

## Crown probes to focus on probity, though major hurdles unlikely

**Australian regulators are likely to focus on probity issues in their investigations into Crown Resorts' operations, although experts don't expect any major red flags to be raised.**

The country's gaming industry is under the spotlight following a July investigative report by The Age, 60 Minutes and the Sydney Morning Herald, which made a series of explosive allegations against the company, including dealing with junkets with links to organized crime, money laundering through its casinos and working with immigration to fast track visas for VIPs.

The report was met with mixed reactions from the industry, with some saying it appeared to lack in-depth knowledge about standard practices.

Crown's Australian competitor Star Entertainment Group came out to defend the use of junkets, which were featured in a particularly negative light, pointing out they are a well-established feature of the gaming industry.

Jamie Nettleton, a partner at Addisons, recently spoke to Asia Gaming Brief about his initial reaction.

"I cannot speak for the industry but it was hard to identify the real issues [from the report]. There were a lot of assertions, many of which were made with limited knowledge of the sector, to the extent that many of the comments seemed sensationalized," he said.

Crown's board of directors was quick to issue a statement vehemently denying the allegations. In an FY19 results filing, Crown Resorts chairman John Alexander described the media reporting as having "unfairly sought to tarnish Crown's reputation."

Still, Australian regulators have taken the allegations seriously and have been swift to announce their own probes into Crown's alleged wrongdoings.

Much of this investigative work is in relation to the probity assessment of Melco Resorts, a casino company run by Lawrence Ho, which has been positioning itself to purchase a 19.99 percent stake in Crown.

The conditions of Crown's license prevent the company from doing business with anyone on Australia's "banned companies list," which includes companies tied to casino mogul Stanley Ho, Lawrence Ho's father.

"In circumstances where a person is becoming an associate of the casino operator, the Commission must inquire into the change to determine whether it is satisfied that the person is a suitable person to be associated with the management of the casino, and a person of good repute, having regard to character, honesty, integrity and other matters," said the Victorian regulator in a statement.

Linda Woo, a former gaming regulator for the Queensland government, said it is common for regulators to conduct these kinds of probity checks, as junket operators have long been known for their potential links to organized crime.

"This was always a risk with junkets, especially when casino licensees deal with junket operators from countries with a long history of organized crime. Probity investigations into the suitability of junket operators are always a challenge," said Woo.

The NSW Independent Liquor and Gaming Authority also launched its own inquiry, also with the aim of determining the suitability of Melco Resorts as a substantial shareholder of Crown Resorts.

The Honourable Patricia Bergin SC was appointed to preside over the inquiry, and would focus on three distinct areas of investigation – the 19.99 percent share sale agreement between Melco Resorts and CPH Crown Holdings; investigation whether Crown remains "a suitable person to hold a restricted gaming license for the purposes of the Casino Control Act,"; and the effectiveness of the Casino Control Act and ILGA's current ability to respond to "the growing complexity of both extant and emerging risks for gaming and casinos."

"This includes ensuring that the management and operation of a casino remain free from criminal influence or exploitation, that gaming in a casino is conducted honestly and controlling the potential of a casino to cause harm to the public interest and to individuals and families," said the regulator.

When asked what would be the main drivers for regulators to conduct these investigations, Woo said it is paramount for the government to ensure the ongoing suitability of casino licensees to hold a license in their state.

“Any concern around associates of casino operators must be investigated to ensure that the licensee continues to be a suitable entity to hold a casino license.”

The probe appears to have spooked Melco and Crown, which announced in late August that it is putting the purchase of a second tranche of shares in Crown on hold, pending the completion of the NSW regulatory probe.

“The company and CPH (Crown Holdings Pty) have agreed to allow more time for the relevant Australian regulatory processes to be completed before completing the acquisition of the remaining 67.67 million shares.”

However, it is currently unclear what would be the potential impact on Crown’s casino licenses in Australia, if any.

“This is difficult to predict for various reasons,” commented Nettleton. “The Melco issue is really a question of fact and something where the review is addressing issues considered in other investigations many times. That is, whether an investigated party and its principals are suitable.”

The question about whether Crown is suitable to continue holding a license has also been considered many times by Australian regulators, so it is similarly difficult to predict its outcome, he said.

“It is essentially a review of a licensed casino by the regulator during which specific recent events will be assessed. Are the circumstances involving Crown novel? The press articles would suggest they are but that is unclear. Obviously, all the matters alleged will be reviewed closely,” he said.

On the other hand, Bernstein Research analyst Vitaly Umansky was a bit more optimistic, saying he expects Melco and Lawrence Ho to clear the probity review and receive regulatory approval for the share purchase. However, he admits that given the political climate, this is not a certainty.

“Politics being what it is, there is no assurance that such regulatory approval will be given (in light of both the prevailing China-Australia tensions that exist and the fog surrounding Crown’s links to junkets).”

Woo declined to speculate the implications of the investigations but noted that the regulators would have a range of options for dealing with Crown other than license cancellation or suspension – of course, depending on the outcome of the investigation.

There's no formal timeline of when these investigations will close, but regulators have promised to keep the public informed of the results.

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