
The Star Gold Coast
Treasury Brisbane
Special Manager's Report to the Office of Liquor and Gaming Regulation

20 March 2024

1 This report

This report is set out in 5 sections, the contents of which are outlined below:

- 1) **Executive Summary** - A summary of key aspects of this report.
- 2) **Regulatory Background** – An overview of the current regulatory position of The Star Entertainment Group in Queensland and NSW.
- 3) **Developments since the Special Manager’s 3 October 2023 Report** – A brief description of material developments we have observed since our 3 October 2023 report to OLGR.
- 4) **Remediation Plan** – Observations based on the initial phase of Star’s implementation of its approved remediation plan.
- 5) **A Second Bell Inquiry** – An overview of the recently announced inquiry initiated by the NICC.

2 Executive Summary

Status of Implementation Plan

The Star Entertainment Group Limited (**TSEG**) has expressed a commitment to implement its approved Remediation Plan and is dedicating significant resources to ensuring that it delivers on that commitment. Of the 245 Plan milestones due on or before 29 February 2024, TSEG has reported that 241 of those milestones are complete as of 18 March 2024.

TSEG has appointed KPMG to conduct assurance over each of the plan deliverables. The company accepts that a milestone should only be regarded as complete when KPMG's assurance process accepts the completion of the work, and the Special Manager Team has reviewed both TSEG and KPMG's work and agreed that the milestone should be closed.

While TSEG is reporting that 241 milestones are completed, only 105 milestones have been reviewed by KPMG. Of these milestones, KPMG has assessed 78 as complete, 19 as substantially complete and 8 as incomplete. As of 18 March 2024, the Special Manager team had reviewed approximately 40 milestones, 35 of which were accepted as complete or requiring some additional work. The balance (5 milestones) requires more substantial work before they can be closed.

To date, TSEG's assurance process is falling behind deadlines set by the Special Manager, and it is evident that there is a significant degree of pressure on the business to provide milestones to KPMG in a timely manner with the requisite level of supporting evidence. While TSEG is having difficulty consistently meeting the standards required for the timely closure of milestones, KPMG have reported an improvement in the quality of work submitted for assurance by TSEG.

On balance, while TSEG is reporting the completion of over one-third of the overall remediation plan, a little over 10% of the milestones have been reviewed by KPMG and accepted as complete, so it is too early to form a clear view on TSEG's ability to implement its remediation plan.

Developments since the Special Manager's 3 October 2023 Report

Section 4 describes a number of matters that have been resolved by TSEG in the since our October 2023 report, such as the dispute with Multiplex over the construction of Star Brisbane, and several matters that remain outstanding, such as the AUSTRAC proceedings. It also documents ongoing deficiencies with the quality and effectiveness of key aspects of TSEG's risk management practices, including in relation to the assessment of money laundering risks.

NSW – a second Bell Inquiry

Section 6 of this Report provides information on the NSW Independent Casino Commission's decision on 19 February 2024 to appoint Mr. Adam Bell SC to undertake an independent review of The Star Sydney's suitability.

At this stage, it is anticipated that the hearing phase of the review will be conducted in private with a report scheduled to be provided by Mr. Bell to the NICC on or before 31 May 2024. The conduct of the review and the likely date for its completion is subject to change, but it is unlikely that a report will be issued before the end of May. The terms of reference of the review are described at Section 6.

Attorney-General consideration of Deferred Suspension

In correspondence dated 14 March 2024 the Queensland Attorney-General and Minister for Justice indicated that she is considering recommending to the Governor in Council that the commencement date of suspensions for The Star Gold Coast and Treasury Brisbane be changed from 31 May to 27 September 2024.

I consider the deferral of the suspension date beyond 31 May 2024 to be prudent in the circumstances. It is likely that relevant information will emerge from the inquiry to be conducted by Mr. Adam Bell in

NSW, and this information should be considered in any recommendation the Attorney-General is minded to make in relation to the operation of the deferred licence suspension. This information will not be available until June 2024 and possibly later than this.

It is also too early to form a clear view on TSEG's success in sustainably implementing its remediation plan. It will be important for the company to demonstrate its capacity to consistently implement the plan in a sustainable and effective manner. Based on the status of the remediation plan it will be several months before a considered view can be reached on TSEG's capacity to deliver.

The proposal to defer consideration of the suspension of the licences of The Star Gold Coast and Treasury Brisbane to 27 September 2024 will likely provide sufficient time to consider the findings of the Bell review in Sydney, and to more effectively assess TSEG's capacity to implement its remediation plan. This will allow for a more informed recommendation to be made by the Attorney-General at that time.

3 Regulatory Background

3.1 Queensland

On 9 December 2022 the OLGR issued TSEG's Queensland Licensees correspondence that suspended the Queensland licences on a deferred basis for 90 days from 1 December 2023, imposed a \$100m penalty, and notified the Queensland Licensees of the appointment of a Special Manager pursuant to section 31 of the Qld CCA.

Division 3 of the Qld CCA contains provisions relevant to the appointment of a Special Manager. Section 90D of the Qld CCA provides that the Special Manager has the function of monitoring the affairs of the casinos and consulting on and advising in relation to the content and preparation of a remediation plan. Section 90E of the Qld CCA provides that the Special Manager has the powers necessary to perform the function, including entrance into the properties, access to documents, attendance at meetings and the engagement of other services to perform the role.

On 24 November 2023, the Special Manager's appointment was extended for 12 months until 8 December 2024. At that time, licence suspensions for The Star Gold Coast and Treasury Brisbane casinos were deferred until 31 May 2024.

3.2 New South Wales

On 17 October 2022, the NICC issued Star Sydney correspondence that suspended Star Sydney's NSW casino licence indefinitely from 21 October 2022, imposed a \$100m penalty, and notified Star Sydney of the appointment of a Manager pursuant to section 28 of the NSW CCA.

The Manager's appointment was originally for a period of 90 days from 21 October 2022 but was subsequently extended by regulation for 12 months until 19 January 2024, unless terminated earlier by the NICC. In November 2023, the Manager's appointment was extended again until 30 June 2024, unless terminated earlier. At the time of extending that appointment, the NICC said that it intends for that extension to be the final extension of the Manager's appointment.

On 19 February 2024 the NICC announced that it had appointed Mr Adam Bell SC to undertake an independent review of The Star Sydney's suitability. More information on this review is included in section 6 of this report.

4 Developments since the Special Manager's 3 October 2023 Report

4.1 General observations

TSEG continues to operate in a difficult trading environment and under a high level of stakeholder scrutiny. While that environment and scrutiny is likely to continue for some time, TSEG has taken steps to resolve some of the external factors that were applying pressure to the business. In December 2023, TSEG announced that it had settled its dispute with Multiplex over the construction of Star Brisbane, which has removed much of the uncertainty over the opening of its new Brisbane casino¹. In October 2023, TSEG completed capital structure initiatives with \$750 million raised through equity and new debt facilities of \$450 million to refinance the existing c.\$1.1 billion debt. In TSEG's assessment these capital structure initiatives provide a strengthened balance sheet and improved financial flexibility.

While TSEG has taken steps to resolve important matters it has not yet settled litigation with AUSTRAC, it continues to experience difficult trading conditions, it is facing a second casino inquiry in NSW, and it has a very significant program of work ahead of it to successfully deliver its remediation program. The progress of this remediation work is outlined in section 5 of this report. Described below are additional matters of note.

Executive appointments / resignations

At the time of writing our October 2023 report TSEG had in place a Group CEO, but it had not appointed CEOs to its Gold Coast or Brisbane casinos. Those key leadership positions were identified by TSEG as important roles to deliver focussed leadership at the casino level following the resignation of TSEG's Queensland Chief Casino Officer in September 2022. We noted in our earlier report that the absence of leadership at each property was impeding the progress of TSEG's reform agenda.

On 17 October 2023, TSEG appointed Ms. Jess Mellor as CEO of The Star Gold Coast, and on 1 December 2023 she was appointed interim CEO of Treasury Brisbane. Mr. Daniel Finch commenced in the role as CEO of Star Brisbane in mid-February 2024. It is intended that Mr. Finch will focus on preparations for opening the new Brisbane casino until he receives regulatory approval at which point he will take over as CEO of Treasury Brisbane, in addition to his role preparing for opening the new casino.

In other important TSEG roles:

- the Chief Legal Officer, Ms. Betty Ivanoff, resigned and has finished her employment having commenced in June 2023. Ms. Ivanoff has been replaced by an interim appointment, Mr. Darryl McDonough, who has been retained on a six-month contract.
- Ms. Janelle Campbell commenced as the CEO of The Star Sydney on 19 February 2024.
- the Group Chief Customer and Product Officer, Mr. George Hughes, has resigned and has left TSEG. It is not yet clear who will replace Mr. Hughes or what interim arrangements are in place;
- TSEG's Group Company Secretary, Ms. Nawal Silfani, resigned and has been replaced by Mr. Hamish MacDonald;
- Ms. Rowena Craze will commence as Group Chief Audit Officer on 30 April 2024;
- Mr. Ryan Rourke commenced as Head of Risk for The Star Gold Coast in January 2024; and

¹ Anticipated staged opening from August 2024.

- Ms. Alex Economou commenced as Head of Risk for Treasury Brisbane / The Star Brisbane in January 2024.

While TSEG is building out its executive team, with key casino CEO roles now filled, there is much work to do to replace departing executives and to bed down a relatively new executive team.

Financial Crime and Customer Probity

Our October 2023 report identified progress TSEG had made to enhance its financial crime capability. This progress is continuing although in important areas TSEG continues to reform at a pace slower than expected by regulators. This is particularly the case in respect of the capability and effectiveness of TSEG's line-one financial crime operations team. This team plays an important role in day-to-day decision making in financial crime and is vital to the prevention of money laundering at TSEG's casinos.

We identified deficiencies in this part of TSEG's business in our October 2023 report and we are yet to observe material improvement. We retained Oliver Wyman in late 2023 to conduct a review of key aspects of TSEG's financial crime operations. This review supported many of the observations we have made. A copy of that report has been provided to TSEG and it has developed a plan to address deficiencies identified by Oliver Wyman. The implementation of this plan, together with the delivery of TSEG's remediation plan, will improve this area of the business, but reform in this area will only be successful if the uplift in policies and controls is coupled with rapid improvement in capability and an improved risk culture in the financial crime team.

The deficiencies we have identified in TSEG's financial crime team were also recently highlighted by work performed by OLGR in relation to the company's customer risk assessment practices. This work identified deficient risk management practices with respect to high-value customers of TSEG's Queensland casinos. OLGR presented its findings directly to TSEG's board and took steps to direct the exclusion of two TSEG customers.

Response to Manager / Special Manager Reports

In October last year we provided a report to the NICC which was similar to the report issued to OLGR at the same time. The NICC provided that report to TSEG so the company could develop plans to address the Manager's concerns well before the NICC would be required to make a decision about the future of the Sydney casino licence in June 2024.

TSEG responded to the report in February 2024. Rather than describe the actions the company would take to address the concerns raised by the Special Manager / Manager, TSEG communicated its disagreement with material sections of the report and presented a response that was defensive and combative in places. TSEG has not yet provided a plan to address the concerns raised by the Manager / Special Manager in the report. This approach was surprising in the circumstances and gives rise to questions about the authenticity of the company's stated desire to engage transparently and constructively with its regulators.

Trading Performance

On 29 February 2024 TSEG released its half-year results for the 2024 financial year. The group reported net revenue of \$856m for the half-year (14% less than the 2023 half-year), and EBITDA of \$113m (43% less than the 2023 half-year).

During the same period:

- The Star Gold Coast reported revenue of \$238m (down 13% on the 2023 half-year) and EBITDA of \$44m (down 32% on the 2023 half-year). The company attributes the decline to a reduction in tourism from the post-COVID highs, the impact of an enhanced control environment that has resulted in higher customer exclusions, and greater competition from pubs and clubs.

- Treasury Brisbane reported revenue of \$177m (down 9% on the 2023 half-year) and EBITDA of \$31m (down 31% on the 2023 half-year). The company attributes the decline to the impact of an enhanced control environment that has resulted in higher customer exclusions, subdued CBD visitation post-COVID, and greater competition from pubs and clubs.

Focus Groups (Gold Coast & Brisbane)

In January 2024, the Special Manager team conducted 42 focus group sessions with 123 front-line employees across the Gold Coast and Brisbane casinos. We met with employees from a variety of operational areas to hear their views on a range of topics. We have provided a detailed report to OLGR in relation to this exercise which describes a number of strengths that exist in TSEG's employee pool, together with notable deficiencies and improvement opportunities for Star. We can elaborate on these findings from the focus group sessions if that is of interest.

Preparation for mandatory carded / cashless gambling at Star Sydney

On 21 February 2024, Star Sydney commenced a trial of cashless gambling at Star Sydney. The trial initially involves 50 electronic gaming machines and eight tables in Star's Sovereign private gaming room and is an important precursor to the mandatory introduction of carded play and cashless gambling (up to \$1,000) by August 2024. It is too early to gauge the success of the trial, but after a slow initial take-up, TSEG is detecting an increased willingness from premium customers to try the new technology.

5 The Remediation Plan

5.1 Overview

TSEG submitted its remediation plan for consideration by the Queensland Attorney-General on 5 October 2023. On submission of that draft plan, TSEG was informed that it should progress implementation pending consideration of the plan's approval. This was important because the draft plan included milestones for completion commencing as early as August 2023 and continuing at a rapid pace through the second half of 2023 and into 2024.

TSEG was notified that the remediation plan had been approved by the Queensland Attorney-General around 24 November 2023. TSEG has been in active implementation mode for approximately five months and the company has reported the completion of approximately 241 milestones as of 18 March 2024.

5.2 Assurance

An important aspect of the approved remediation plan was the establishment of an independent assurance framework to test TSEG's completion of plan milestones. This assurance approach is being led by KPMG, who TSEG engaged on 30 November 2023 to provide assurance services. This engagement provides a robust assurance process and KPMG has established a large team to perform the work. To supplement KPMG's assurance, the Special Manager team also will review and assess each milestone following the work performed by KPMG.

TSEG has had difficulty incorporating KPMG's assurance requirements into its milestone delivery approach. This difficulty has been caused by several factors including the large number of milestones due for completion in the first six months of the plan and the provision by TSEG of inadequate information to KPMG to enable it to efficiently complete its assurance work.

As a result of these factors, KPMG has taken longer than anticipated to complete assurance. The delays in assurance are most pronounced in the financial crime and risk workstreams, two important workstreams in the plan. The length of time taken to complete assurance has meant that we have only received a small sample size of assured milestones. Having only reviewed a relatively small number of milestones, it is difficult to form an accurate view of TSEG's effectiveness at implementing its approved plan.

5.3 Implementation Status

TSEG continues to make progress on delivery of the plan. While progress has been positive, TSEG's progress lags deadlines included in the plan and deadlines set in directions provided to TSEG by the Special Manager on 6 February 2024. Under the Special Manager's directions, 164 milestones assessed as "Complete and Effective" by KPMG were due to us as of 29 February 2024, however we have only received 81 milestones.

It is evident that TSEG is finding it difficult to respond to the assurance demands of KPMG, leading to delays in the completion of important milestones. In recent weeks, KPMG has observed a decline in responsiveness from the company and this has slowed the pace of assurance. We consider there is a reasonably high prospect that TSEG will approach regulators in connection with proposed changes to the plan to improve its prospects of successful implementation.

6 A Second Bell Inquiry

6.1 Background

On 19 February 2024 the NICC announced that it had appointed Mr Adam Bell SC to undertake an independent review of The Star Sydney's suitability. The inquiry is scheduled to continue for approximately 15 weeks with Mr Bell due to provide a report to the NICC by 31 May 2024.

The NICC provided the following background at the time of announcing the second Bell inquiry.

On 31 August 2022, Adam Bell SC published his review of The Star Pty Ltd (The Star), following an inquiry under the Casino Control Act 1992 (NSW) (the Bell Review). The findings included serious misconduct and compliance failures including with internal control manuals, misleading and deceptive conduct and a corporate culture that fell significantly short of what was expected. The Bell Review found that The Star was unsuitable to be concerned in or associated with the management and operation of a casino in NSW.

Following the Bell Review, the NICC suspended the Star's licence indefinitely and appointed Nick Weeks as independent manager of The Star to give The Star an opportunity to demonstrate that it was suitable or was capable of reaching suitability within a reasonable time. Mr Weeks was appointed for an initial 90 days; however, his term was extended twice by way of regulation. During the prolonged period of Mr Week's managership, The Star has not yet satisfied the NICC that it is suitable, or is capable of becoming suitable, to hold a casino licence.

The manager's term expires 30 June 2024, which amounts to a 20-month period provided to The Star to remediate its operations, culture and governance. With June fast approaching, the NICC remains concerned that The Star has not made sufficient progress in key areas. All options available to the NICC have significant commercial and public consequence and oblige the NICC to conduct a fair and forensic assessment of The Star's response to the Bell Review and its success in remediating its business.

Before the manager's appointment ends, a rigorous investigative inquiry will give The Star the chance to demonstrate its suitability to hold a casino licence.

At this stage it is anticipated that the hearing phase of the Inquiry will be conducted in private.

6.2 Terms of Reference

The terms of reference for the second Bell Inquiry are:

1. The suitability of The Star Pty Limited (**The Star**) and its close associate, The Star Entertainment Group Limited (**TSEG**) to be concerned in or associated with the management and operation of The Star Casino.
2. The inquiry will have regard to:
 - 2.1 the report and recommendations of the inquiry under the *Casino Control Act 1992* (NSW) by Adam Bell SC in 2022 into The Star and its close associates (the **Inquiry**), and
 - 2.2 the response of The Star and TSEG to the report and recommendations of the Inquiry.
3. The inquiry is to include consideration of:
 - 3.1 the culture of The Star and TSEG, including risk management culture;
 - 3.2 whether The Star has or is able to obtain financial resources that are both suitable and adequate for ensuring the financial viability of The Star Casino;
 - 3.3 The Star and TSEG's management and reporting lines;

3.4 compliance by The Star with its internal control manuals numbered 3, 11 and 12.

4. Scope of the inquiry – the period following the date of the report of the Inquiry until the conclusion of this inquiry.