

REPORT

The Non-Financial (ESG) Governance Risk of Money Laundering at Crown Resorts Limited

Discipline

Corporate Governance

Theme

Environment, Social, Governance Risk Management

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Executive Summary

Businesses are experiencing a change in investor attitude toward Environment and Social Risk (**ESG**) responsibilities as the market demands higher standards and an expanded range of responsibility. The focus has changed, and institutional investors and capital providers are now placing a large emphasis on the management of ESG risk when making investment and lending decisions.

Money laundering of proceeds of criminal activity such as drug trafficking, illegal gambling, illegal prostitution and sex trafficking is a large social risk that businesses are required to confront and manage. Government regulatory requirements place an onus on businesses to prevent and report activity.

Crown Resorts Limited (**Crown**) have been the subject of money laundering allegations through media coverage, two (2) Commissions of Enquiry and expensive legal claims. The allegations have been proven and Crown is now subject to potential prosecution and penalty. The issue wiped approximately \$3.8Billion from Crown's market capitalisation, a reflection of the reaction to this type of ESG risk.

Crown must now implement a robust risk management process and if such procedures are going to be effective, it must make a large number of changes including the integration of an expanded software-based risk register and management identification as well as reporting processes within its business. Implementation of these changes will allow management and the board to be informed of all risks in real time and subsequently allow the provision of appropriate corporate governance.

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1. Purpose

Changing community attitudes, millenniumism, member concerns and shareholder activism demand that corporate governance risks now expand to a broader range of other emerged risks, and responsible investment called Environmental Social Governance (**ESG**) Risk (Bertolotti, Effectively managing risks in an ESG , 2020). Risks include, but are not limited to, a firm's collective conscientiousness and responsibility for environmental and social factors such as climate change, social responsibility, diversity, equal opportunity, human slavery and money laundering (Frankl.M., 2016).

The Honorable Ray Finkelstein AO QC, Commissioner and Chairperson of the Royal Commission into the Casino Operator and Licence held by Crown Resorts Limited (**Crown**) recently presented the Commission's report (Ray Finkelstein, 2021). The report addressed Crown's failure to adequately address non-financial risk (*Money Laundering*) a failure of adequate corporate governance, and an area lacking in research (Jizi, Salama, Dixon, & Stratling, 2014).

The purpose of this Literature Review is to focus on ESG risk of money laundering in the Casino industry (McMillan.J, 2015), focusing on Crown's failures to address this risk and provide recommendations via effective corporate governance, to treat this type of risk in the future.

2. Literature Review

2.1 ESG risks are documented in (ASX Corporate Governance Council, 2019). (Dziadkowiec, 2021) advocates that ESG factors in investing are aimed at generating positive and/or reducing negative social outcomes and is now reflected in the value of sustainable investments, which reached \$30.7 trillion globally in 2018, representing a 34% increase compared to 2016. Increases in ESG investment are cited by (Kejriwal, 2021) and (James J. Tucker III, 2020). (Muhmad, 2021) at page 64 states that "*The performance of companies in meeting their ESG obligations is deemed important in meeting their sustainability agenda.*" (Hodge, 2021) emphasises that ESG is no longer a soft

investment, and that market demand and regulatory guidance has escalated so quickly that investors are demanding such of CEOs to secure investment. This position is endorsed by many authors including (Ryann Marotta, 2021) (Sanjai Bhagat, 2008) and (Diller, et al., 2021) which emphasises the power of stakeholders.

(LeBlanc, 2016) provides a comprehensive guide of the requirements of board governance which is agreed upon by (Seifi. S, 2017). High levels of corporate governance by boards are required to address ESG risk to avoid shareholder divesting and reduced stock value. (Leopold Djoutsa Wamba, 2018) cited this in research, *“to explore the impact of the mechanisms of corporate governance on the volatility of companies’ financial profitability.”* Importantly in the view of the writer, (Stafford, 2019) cites the use of tracking software as an important component of Board Governance in the Digital Age. (Seifi, 2018) promotes the correlation between corporate legitimacy and environment and social governance. This is further supported by (Dorobantu, 2018) who cites the need for environmental and social governance for sustainability and integrated with product market competition (Siti Nurain Muhmad, 2021).

31000:2018 (International Standards Organisation, 2021) provide boards and business with the recognised standards of Risk Management. (Bertolotti, 2020) cites the use of data metrics to identify, analyse and evaluate risk, whilst supporting such (Wolke, 2017) provides extensive Risk Analysis scoring techniques via quantitative and qualitative analysis to identify risk and control or treatment methodology. The theory of stress testing current risk analysis and treatment systems is cited in (Chakraborty, 2021). Independent analysis often identifies left field risks. *(Left field risks are those that are not often identified. e.g., COVID-19 Pandemic, types of opportunist frauds.)*

At the heart of the Crown problem is the failure of corporate governance of money laundering, a criminal offence and prohibited activity as defined in the *Casino Control Act 1991*, the *Casino (Management Agreement) Act 1993* and

the *Victorian Crimes Act 1958*. In satisfaction of corporate governance, shareholder and stakeholder theory must be considered in terms of adherence to legislative compliance whilst aiming for profitability and shareholder return of investment. (Ray Finkelstein, 2021) at page 80 states “*Money laundering is the process of legitimising proceeds of crime.*” (Frankl, 2016) provides several strategies for the prevention of money laundering. (Ferwerda.J, 2018) provides detailed commentary regarding Money Laundering Risk Assessment. Principal component analysis and Organised Crime, and (Jagdish Pathak, 2019) provides theory on a range of money laundering criteria and associated subjects. The adequacy of Australia’s Anti Money Laundering Regime was examined by the Commonwealth of Australia Senate Review Committee this year (Commonwealth of Australia Senate Committee, 2021).

Worldwide, casinos present as high-risk money laundering targets. A range of issues are well documented by (Murphy. C, 2013). The study addresses a range of risks including but not limited to the link between casinos and crime and/or criminal figures, high use of cash, deference towards patrons, operator agency conflict, quantitative and qualitative measurement analysis, suspicious transactions, money laundering and prosecutions. The concepts are endorsed by (McMillen.J, 2000) and (Kleiman. K.E, 2021).

Crowns’ own reports (Crown Resorts Limited, 2021) provide financial information and Crown’s position regarding a wide range of ESG risk, including money laundering, corporate governance, compliance and modern slavery. Schedule 2 provides an extensive summary of the allegations which were aired publicly. The allegations were raised and complained about a number of times in the Victorian and Federal Parliament (Office Hansard, 2020), (House of Representatives Proof Committees , 2021), (Office Hansard, 2021).

Investigations into Crown allegations were made by media agencies (*See summary at Schedule 2*), The Victorian, New South Wales and Australian Federal Government and Commission of Enquiries were appointed (Ray

Finkelstein, 2021) and (Bergin, 2021). A number of Australian legal firms launched their own investigations into the allegations and associated damages. As a result of such investigations shareholder activism commenced with the filing of several legal actions. In a class action filed in the Victorian Supreme Court by legal firm Maurice Blackburn lawyers (Greg Lieberman -v- Crown Resorts Limited ACN: 125 709 953, 2021) the statement of claim addresses issues such as Crown's dealings with Junket operators, which goes to the heart of the allegations, Crown's legal responsibility, Crown's representations to the market, misrepresentation by Crown to the market, offshore deposits, and amongst other relevant issues Crown's knowledge of its participation in money laundering, knowledge, deficiencies, failures, contravening conduct, and ultimate loss of shareholder equity, including conduct which was contrary to shareholder interests.

The loss to shareholders and Crown's value resulted in a settlement of \$125Million by Crown. According to (Morning Star, 2021) Crown's performance over 1, 3, 5, and 10 years to November 10, 2021, however, is clear. Crown has badly underperformed in the market, due to its scandals. Total shareholder return equal to Crown's capital growth plus dividends has declined over 3 years in strongly rising market. Crown had a peak valuation of \$11.3 billion in FY14. It was worth \$8 billion at the end of FY21. Over \$3.3 billion has been wiped from its market cap. Crown CEO Ken Barton was forced to resign because of the money laundering scandal. Similar situations are occurring with rival Star Entertainment, which had a peak valuation of \$4.5billion in FY18 however is now worth \$4.5 billion in FY21 because of money laundering allegations. Star Entertainment Group's shares ended trade 23% lower on the day after the 60 minutes allegations surfaced (www.bbc.com, 2021).

3. Research Methodology

In preparation of the examination and analysis of a holistic case study, the Crown Casino Money Laundering investigation and failure of its corporate governance was embedded and supported in a great deal of available literature. A large amount of qualitative data was used, initially in gaining an overall initial summary of changing community attitudes, activism, communication, and the seriousness of complaint regarding the Crown, available media articles and social media were reviewed as a qualitative approach, a summary of which is outlined in Schedule 2.

Other qualitative data was identified in official publications or Statutory Reports such as The Commission of Enquiry report (Ray Finkelstein, 2021) and the Commission of Enquiry (Bergin, 2021) reports provided comprehensive and extensive information regarding the Crown problem. This material, along with media and social media publications, contextualized the problem or social risk of money laundering within the discipline and/or subject context.

The Crown matter was reported in Australian State and Federal Government parliaments on several occasions as reported in Australian Parliamentary reports (Hansard, 2021) providing relevant topic research. The other qualitative data provided a clear picture of the nature of concern regarding the problem.

In evaluating Crown's history and position, all of Crown's published reports were reviewed (Crown Resorts Limited, 2021). This included its historical financial reports, and other specific reports relating to its position regarding Board and Management failures, Money Laundering, Risk Management, compliance with ESG and corporate governance.

A number of textbooks, book sections, peer reviewed journal articles, reports, industry, and discipline bases sources were identified as addressing the main theme of the topic and providing an understanding of other qualitative data the general

terms and Casino specific topics such as Board and Management failures, Money Laundering, Risk Management, Compliance, ESG and corporate governance failures.

Money Laundering is a criminal offence covered by various state and federal legislation (Documents, 2003). Similar prosecuted cases and the conditions of Crown's Casino License under the provisions of the (Victorian Parliament, 1991) was reviewed. This included a review of the relevant standards or guidelines; such were well documented in the Royal Commissions report (Ray Finkelstein, 2021).

An attempt was undertaken to benchmark Crown's results with other operators or industry standards and identified a lack of qualitative or quantitative data. (Hancock, 2010) attempted Casino benchmarking but failed to include the ESG risk of Money Laundering. The writer concluded that the comparison of criteria of several casinos was necessary to fulfil this analysis.

Of relevance is the change in community standards requiring reviews of shareholder activism and filed civil litigation, (Greg Lieberman -v- Crown Resorts Limited ACN: 125 709 953, 2021) including other like cases were very relevant sources of literature; such sources clearly particularizing failures and resulting damages. This was apparent in the case against the Commonwealth Banking Corporation prosecuted by Government Agency, AUSTRAC, (Austrac, 2021) and Westpac Banking Corporation (Austrac, 2021).

The financial impact of an ESG risk such as Money Laundering is clearly reflected in the value of Crown. As a result, financial and market quantitative data was sourced, from (Morning Star, 2021) reviewed and analysed.

In order to provide recommendations as to treatment processes a wide range of literature was reviewed, however benchmarking Corporate Governance against Authority reports such as recommendations of the Australian Security Exchange (ASX Corporate Governance Council, 2019), Australian Security and Investments Commission Regulator Performance Framework (Australian Securities and Investment Commission, 2021) (Organisation for Economic Cooperation and Development, 2001) and Consultants' reports.

(Risk Metrics Group, 2010) and other organizations provide ESG Risk Ratings Definitions and formulas, however despite risk metrics relating to gambling and non-compliance being worthwhile metrics as outlined by (Chatterji, 2009), there are little defined metrics relating to assessment of risk relating to money laundering. An analysis was also undertaken of industry risk professionals' methodology including a review of literature by (Mozaffar Khan, 2019) and other like-minded professionals, however quantitative metrics relating to Crown Corporate Governance for benchmarking against (ASX Corporate Governance Council, 2019) standards, has been created by the writer with respect to the following criteria;

3.1 Board Experience.

3.2 Shareholder value; and

3.3 Risk Management (*Money Laundering*) Software Solutions

4. Findings

Background

4.1 Money Laundering – Social Risk

“Money laundering is the act of disguising or legitimising the origins of money used in or derived from crime.” (Ray Finkelstein, 2021)

Qualitative analysis identified that criminals are better able to avoid detection, prosecution and the confiscation of proceeds of crime such as fraud, drug trafficking, tax evasion, people smuggling, theft, arms trafficking and corrupt practices (Austrac, 2011), if proceeds can be effectively laundered to appear legitimate or mask ownership. This practice enables organised criminals to accumulate wealth and undermine the integrity of a legitimate economy, by increasing profits, and ultimately in some cases driving up inflation and increased in capital acquisitions. Money laundering is itself a crime, attracting penalties of up to life imprisonment. *“In 2015, the then Australian Crime Commission (ACC) estimated that in the two years prior, serious, and organised crime cost the country \$36 billion”* (Ray Finkelstein, 2021).

4.2 Casinos are targets for Money Laundering

Casinos are vulnerable and considered ideal locations to launder money as cash is commonplace (Murphy, 2014). In Australia they attract local and foreign national money launderers. (Ray Finkelstein, 2021) advocates that Casinos are not unlike banks maintaining customer accounts, exchanging foreign currency, facilitating electronic funds transfers, acting as money transmitters, cheque cashiers and themselves providing cheques on a 24-hour basis. Casino chips are purchased from the proceeds of criminal enterprise, and then later redeemed as legitimate winnings and banked. Criminal organisations deposit funds in associates accounts which are used to purchase casino chips, prior to redemption as legitimate winnings and banked. Casino VIP rooms are high risk in that they offer high-stakes gaming tables and high value bets, with little condition of entry, and are used for the same practice. Of significance is the term *“Junkets”*, (a significant component of the Crown allegations) which are organised travel groups of gamblers, usually from overseas who either deposit large sums of funds into the Junket operators local casino accounts or transport it themselves in cash, ultimately with both practices involving the movement of large sums of funds, without due diligence. In some instances, gamblers place large sums of cash in electronic gaming machines (EGM’s) or *“pokies”*, redeeming credits as legitimate winnings. Where Casino operators are in multiple jurisdictions, criminals convert cash into chips, or chips into legitimate winnings, creating credits which are then redeemed at another jurisdiction, making investigation by Casino operators and law enforcement, and prosecution difficult. *“Structuring refers to the practice of deliberately splitting what could be a single cash transaction into several smaller transactions, each of which is less than \$10,000 individually”* (Bergin, 2021). This practice undermines the reporting threshold requirements under the provisions of the relevant Anti Money Laundering and Counter Terrorism Financing Acts. *“Cuckoo smurfing refers to a process where the flow of an illegitimate payment is intercepted and replaced with a deposit of legal funds by one or more third parties”* (Ray Finkelstein, 2021) at page 165. This is facilitated by professional money laundering syndicates that work with a corrupt remitter based overseas.

Casino operators may be tempted to turn a blind eye to money laundering in pursuit of profit necessitating the need for legislation such as the Victorian Casino Control Act is concerned with the character (and financial soundness) of a casino licensee and their ongoing suitability from criminal influence. The main issue for casino operators is there is *“often little observable basis for distinguishing between those patrons’ laundering funds in the casino and all*

other casino patrons," " compounded by the fact that there are so many different methods of evolving money laundering in a casino" (Ray Finkelstein, 2021) at page 166.

The legislation mandates robust systems to detect indicators of this conduct, and that these systems are regularly reviewed through corporate governance.

4.3 Corporate Governance;

Despite debate (Seifi. S, 2017) at page 9 associates good corporate governance as *"creating sustainable value, achieving a firm's goals, increasing shareholders satisfactions, efficient and effective management, increasing credibility, ensuring efficient risk management, providing an early warning system against all risk, ensuring a responsive and accountable corporation, describing the role of a firms units, developing control and internal auditing, keeping a balance between economic and social benefit, ensuring efficient use of resources, controlling performance, distributing responsibility fairly, producing all necessary information for stakeholder, keeping the board independent from management and facilitating sustainable performance."*

(ASX Corporate Governance Council, 2019) provides guidance on comprehensive Corporate Governance Principles and Recommendations for Australian listed business, including risk management and social risk (*including crime or corruption*). Good corporate governance should address Money Laundering through risk management strategies.

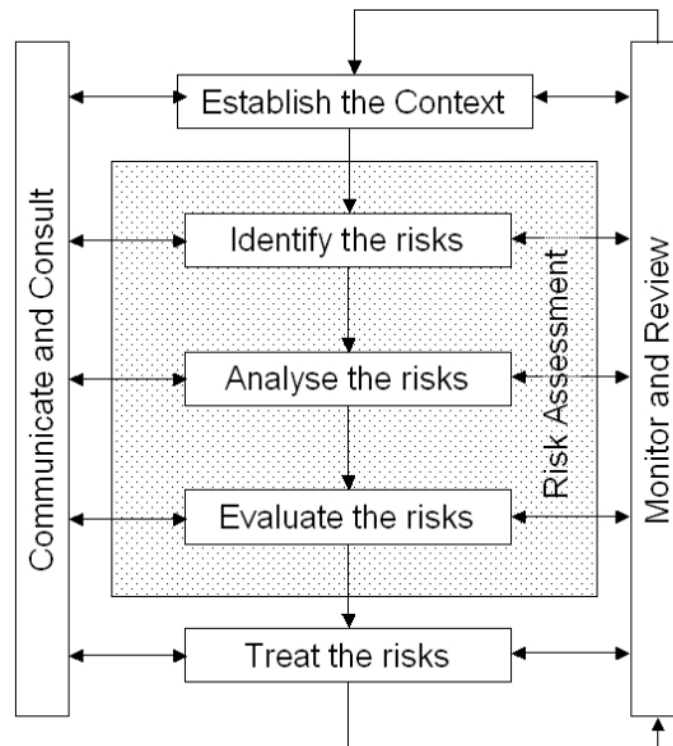
4.4 Risk Management – Part of the Corporate Governance Strategy

Using ISO 31000:2018 (The International Organization for Standardization, 2018) as a benchmark when developing, implementing, and maintaining risk management system specific risk policy is relevant to its strategic context and its goals, objectives, and the nature of the business.

Risk management is the term applied to a logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring, and communicating risk associated with any activity, function or

process in a way that will enable the effects of uncertainty. Risk management is as much about identifying opportunities as avoiding or mitigating losses.

See (The International Organization for Standardization, 2018) summary diagram.



(International Standards Organisation, 2021)

Risk management is recognised as an integral part of good corporate governance and management practice and forms part of an organisation's culture. It should be integrated into the organisation's philosophy, practices, and business plans rather than be viewed or practised as a separate program. When this is achieved, risk management becomes the business of everyone in the project. It is best done by conducting consultation with stakeholders in the business to ensure the risk management arrangement remains relevant, practical, and effective.

Measure of Consequence or Impact

The following format in Figure 1 is suggested for identifying the impact that an event, associated with a risk, will have on the business.

Figure 1:

Level	Impact	Description
1	Insignificant	Minimal interruption to services
2	Minor	Short interruption to services
3	Moderate	Longer interruption to services
4	Major	Lengthy interruption to services
5 – 6	Catastrophic	Long term interruption to services

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Qualitative Measure of Likelihood

The following format in Figure 2 is suggested for identifying the likelihood of an event occurring within the practice.

Figure 2

Level	Likelihood	Description
5-6	Almost certain	Is expected to occur at some stage
4	Likely	Will probably occur at some stage
3	Possible	May occur at some stage
2	Unlikely	Could occur but not likely
1	Remote	May occur only in exceptional circumstances

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Qualitative Risk Analysis Matrix – Level of Risk

The following analysis matrix in Figure 3 is a suggested format for identifying the level of risk associated with an event based on utilising the impact and likelihood criteria utilised above.

Figure 3

Likelihood	5-6	Almost certain	M	H	H	E	E
	4	Likely	M	M	H	H	E
	3	Possible	L	M	H	H	H
	2	Unlikely	L	L	M	M	H
	1	Remote	L	L	M	M	H
			Insignificant	Minor	Moderate	Major	Catastrophic
			1	2	3	4	5 – 6
Impact / Consequences							

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Legend:

E: extreme risk, immediate action required;
H: high risk, senior management attention needed;
M: medium risk; management responsibility for risk area must be specified;
L: low risk, manage by routine procedures;

The level of risk associated with a source of risk will determine the allocation resources in order of priority.

Much of the referenced literature confirms the occurrence of unlawful money laundering in casinos is a very high risk.

4.5 The Media

Community attitudes were reflected in a 2014 media article by the Australian Broadcasting Corporations 'Four Corners' program, which alleged that Crown was engaged in money laundering with junket operators. Many negative media articles followed with various related allegations over the next 6-7 years. See Schedule 2.

4.6 The China Arrests

In October 2016 Crown's staff based in mainland China were arrested and prosecuted by Chinese law enforcement for offences that contravened its laws, acts in effect that were steps in Crown's money laundering overall picture. The seriousness of Crown's poor conduct was outlined at page 97 of the report by (Ray Finkelstein, 2021). Extensive negative media reports followed.

4.7 AUSTRAC Investigation

Reacting to intelligence and media reports regarding money laundering Federal Government Financial Crimes Regulator AUSTRAC (Austrac, 2011) undertook administrative audits of Crown in September 2019, resulting in the announcement of a full investigation in October 2020. (Nassim Khadem, 2021) Recent similar money laundering AUSTRAC investigations had led to significant fines of \$700M against Commonwealth Banking Corporation (Austrac, 2021) and \$1.3Billion Westpac Banking Corporation (Austrac, 2021). The market reacted to the risk associated with the Crown announcement resulting in a drop in Crown's share price of 9% on a day when the market was generally up .07%. The investigation by AUSTRAC into Crown Money Laundering allegations has not been concluded, and the outcome of a potential large penalty is unknown.

4.8 Shareholder Activism

Consistent with increased litigation by shareholders, Legal Firm Maurice Blackburn Lawyers filed a class action lawsuit against Crown (Greg Lieberman -v- Crown Resorts Limited ACN: 125 709 953, 2021). This matter settled on 21 October 2021 an agreement for Crown to pay its litigating shareholders the total sum of \$125M.

4.9 Commissions of Enquiry

The Commission of Enquiry (Ray Finkelstein, 2021) and the Commission of Enquiry (Bergin, 2021) provided comprehensive and extensive information regarding the Crown money laundering problem. This material, along with media and social media publications, contextualized the problem or social risk of money laundering within the discipline and/or subject context. Both enquiries concluded that Crown did not adhere to the required standards of Corporate Governance, managing a high risk such money laundering, subsequently breaching its licensing obligations, and that money laundering had occurred. As a result, the NSW Gaming Authority ruled to decline Crown's license application in NSW, with (Ray Finkelstein, 2021) at page 97 ruling that shares controlled by Mr. Jamie Packer, Crown's largest shareholder be divested to not more than 5% of the total shareholding.

4.10 Parliamentary Enquiry

The Crown matter was reported in Australian State and Federal Government parliaments on several occasions as reported in Australian Parliamentary reports (Hansard, 2021) providing relevant topic research. The literature provided a clear picture of the nature of concern regarding the problem.

4.11 Researched Qualitative Data Summary:

Available qualitative data (*Commissions of Enquiry, parliamentary enquiry, filed and settled litigation, Crown Reports, and media reports*) provide a summary at Figure 4 of Crown's failures regarding the management of the ESG risk of money laundering:

Figure 4

Failures:	
1.	Systems for monitoring, assessing, managing, and reporting money laundering risks generally, and in relation to Crown's VIP business program and or Junket Program were deficient and failed to deliver information to its board and Risk Management Committee and ensure effective monitoring. The ineffectiveness and underutilisation of Crown's risk management and compliance structures and deficiencies in the various documents designed to capture risks was evident. Crown Melbourne does not have in place robust and sustainable systems to detect and deter money laundering;
2.	Crown did not comply with Australian regulatory requirements including its reporting obligations to AUSTRAC;

3.	Due Diligence failed to identify the unsuitability of persons to be close associates of Crown and its subsidiaries. These persons may have had links with organised crime;
4.	<i>“Corporate Governance systems generally, were deficient (the Corporate Governance Risk Systems Information) by reason of each and any combination of the matters pleaded in paragraphs 154 to 209 of”</i> (Greg Lieberman -v- Crown Resorts Limited ACN: 125 709 953, 2021)
5.	The Crown board, its management and major shareholder (Packer) had or ought to have had knowledge of the risk of money-laundering, including the risk of association with organised crime;
6.	With respect to money laundering detection, management, compliance and Casino regulation, there was a failure of understanding of due diligence including required documentation, and lack of training systems to allow management and the board to react to such activity;
7.	Induction of board members did not include about the way casinos are regulated or money laundering issues;
8.	Board Members lacked experience in Casino operations, including the high risk of money laundering;
9.	The board of crown and its management failed to exercise its fiduciary duty to act in the best interests of its shareholders;
10.	There was a failure to investigate allegations, or take advice from regulators, banks, and consultants, and or change processes when clear intelligence was available;
11.	Crown management overtly created opportunity for money laundering by allow breaching relevant federal legislation in Australia and China and relevant banking legislation;
12.	<i>“The nature of the Packer influence and the size of the (his) CPH holding of Crown, coupled with the ubiquitous and powerful influence of Mr Packer, led to the creation of a team of loyal directors and senior managers. Those directors and managers were committed and steadfast in their devotion to assisting Mr Packer achieve his business pursuits. Mr Packer retained significant control over Crown affairs, even after his resignation as Chairman of the board and as a director.</i> (Ray Finkelstein, 2021)
13.	The board failed in its fundamental responsibility to set, monitor, and communicate Crown’s risk appetite;
14.	Risk decisions by senior executives were dominated by a pursuit of profit over the welfare of Crown employees and compliance with legislation protecting the casino from criminal exploitation;
15.	Specific risk-based money laundering detection software was not being used by Crown to monitor, manage, and report this risk.

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4.12 Analysis of Quantitative Data

In undertaking this analysis, the writer chose to review a combination of available secondary data and build data sets relevant to the investigation, such as presented as follows:

4.12.1 Board Experience

(Bergin, 2021), (Ray Finkelstein, 2021) and litigants (Greg Lieberman -v- Crown Resorts Limited ACN: 125 709 953, 2021) were highly critical of many aspects Crown's management, particularly surrounding the lack of knowledge, training, and induction of the Crown board. Media outlets (Schedule 2) supported these finding and allegations. Literature however appears to stop short of an investigation in the Crown board's experience. The writer chose to investigate the experience of Crown's board members and other businesses in the industry.

Schedule 3 (See page 28) is a summary investigation, analysis, and evaluation of the board members of Crown over the past three (3) years and four (4) other casino operator board members during the past 12 months. These Casino's including Star Entertainment, Sky City, (Australia) MGM Resort, Rio Casino. (Las Vegas). Figure 5 is a summary of the writer's analysis:

Figure 5

Findings	
1.	Crown currently have three board members with casino operations experience;
2.	Prior to 2021 and during most of the period of the money laundering Crown board members had no previous casino operations experience, a business type with a high risk of money laundering;
3.	Other casino's generally lack board members with casino operations experience;
4.	There is a clear lack of risk management experience or qualifications of the board members of Crown and all other compared casino's;
5.	There is a wealth of prior board experience and thus an assumption of previous Corporate Governance experience, however there is little or no evidence to substantiate Corporate Governance experience or qualifications;
6.	Legal experience and qualification are present amongst two (2) Crown board members, however, there has generally been a lack of this type of experience over the period of the time of the allegations. Other casino board members lack legal experience and or qualifications;

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The analysis revealed that the Crown board did not have the relevant experience during the time of the alleged illegal activity.

4.12.2 Money Laundering Management Software

The literature is devoid of dialog or explanation of the use of specific software to identify, analyse, manage, and report money laundering in Casino businesses. Current casino software programmes do not appear to manage this area of the business. In a high risk, high transactional environment the writer undertook an investigation of available money laundering management software. Figure 6 is a summary of available software.

Figure: 6

Findings	
1.	<p>Three specific money laundering management software programs were identified. They are:</p> <p>File Invite: Auckland NZ FileInvite is a platform for document collection, digital signatures, and online forms. It mechanizes the process of collecting AML documents from the clients with a simple process and on a secure interface.</p> <p>ITL Group: Malta “Amlexa AML Identification Module” for AML Gambling Compliance is an aml onboarding, kyc betting and id verification software that assures non face to face customer identification, automated kyc and online identity verification for gambling sector using a patented authentication technology that compares the data contained in the government issued identity document with biometric recognition of the customer’s face (Biometric Identification).</p> <p>Clear View Systems: North Vancouver Canada Clear View KYC offers entity and individual name screening against 10 international sanction lists including (OFAC SDN, OSFI, UK, AUS, NZ, Switzerland SECO) as well as PEP screening. Their backend cloud server is serving over 300 financial institutions in 30 countries</p>
2.	<p>Crown does not use any of these software programs or any other customised program despite undertaking business in a high risk, highly transactional environment where money laundering is a high risk.</p>

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4.13 Reflection of Findings

In her findings regarding Crown and money laundering, (Bergin, 2021) at page 555 describes its risk management and Corporate Governance as, *“ineffectual and underutilised risk management and compliance structures, mismanagement of the legal advice, blurred lines of reporting and lack of effective governance.”*

(Ray Finkelstein, 2021) P.97 (Bergin, 2021) P. 541 provided findings of Crown's failures. The writer summarises the main features of failings as follows:

- 4.13.1 There was a serious gap between required level of risk management, compliance, and corporate governance sophistication of Crown's systems. There was a failure of Crown's Corporate Governance;
- 4.13.2 Crown's board of management lacked the relevant experience;
- 4.13.3 Crown's management failed to comply with regulation;
- 4.13.4 Having lengthy relationships with board members, Crown's major shareholder effectively held the Crown board hostage to its interests and profit motivation; (Ray Finkelstein, 2021) p.97.

5. Implications and Recommendations

Implications:

5.1 Share Price and Market Capitalisation

One of the most significant implications for Crown has been the effect on its share price and its market capitalisation devaluation. In understanding the implication, the writer undertook an analysis using quantitative data supplied by (Morning Star, 2021) of Crown and three other casinos (*Star Entertainment Group Limited, SkyCity Entertainment Group, Las Vegas Sands Group*) which had been recently the subject of similar allegations during the past two (2) years. Findings outlined in Figures 7 to 10 provide a clear picture of the negative implications of these allegations on yearly average share price and market capitalisation during the past two (2) years. In each case, (*including Crown*) the market reacted poorly with share price decreasing and value disappearing.

Figure 7 Crown Resorts Ltd (AUD)					
Market Cap in Billion; end year	2017	2018	2019	2020	2021
Stock Price	8.97	8.03	8.16	6.52	7.52
	13.02	12.04	12.23	9.77	11.02

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Figure 8 Star Entertainment Group Ltd (AUD)					
Market Cap in Billion; end year	2017	2018	2019	2020	2021
Stock Price	5.02	4.18	4	3.5	3.32
	6.08	4.56	4.56	4.76	3.55

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Figure 9 SkyCity Entertainment Group Ltd (AUD)					
Market Cap in Billion; end year	2017	2018	2019	2020	2021
Stock Price	2.8	2.42	2.65	2.44	2.29
	3.72	3.3	3.64	3.64	2.9

Developed for this report

Figure 10 Las Vegas Sands Corp (US\$)					
Market Cap in Billion; end year	2017	2018	2019	2020	2021
Stock Price	54.9	40.8	53	45.5	27.1
	69.57	48	69.3	59.6	35.5

Developed for this report

Crown has badly underperformed the market, largely due to its scandals. Total shareholder return = Crowns' capital growth + dividends went backwards over 3 years in strongly rising market. See Figure 11.

Figure 11

Total Shareholder Return (avg annual rate)

1yr	3yr	5yr	10yr
1.5%	-3.0%	1.4%	6.3%

(Morning Star, 2021)

Crown had a peak valuation of \$11.3 billion in FY14. It was worth \$8 billion at end of FY21 (Morning Star, 2021), as billions were wiped from the market

capitalisation. The Star Entertainment Group (*“Star”*) has not been much better.

Figure: 12



(Morning Star, 2021)

Star had a peak valuation of \$4.5 billion in FY18. It was worth \$3.5 billion in FY21 with those big falls in a very strongly rising share market. (Morning Star, 2021)

Star Entertainment Group's shares ended trade almost 23% lower on the day after the television show 60 minutes money laundering allegations surfaced (BBC, 2021) in November 2021. See Figure 13.

Figure 13:



(Morning Star, 2021)

The writer also analysed the average share prices and market capitalisation of three (3) casinos which had not been subjected to the same allegations during the same period. These are MGM Resorts International, Penn National Gaming and Boyd Gaming. Using data from (Morning Star, 2021) the below tables at Figures 14 to 16 to depicting no losses in stock price or Market Capitalisation.

Figure:14 MGM Resorts International (US\$)					
	2017	2018	2019	2020	2021
Market Cap in Billion; end year	18.9	12.8	16.7	15.6	18.9

Stock Price	33.39	24.26	33.27	31.51	39.45
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Developed for this report

Figure 15: Penn National Gaming (US\$)					
Market Cap in Billion; end year	2017	2018	2019	2020	2021
Stock Price	2.85	2.24	2.96	13.4	8.56
	31.33	17.68	25.56	87.09	50.57

Developed for this report

Figure 16: Boyd Gaming (US\$)					
Market Cap in Billion; end year	2017	2018	2019	2020	2021
Stock Price	3.94	2.33	3.33	4.79	6.54
	35.33	20.78	29.94	42.19	58.84

Developed for this report

Figure 17 depicts further implications with Crowns declining Key Ratio's during the relevant period, an implication related to allegations.

Figure 17: Crown Resorts Ltd					
Item	2017	2018	2019	2020	2021
Sales/Revenue	3.28B	3.46B	2.87B	2.2B	1.52B
Sales Growth	-	5.44%	-17.18%	-23.22%	-30.83%
Gross Income Growth	-	5.18%	-7.37%	-52.69%	-69.77%
Gross Profit Margin	-	-	-	-	5.51%

Interest Expense	111.2M	76.1M	36.6M	10.2M	69.1M
Interest Expense Growth	-	-31.56%	-51.91%	-72.13%	577.45%
Net Income	1.87B	558.9M	401.8M	79.5M	(261.6M)
Net Income Growth	-	-70.05%	-28.11%	-80.21%	-429.06%
Net Margin Growth	-	-	-	-	-17.18%
EPS (Basic)	2.57	0.81	0.59	0.12	-0.39
EPS (Basic) Growth	-	-68.43%	-27.21%	-80.13%	-429.05%
EPS (Diluted)	2.57	0.81	0.59	0.12	-0.39
EBITDA	785.9M	788.5M	812.1M	367.9M	(256.1M)
EBITDA Growth	-	0.33%	2.99%	-54.70%	-169.61%
EBITDA Margin	-	-	-	-	-16.82%

5.2 Litigation

The (Greg Lieberman -v- Crown Resorts Limited ACN: 125 709 953, 2021) class action legal proceedings filed by Maurice Blackburn Lawyers resulted in a settlement to Crown in October 2021 shareholders of \$125. These funds paid by Crown shareholders will dramatically impact Crown's profit and loss statement in the 2022 second quarter, such impact possibly having a further negative effect on Crown's share price and market cap.

Like Crown, Star has attracted several potential class action moves by Legal Firms, Slater and Gordon and Shine, since its share price dropped almost 20% in November 2021, following allegations of money laundering by television program 60 minutes.

5.3 Loss of reputation

The allegations have caused great damage to Crown's reputation publicly and amongst Government regulators. Its poor conduct was comprehensively ventilated in media articles at Schedule 2, by the public enquiries conducted by (Bergin, 2021) and (Ray Finkelstein, 2021) and in court proceedings filed on behalf of (Greg Lieberman -v- Crown Resorts Limited ACN: 125 709 953, 2021).

5.4 KLD State and ESG Ratings Definitions

Institutional Investors and Capital providers now rely upon KDL Statistics as a data set (Statistical tool for Analysing Trends in Social and Environment Performance) and ESG Ratings Definitions to make investment, and provision of capital decisions. (Risk Metrics Group, 2010). The social risk scores relating to gambling and sale of alcohol are higher than other industries and deter many institutional investors. Often the cost of capital is higher due to the ESG Risk Ratings and KDL statistics. The money laundering allegations have, in the writer's submission now made Crown a higher investment and capital provision risk.

5.5 Prosecution

In 2020, Westpac Banking Corporation ("*Westpac*") was prosecuted for Money Laundering and agreed to pay a fine of \$1.3Billion. (Austrac, 2021) Commonwealth Banking Corporation ("*Commonwealth*") was prosecuted for Money Laundering and agreed to pay a fine of \$700. (Austrac, 2021) A prosecution has not been commenced against Crown at the time of this report,

however the writer submits that it is highly likely that Crown will be prosecuted under a few regulatory frameworks and could be subject to penalties of a similar nature as Westpac and Commonwealth. It is reasonable to expect criminal prosecutions.

Recommendations

5.6 Statutory Body Recommendations

(Bergin, 2021) at p.567-576 and (Ray Finkelstein, 2021) in each chapter of its report recommended various strategies to reduce money laundering. Litigation instigated by (Greg Lieberman -v- Crown Resorts Limited ACN: 125 709 953, 2021) sought Injunctive Relief and orders of the court regarding future strategy to reduce money laundering. The writer concurs with all recommendations, however adds the following recommendation in points 5.7 to 5.10.

5.7 Software

Evidence that Crown was using metrics to measure its risk management performance with respect to money laundering is difficult to identify. There are monitoring software options for management and boards. Some examples include software outlined in Figure 6, Sword GRC and or those recommended by www.capterra.com. The writer adopts that position that Crown should develop its own risk management software customised to its specific risks, by subscribing to theories promoted to measure risk by (Duque-Grisales. E, 2019), and development of ESG ratings by (Clementino. E, 2019), and that all activity relating to potential risk (*Risk Register*) should be identified and integrated into software analysis that specifically provides real time reports and a trail of server logs. Basics should include but not be limited to cashless betting, due diligence, identification, facial recognition of all customers, deposit records, and winning records.

5.8 Board Experience

In a high risk, high transactional business experienced casino professionals with corporate governance and risk management experience and qualifications should be the primary focus of board appointments.

5.9 Prosecutions by Regulators

Regulators must take a proactive approach and prosecute businesses and individuals before situations like Crown can occur.

5.10 The Engagement of Casino Corporate Governance and Risk Management Experts.

Regular audits must be performed by independent experience and qualified experts to stress test systems and identify new *left-field* risks.

6. Conclusion

Since the corporate collapses of the 2008 Global Financial Crisis, much literature has concluded that Corporate Governance failures were the causation of such collapses. The (Enron Scandal, 2021) of 2001 exposed one of the largest ever accounting scandals by a listed business, necessitating the need for passing of the US Sarbanes-Oxley Act, which is a U.S. federal law that aims to protect investors by making corporate disclosures more reliable and accurate. Some thirteen (13) years later, in the case of Crown and other Australian Casinos (Star Entertainment and Sky City) literature is still repeating itself.

Crown conduct with respect to money laundering was so overt and obvious it is difficult to understand how it proceeded for such a lengthy period. This conduct caused significant loss of shareholders equity and has created ongoing damages to Crown.

Despite the increase in education, regulatory compliance, monitoring and enforcement, litigation, and media surveillance the Crown situation represents

remnants of the past, and evidence of little advancement of responsible Corporate Governance. Risk Registers must be programmed into real time software that monitors every risk, identifies non compliance, and reports and or stops the conduct.

Is Corporate Governance and Risk Management possible by board members in businesses such as high risk, high transaction, 24-hour trading casinos? It is the opinion of the writer, that without substantial changes, effective Corporate Governance is not achievable in casinos. The writer is of the opinion that boards must be suitably experience and qualified and that all gaming activity be controlled and recorded digitally by software, producing live reports of each part of its risk register, *(including immediate risk identification)* to management and the board, such reports being also provided in real time to regulators, and that such strategy be enforced by the passing of legislation as reported by (Ray Finkelstein, 2021).

7. Schedule 1: Internet Removals - Organisational Authority

See: <https://covertserver.box.com/s/306aodunf38712gcyiitx6nrz7jrj71x>

8. Schedule 2: Crown Money Laundering Allegations – Internet Removals Summary of links to online Media articles:

See: <https://covertserver.box.com/s/7bjofbvnga4881sk3fsk457rdf4xjhr0>

9. Schedule 3: Crown Board Experience Analysis

See: <https://covertserver.box.com/s/foenye9wa43tsgyddzw6nqs7razcg3tn>

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