Finkelstein Royal Commission, together with the recommendations from various external reports commissioned by Crown over the past two years, as outlined in Appendix I of the Finkelstein Report.

In the first six months of operation, the OSM has reviewed the FCCCP and the current draft MRAP against the recommendations and requirements of the Finkelstein Royal Commission, including relevant external reports and Crown's commitments register. The Special Manager is satisfied that all recommendations and requirements are incorporated across these two documents.

Going forward, the Special Manager is required to evaluate a range of matters pursuant to Appendix I of the Finkelstein Report. This includes Crown's implementation of the FCCCP and the recommendations made in various external reports, the effectiveness of the Joint AML/CTF Program, the adequacy of its resourcing and an assessment of whether Crown Melbourne's Board effectively oversees the AML/CTF Program. The OSM will evaluate whether the changes are embedded and effective.

Pursuant to Appendix I, Crown was required to undertake a comprehensive risk assessment process to identify all customer, product, channel and jurisdictional risks to ensure its AML/CTF Program is addressing all relevant risks. A risk assessment was endorsed by Crown's Board in December 2021. The OSM understands Crown is continuing to develop its risk assessment. Monitoring Crown's work in this area will be a priority for the Special Manager.

The Special Manager recognises that Crown has made significant progress in improving its AML/CTF framework. For example, to deliver the FCCCP, it has recruited experienced leaders in the AML/CTF field who are supported by a better-resourced FC&C team.

However, the Special Manager notes that a considerable amount of further work must be undertaken by Crown to meet the recommendations and requirements of the Finkelstein Report. The OSM has also identified a number of critical risks that may impact Crown's ability to successfully implement the FCCCP, including the complexity of the change program and challenging timelines. Crown will need to be alert to these risks.

3.5.1 Background

Finkelstein Royal Commission

The Finkelstein Royal Commission found that Crown Melbourne:

- facilitated money laundering through the bank account of its subsidiary, Southbank Investments Pty Ltd (the Southbank account).
- failed to investigate warnings about potential money laundering through the Southbank account over many years
- failed to investigate media allegations of money laundering through the Southbank account for 14 months, until the Bergin Inquiry was established and it became untenable not to act
- was slow to take reasonable steps after receiving external reports in mid-2021 highlighting concerns with the Southbank and Riverbank accounts, and failed to promptly review whether to continue to provide services to customers suspected of money laundering
- provided many of its external experts with limited instructions, with a view to the experts producing reports that were limited in their scope and therefore more favourable to Crown
- was not candid during the Bergin Inquiry regarding reviews performed by Grant Thornton and Initialism (external advisory firms) of transactions on the Southbank and Riverbank accounts
- did not have sufficiently robust systems to detect and deter money laundering and other forms of financial crime, and was uncertain if and when it would have such systems.

The Finkelstein Royal Commission made eight recommendations to reduce the risk of money laundering. The recommendations concerned junkets, carded and cashless play, the proper identification of customers, single patron bank accounts, enhanced cooperation with law enforcement agencies and retention of surveillance footage.

Bergin Inquiry

The Bergin Inquiry found that Crown was aware, as early as 2014, that criminal proceeds were likely being laundered through the Southbank and Riverbank accounts. Despite this, Crown did not investigate or take any other steps to prevent money laundering (except by directing customers to stop structuring transactions to avoid reporting requirements) until after the media reported allegations about the Southbank and Riverbank accounts, and the Bergin Inquiry was established.¹⁴⁰

¹⁴⁰ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 98.

The Bergin Inquiry also considered the operation of junkets and the way they facilitated money laundering. The Bergin Inquiry found:

- Crown's processes for vetting its junket partners were ill-defined and inadequate¹⁴¹
- Crown did not take sufficient, or sufficiently timely action to terminate its relationships with junket operators alleged to have links to organised crime¹⁴²
- Crown favoured profits generated by junkets over conducting robust due diligence on its junket partners.¹⁴³

Both Crown Resorts and Crown Melbourne accepted the findings of the Bergin Inquiry.

Owen Royal Commission

The Owen Royal Commission identified that Crown Perth had failed to implement an effective AML program, had facilitated money laundering through the Riverbank accounts and had permitted junkets with links to criminals to operate at Perth Casino.

The Owen Royal Commission made 59 recommendations, many of which are similar to the AML/CTF recommendations of the Finkelstein Royal Commission and the Bergin Inquiry, taking into consideration Crown Perth's operating environment.

3.5.2 Crown's implementation of the Financial Crime and Compliance Change Program

In May 2021 Crown commenced implementation of the FCCCP, a substantial reform program targeted at managing and mitigating financial crime risk.

The stated purpose of the FCCCP is to enhance and evolve Crown's approach to financial crime prevention and compliance. It aims to move Crown to an 'advanced' state of maturity in these activities, and in meeting its regulatory obligations.

The FCCCP includes core elements of AML/CTF regulatory requirements in relation to capability and capacity, oversight, training, roles and responsibilities, controls, systems and data. Its main components are:

- money laundering/terrorism financing risk assessment
- transaction monitoring and reporting
- AML/CTF training implementation
- customer/product uplift
- ongoing customer due diligence
- people and governance
- Policy Uplift Program
- financial crime obligations and controls
- governance, risk and compliance tool (GRC)
- supplier due diligence.

¹⁴¹ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 98.

¹⁴² Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 98.

¹⁴³ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 98.

The FCCCP outlines significant remediation milestones to be achieved by December 2022, with the remaining milestones to be reached by December 2023.

Crown is engaging with AUSTRAC regarding Crown's progress in implementing the FCCCP and in meeting ongoing AML/CTF Program compliance requirements. The OSM understands that Crown and AUSTRAC are meeting at least once a quarter to discuss the progress of the FCCCP and other compliance matters of interest or concern.

The OSM notes the importance of Crown's ongoing engagement with AUSTRAC to support and inform effective implementation of its reform program. The OSM will continue to meet with AUSTRAC on a regular basis over the next 18 months.

Below is a summary of the Special Manager's current understanding of Crown's key work under the FCCCP and other work underway to address issues identified in the Finkelstein Report.

Money laundering/terrorism financing risk assessment

An enterprise-wide risk assessment was presented to the Board in December 2021. This assessment included a comprehensive assessment of money laundering and terrorism financing risks by Crown's Designated Business Group (DBG) which consists of Crown Melbourne, Crown Sydney and Crown Perth. Concurrently, the Board formally approved a revised Joint AML/CTF Program. This arrangement allows each relevant Crown entity to share the administration of some or all of its AML/CTF obligations, although each entity is ultimately responsible for meeting its own obligations.

Crown developed an AML/CTF RAS that was approved by the Crown Resorts Risk Management Committee in March 2022. This forms part of Crown's broader Risk Uplift Plan. As part of this plan, Crown is introducing risk measures and metrics.

In December 2021, Crown engaged external consultants Exiger to conduct an independent review of Part A of its Joint AML/CTF Program in line with Part 9.6 of the AML/CTF Rules Instrument 2007 (No. 1). The review examined seven elements of Crown's program: governance, risk assessment, policies and procedures, employee due diligence, training, customer due diligence and reporting, and transaction monitoring. The period under review was 1 January to 31 December 2021. Exiger's final report was delivered on 31 March 2022.

Exiger's overall assessment was that Crown's Joint AML/CTF Program was at a 'foundational' state of maturity, with the seven elements appearing to meet the requirements of the AML/CTF Act and the AML/CTF Rules Instrument 2007 (No. 1). However, Exiger stated that to achieve a more advanced state, Crown would need to implement all required improvements under the FCCCP.

Exiger made 45 recommendations, each of which was the subject of a formal management response from Crown. Crown has designated completion dates for the Exiger report recommendations spanning the period April 2022 to July 2023. The OSM will monitor the timely implementation of these recommendations.

Transaction monitoring and reporting

A transaction monitoring program (TMP) is a requirement under Part A of an AML/CTF Program. It assists an organisation to:

- identify, mitigate and manage money laundering and terrorism financing (ML/TF) risk
- identify and report suspicious matters to AUSTRAC
- meet ongoing customer due diligence (OCDD) and enhanced customer due diligence (ECDD) obligations.

An organisation must allocate appropriate resources and priority to analysing and actioning alerts raised by transaction monitoring.

A TMP must be based on a risk assessment and must define the processes followed to identify suspicious customer transactions.

Failure to monitor transactions can have serious flow-on effects to other AML/CTF processes, such as Suspicious Matter Reporting (SMR), ECDD and the ongoing identification of ML/TF risks.

Crown is currently working to strengthen its transaction monitoring by developing a future state transaction monitoring governance framework that incorporates transaction monitoring, ML/TF risk coverage and a detection design strategy. To date, Crown has:

- rolled out an automated TMP through Sentinel. Sentinel is part of Crown's baseline transaction monitoring function and has two relevant features:
 - it automatically monitors and alerts for unusual transactions
 - it allows Crown to view a 'customer intelligence' dashboard, which provides a summary of the customer's profile and their gaming and transaction activity

Crown also intends to implement a system to support advanced behavioural-based analysis

- established a financial crime Transaction Monitoring Council, the primary function of which is to oversee Crown's TMP, including data, systems, rules and alerts, and to provide reporting to key stakeholders
- increased resources within the Transaction Monitoring team from five to 33 FTE staff, including 13 contractors and or secondments
- as part of the transaction monitoring governance uplift, developed and implemented dashboard reporting.

The OSM's initial observations in regard to Crown's transaction monitoring and reporting systems are that foundational components, which form part of a robust transaction monitoring system, are being enhanced or developed and, in some instances, have been implemented. However, there is a significant amount of work to be completed by newly recruited staff, who need time to acquaint themselves with casino-specific issues and risks.

In addition, a comprehensive training program is required for frontline teams, which currently raise the majority of alerts; that is, outside of the automated process. Given Crown's size, nature and complexities, it needs to refine existing IT systems and implement automated systems more broadly to reduce the need for manual processes.

The OSM will evaluate and test Crown's transaction monitoring framework and the implementation of its various components in the next reporting period.

Anti-money laundering/counter-terrorism financing training implementation

As part of business-as-usual improvements, Crown is developing fit-for-purpose AML/CTF training programs for all employees, covering regulatory and industry requirements. In addition, as part of the FCCCP, it expects to complete a data-driven training needs analysis by September 2022. Different aspects of this needs analysis, including the plan, content, assessment and processes, are in various stages of development or implementation.

Crown is also developing a training program for senior management in the Financial Crime Working Group (FCWG).

It continues to update and deliver existing training modules whilst the broader framework is developed.

Currently, there are three broad components to Crown's AML/CTF training program:

- an annual online AML/CTF awareness training module, delivered to all staff
- tailored role-based training for FC&C staff and other relevant personnel
- tailored awareness training specifically designed for Board members, completed in March 2021 by existing Board members and in October 2021 by new Board members.

Crown has reported internally that as at 30 April 2022, around 96 per cent of all Melbourne staff have undertaken both the initial and refresher AML/CTF risk awareness online training.

It is too early for the OSM to express any preliminary views on the implementation of Crown's AML/CTF awareness training. A comprehensive review of the program will be undertaken in early 2023 and will evaluate Crown's reported completion rates.

Customer/product uplift

Crown is developing and enhancing critical AML/CTF controls within the first line business to address identified vulnerabilities and achieve continuous improvement. Enhancements include new customer verification systems and cash interactions with products and services offered enhancements, for example:

- Crown Melbourne has completed a feasibility assessment for a high credit balance limit on EGMs and electronic table games. As a result, Crown Melbourne plans to introduce an EGM and an electronic table game uncarded high credit balance limit of \$2,000 (the high credit balance limit for carded players will remain at \$9,899). The OSM understands that this change is due to be implemented in the second half of 2022, subject to development, internal and authorised facilitated testing and VGCCC approval. Further, these changes may later be subsumed as the business moves to mandatory carded play.
- Crown Melbourne has also rolled out enhanced controls over peer-to-peer poker, including requirements for all poker players to be carded, and for players' time in and out, and chips in and out to be recorded. These controls are designed to assist in identifying ML/TF typologies, including collusive behaviour.

The OSM's view is that there is significant further work to be undertaken in this area. Monitoring this work will be a focus for the OSM during the next reporting period.

Ongoing customer due diligence (including Project DeLorean)

To identify and mitigate ML/TF risk, strong OCDD processes are required. This includes developing and implementing an ECDD program and a TMP as required in Part A of the Joint AML/CTF Program.

Know your customer (KYC) procedures must be documented in Part B of the AML/CTF Program, which is a regulatory requirement.

Subject to the exemptions set out in the AML/CTF Rules Instrument 2007 (No. 1), the AML/CTF Act explicitly prohibits reporting entities from providing a designated service if customer identification procedures have not been performed.

Crown conducted re-screening of its international Politically Exposed Persons¹⁴⁴ population. This enabled Crown to identify potential high-risk customers and to proactively apply additional controls. Crown's position is that this assessment has been completed and Crown either exits the customer or, after completing ECDD, seeks relevant senior manager approvals before lifting stop codes and allowing the customer to return to Crown casinos.

Crown is undertaking a capability uplift to apply ECDD to new customers in Crown Sydney and existing Melbourne and Perth high-risk customers. This uplift has commenced in Sydney but is yet to be rolled out in Melbourne and Perth.

In October 2021, Crown commenced Project DeLorean, a comprehensive risk-based investigation of historical transactions and associated customers identified by the Deloitte (Hotel Card Transaction and phase 2), Initialism and McGrathNicol expert reports.¹⁴⁵ Its purpose is to enable Crown to:

- better understand the precise nature of the historical activity, taking into consideration the customers' gaming activity and other pertinent information
- determine whether any AUSTRAC SMR obligations arise, and ensure those obligations are met where relevant
- assess whether Crown should continue its relationship with specific customers based on the investigation findings and the ECDD activities completed.

Project DeLorean also utilises ECDD processes in assessing the suitability of identified customers for an ongoing relationship.

Eight FTE staff resources are currently allocated to this project.

At the commencement of Project DeLorean, 2,014 cases required investigation. As at 31 May 2022, 1,284 cases had been completed. The customers who were the target of these investigations were assessed by Crown as being the highest risk. As at 31 May 2022, this work had resulted in 273 SMRs being submitted to AUSTRAC.

As at 31 May 2022, 730 cases remain open. The remaining investigations are due to be completed by July 2022.

¹⁴⁴ A PEP is an individual who holds a prominent public position or role in a government body or international organisation, either in Australia or overseas. Immediate family members and/or close associates of these individuals are also considered PEPs.

¹⁴⁵ Deloitte Phase 2 – Forensic Review (Phase 2); and Deloitte – Hotel Card Transactions (HCT); Initialism – Review of Riverbank and Southbank bank accounts for indications of Money Laundering; and McGrathNicol – Royal Commission into Casino Operator and Licence, Forensic review – AML/CTF are independent expert reports commissioned by Crown in October 2021, November 2021, November 2020 and July 2021 respectively.

The stop code process has been applied to Project DeLorean customers pending the outcome of the investigations. This will mitigate the risk of those customers engaging in gaming activity in Crown casinos until their suitability as ongoing customers is assessed.

The OSM views KYC and ECDD processes as being critical to an effective and compliant financial crime program, and fundamental to the broader integrity of the casino's operations. As with many other aspects of Crown's reform program, there is significant further work to be done in this area.

The OSM will complete an evaluation of Project DeLorean and its outcomes in the next reporting period.

People and governance

Crown established an FC&C function in May 2021 with a direct reporting line to the Crown Resorts Board and CEO, and each Crown entity Board within the DBG. The Financial Crime team continues to report to the Board(s), Crown Resorts Risk Management Committee, FCWG and Financial Crime Oversight Committee. Since then, FC&C has been subject to ongoing review and refinement, particularly in relation to its resourcing. The key enhancements advised by Crown are:

- a new Chief Compliance and Financial Crime Officer with a strong banking and finance background has been appointed, effective February 2021. The incumbent also holds the position of Crown Group CRO
- in May 2021, the Crown Board approved a plan for the structure and resourcing of the FC&C functions. This included an increase in FTE staffing, with numbers initially boosted from fewer than 10 to 56, and with further approval to increase staff numbers to 136
- as at 31 May 2022 the FC&C team was comprised of 144 positions (including contractors and secondees), with 20 positions vacant
- in the 12 months to 30 April 2022, 34 key management appointments were made in the FC&C function areas, comprising 14 executive positions and 20 senior management roles
- in addition to management roles, approximately 46 appointments and promotions have been made across the FC&C team over the same period.

From a governance perspective, Crown's FC&C function has been enhanced by the implementation of a revised structure: three teams report to two executive general managers and one general manager, who in turn report through to the Chief Compliance and Financial Crime Officer/Group CRO. The three teams are:

- Financial Crime Risk, which is responsible for the financial crime advisory, governance, regulatory and strategy functions. Its purpose is to design and maintain the AML/CTF risk management framework to ensure compliance with the AML/CTF Act and the AML/CTF Rules Instrument 2007 (No. 1). The financial crime intelligence function is also performed by this team
- Financial Crime and Compliance Operations and Solutions, which is responsible for customer intelligence and due diligence, financial crime investigations and screening, and data analytics functions. Its purpose is to apply a comprehensive suite of measures to deter, detect and disrupt financial crime activity

- Financial Crime and Compliance Assurance, which is responsible for Crown’s financial crime assurance functions. Its purpose is to provide assurance about and insight into Crown’s internal control environment.

To improve its governance framework, Crown has also:

- put in place the organisational structural changes, noted earlier, that allow key personnel with responsibility for AML/CTF risks direct access to the CRO, CEO and the Board
- established the following groups/committees, each of which has an approved charter or is finalising one:
 - Financial Crime Oversight Committee (FCOC), which is accountable to the Crown Resorts and Crown Property Boards
 - FCWG, which reports to the FCOC
 - Transaction Monitoring Council, which reports to the FCWG
 - Financial Crime Regulatory Event Forum, which also reports to the FCWG
 - Persons of Interest Committee (PoIC), which is a stand-alone committee¹⁴⁶
- developed enhanced financial crime and compliance reporting mechanisms for each of the various oversight committees and working groups, incorporating elements of an RACI matrix (that is, responsible, accountable, consulted and informed).

The OSM’s preliminary view is that the personnel and governance changes implemented over the past 12 months are positive steps for Crown’s management of its AML/CTF obligations. However, the effectiveness and sustainability of these changes will be tested and evaluated by the OSM in the second half of 2022.

Policy Uplift Program

Crown’s Policy Uplift Program is reviewing and documenting policies and procedures across key risk areas to ensure consistent expectations for staff, customers and stakeholders.

As part of this work, Crown assessed its policy environment against its compliance obligations to identify areas for improvement. It aligned the Policy Uplift Program to the requirements of its revised Joint AML/CTF Program, as follows:

- Crown Sydney has developed/reviewed and strengthened existing internal control manuals to address AML/CTF risks.
- Crown Melbourne is completing a similar process in regard to its internal control standards. (Melbourne and Sydney venues have specific state regulatory requirements, and therefore the policy uplift relevant to AML/CTF needs to be run independently.)

Significant further work remains to be done by Crown on this program before it can be meaningfully evaluated by the OSM.

¹⁴⁶ For clarity, where it is necessary to escalate a decision on customers regarding continuing the relationship as it relates to financial crime, the matter is escalated directly to senior management. These escalations are reported through the Financing Crime Operations Dashboard which goes to both FCWG and FCOC. Financial Crime escalation is no longer referred to the PoIC for decision.

Financial crime obligations and controls

Crown has established a Financial Crime and Compliance Assurance (FCCA) function within the FC&C team to define, monitor and test Crown's financial crime and compliance obligations and to impartially review the FCCCP deliverables against obligations and commitments.

This team has consolidated Crown's financial crime regulatory commitments (including the recommendations contained in the expert reports noted in Appendix I of the Finkelstein Report) into a single register for senior management oversight.

The OSM has reviewed the FCCA register to test its completeness and is satisfied that all relevant commitments have been included.

The FCCA team has also started two current state assessment reviews (excluding operational effectiveness) relating to meeting AML/CTF customer obligations and its reporting obligations – in particular, its requirements to submit International Funds Transfers Instructions (IFTIs), Threshold Transaction Reports (TTRs), Unusual Activity Reports (UARs) and SMRs.

The FCCA team has undertaken the following activities to assist Crown to meet its AML/CTF customer obligations:

- meeting with critical personnel across each Crown location
- mapping processes across all sites, including the identification of key controls
- socialising initial draft process maps, control summaries, control gaps, issues and improvement opportunities with relevant stakeholders.

In regard to meeting its reporting obligations, Crown has completed follow-up activities relating to IFTI and TTR reporting.

Further, the FCCA team has facilitated workshops with business units and has identified accountable and responsible owners to support it in the delivery of AML/CTF obligations across the organisation. The FCCA team is also:

- completing an operating effectiveness review of the identified controls of IFTIs, TTRs and SMRs, which has resulted in some preliminary observations for consideration
- developing a commitments register. To improve the integrity of the register, the FCCA team is working with the IT Solutions team to transfer it into Jira (an IT project management solution) to assist action owners to consolidate and manage their actions.

The OSM considers Crown's internal assurance function to be a critical component of the overall reform program. Crown's work in this area, which is in the early stages of development, will be monitored by the OSM. The OSM has commenced a review of the commitments register to determine the extent to which it aligns with the Royal Commission recommendations and requirements.

Governance, risk and compliance tool

Crown has developed a GRC Tool Charter that has been endorsed for inclusion into the FCCCP. In accordance with the Charter, Crown has started implementing an enterprise-wide solution to support governance, risk and compliance, and Crown's regulatory commitments.

Following a procurement process, Crown has selected a preferred IT solution and is now engaging an external consultant to assist with implementation.

The OSM will review and evaluate the GRC in the next reporting period.

Supplier due diligence

Through effective supplier due diligence, organisations can vet their suppliers to identify potential red flags before entering into a contractual relationship and throughout the course of the contract.

Crown has developed a Supplier Due Diligence Charter that was endorsed for inclusion in the FCCCP. In accordance with the Charter, Crown is to enhance and modernise its Group procurement risk framework to help it assess, among other things, ML/TF risk. This process will include mapping Crown's current state, identifying and completing process improvements, and ensuring that supplier due diligence is integrated with its employee and customer due diligence processes. The current state mapping has been completed.

The OSM considers this framework to be an integral component of Crown's overarching ML/TF risk management of KYC and ongoing due diligence processes of its customers, employees and suppliers. The OSM will test and evaluate this framework in the next reporting period.

Other work to address Finkelstein Royal Commission recommendations

Information sharing with law enforcement agencies

The Finkelstein Royal Commission recommended that Crown Melbourne be directed, pursuant to the Casino Control Act, to enter into information sharing protocols with state and federal law enforcement agencies. The Finkelstein Report highlighted that such protocols will assist in preventing criminal conduct.¹⁴⁷

Crown is progressing MOUs with Victoria Police, the AFP, and the ACIC about how the parties will share information. The ACIC MOU was finalised and executed in May 2022. The MOUs with Victoria Police and the AFP are in the early stages of development.

As part of this process Crown is reviewing its current state-based law enforcement agency MOUs to put in place an overarching MOU to provide state-based law enforcement agency access to all Crown properties, rather than each state-based law enforcement agency having an individual MOU with each Crown property.

Single patron bank accounts

The Finkelstein Royal Commission recommended that Crown be required to keep and maintain a single account, as approved by the regulator, at an authorised deposit-taking institution in Victoria to be used for all customers' banking transactions.

Crown has advised that the Southbank and Riverbank accounts were closed from an operational perspective in December 2019. Crown noted that a small number of foreign currency accounts remained open, as they hold patron funds that are to be refunded subject to managing international customer sensitivities. The OSM will seek evidence to validate the status of these accounts in the next reporting period.

Crown has directed all staff that customer bank transactions are not to be aggregated. Crown has also implemented additional controls over its patron accounts to mitigate the risk of criminal exploitation. An example of such a control is obtaining electronic daily feeds of bank statements to automate and facilitate the process of identifying any anomalies.

¹⁴⁷ Royal Commission into the Casino Operator and Licence, *The Report – Volume I*, October 2021, p. 200.

3.5.3 Special Manager's oversight of Crown's financial crime work program

The Finkelstein Royal Commission recommended that Crown Melbourne undertake significant reforms to its AML/CTF Program to meet its regulatory obligations. Appendix I of the Finkelstein Report stipulates that the Special Manager oversee Crown's reforms in relation to money laundering, with regard to:

- its implementation of expert report recommendations
- further investigation of suspected structuring of transactions and parking of funds, as identified in the McGrathNicol Forensic Review
- implementation of the FCCCP
- resourcing
- the Joint AML/CTF Program, specifically in regard to Board oversight, program compliance, and internal and external audits.

As stated earlier, a priority for the OSM in this first reporting period has been to identify and understand the issues and recommendations in the Finkelstein and Bergin Reports, and various expert reports (as outlined in Appendix I). Additionally, the OSM has focused on ensuring that those issues and recommendations are appropriately addressed in Crown's current draft MRAP and/or FCCCP, as well as Crown's commitment register.

The OSM's work to date in this area is outlined below.

Implementation of expert report recommendations

Item 5 of Appendix I of the Finkelstein Report requires the Special Manager to evaluate whether there has been effective implementation of the recommendations in various external experts' reports relating to AML/CTF.

As an initial step, the OSM completed a comprehensive review of the various expert reports as listed at items 5a to 5g, 6 and 11 of Appendix I, along with a significant number of Crown documents related to its FCCCP. The OSM reviewed Crown's register, which maps all recommendations and observations from the external reports to the FCCCP, and which in turn have been reconciled to the current draft MRAP.

Crown has undertaken to ensure that all actions/activities have specific milestones, delivery timeframes, adequate resourcing and funding, and ownership and governance arrangements. Crown has stated it will undertake assurance validation processes on the program of work.

The OSM has undertaken review processes to assess whether actions to address the recommendations and observations contained in the expert reports have been reflected in the FCCCP and the current draft MRAP.

The OSM is satisfied, at this stage, that this has been achieved. Over the next reporting period, the OSM will closely oversee Crown's assurance validation processes to evaluate the quality of Crown's assurance programs and to assess whether the remediation initiatives are effective and sustainable.

Further investigation of potential structuring and parking

The July 2021 McGrathNicol Forensic Review identified structuring of transactions and parking of funds, indicative of potential money laundering. The Finkelstein Royal Commission noted that transactions of concern required further investigative work, and item 8 of Appendix I of the Finkelstein Report requires the Special Manager to determine whether the further investigation has occurred and, if so, whether any changes to Crown's AML/CTF Program are necessary.

The OSM has reviewed McGrathNicol's report and related documents. The OSM notes that the transactions and patron accounts identified in the McGrathNicol report are being investigated pursuant to Project DeLorean (discussed in section 3.5.2).

The OSM will review Crown's response to the McGrathNicol report in the next reporting period.

Implementation of the FCCCP

In accordance with item 10 of Appendix I of the Finkelstein Report, the OSM has commenced a program of review and evaluation of Crown's FCCCP to enable an evaluation of whether the recommended reforms set out in the FCCCP have been effectively implemented. The OSM's work to date has included:

- undertaking a detailed review of the FCCCP to identify and understand the program of reforms
- attending various meetings with Crown FC&C executives and senior management, to understand the work completed and in progress under the FCCCP
- attending various Crown governance oversight committee meetings, including but not limited to the FCWG, FCOC, Transaction Monitoring Council and Person of Interest meetings to better understand the implementation of the FCCCP and Crown's approach to its remediation program
- attending various meetings with external AML/CTF experts previously or currently engaged by Crown, to gain an understanding of their scope of work and recommendations and/or observations
- meeting with AUSTRAC, Victoria Police, ACIC and the Australian Taxation Office to understand their views on the FCCCP
- commencing a review of the Policy Uplift Program where it relates to AML/CTF.

Preliminary findings on key components of the FCCCP implementation are outlined in section 3.5.2. However, as noted in that section, the OSM will undertake further detailed analysis and evaluation of the steps Crown is taking in the next reporting period.

Resourcing

Pursuant to items 12 and 13 of Appendix I of the Finkelstein Report, the OSM has commenced a review and evaluation of the adequacy of Crown's financial crime and compliance budget, and its resources and capability to both implement the FCCCP and meet ongoing operational requirements.

The OSM's preliminary observations are that:

- significant investment has been made to increase the depth and scale of the FC&C team
- there has been a substantial uplift in capability within the FC&C team through the external recruitment of highly experienced, recognised leaders in the field of AML/CTF compliance, including executive and senior management personnel from the banking sector
- the organisational structure of the FC&C team includes the pillars needed to adequately address financial crime compliance obligations and appears appropriate to meet Crown's current reform activities and operational requirements.

The OSM will undertake further detailed analysis and evaluation in the next reporting period.

Joint AML/CTF Program

Pursuant to Appendix I of the Finkelstein Report, the Special Manager is required to:

- evaluate whether the Crown Melbourne Board is providing effective and meaningful oversight of its Joint AML/CTF Program
- assess whether Crown Melbourne is complying with its Joint AML/CTF Program
- review any internal or external audits conducted and evaluate whether any non-compliance identified has been remedied.

The OSM's work to date in these areas is outlined below.

Board oversight

The Special Manager and OSM representatives attended the Crown Melbourne Board meetings on 8 February and 3 June 2022. At each meeting, a detailed report was considered by the Board on the status of the FCCCP. The Special Manager and OSM representatives observed active engagement from Board directors. The OSM expects the Crown Melbourne Board to continue to actively monitor the status of the FCCCP.

On 19 April 2022, the Special Manager and OSM representatives also attended a briefing of Crown Resorts directors on the Exiger report. The Special Manager observed that the Board members present engaged actively in the discussion and raised issues such as the challenging timeframe for achievement of the AML/CTF Joint Program's 'advanced stage' milestone, the scale/ambition of the FCCCP and its potential areas of vulnerability.

Program compliance

Independent Review

Part A of a reporting entity's AML/CTF Program is subject to a regular independent review under Part 9.6.1 of the AML/CTF Rules Instrument 2007 (No. 1). Part 9.6.5 states that the review should assess:

1. *the effectiveness of the Part A program having regard to the ML/TF risk each reporting entity in the DBG*
2. *whether the Part A program complies with the Rules*

3. *whether the Part A program has been effectively implemented*

4. *whether each reporting entity in the DBG has complied with its Part A program.*¹⁴⁸

The OSM has commenced a review and evaluation of the independent review conducted by Exiger of Crown's Joint AML/CTF Program. The OSM notes that Exiger did not review all elements of the Joint Program, but focused on:

- governance and oversight
- AML/CTF risk assessment
- employee due diligence
- AML/CTF awareness training
- AML/CTF policies and procedures
- customer due diligence and reporting
- transaction monitoring systems and alert management.

Exiger's overall assessment was:

*... Crown's Joint AML/CTF Program stands at a 'foundational' state of maturity. Across the seven elements within the scope of Exiger's review, on aggregate, the elements appear to meet the minimum requirements of the AML/CTF Act and Rules, with foundational resources, and largely manual processes with limited assurance in place. The ability to achieve a more advanced state will require Crown to implement all required uplifts under the FCCCP.*¹⁴⁹

Exiger informed the OSM that its independent review related to Crown's 2020 Joint AML/CTF Program and not Crown's current 2022 Joint AML/CTF Program (which was approved by the Board in December 2021 and became effective from 31 January 2022).

The OSM questions Exiger's assessment of the 2020 Joint AML/CTF Program as being 'foundational' (and therefore compliant based on Exiger's definition), given Exiger stated it did not review Crown's risk assessment(s) on which the Program should have been based, and additionally that AUSTRAC is of the view that it was not compliant. The OSM considers the most efficient way forward is to seek to validate Crown's current 2022 Joint AML/CTF Program. The OSM will commence validation in the next reporting period.

In this regard, Exiger has advised the OSM that it also considers assessment will be required of the current 2022 Joint AML/CTF Program, after the Program has been in place for sufficient time to enable a view to be formed as to the compliance, or otherwise, of the Program. It is anticipated a further independent review will be completed in the first half of 2023.

AML/CTF enterprise-wide risk assessment

The OSM considers the completion of specific elements of the enterprise-wide risk assessment should be a high priority for Crown under the FCCCP, and that Crown may need to adjust the FCCCP's milestones and timetable accordingly. Further analysis and evaluation of this work will be undertaken by the OSM in the next reporting period.

¹⁴⁸ Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007 (No.1), Part 9.6.5.

¹⁴⁹ Exiger, Independent Review of AML/CTF Program (Part A) Crown Resorts Limited, *Final Report*, 31 March 2022.

Joint AML/CTF Program

The OSM has commenced a review and evaluation of the components of Crown's Joint AML/CTF Program, including a review of relevant internal control standards. This work will continue in the next six-month period.

Internal and external audits

Internal audits completed or planned by Crown Melbourne as at 31 May 2022 include:

- Employee Appointments (Licensed and Unlicensed Positions) internal compliance audit completed by Crown; a report was issued in January 2022
- Patron Deposit Accounts (Melbourne) completed by Ernst & Young; a report was issued in May 2022
- Screening and List Management – planned
- Governance, Roles and Responsibilities, Management Information – planned.

As stated above, an independent review of Crown's 2020 Joint AML/CTF Part A Program was completed in March 2022 by Exiger. It is expected that a review of Crown's 2022 Joint AML/CTF Part A Program will be completed in the first half of 2023.

The OSM will review and evaluate the audit program and the audits completed in the next six-month period.

3.5.4 Identified vulnerabilities

In the OSM's view, there are some critical risks that may impact Crown's ability to successfully implement the FCCCP. These are outlined below.

Complex change program with challenging timeframes

The FCCCP is a large and complex program of work. Although Crown's work on it is progressing, the OSM has identified the need for Crown to conduct a comprehensive risk assessment to ensure it has identified all risks regarding its customers, products, channels and jurisdiction at the business unit level at the Melbourne casino. Such an assessment will provide assurance that Crown's AML/CTF Program is appropriately focused and that it is a high priority within the business. As previously noted, Crown conducted an ML/TF enterprise-wide risk assessment in 2021. Notwithstanding this assessment, Crown has advised it will also conduct a further ML/TF enterprise-wide risk assessment in the second half of 2022.

Crown's reforms in its approach to financial crime also involve an increase and uplift in resource capability, capacity and training. The new FC&C team has grown significantly. Most of the employees are relatively new to Crown and will need time to fully understand Crown's business, its operating environment and the issues to be addressed.

All facets of the change program need to be effectively embedded across all levels of Crown's operations. Making this work a priority and managing it effectively will be imperative if Crown is to meet the FCCCP deliverables by December 2023.

Information technology

As addressed elsewhere in this report, Crown has a number of legacy IT systems and is currently implementing new AML/CTF software programs. Crown's ability to effectively and efficiently manage its IT risks – including its proposed short to medium-term IT systems architecture, integration of legacy and new IT systems, and proposed project lead times – will be critical to the overall reform program.

Competing priorities between the various Crown sites

As highlighted throughout this report, Crown is required to respond to the recommendations of the Finkelstein Royal Commission, the Bergin Inquiry and the Owen Royal Commission. This presents challenges in ensuring effective coordination across entities (as appropriate) and may stretch critical resources.

Actions being taken by state and federal regulators

AUSTRAC's civil penalty action will require significant attention from Crown, including work on the statements of claim (relating to Melbourne and Perth) and gathering appropriate evidence. Actions taken by the VGCCC will also require appropriate resource allocation. All of this may deflect skilled staff from the reform program. Crown will also need to consider the potential impact of additional regulatory reporting obligations to AUSTRAC, including suspicious reporting obligations arising from Project DeLorean.

Lack of documentation

An issue identified in the Exiger report was the lack of documentation or insufficiently detailed documentation to demonstrate compliance across several elements of Crown's AML/CTF Program. This places Crown at risk of being unable to justify how its AML/CTF Program is compliant. Further, employees may misunderstand their roles and responsibilities in regard to AML/CTF, leading to inadvertent breaches of the AML/CTF Act and the AML/CTF Rules Instrument 2007 (No. 1). Crown is part way through its change program and needs more time to demonstrate that these uplifts are delivering their intended outcomes.

A related vulnerability is inaccurate, incomplete or outdated data/information, which can result in incorrect decisions being made, inaction or delayed responses to ML/TF risks.

The OSM will monitor these risks as part of its evaluation program.

4. OSM’s work for the next six-month reporting period

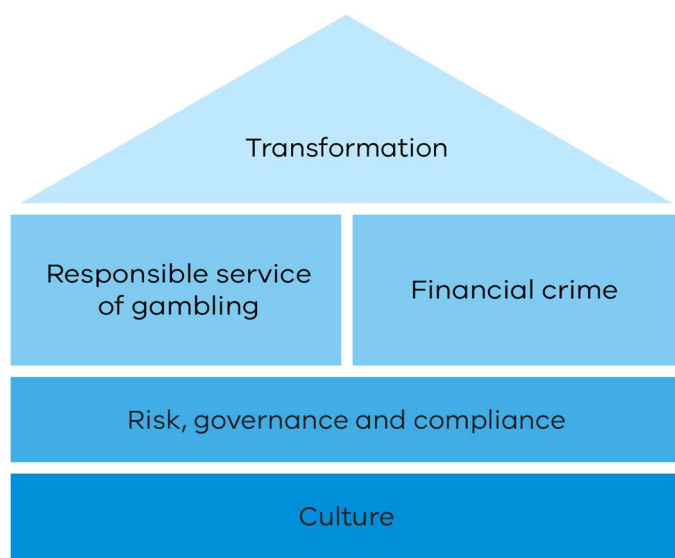
As described at the outset of this report, the Special Manager has two complementary functions:

- to oversee the affairs of the Melbourne casino operator, including its casino operations
- to monitor and assess Crown’s reform program to address the findings and recommendations of the Finkelstein Royal Commission.

The OSM has developed a work plan that outlines the activities it will undertake in relation to these two functions for the next reporting period, from 1 July 2022 to 31 December 2022. The work plan is provided at Appendix A and is discussed in the remaining sections of this report.

The OSM’s work plan has five key areas of focus, reflected as work streams in the work plan – see Figure 6.

Figure 6. OSM key areas of focus



The OSM’s work plan includes monitoring and evaluation activities for each of these work streams. Section 5 outlines the OSM’s approach to monitoring and assessing Crown’s reforms, and key activities to be conducted in the next reporting period. Section 6 sets out some related issues the Special Manager will be focusing on in overseeing Crown’s current operations during this time.

5. Monitoring and assessing Crown's reform program

This section provides an overview of the work the OSM will undertake over the next reporting period, including the OSM's overall approach to the monitoring and assessment of Crown's reforms, and key activities planned for each work stream.

5.1 Overview of OSM's monitoring and assessment of Crown's reforms

The OSM's work plan reflects the Special Manager's role to monitor the effectiveness of Crown's reforms.

It is noted that the role is not to direct Crown's reforms, or the planning, implementation or scheduling of those activities.

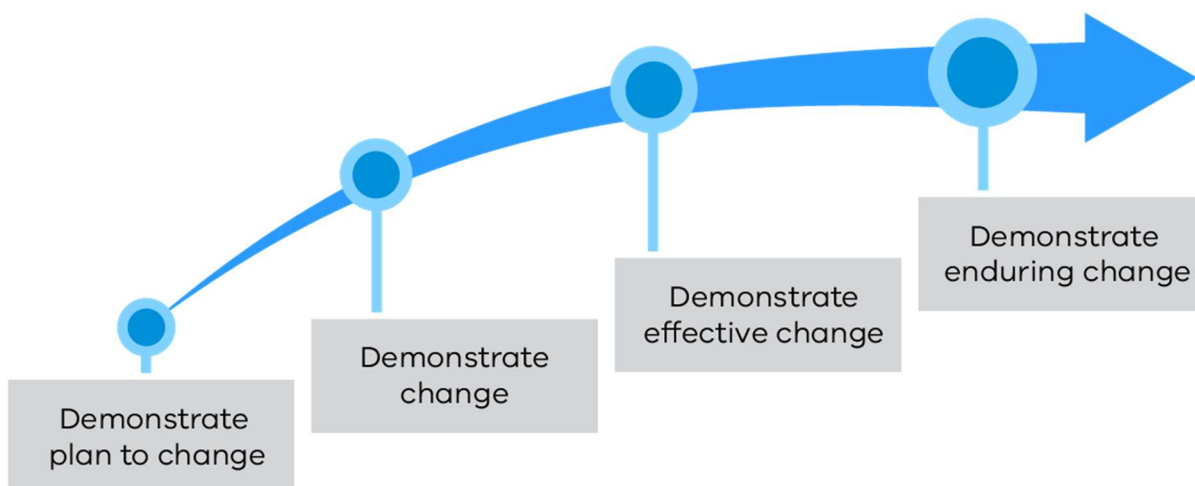
Rather, Crown is responsible for designing its own reform program to best respond to the relevant issues, risks and operating environment, and to direct and prioritise its resourcing to deliver that program (while also managing business-as-usual operations). Ultimately, Crown itself is accountable for demonstrating whether or not it has returned to suitability, with the decision in that regard resting with the VGCCC.

The OSM's role is to monitor and assess the progress of Crown's reform program, and to oversee Crown's current operations. The OSM's reporting on this monitoring and assessment is aimed at ensuring the VGCCC is appropriately informed as to whether Crown has made satisfactory progress with the implementation of its reform program and has addressed the findings and recommendations of the Finkelstein Royal Commission.

Because the OSM is monitoring Crown's work, the OSM's work plan is aligned with Crown Melbourne's phasing and completion of activity milestones as outlined in the current draft MRAP. Most of Crown's reform activities will pass through various phases: design, implement and embed. During any given reporting period, there will be specific activities at each of the phases. As such, the focus of the OSM's work plan will change over time as Crown moves through the design, implement and embed phases of each of the MRAP activities.

In this reporting period, the OSM has focused on determining whether Crown has articulated a *plan to change* – that is, whether it has designed activities to address relevant recommendations and issues. In the next reporting period, the OSM will focus on assessing Crown's design of activities, and the effectiveness of implementation for some activities. Ultimately, the OSM will be looking for evidence that Crown has the systems, processes and practices in place to demonstrate *enduring* change. These expectations are shown in Figure 7.

Figure 7. Expectations of Crown’s reform work



As outlined in section 5.2.2, Crown is working to further develop the MRAP, which underpins its reforms. As this work progresses, the focus of the Special Manager’s work will evolve, as illustrated in Figure 8. This evolution will be reflected in the Special Manager’s reports, with the final report assessing the outcomes of Crown’s reforms and the extent to which the reforms are embedded and sustainable.

Figure 8. How OSM’s assessment focus will change over the term of special management

June 2022	By December 2022	By June 2023	By December 2023
Focus on determining whether Crown has a plan to address Royal Commission findings and recommendations	Assessment of design of activities to address recommendations and effectiveness of implementation (for some activities)	Assessment of effectiveness of implementation (for remaining activities) and achievement of outcomes (where possible)	<ul style="list-style-type: none"> Assessment of achievement of outcomes (for remaining activities) Evidence of embedded change

5.2 Crown MRAP

5.2.1 Development of the MRAP

As stated in section 3.1.3, on 3 June 2022, the Crown Melbourne Board endorsed a draft MRAP related to the implementation of recommendations of the Finkelstein Royal Commission and issues identified in Appendix I. At that same meeting, the Board also endorsed the establishment of a Group transformation program and governance arrangements to oversee the implementation, coordination and monitoring of the MRAP and other plans applying to Crown Sydney and Crown Perth.

The most recent version of the MRAP, dated 10 June 2022, is provided at Appendix H. The OSM has used this MRAP as the basis of its work plan for the next six months.

5.2.3 Overview of the MRAP

Crown's current draft MRAP includes around 150 activities structured around 12 key areas of focus, as set out in Figure 9.

Figure 9. Current draft MRAP key areas of focus



The current draft MRAP sets out design and implementation milestones for each of the listed activities as well as target dates for the completion of those milestones.

The OSM understands the design closure criteria are intended to include:

- evidence of assessment of the 'artefact' against regulatory or better practice requirements, informed by prior incidents, weakness or issues
- evidence of subject matter expert/stakeholder input to ensure the solution will work for Crown's business.
- production of a final draft ready for implementation
- acceptance and approval to implement by the accountable lead/governance forum.

The implementation closure criteria are intended to confirm delivery including through:

- board papers and meeting minutes
- training plans or communication collateral
- amendments of policies or procedures to implement the enhancement throughout the business.

The current draft MRAP does not include deliverables or a proposed evaluation of the effectiveness of implemented activities, and is not as detailed as the ARAP developed for Crown Resorts and Crown Sydney. However, Crown has advised that, after considering priorities and resourcing, it will further develop the MRAP to a standard that is consistent with the ARAP. Crown expects to complete this by August 2022.

5.2.4 Status of MRAP implementation

Most of Crown's MRAP activities will pass through various phases (design, implement and embed), both across and within various work streams.

Crown has reported that more than 100 design and implementation milestones have been completed to date, and a further 50 are expected to be completed by 30 June 2022.

Some work streams are further progressed than others. For example, the current draft MRAP indicates that most of the Deans Report recommendations aimed at improving risk management processes have been implemented. In addition, most of the FCCCP activities are due to reach the implementation stage by 30 June 2022.

5.2.5 Phasing of OSM work plan

As Crown further develops the MRAP, it will update it to reflect changes in deliverables and timing. Crown needs to confirm when it plans to complete some items, particularly where they are contingent on government decisions or actions, such as further legislative amendment to give effect to the Finkelstein Royal Commission recommendations (the Tranche 2 reforms).

As noted above, the OSM's assessment process, and therefore its reporting across the term of special management, will reflect changes in the MRAP. The evolution of the MRAP will also inform the OSM's work over the next six months, which will be re-assessed and adjusted recognising Crown's progress and actual deliverables over this period.

Moving into 2023, the OSM's work plan will be informed by the work undertaken over the next six months. It is likely to focus more on assessing the effectiveness of the reform activities and the extent to which the resulting changes are embedded in the business. An updated work plan for January to June 2023 will be provided in the next interim report.

5.3 Assessment approach

As stated above, the OSM's role is not to direct Crown's remediation activities, but rather to monitor and assess the activities Crown undertakes. However, the OSM can decide how to direct its own evaluation and assessment activities to focus strategically on the areas likely to have the greatest impact in terms of improved outcomes. This will include looking at whether Crown has used a people-centric approach that results in positive outcomes for customers and employees.

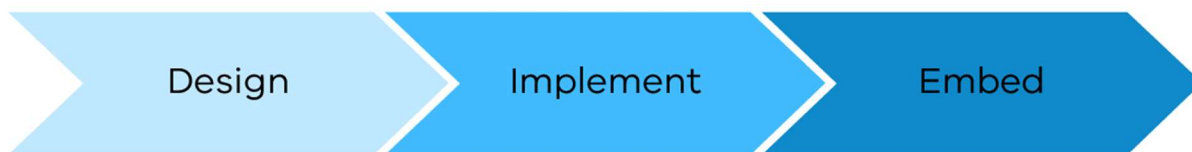
In monitoring and assessing Crown's reform work, the OSM will be looking for evidence that Crown has:

- identified the key risks at both the Group and business unit levels, and across products, channels and populations
- considered available data, research and examples of best practice in determining its approach and target state
- incorporated effective engagement with interested and informed stakeholders in the design and implementation of reform activities
- built effective evaluation into the design of its programs and service delivery, and uses results to inform continuous improvement
- taken a proactive rather than reactive approach to reform
- integrated reforms across work streams, and with Crown's transformation program.

The OSM's assessment of Crown's progress against its MRAP will also be independent and evidence based. While its assessment will draw heavily on evidence provided by Crown regarding the completion of activity milestones, it will also use other external sources of information and analysis where appropriate (including evaluation and assessment work undertaken by other independent parties such as Kroll, the independent monitor of Crown Sydney). Figure 10 summarises the OSM's assessment approach.

Figure 10. OSM's assessment approach

Crown's activity milestone stages



OSM assessment approach

Crown closure package
<ul style="list-style-type: none">• The Finkelstein Report recommendation or issue that the activity is seeking to address• The approach that Crown has taken to addressing the recommendation or issue• Details of any engagement undertaken in relation to the activity, including with regulators and other stakeholders (at the design, implement and embed stages)• Resources and funding approved in relation to activity• Evidence of the completion of an activity• Assurance or verification, independent of the business unit, that the activity has been completed• Sign off from either the Chief Executive Officer, Executive General Manager or Board Committee as appropriate confirming completion of activity• Details of monitoring and evaluation framework• For 'implement' milestones: Evidence of range of actions to implement activity• For 'embed' milestones: Evidence and/or evaluations of the effectiveness of the implemented actions, including any measurable outcomes and evidence that activity is embedded in 'business as usual' processes
Other supporting information (as appropriate)
<ul style="list-style-type: none">• VGCCC and other state and federal regulatory and law enforcement agencies• Other state policy and regulatory agencies including the Department of Justice and Community Safety's gambling and casino control policy division and the Victorian Responsible Gambling Foundation• Other independent monitors established to oversee the remediation of Crown Sydney (Kroll) and Crown Perth (once appointed)• Experts, academics, researchers and people with lived experience• Publicly available sources of information
The OSM's own evaluation activities
<ul style="list-style-type: none">• Sample testing• Data analytics• Management and staff interviews• Surveying• Experts, academics, researchers and people with lived experience

5.3.1 Crown closure packages

Upon completion of each MRAP activity milestone, Crown will be expected to provide a 'closure package' containing the relevant evidence of milestone completion and other information to enable the OSM's assessment.

Wherever possible, in advance of Crown completing various activity milestones, the OSM will seek to discuss with Crown staff the nature of information or evidence expected to be provided as part of each closure package.

As noted earlier, Crown Melbourne has identified that many activity milestones listed in its current draft MRAP have been completed or will be completed by 30 June 2022.

5.3.2 OSM's evaluation activities

The OSM will gather relevant information to support its assessments from a range of additional sources:

- VGCCC and other state and federal regulatory and law enforcement agencies – for example, to inform the OSM's assessment of Crown's compliance with legislative obligations and commitment to gambling harm minimisation
- other state policy and regulatory agencies including the DJCS Liquor and Gaming policy unit and the VRGF – for example, to inform the OSM's approach to assessing the reform activities
- other independent monitors established to oversight the remediation of Crown Sydney (Kroll) and Crown Perth (once appointed) – for example, to inform the OSM's assessment approach and coverage and to test emerging findings
- community organisations, people with lived experience of harm, providers of support services, researchers and advocates – for example, to inform the OSM's assessment of better practice in a casino environment, including in relation to gambling harm minimisation activities
- publicly available sources of information – for example, viewing materials available on Crown's website to confirm implementation of updated communications.

Where required, the OSM will undertake additional evaluation activities. This may include, but is not limited to, sample testing, data analytics, surveying and management/staff interviews, and experts, academics, researchers and people with lived experience.

The OSM will also seek to identify case studies that demonstrate the effectiveness of Crown's remediation and suitability by highlighting positive outcomes for customers and/or employees.

These methods are more likely to be applied in assessing the latter stages of implementation and embedding in 2023, particularly where the OSM considers that there is a need to test the completeness of implementation activities, or in evaluating the effectiveness of remediation activities and outcomes.

5.4 Work stream focus areas

5.4.1 Transformation program

The Finkelstein Royal Commission found that to return to suitability, Crown must undergo an organisational transformation and demonstrate it has 'thoroughly re-made' itself. This is a highly complex endeavour in a challenging environment. It requires a phased approach, from 'initiation' through to designing, implementing and embedding change. It also requires, as stated in the Finkelstein Report, a root cause analysis into the failures identified by the Royal Commission and Bergin Inquiry.¹⁵⁰ Accordingly, one OSM work stream is to monitor and evaluate the effectiveness of the transformation program itself.

As highlighted earlier, on 3 June 2022 the Crown Melbourne Board endorsed the establishment of the Group transformation program and governance arrangements to oversee implementation and coordination of Crown's various change programs and remediation plans, including the MRAP.

The OSM welcomes this as evidence of the first phase of the evaluation – 'initiation of change'. The Group transformation program is critical to the effective implementation of the MRAP and will provide the basis for the Special Manager to:

- monitor and assess Crown's approach to its transformation
- plan the OSM's work to align with Crown's expected MRAP completion of milestones.

In the next reporting period, the OSM will closely monitor the design, implementation and operation of Crown's Group transformation program. Crown's approach should reflect each of the elements of a successful transformation as outlined in section 3.1.1.

As part of its monitoring and assessment work, the OSM will look for Crown's transformation program to:

- be subject to Board oversight to ensure focused effort and sustained change
- be informed by Crown's root cause analysis and the need for change
- have a dedicated focus on the need for reform across the organisation, with a particular focus on Crown Melbourne
- identify and prioritise key reform areas that will have the greatest impact on outcomes
- apply a people-centric approach that results in positive outcomes for customers and staff
- integrate and coordinate reforms across work streams and properties, identifying opportunities for synergies and sequencing
- minimise the risk of 'siloeing' reforms within properties and business units
- be appropriately resourced
- monitor and measure outcomes.

¹⁵⁰ Royal Commission into the Casino Operator and Licence, *The Report – Volume 1*, October 2021, p. 142.

5.4.2 Culture change

Appendix I of the Finkelstein Report requires the Special Manager to determine whether Deloitte completed the final phase of its work for Crown, and to evaluate the implementation and effectiveness of Crown's Culture Reform Program. As stated in section 3.2.3, the OSM considers that Deloitte has completed the final phase of its work, namely the delivery to Crown of the Aspirational Culture document and the Roadmap to underpin the Culture Reform Program. Accordingly, the OSM's forward work plan is focused on evaluating the implementation and effectiveness of Crown's Culture Reform Program.

As recognised by the Finkelstein Royal Commission and discussed in section 3.2.2, Crown has taken important first steps toward reforming its corporate culture. Many of these changes have been at the leadership level, including refreshing Board directors and executive management. The Special Manager welcomes these changes. However, it is noted that the Blackstone Inc. acquisition may result in further changes in Crown's leadership positions.

The OSM's work plan with respect to culture transformation will take this into account, including through the following key activities.

To evaluate Crown's commitment to transformation and culture change, the OSM will:

- assess Crown's ongoing commitment to the Culture Reform Program and overall Group transformation program in light of the new ownership arrangements, and whether these critical reforms continue to be resourced and prioritised
- assess whether the governance structure is adequate to successfully deliver the Culture Reform Program over the term of special management.

To evaluate the integration of the Culture Reform Program within the overall Group transformation program, the OSM will:

- assess whether the governance structure of the Culture Reform Program is appropriately integrated within the wider Group transformation program structure
- assess the degree to which the Culture Reform and Group transformation programs address the specific issues that caused the conduct exposed by the Finkelstein Royal Commission (that is, take into account the root cause analysis)
- assess whether Crown's Culture Reform Program is integrated with and designed to underpin Crown's key areas of reform, including financial crime and RSG, by reviewing Crown's methodology for:
 - applying a people-centric approach to relevant parts of the MRAP
 - embedding psychological safety across all levels of the business
 - ensuring the reformed ways of working and conduct become embedded at all levels across the business.
- develop evaluation methodologies to assess the effectiveness of the Culture Reform Program, with a focus on the qualitative evaluation of outcomes for Crown's employees, customers and other stakeholders.

To evaluate the Culture Reform Program's reach into middle management, the OSM will:

- assess Crown's methodology for ensuring that the Culture Reform Program reaches the middle management/supervisor level and that it will ultimately provide psychological safety and impact staff behaviour in frontline customer service delivery
- identify and assess specific activities that Crown has advised have been completed, based on priorities such as whether they relate to high-risk areas, psychological safety, cross-cutting themes and critical middle management leaders
- determine whether Crown has undertaken – or is planning to undertake – evaluation of the completed activities and/or is having completed activities independently evaluated
- provide feedback to Crown on the degree to which evaluation of completed activities aligns with Crown's self-assessment, particularly regarding reach into the middle management cohort, and detail potential gaps.

To monitor Crown's ongoing and future culture change activities, the OSM will monitor and assess activities in the Crown Culture Project Plan scheduled to begin or continue in the next reporting period, with particular emphasis on the activities that will impact the middle management and supervisor level of the business, including:

- the culture change network
- the second culture survey
- risk and compliance culture activities.

5.4.3 Risk management, governance and compliance

The OSM work plan for risk, governance and compliance is mapped to the Finkelstein Report Appendix I requirements, and broadly includes:

- risk management
 - assessing whether Crown has appropriately updated key risk management framework documents (including the Risk Charter, RMS and RAS) to reflect the Deans Report recommendations
 - assessing Crown's progress with implementing its Risk Uplift Plan
 - confirming Crown Melbourne's plan to undertake an independent review of the robustness and effectiveness of its risk management framework, systems and processes, and their appropriateness to Crown Melbourne as a casino operator
- governance
 - assessing Crown's progress with implementing phase 1 of the Policy Uplift Program
 - assessing the effectiveness of changes Crown has made to the internal audit function, including its resourcing, focus and independence
 - assessing the role clarity and accountability of the various Crown Board and management committees, and their effectiveness in overseeing key areas of risk and decision making

- compliance
 - assessing the design of Crown’s breach reporting policy and protocol
 - monitoring plans to enhance Crown’s systems and processes for identifying, monitoring and reporting on compliance with legislative and policy obligations.

As discussed in section 3.3, apart from implementing the Deans Report risk management framework recommendations, Crown’s risk, governance and compliance remediation activities are still in development.

Therefore, over the next six months, the OSM will focus mainly on assessing the design and implementation activities Crown undertakes, rather than on the extent to which those changes have translated into improved risk management and compliance practice across the business.

The OSM anticipates that the priorities for the next six months will be to, inter alia:

- verify the extent to which the findings and recommendations of the Finkelstein Royal Commission, including the areas of focus cited in Appendix I and recommendations in external reports, are clearly reflected in Crown’s MRAP
- monitor the design of proposed changes, and the implementation of the Deans recommendations (as required by Appendix I)
- where possible, assess whether there is evidence that implemented changes have translated into improved risk management and compliance outcomes and are underpinned by supporting culture change, to the extent that these reforms have been in place for sufficient time to provide relevant data.

There will also be coordination and integration between this work stream and the ongoing monitoring of Crown’s current operations, as discussed in the following section. For example, the monitoring of ‘real time’ compliance issues will inform the OSM’s assessment of the implementation of Crown’s reforms in this area.

5.4.4 Responsible service of gambling

As well as being mapped to the Finkelstein Report Appendix I requirements regarding RSG, most of the OSM’s work plan in this area is based on the current draft MRAP, which includes design and implementation milestones for 33 separate RSG-related activities. Crown has indicated it has already completed either design or implementation milestones for nine activities, and by 30 June 2022 it expects to complete the design milestones for a further seven.

However, as discussed in section 3.4, Crown’s work in relation to RSG and harm minimisation at the Melbourne casino is still under development. The MRAP continues to be revised and a draft Responsible Gaming Change Program (RGCP) developed in December 2021 is being reviewed and is expected to be finalised by August 2022.

As a key part of its work plan, therefore, the OSM will provide feedback on and assess the adequacy of the RGCP as it is further developed.

For the next six months, the work plan will include:

- RSG strategy and governance – including monitoring and assessing Crown’s revision of the RGCP and prioritisation of activities within the MRAP, changes to Crown’s RG Code of Conduct and the effectiveness of RSG governance
- RSG staffing, training and effectiveness – including assessing the adequacy of RSG staffing and funding, RSG staff remuneration and incentives, and RSG training; and assessing the effectiveness of RSG monitoring
- RSG communications – including assessing Crown’s development of a revised communications strategy related to RSG, and RSG-related updates to Crown Melbourne’s website and messaging on EGMs, electronic table games and automatic teller machines
- player controls – including assessing changes to exclusion practices, the Play Periods Policy and related training, initiatives to investigate carded play and cashless play, commissioned research into uncarded play, data collection and reporting
- Crown Rewards Loyalty Program – including monitoring Crown’s review of the Crown Rewards Loyalty program and implementation of various May 2021 enhancements related to elements of the Crown Rewards program including Members Bingo, the Bus/Red Carpet Program, promotional gaming vouchers and member benefit controls
- referral and support networks – including monitoring Crown’s review of treatment and support referral processes and networks, including for CALD and First Nations communities, and translator services
- data, research and evaluation – including monitoring Crown’s uplift in RSG metrics and reporting, the role and composition of the Responsible Gambling Advisory Panel.

The OSM will also develop an approach to the evaluation of RSG activities in future reporting periods, including considering the methodology for a qualitative assessment of the outcomes and benefits to customers and other stakeholders.

The OSM’s work plan does not extend to evaluating activities that are regulated directly by the VGCCC, such as the outstanding recommendations of the 2018 *Sixth Review of the Casino Operator and Licence*,¹⁵¹ and recently introduced changes to the regulation of EGM usage. However, as discussed in section 6, the OSM is required to monitor Crown’s compliance with its legislative obligations, including its handling of identified breaches.

The OSM will coordinate its assessment of Crown’s planned RSG activities that are also aligned with other work streams. For example, the OSM will be examining customer risk assessments, the Customer Relationship Management system and carded/cashless play in both the RSG and financial crime work streams. There are also important links with the RSG work regarding staffing, training and incentives and psychological safety evaluated within the culture work stream.

Moving into 2023, and depending on Crown’s progress against the RSG program, the OSM will increasingly focus on the implementation phase of activities as identified in Crown’s MRAP, before evaluating the outcomes arising from the implementation of those activities. To inform its approach to evaluating the success of Crown’s reforms, the OSM will work with key stakeholders, such as people with lived experience, the VRGF, community organisations

¹⁵¹ Victorian Commission for Gambling and Liquor Regulation, *Sixth Review of the Casino Operator and Licence*, 2018.

and academics, to ensure that Crown uses a suitable framework for assessing harm minimisation outcomes.

Future work plans will also consider a range of initiatives and activities that form part of the Victorian Government's Tranche 2 commitments, including in relation to carded play, the YourPlay pre-commitment scheme and the establishment of the gambling data committee.

5.4.5 Financial crime

As discussed in section 3.5, Crown's financial crime reforms are relatively well advanced, with Crown advising that many are at implementation phase. Accordingly, the OSM will evaluate the design of remediation activities and, where relevant, assess how effectively they have been implemented. Its work plan in this area is mapped to the Finkelstein Report Appendix I requirements, and broadly includes:

- review and evaluate the AML/CTF enterprise-wide risk assessment, including the assessment of Crown's customers, products and jurisdiction and delivery channel risks
- continue to review and evaluate Crown's detailed FCCCP, MRAP and Commitments Register to ensure all recommendations of the Finkelstein Royal Commission and various expert reports are captured and are being actioned
- review Crown's FCCCP delivery milestones and assess whether this timing is reasonable based on resource capacity and capability
- obtain an update from Crown on its response to the McGrathNicol recommendation referenced at Item 7 of Appendix I, and assess whether any changes are subsequently required to the AML/CTF Program
- review and evaluate Crown's AML/CTF Program against its identified risks and regulatory AML/CTF requirements
- review and evaluate Crown's AML/CTF program to ensure it contains all elements required under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) and relevant AML/CTF Rules under the AML/CTF Rules Instrument 2007 (No. 1)
- review and evaluate Crown's AML/CTF policies, procedures and guidelines that support the implementation of the Crown AML/CTF program, including the Policy Uplift Program
- review, evaluate and test Crown's transaction monitoring and reporting, customer/product uplift, and ongoing customer due diligence
- review and evaluate governance arrangements to ensure appropriate and timely oversight of AML/CTF obligations, including providing appropriate reports to the relevant bodies for oversight and decision-making purposes
- review and evaluate the adequacy of Crown's Financial Crime and Compliance financial budget
- review and evaluate the resourcing capacity and capability within the Financial Crime Group.

The OSM work plan for 2023 will be informed by the outcomes of the work undertaken in the next reporting period. The OSM will also look to assess the degree to which these activities have been embedded in Crown's business. It expects an area of focus will be assessing Crown's strategies to mitigate the risk of VIP customer sourcing (as an alternative to the terminated junket agreements), such as pseudo-junkets.

The OSM will also consider the extent to which any of the planned financial crime prevention activities are also relevant to other work streams, and if so, how well Crown is integrating those activities into those other areas. For example, it will consider how well Crown applies 'know your customer' reforms, systems and tools (such as its Customer Relationship Management system) to also support RSG initiatives. Where there is overlap, the OSM will coordinate its activities across work streams.

Further, the OSM will look to assess the design and implementation of additional remediation activities including additional AML/CTF reforms, and enhancements to Crown's approach to managing sanctions compliance and to anti-bribery and corruption risk management.

6. Ongoing monitoring of Crown's operations

Appendix I of the Finkelstein Report requires the Special Manager to consider whether:

- there is any evidence of maladministration by the casino operator
- there is any evidence of illegal or improper conduct by the casino operator
- the casino operator has engaged in conduct that may give rise to a material contravention of any law.

The Special Manager is also required to consider the conduct of the casino operations generally since the conclusion of the Finkelstein Royal Commission.

Section 2.3 sets out the Special Manager's work to date in overseeing Crown Melbourne's current operations.

In the next reporting period, the OSM will focus on Crown Melbourne's ongoing operations in several key areas, including its compliance with legislative, taxation, policy and casino agreement obligations.

While the monitoring of Crown's current operations is a specific requirement of Appendix I, it also complements the OSM's monitoring and assessment of Crown's reform work; it provides a significant indication of whether Crown has undergone the required transformation to a lawful, responsible and cooperative organisation.

6.1 General oversight of Crown's current operations

The Special Manager and his delegates will continue to attend relevant Crown Resorts and Crown Melbourne Board, Board committee and management committee meetings. This will provide insights into:

- the key issues being considered by the Board and its committees
- the level of engagement between the Board and senior management
- the quality of reporting provided to the Board to enable decision making and risk management
- signs of maladministration, illegal or improper conduct or any conduct that may give rise to a material contravention of the law.

In addition, the Special Manager will continue to meet the Chairs and CEO of Crown Resorts and Crown Melbourne regularly to discuss current operations and relevant issues and risks.

Other key activities will include:

- regular meetings with Crown's Transformation Project Management Office on the status of the transformation program and related issues and risks
- regular meetings with the General Manager – Melbourne Regulatory Response to facilitate information flow on program issues
- briefings/presentations with the Executive General Managers, senior management and/or staff of relevant business units to discuss and gain a better understanding of critical aspects of the program.

6.2 Current operations focus areas

The Special Manager has identified several focus areas for the OSM in overseeing Crown Melbourne's current operations, and incorporated them into the work plan. These include monitoring:

- compliance with legislative obligations
- compliance with internal policies and procedures
- compliance with taxation obligations
- compliance with casino agreement obligations
- governance
- risk management practice
- integrity and conduct issues.

Key activities the OSM will undertake in the next reporting period are summarised below.

6.2.1 Compliance with legislative obligations

A significant aspect of the OSM's activities will be monitoring Crown's compliance with legislative obligations. As outlined in the OSM's work plan, this will involve monitoring the effectiveness of Crown's own systems for detecting and escalating compliance breaches, as well as its broader processes for analysing causes of systemic breaches of its obligations.

The OSM will continue to attend the Crown Melbourne Compliance Committee and review the quality and completeness of reported information on compliance breaches to the Board and senior management.

6.2.2 Compliance with internal policies and procedures

The OSM will review how Crown's standards, policies and procedures are communicated across the business, and the processes in place for detecting and addressing non-compliance with its internal policies and procedures. This will involve attending and reviewing papers presented to the Crown Resorts and Crown Melbourne audit committees and evaluating the extent to which the internal audit program provides reasonable assurance of compliance with policies related to key risks.

6.2.3 Compliance with taxation obligations

As outlined in section 2.3.3, the Finkelstein Royal Commission identified that Crown had significantly underpaid casino tax to the Victorian Government.

The OSM will continue to monitor the outstanding tax issues, as well as Crown's ongoing compliance with tax obligations.

6.2.4 Compliance with casino agreement obligations

The Finkelstein Report raised concerns around whether Crown's gaming operations at its new Sydney Barangaroo casino complex will breach Crown's Melbourne Casino Agreement with the Victorian Government.¹⁵² While Crown Resorts is permitted to operate casinos outside Victoria,

¹⁵² Royal Commission into the Casino Operator and Licence, *The Report – Volume 3*, October 2021, pp.47-48.

the Casino Agreement imposes obligations on Crown to ‘use its best endeavours’ to ensure that the other casino is conducted in a manner that is:

- *beneficial ... to [Crown Melbourne] and which promotes tourism, employment and economic development generally in Victoria*
- *not detrimental to [Crown Melbourne’s] interests.*¹⁵³

Crown Melbourne is also obliged to endeavour to maintain the Melbourne casino as the dominant ‘Commission Based Player’ casino in Australia and the flagship casino of the Crown Resorts gaming business in Australia.¹⁵⁴ This latter obligation is underpinned by a condition in the VGCCC’s approval of the Blackstone Inc. acquisition stating that each member of the Crown Group must maintain a level of investment in the Melbourne casino operations to ensure compliance with this obligation.

The Finkelstein Report noted that Crown had not undertaken any detailed analysis to consider whether its ownership and operation of Crown Sydney casino operations could result in a breach of its obligations under the Casino Agreement.¹⁵⁵

The OSM will further examine this issue after the Barangaroo casino has been trading for a suitable period of time, including:

- monitoring Crown’s analysis of the impact of the Barangaroo licence on Crown Melbourne
- liaising with the VGCCC should any issues of concern arise.

6.2.5 Compliance with governance obligations

As previously noted, Crown has made significant changes to its Board and senior management team. Further changes are likely following the acquisition by Blackstone Inc. The OSM will continue to monitor Board-level oversight of Crown’s reform work and the MRAP.

6.2.6 Risk management practices

An important element of the OSM’s oversight of Crown’s current operations will be to monitor how Crown is managing its risks. To this end, the OSM will:

- continue to attend and review papers presented to the Crown Resorts Audit and Corporate Governance and Crown Melbourne’s Audit and Risk Management Committees to understand how Crown’s risk management frameworks are being applied
- assess and review the structure and resourcing of the new risk management team
- assess the effectiveness of the internal audit function as part of the third line of defence including the resourcing of the internal audit program, clarify of internal audit reporting and reporting lines, and feedback and information sharing protocols within FC&C Assurance.

¹⁵³ Consolidated Casino Agreement, Variation Agreements and the Master Security Agreement, 21 September 1993 (as amended), p. 28.

¹⁵⁴ Royal Commission into the Casino Operator and Licence, *The Report – Volume 3*, October 2021, pp. 45–6.

¹⁵⁵ Royal Commission into the Casino Operator and Licence, *The Report – Volume 3*, October 2021, p. 47.

6.2.7 Integrity and conduct issues

The Finkelstein Royal Commission identified serious concerns regarding integrity and misconduct at Crown.

Good governance standards should include instilling and continually reinforcing a culture across an organisation of acting lawfully, ethically and responsibly. This includes having a clear code of conduct and effective whistleblower, complaints, and anti-bribery and corruption prevention policies, systems and processes. The Crown Board and relevant committees should be kept well informed of any material breaches of these policies.

The Special Manager has provided some feedback on Crown's existing code of conduct, and intends to review the code following revision by Crown, as part of assessing its broader integrity framework.

As part of its ongoing monitoring of current operations, the OSM will also assess the effectiveness of Crown's:

- policies and procedures for managing integrity (including those related to fraud, corrupt conduct, whistleblowers and complaints)
- training and communications in relation to integrity policies and procedures
- approach to managing integrity issues (including processes for investigating, reporting and addressing integrity issues).

This work will also be relevant to monitoring and assessing Crown's Culture Reform Program, to ensure it builds a culture of integrity and psychological safety for Crown staff to speak up and report any misconduct concerns.

