



INDEPENDENT LIQUOR AND GAMING AUTHORITY OF NSW

**INDEPENDENT REVIEW OF THE STAR PTY LTD BY ADAM BELL SC
UNDER THE CASINO CONTROL ACT 1992**

**PUBLIC HEARING
SYDNEY**

**MONDAY, 9 MAY 2022
AT 10:00 AM**

DAY 29

**MS N. SHARP SC appears with MR C. CONDE, MS P. ABDIEL
and MR N. CONDYLLIS as counsel assisting the Review
MS K. RICHARDSON SC appears as counsel for The Star Pty Ltd
MR M. HENRY SC appears with MS M. CAIRNS and MS L. RICH
as counsel for Mr Richard Sheppard**

**Witness
MR RICHARD WALLACE SHEPPARD**

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to a direction against publication commits an offence against section 143B of the Casino
Control Act 1992 (NSW)*

<THE HEARING RESUMED AT 10:02 AM

MR BELL SC: Yes, Ms Sharp.

5 **MS SHARP SC:** I call Richard Sheppard.

MR BELL SC: Mr Henry, you're appearing for Mr Sheppard, are you?

10 **MR HENRY SC:** Yes, Mr Bell. So I seek leave to appear for Mr Sheppard, with Ms Cairns. And I should point out, in view of the procedural direction, that I also propose to seek leave to appear for the other non-executive directors. I rather understand that's something that you're aware of, but I thought I should raise it up front.

15 **MR BELL SC:** Yes. Well, if leave has not already been granted, it is now. Thank you, Mr Henry. Mr Sheppard, would you prefer to take an oath or an affirmation?

MR SHEPPARD: An oath is fine.

20 **<WALLACE RICHARD SHEPPARD, SWORN**

MR BELL SC: Yes, Ms Sharp.

<EXAMINATION BY MS SHARP SC:

25 **MS SHARP SC:** Mr Sheppard, could you state your full name, please.

MR SHEPPARD: Wallace Richard Sheppard.

30 **MS SHARP SC:** Since 1 March 2013, you have been a non-executive director of Star Entertainment Group; is that correct?

MR SHEPPARD: Yes.

35 **MS SHARP SC:** You are also the chair of the audit committee of The Star Entertainment Group?

MR SHEPPARD: Yes, I am.

40 **MS SHARP SC:** Since when have you occupied that position?

MR SHEPPARD: Approximately three years.

45 **MS SHARP SC:** And is it correct that the audit committee is a subcommittee of the board of Star Entertainment Group?

MR SHEPPARD: A subcommittee or a committee of the board, yes.

MS SHARP SC: And all directors of the board are members of the audit committee?

5 **MR SHEPPARD:** All of the members of the board attend the audit committee normally, yes.

MS SHARP SC: And ordinarily, the audit committee meets four times a year, although sometimes more as needed?

10 **MR SHEPPARD:** Yes.

MS SHARP SC: Is it the case that you are also a member of the board's risk and compliance committee?

15 **MR SHEPPARD:** Yes, I am.

MS SHARP SC: And is it correct that that committee meets around four times per year?

20 **MR SHEPPARD:** Yes.

MS SHARP SC: Although sometimes more, if necessary?

25 **MR SHEPPARD:** Yes.

MS SHARP SC: Is it correct that you have been a member of the audit committee and the risk and compliance committee at all times since becoming a director of Star Entertainment Group?

30 **MR SHEPPARD:** I'm not sure about that, but certainly for most of the period that I've been on the board.

MS SHARP SC: Now, it's right, isn't it, that you have had an extensive executive career in the banking and finance sector?

35 **MR SHEPPARD:** Yes, it is.

MS SHARP SC: You have had an executive career with Macquarie Group Limited spanning around 30 years?

40 **MR SHEPPARD:** Yes.

MS SHARP SC: You were the managing director and chief executive of Macquarie Bank and the deputy managing director of Macquarie Group from 2007 until late 2011?

45 **MR SHEPPARD:** That's correct.

MS SHARP SC: Is it correct that you became the head of the corporate banking group in 1988?

MR SHEPPARD: I think so, yes.

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MS SHARP SC: And is it right that you headed a number of Macquarie Bank's major operating groups, including the financial services group and the corporate affairs group?

10 **MR SHEPPARD:** Yes, it is.

MS SHARP SC: You were a member of the Macquarie Bank's group executive committee since 1986 and the deputy managing director since 1996?

15 **MR SHEPPARD:** That's correct.

MS SHARP SC: Is it correct, Mr Sheppard, that you have served as the chairman of the Commonwealth Government's Financial Sector Advisory Council?

20 **MR SHEPPARD:** Yes, it is.

MS SHARP SC: For what period did you serve in that capacity, Mr Sheppard?

25 **MR SHEPPARD:** I think it was in the period the early 2000s. But I'm - I can't recall the exact dates, Ms Sharp.

MS SHARP SC: Are you able to indicate approximately when you ceased as chairman of the Financial Sector Advisory Council?

30 **MR SHEPPARD:** I think it would have been around 2008/2009, but I'm not sure.

MS SHARP SC: It's correct, isn't it, that you're currently the chairman and a non-executive director of Dexus Property Group?

35 **MR SHEPPARD:** Yes, I am.

MS SHARP SC: Since when have you occupied the position as chairman of that group?

40 **MR SHEPPARD:** For approximately four years.

MS SHARP SC: And for how long have you been a non-executive director of that group?

45 **MR SHEPPARD:** Since 2012, I believe.

MS SHARP SC: And is it correct that you are also a non-executive director of Snowy Hydro Limited?

MR SHEPPARD: No, my term as the director of Snowy Hydro finished a couple of months ago, at the end of March.

5 **MS SHARP SC:** And when did you commence in that position?

MR SHEPPARD: Approximately 2014.

10 **MS SHARP SC:** And it's right, isn't it, that you hold a bachelor of economics?

MR SHEPPARD: Yes, it is.

15 **MS SHARP SC:** Now, Mr Sheppard, what steps have you taken to familiarise yourself with the evidence given in the public hearings for the Bell review?

MR SHEPPARD: I've sat in briefings from The Star's lawyers, who have given us regular briefings on the evidence provided to the review.

20 **MS SHARP SC:** And how frequently have those briefings taken place?

MR SHEPPARD: Normally at the end of each day of this - of the review.

MS SHARP SC: Have you reviewed any transcripts for yourself?

25 **MR SHEPPARD:** No.

MS SHARP SC: Have you reviewed any video footage of any officer of The Star giving evidence?

30 **MR SHEPPARD:** I haven't reviewed - I - I have, at brief times, looked at the footage live while people have given evidence.

35 **MS SHARP SC:** Is it fair to say that the main source of information regarding the evidence in the public hearing are the briefings that you have been provided with?

MR SHEPPARD: Yes, it is.

40 **MS SHARP SC:** And are you aware that Ms Robyn McKern, forensic accountant and partner at McGrathNichol, has provided two reports to this review?

MR SHEPPARD: Yes, I am.

MS SHARP SC: Have you reviewed either of those reports?

45 **MR SHEPPARD:** I think I've reviewed the first one. I'm not sure about the second one.

MS SHARP SC: And when I say "review", can I clarify: have you read it?

MR SHEPPARD: Yes, I've - I've read it.

5 **MS SHARP SC:** And have you taken any steps at all with Ms McKern's supplementary report?

MR SHEPPARD: Have I - have I taken any step - could you clarify that question, Ms Sharp?

10 **MS SHARP SC:** Yes. Have you taken any steps to familiarise yourself with the contents of Ms McKern's supplementary report?

MR SHEPPARD: No, not the supplementary report, I don't think.

15 **MS SHARP SC:** Now, of course you would agree that, as a director of Star Entertainment, you owe a duty of care and diligence to Star Entertainment?

MR SHEPPARD: Yes.

20 **MS SHARP SC:** And you owe a duty to exercise your powers in good faith in the best interest of Star Entertainment?

MR SHEPPARD: Yes.

25 **MS SHARP SC:** And do you agree that the business of Star Entertainment is managed by the board which may exercise all the powers of the company that are not required to be exercised by the shareholders?

MR SHEPPARD: Yes, I do.

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MS SHARP SC: And do you agree that the board can both delegate powers to the managing director and the management team sitting under him, and also withdraw or suspend that delegation as the board sees fit?

35 **MR SHEPPARD:** Yes.

MS SHARP SC: You agree, don't you, that this structure contemplates that the directors are in charge of, and responsible for, the business of Star Entertainment?

40 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: And, Mr Sheppard, do you accept that even though the directors are entitled to delegate from time to time to management, directors must not defer to management?

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MR SHEPPARD: Yes.

MS SHARP SC: So far as you are aware, is Star Entertainment's current practice of having an executive chair to continue indefinitely?

MR SHEPPARD: No.

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MS SHARP SC: When do you see that arrangement coming to an end, Mr Sheppard?

MR SHEPPARD: It's a matter of identifying new directors and a new chief executive. We have a search for a chief executive proceeding. So when that's completed, the executive chairmanship arrangement would end.

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MS SHARP SC: And of course, you're aware, Mr Sheppard, that as a listed company, Star Entertainment has continuous disclosure obligations?

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MR SHEPPARD: Yes, I do.

MS SHARP SC: And could you please tell us what your understanding is of Star's continuous disclosure obligations?

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MR SHEPPARD: To report to the Australian Stock Exchange matters which are material to the share price.

MS SHARP SC: And you would agree, I take it, that as a director of a listed company, you must take care to ensure that the company's ASX releases are accurate?

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MR SHEPPARD: Yes.

MS SHARP SC: I'm going to ask you some questions about corporate culture now, Mr Sheppard. Would you agree that culture is the set of shared norms of an organisation, a consensus about what things mean and how things get done?

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MR SHEPPARD: Yes, I would agree with that.

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MS SHARP SC: It has been said that the culture of an organisation is what people do when no one is looking. Do you agree with that?

MR SHEPPARD: Yes, I believe I agree with that. Yes.

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MS SHARP SC: Do you agree that non-executive directors cannot leave the issue of organisational culture entirely to management?

MR SHEPPARD: I do.

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MS SHARP SC: And do you agree that if non-executive directors were to leave the issue of organisational culture directly or entirely to management, there would be a failure to recognise the board's position of leadership?

MR SHEPPARD: Yes.

5 **MS SHARP SC:** Do you accept that if non-executive directors were to leave the issue of organisational culture entirely to management, there would also be a failure to recognise that executive members of the leadership group will be living the culture and be enmeshed in it and may not easily recognise dysfunction or suboptimal aspects or be willing or capable of challenging it?

10 **MR SHEPPARD:** Yes.

MS SHARP SC: And, Mr Sheppard, would you agree that active stewardship requires the board to hold management to account when a company operates outside of its - or the board's risk appetite statement?

15 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: Mr Sheppard, do you agree that the risk appetite statement must clearly express the board's appetite for the level of risk it is willing for the company to accept?

20 **MR SHEPPARD:** Yes.

25 **MS SHARP SC:** And would you accept that it is incumbent on directors not to allow themselves to be overwhelmed by dense or voluminous board packs, and instead they need to be proactive in requiring management to deliver information in a form that will help them fulfil their duties?

30 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: I take it you agree that the boards should not have to search through - that is, the boards of directors, should not have to search through substantial amounts of information to seek out references to material risks, and instead management should tell the board where they need to look?

35 **MR SHEPPARD:** Yes, they should. But - but the - the board information is also relevant.

40 **MS SHARP SC:** And what do you mean by "board information" in that context?

MR SHEPPARD: Board - board papers presented to the board.

45 **MS SHARP SC:** And do you agree that although informal board meetings can be useful, they do present a risk that decisions or actions that are agreed upon are agreed upon without applying formal risk frameworks?

MS RICHARDSON SC: I object to that question.

MR BELL SC: What's the objection?

MS RICHARDSON SC: In fairness to this witness, my learned friend should describe what is meant by an "informal board meeting".

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MS SHARP SC: I'm happy to do that. Ordinarily, for a board meeting of the directors to take place, it's right, isn't it, that an agenda is set, people are given notice of the time of the meeting and the topics to be discussed, and minutes are taken of that meeting?

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MR SHEPPARD: That is correct.

MS SHARP SC: And I will call that a formal board meeting; do you understand?

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MR SHEPPARD: Yes.

MS SHARP SC: From time to time, informal meetings of directors may take place that are not covered by an agenda and where minutes of the discussions that have taken place are not recorded, and sometimes not all board members are notified or participate in those discussions. I will call that an informal board meeting; do you understand?

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MR SHEPPARD: Yes.

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MS SHARP SC: Do you agree that while informal board meeting - informal board meetings can be useful, they do present a risk that decisions and actions are agreed upon absent formal frameworks and without the benefits of the full board's view being considered?

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MR SHEPPARD: Yes, I agree with that.

MS SHARP SC: And I take it you agree that the board must, where necessary, challenge management and hold it to account?

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MR SHEPPARD: Yes, I do.

MS SHARP SC: Do you accept, Mr Sheppard, that if a board does not challenge management, then it may be a sign that the board is not operating effectively?

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MR SHEPPARD: Yes.

MS SHARP SC: And is it your position that it is reserved for the board to identify the desired culture for the company and to set the tone in relation to that culture?

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MR SHEPPARD: Yes, I agree with that.

MS SHARP SC: Do you agree that the board should seek to instill and seek to reinforce culture across Star Entertainment of acting lawfully, ethically and responsibly?

5 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: And just to understand, is it your position that the culture of an organisation must be set at the top, and by that I mean by the board of directors?

10 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: Were you aware that Mr Bekier gave evidence to the effect that it was not necessary for the culture of an organisation to be set by the directors?

15 **MR SHEPPARD:** No, I wasn't aware that he said that.

MS SHARP SC: Do you agree with that perspective?

20 **MR SHEPPARD:** No.

MS SHARP SC: Do you agree that a dysfunctional culture or a poor corporate culture within a company can reflect adversely on the board's role in setting the tone and influencing and overseeing culture?

25 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: Do you agree that a good culture within a corporate organisation tends to require that questions be asked?

30 **MR SHEPPARD:** Yes.

MS SHARP SC: And that directors should be curious?

35 **MR SHEPPARD:** Yes.

MS SHARP SC: And do you agree that an important part of corporate culture is that the corporation keep and safeguard accurate corporate records and reports?

40 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: Now, you would be aware that there are a number of different documents that comprise The Star Entertainment Group's risk framework?

45 **MR SHEPPARD:** Yes.

MS SHARP SC: And first of all, you have the constitution of Star Entertainment; do you agree?

MR SHEPPARD: Yes.

MS SHARP SC: You then have a corporate governance statement?

5 **MR SHEPPARD:** That's correct.

MS SHARP SC: And there is a code of conduct?

10 **MR SHEPPARD:** Yes.

MS SHARP SC: Does that code of conduct apply to directors as well as employees?

15 **MR SHEPPARD:** Yes, it does.

MS SHARP SC: There is also a directors' terms of reference document?

MR SHEPPARD: Yes.

20 **MS SHARP SC:** And a compliance policy and framework document?

MR SHEPPARD: Correct.

25 **MS SHARP SC:** And would you agree that each of these documents I have just referred to assist in establishing the risk management framework of Star Entertainment Group?

MR SHEPPARD: Yes, I do.

30 **MS SHARP SC:** Now, it's correct, isn't it, that Star Entertainment had a risk management framework and policy document which was adopted in December 2017 which governed the situation until a new version of those documents in about August of 2020?

35 **MR SHEPPARD:** Yes, I believe that's correct.

40 **MS SHARP SC:** So for much of the relevant period, you agree, that being the period between November 2016 to the present, when we are to understand how risks were managed at Star Entertainment, it is necessary for us to look at the December 2017 suite of documents?

MR SHEPPARD: That would be correct, yes.

45 **MS SHARP SC:** I've asked you some questions, Mr Sheppard, about the audit subcommittee of the board and also the risk and compliance subcommittee of the board. Which of those committees was concerned with risk identification and management?

MR SHEPPARD: Primarily the board risk and compliance committee.

MS SHARP SC: And what do you see as the essential differences in the remit of the audit subcommittee on the one hand and the risk subcommittee on the other?

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MR SHEPPARD: The audit committee is primarily concerned with the integrity of the financial accounts. It also has the internal audit function which reports to it, and the audit committee also oversees the financing of the company.

10 **MS SHARP SC:** And what about the risk committee, Mr Sheppard?

MR SHEPPARD: The risk committee is primarily charged with setting the risk appetite of the company, with setting the risk and compliance framework of the company, including the delegations involved in - in that, and then monitoring that risk. And it's also specifically concerned with anti-money laundering compliance.

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MS SHARP SC: And which of those two committees was primarily responsible for managing risks associated with the international rebate business and, in particular, with junkets?

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MR SHEPPARD: That would have been the board risk committee.

MS SHARP SC: Now, it's correct, isn't it, that there has also been a management risk and compliance committee?

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MR SHEPPARD: That is correct.

MS SHARP SC: And that is comprised of senior executives within The Star Entertainment Group?

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MR SHEPPARD: That's correct.

MS SHARP SC: What is the relationship between the management risk and compliance committee, and the board's risk and compliance committee?

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MR SHEPPARD: I don't think there's a direct relationship. There are certain matters particularly with the operation of the risk framework delegated to the - to the management team in general, and they do that through that committee. There's also a reporting relationship between management and the board risk committee whereby they report compliance matters and regulatory matters to the risk committee each - each time that committee meets.

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MS SHARP SC: And how regularly does the management risk and compliance committee meet?

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MR SHEPPARD: I believe it's - it's at least monthly, but I'm - I'm not sure.

MS SHARP SC: Could I take you to a document, please, Mr Sheppard. It's exhibit D at tab 12, which is STA.3402.0002.8123.

MR SHEPPARD: Yes.

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MS SHARP SC: Have you got a document on your screen?

MR SHEPPARD: Yes, I do.

10 **MS SHARP SC:** Well, that's very fortunate, because I don't. I will just - I will work with it, Mr Sheppard, but I hope those assisting me can fix that. If I could - what I hope that I'm showing you, Mr Sheppard, is the risk management framework of December 2017.

15 **MR SHEPPARD:** That's what's in front of me.

MS SHARP SC: Yes. Could I take you to pinpoint 8129, and perhaps you could tell me when that page appears?

20 **MR SHEPPARD:** Yes, I can see that.

MS SHARP SC: Do you see that there's a heading Risk Monitoring and Review Responsibilities?

25 **MR SHEPPARD:** Yes.

MS SHARP SC: And do you see there's a heading MRCC, which we will take it is management risk and compliance committee?

30 **MR SHEPPARD:** Yes.

MS SHARP SC: And it says the role of the management risk and compliance committee is, (1), to:

35 "Review and keep current Star Entertainment's risk profile; oversee the embedding of risk management plans across Star Entertainment; monitor the implementation of risk treatment plans; monitor the effectiveness of risk controls; and oversee reviews of policy and the framework."

40 Do you agree with that statement of the responsibilities of the management and risk committee?

MR SHEPPARD: Yes, but it overlaps to some extent with the responsibilities of the board risk and compliance committee.

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MS SHARP SC: In terms of that overlap, is one of those areas of the overlap in view of reviewing and keeping current Star Entertainment's risk profile?

MR SHEPPARD: Yes.

MS SHARP SC: And is another overseeing and embedding of risk management plans across Star Entertainment?

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MR SHEPPARD: Yes.

MS SHARP SC: Now, do you agree that it is for the board of Star Entertainment to set the risk appetite of the corporate group?

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MR SHEPPARD: Yes, I do.

MS SHARP SC: Now, could I take you, please, to a different document, which is STA - and I will just have my solicitor pull up the exhibit number. It's STA.3402.0002.8118. Mr Bell, this is exhibit D11. I'm showing you the December 2017 risk management policy, which was in operation until about August 2020. Could I take you, please, to pinpoint 8120. Do you see there's a reference there, Mr Sheppard, to "Approach to Risk Management" and a statement that:

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"Star Entertainment has adopted a 'three lines of defence' model."

MR SHEPPARD: Yes.

MS SHARP SC: I will take that document down now, please, operator. Could you tell us what the three lines of defence are, please, Mr Sheppard.

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MR SHEPPARD: Well, the first line of defence is operational management; the second line of defence is the group risk and legal functional - I will call it - compliance; and then the third line of defence is - let me put it this way - external verification, which relates to the internal audit and the external audit functions.

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MS SHARP SC: Are you able to talk us through what the process was at Star Entertainment in the period from - I will take it from December 2017 when this suite of risk management documents were in operation. So what was the process of identifying risks and then escalating them up?

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MR SHEPPARD: Well, the first part of the process of identifying risks is actually the risk management statement, and that's a process whereby the board risk committee, and ultimately the board, have a discussion about the risks facing the company and identify the company's appetite for those risks. And they would include things like financial risk, regulatory and compliance risk, safety risk, risk - risk of different construction activities, things like that. So that - that sets the boundaries, if you like, of the company's appetite for risk. That is then conveyed to the management group, who - who are part of the discussion. There's then a process by which the legal and compliance function give a - an assurance to the risk committee each time it meets, on - on a quarterly basis, that the company is

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operating within its risk appetite - within its risk appetite parameters. Does that answer your question, Ms Sharp?

5 **MS SHARP SC:** Yes. Are you able to elaborate on how it is that the legal and compliance group give an assurance that the company is acting within its risk appetite framework?

10 **MR SHEPPARD:** Yes. They - they provide a written assurance to the risk committee as part of the compliance report which goes to the risk committee each - each meeting. In addition to that, prior to the completion of the accounts each year - and this goes to the audit committee, not the risk committee - the management - the group legal and compliance team go through a process of checking with the operational management whether the company is operating within its risk appetites and provides assurances to the audit committee that the
15 company is in compliance with its obligations.

MS SHARP SC: And what – what is that process for checking in with the company to ensure that the company is acting within its risk appetite?

20 **MR SHEPPARD:** The - the process is led by the chief risk officer, and the chief risk officer consults with the operating businesses to satisfy himself or herself that - that the company is operating within that appetite.

25 **MS SHARP SC:** And a formal risk register is used as part of that review process?

MR SHEPPARD: Yes, it is.

MS SHARP SC: And what form do those risk registers take?

30 **MR SHEPPARD:** You mean in the form of the questionnaires which go to the operating management?

35 **MS SHARP SC:** Well, at the step - so let me break this down, Mr Sheppard. So as part of this assurance process, it's correct, isn't it, that questionnaires go to the different business groups and then the chief risk officer will interrogate the relevant parts of the business to compile a risk register for the relevant part of the business?

40 **MR SHEPPARD:** Yes, I believe that's part of the process.

MS SHARP SC: So I'm asking about the form of the risk register. Is that an Excel document or a Word document? Is it a living document, or how --

45 **MR SHEPPARD:** I - I don't - I don't know the technical form of the document.

MS SHARP SC: Is it a document that finds its way to either the audit committee or the risk committee or both?

MR SHEPPARD: No, I don't believe so. That - that - that process sits in the background. What finds its way to the risk committee and the audit committee is a written assurance from the chief risk officer based on the work that you just alluded to.

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MS SHARP SC: And is it right that there was a - in terms of that process of identifying the risks and conducting that assurance, was one of the business units that was interrogated the international rebate business?

10 **MR SHEPPARD:** It would have been, yes.

MS SHARP SC: Are you sure about that?

15 **MR SHEPPARD:** I haven't - well, I haven't independently verified it myself, but my understanding certainly is that the risk - the verification process goes to all of the major businesses of The Star. So it would definitely include that business.

MS SHARP SC: And are you able to say whether that part of the business was treated separately to the credit and collections unit of the business?

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MR SHEPPARD: No, I don't have that detail.

25 **MS SHARP SC:** Would you pardon me for a moment, Mr Sheppard. Could I take you now to exhibit D at tab 20, which is STA.3008.0006.1994. What I'm showing you, Mr Sheppard, is The Star Entertainment Group's risk appetite statement as at March 2017. I'm taking you to this because this is the document that applied until 2020. Could I take you firstly to pinpoint 1995. And I should firstly ask you; I take it you've seen this document before?

30 **MR SHEPPARD:** Yes, I have. Regularly.

MS SHARP SC: In fact, it's one you've studied reasonably closely, is it?

35 **MR SHEPPARD:** Yes.

MS SHARP SC: And will you see there's a heading "Strategic Objectives" in the middle of that page?

40 **MR SHEPPARD:** Yes.

MS SHARP SC: And will you agree that one of those strategic objectives is indicated in the third dot point as being:

45 "Continued growth from international visitors, particularly through Star Entertainment's international VIP rebate business"?

MR SHEPPARD: Yes.

MS SHARP SC: And do you see another of its strategic objectives is listed in the last dot point, which is:

"Retaining its social licence to operate."?

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MR SHEPPARD: Yes, I do.

MS SHARP SC: And what does that mean?

10 **MR SHEPPARD:** I think that goes to reputation. Yes, I think it goes to reputation.

MS SHARP SC: Is that all it goes to?

15 **MR SHEPPARD:** Well, there are also legal licences to operate as well. So it would certainly include that in a broader definition.

MS SHARP SC: Does it include maintaining the confidence of the casino regulator?

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MR SHEPPARD: Absolutely.

MS SHARP SC: Does it include maintaining the confidence of the people of the State of New South Wales?

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MR SHEPPARD: Yes, it does.

MS SHARP SC: And why is it important for an integrated resort facility which, amongst other things, operates a casino - or three, in fact - to retain its social licence to operate?

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MR SHEPPARD: Because it - it - as a casino, it's a heavily regulated business. It's also in a business that is given, in New South Wales, a - a duopoly licence to - to operate. And, therefore, the ability to retain that social licence is an essential part of continuing to operate the business.

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MS SHARP SC: Could I take you please, Mr Sheppard, to pinpoint 1996. Do you see there's a heading number 3, "Risk Appetite", and a further heading under that, 3.1, "Unacceptable Risks"?

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MR SHEPPARD: Yes.

MS SHARP SC: And these are risks for which Star Entertainment Group has no appetite; is that correct?

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MR SHEPPARD: Yes.

MS SHARP SC: And one of those, in the second dot point, is:

"Any illegal activity undertaken in the course of performing Star Entertainment's business operations. This includes any acts of dishonesty, bribery, corruption or fraud."

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MR SHEPPARD: Yes.

MS SHARP SC: And do you agree it's ultimately for the board to ensure that none of those activities take place within Star Entertainment?

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MR SHEPPARD: Yes, I do.

MS SHARP SC: And you will see that Star Entertainment has no appetite for - dot point 4:

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"Knowingly, deliberately or recklessly breaching any of Star Entertainment's regulatory compliance obligations."?

MR SHEPPARD: Yes.

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MS SHARP SC: And I take it you agree with that?

MR SHEPPARD: Yes, I do.

MS SHARP SC: And you accept that it's ultimately a matter for the board to police compliance with that requirement?

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MR SHEPPARD: Yes.

MS SHARP SC: And another aspect where Star Entertainment has no risk appetite is the last dot point, which is:

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"Risks which, after all risk treatments have been applied, are rated as 'extreme'. Risks which fall within this category must be immediately reported to the chair of the board's risk and compliance committee."

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MR SHEPPARD: Yes.

MS SHARP SC: Now, was that requirement for immediate reporting to the chair of the board's risk and compliance committee an important one?

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MR SHEPPARD: Yes.

MS SHARP SC: Was it one that was well-known to management so far as you were concerned as a director of the company?

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MR SHEPPARD: In terms of my own experience, when - as - as chair of the audit committee and for a time, some time ago, as chair of the risk committee, I

certainly made it my business to communicate that directly to the chief risk officer, and to other areas of management that I spoke to. And my understanding is that the current chair of the - and I do that also as chair of the audit committee, particularly with my interactions with the internal auditor. And my understanding is that the current chair of the risk committee also follows that practice.

MS SHARP SC: Now, what exactly is an extreme risk?

MR SHEPPARD: An extreme risk would be one which has very substantial repercussions for the company.

MS SHARP SC: And if I could take you - well, I might come back to that question, if I may. I will just stay on this document for a moment. Do you agree - if I take you to the bottom of the page. Do you see it says:

"The risk appetite is based on residual risk."?

MR SHEPPARD: Yes.

MS SHARP SC:

"This is the level of risk remaining having regard to the nature and effectiveness of controls and risk treatments in place to mitigate the risk."?

MR SHEPPARD: Yes.

MS SHARP SC: So is it fair to say that risk appetite quantifies the level of risk once it has been controlled - once control mechanisms have been put in place?

MR SHEPPARD: I agree with that comment.

MS SHARP SC: May I take you, please, to the next page, which is pinpoint 1997. You will see the risk appetite statement is divided into six risk categories. In which category do the risks of junkets fall?

MR SHEPPARD: It would be in - in strategic and compliance. And - and - and also, I would think, operational. Well, actually, arguably, junkets could fall under any of those categories.

MS SHARP SC: What about risks of money laundering and counter-terrorism financing? Where would they fit within this rubric, Mr Sheppard?

MR SHEPPARD: I would say compliance and operational.

MS SHARP SC: Now, I will take you to another part of this document, which is appendix 6 now. I think I need to take you to another document to take you to appendix 6. So, operator, if I could call up STA.3402.0002.8136, please. This is exhibit D18. Now, I asked you a question previously, Mr Sheppard, about extreme

risk. Now I'm showing you a document which shows at the top a risk category of extreme risk. And do you agree that extreme risks are ones that require the immediate attention of the chair of the board, the managing director and the chief risk officer?

5

MR SHEPPARD: Yes, I do.

MS SHARP SC: And is it correct, as is stated in this document, that potential new transactions or projects which involve risk in this category must not proceed without the express approval of the board?

10

MR SHEPPARD: Yes, it does say that.

MS SHARP SC: Are you able to assist me in understanding the following - I will need to have the document minimised so you can see the whole page. At the - the heading second from above says Enterprise Level Risks, and then there's another row that says Property/IRB Level of Risks. What's the distinction being made here?

15

MR SHEPPARD: Well, I think the distinction is that it's zeroing in on a particular part of the business.

20

MS SHARP SC: So is it right that the property/IRB levels of risk are a focus on either the Sydney casino or the - and I should say the Sydney integrated resort or the two Queensland integrated resorts or the international rebate business, whereas enterprise level risks are those that affect Star Entertainment Group as a whole?

25

MR SHEPPARD: Yes, I agree with that. There's obviously a degree of overlap.

MS SHARP SC: Now, just to clarify the situation from August 2020, could I take you, please, to exhibit B at tab 2545, which is STA.5002.0006.0929. And what I'm showing you is a board paper dated 19 August 2020 from Paula Martin, then the chief legal and risk officer. And it's right, isn't it, that this board paper presented the new suite of risk management documents that would apply from August of 2020?

35

MR SHEPPARD: That's correct.

MS SHARP SC: Now, are you able to indicate any changes that you regard as being key changes between the 2017 risk management framework and the 2020 risk management framework?

40

MR SHEPPARD: I think the main purpose of this exercise was to make the suite of documents simpler and easier to understand.

45

MS SHARP SC: We spoke a little while ago about the three lines of defence, Mr Sheppard, and you articulated your view as to what those three lines were. Mr Bekier gave evidence to Mr Bell and said that there were failures in the first and

second lines of defence, at least in relation to the international rebate business. Do you agree with that?

MR SHEPPARD: Yes, I do.

5

MS SHARP SC: Do you consider that the third line of defence operated effectively with respect to the international rebate business?

MR SHEPPARD: I don't believe that the third line of - of - of defence was made aware of the failures that Mr Bekier was referring to.

10

MS SHARP SC: You say they were made aware, do you?

MR SHEPPARD: Were not - were not made aware.

15

MS SHARP SC: Thank you. And we'll come back a little later to discuss why that may be. Let me ask you a different question now, Mr Sheppard. Do you agree that the minutes of the board's meetings, as well as its subcommittee meetings, must be a full and accurate reflection of the board's discussions?

20

MR SHEPPARD: Yes, I do.

MS SHARP SC: And when it comes time for you to review the minutes of board meetings and board subcommittee meetings, do you take steps to ensure that before you approve those minutes, they are, to the best of your recollection, a full and accurate reflection of what was discussed at the meeting?

25

MR SHEPPARD: Yes, I do.

MS SHARP SC: And you understand, don't you, that minutes are important from an evidentiary perspective in that they are the evidence of what has taken place at a board meeting unless the contrary is proved?

30

MR SHEPPARD: Yes.

35

MS SHARP SC: And it's a problem if minutes are inadequate because they can present difficulties for future officers of the company in that they will not be able to understand how decisions were made or have the evidentiary benefits that accurate minutes attract?

40

MR SHEPPARD: Yes, I agree with that.

MS SHARP SC: I want to move now to ask you for your views about qualities that are important in directors of publicly listed companies. At the time you were invited to become a director of Star Entertainment, Mr Sheppard, what, if any, of your skills did you consider made you an appropriate director?

45

MR SHEPPARD: I would say primarily my financial skills and - and - and understanding of financial matters, an understanding of financing markets, including the equity and debt markets, and having had experience in a regulated financial - financial institution.

5

MS SHARP SC: And do you feel that, as a director of Star Entertainment, you've had a good sense of what the right thing to do is from time to time?

MR SHEPPARD: Yes, I - sorry. Yes, I do.

10

MS SHARP SC: And you would agree, wouldn't you, that it is important for directors of publicly listed companies to bring a questioning mindset to their role?

MR SHEPPARD: Yes.

15

MS SHARP SC: And I take it you would also agree that it's very important for non-executive directors to be independent of management?

MR SHEPPARD: I do.

20

MS SHARP SC: And it is your view that a board of directors should be comprised of directors who have complementary skill sets?

MR SHEPPARD: Yes.

25

MS SHARP SC: What do you tell Mr Bell are important qualities for all directors to have?

MR SHEPPARD: In - in no particular order, relevant experience, integrity, a set of skills that can add value to the board as a whole, a questioning mindset and an ability to make decisions about complex matters.

30

MS SHARP SC: And I take it they are views in addition to your views about the need for independence from management and the need to have a questioning mindset?

35

MR SHEPPARD: Yes.

MS SHARP SC: Now, is it correct that at all times while you've been a director of Star Entertainment, you have been aware of Star Entertainment's code of conduct?

40

MR SHEPPARD: Yes, I have.

MS SHARP SC: And it's correct, isn't it, that there was a version of the code of conduct that applied from 2018 through to about June 2021?

45

MR SHEPPARD: I don't recall the specific dates that you mentioned. I'm - I'm certainly aware there's a code of conduct throughout my period as a director.

MS SHARP SC: Are you aware that it was updated in around June of 2021?

MR SHEPPARD: I believe that's correct, yes.

5

MS SHARP SC: Now, may we take it that you agree with two particular core guiding principles in the code of conduct, which are "we comply with the law" and "we are ethical"?

10 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: Do you agree, Mr Sheppard, with the ASX Corporate Governance Council that for a code of conduct to be effective, all employees must receive appropriate training on their obligations under the code, and directors and senior executives must speak and act consistently with the code, setting the tone from the top, and reinforce it by taking appropriate and proportionate disciplinary action against those who breach it?

15

MR SHEPPARD: I agree with that.

20

MS SHARP SC: Now, it's right that since around 2020, a concept of "do the right thing" has formed an important part of Star Entertainment's values?

MR SHEPPARD: Yes, that's correct.

25

MS SHARP SC: What exactly does that mean to you, Mr Sheppard?

MR SHEPPARD: I think it embraces all of the other things in the code of conduct and that it means if you are in doubt as to precisely what you need to do, you ask to yourself, "Am I doing the right thing?" So I see that as a combination of ethical, compliance, even customer-related matters, treating people fairly. So all of - all of those concepts. And they're combined into a short phrase which I - I think, in my view, is - is pretty clear.

30

MS SHARP SC: Are you able to tell us what steps, if any, the board took when that value was introduced to convey the importance of acting in accordance with that value to the executive and senior management of Star Entertainment?

35

MR SHEPPARD: Well, it was discussed with the - in - in - in the context of board and - meetings and wider meetings with the management group. I don't think there was any disagreement about the concept. The board unanimously supported the concept. And the board also noted and encouraged the management to, in effect, roll out the concept by town hall type meetings between the very senior management and the next lines of management.

40

45

MS SHARP SC: And are you able to explain why a value of "do the right thing" was introduced in 2020?

MR SHEPPARD: I think it's a term which - which is more easily - which is easily understood and which communicates effectively the more complex or - or the longer term version of the code of conduct.

5 **MS SHARP SC:** I'm not sure that answered my question. Are you able to explain why this value was introduced in 2020?

MR SHEPPARD: Well, effectively, to reinforce the code of conduct and to add a communications tool to be able to communicate it effectively, and - and to - yes, 10 it - it would be to reinforce the code of conduct that we had had existing.

MS SHARP SC: Now, Mr Sheppard, are you aware that PwC prepared a report on culture at Star Entertainment in around January 2022?

15 **MR SHEPPARD:** Yes, I am.

MS SHARP SC: Are you aware that that report found that employees are unsure about what is the right thing?

20 **MR SHEPPARD:** Yes, I am.

MS SHARP SC: And was that a matter of some concern to you?

MR SHEPPARD: Yes, in the context of the whole report. The whole report 25 had - had some favourable indicators of - of culture. But, yes, that was a concern.

MS SHARP SC: I will move to a different topic now. I want to ask you some questions about casino licences, Mr Sheppard. And, of course, you're aware that licences are necessary to operate casinos in New South Wales and Queensland? 30

MR SHEPPARD: Yes.

MS SHARP SC: And do you agree, Mr Sheppard, that a casino licence is a privilege which is granted by a state government permitting the licence holder to 35 conduct a particular kind of business that is otherwise unlawful?

MR SHEPPARD: Yes, I do.

MS SHARP SC: And may we take it you agree that with that privilege come 40 commensurate responsibilities?

MR SHEPPARD: Yes, I do.

MS SHARP SC: And in that context, do you agree that Star Entertainment and its 45 subsidiaries' conduct towards regulators ought be clear and transparent at all times?

MR SHEPPARD: Yes, I do.

MS SHARP SC: It's right, isn't it, that Star Entertainment's casino licences underpin the entirety of Star Entertainment's business?

5 **MR SHEPPARD:** Certainly the vast majority of it.

MS SHARP SC: And would you agree that in terms of Star Entertainment's existing business, one of the most important priorities is that Star Entertainment continue to hold its casino licences?

10

MR SHEPPARD: Yes, I agree with that.

MS SHARP SC: Now, it's correct, isn't it, that you are a close associate of The Star casino - I withdraw that. You are a close associate of the casino licensee in New South Wales?

15

MR SHEPPARD: Yes.

MS SHARP SC: That is, of course, The Star Pty Ltd?

20

MR SHEPPARD: Yes.

MS SHARP SC: And that is because you are someone who exercises control over the casino licensee?

25

MR SHEPPARD: Yes.

MS SHARP SC: Now, are you able to indicate as at today who the directors of The Star Pty Ltd are and also who the company secretary is?

30

MR SHEPPARD: I believe the directors are Mr Bekier and Mr Hawkins. I - I may be wrong about that. That's in a state of transition at the present time, and it's something under current consideration by the board.

35 **MS SHARP SC:** And is Ms Martin still the company secretary?

MR SHEPPARD: I - I don't know the answer to that, Ms Sharp. I - I believe she is.

40 **MS SHARP SC:** And it is the case that transitional arrangements are being explored in that regard as well?

MR SHEPPARD: Yes.

45 **MS SHARP SC:** Now, are you aware, Mr Sheppard, that the objects in section 4A of the Casino Control Act include ensuring that the management and operation of the casino remain free from criminal influence and exploitation?

MR SHEPPARD: Yes, I am.

MS SHARP SC: And ensuring that gaming in a casino is conducted honestly?

5 **MR SHEPPARD:** Yes.

MS SHARP SC: And containing and controlling the potential of a casino to cause harm to the public interest and to individuals and families?

10 **MR SHEPPARD:** Yes, I am.

MS SHARP SC: Do you agree, Mr Sheppard, that junkets present risks to casinos in relation to anti-money laundering and counter-terrorism financing?

15 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: Is it right that throughout your time as a director of Star Entertainment, you have been aware that Star Entertainment's casinos were doing business with Macau-based junkets?

20

MR SHEPPARD: Not throughout. We ceased doing business around September or October of 2020, I believe.

MS SHARP SC: And prior to that period, throughout your directorship at Star, you have been aware that Star Entertainment has done business with Macau-based junkets?

25

MR SHEPPARD: Yes, I am.

30 **MS SHARP SC:** Do you agree that junkets are high risk of their very nature in terms of criminal influence and money laundering?

MR SHEPPARD: I have become increasingly aware of that.

35 **MS SHARP SC:** Since what time have you become increasingly aware of that?

MR SHEPPARD: I'm not saying I was unaware of that risk, but - but I think my heightened risk of those factors occurred - began around about the time of media reports about Crown Casinos' dealings with junket operators. I then became aware that AUSTRAC was undertaking a review of junket operators. I - and I - they published a report, I think at the end of 2020, which I read, which drew attention to the risks of - of Macau and other based junkets. And as a result of those factors, I - I believe that my risk assessment of junkets began to increase.

40

45 **MS SHARP SC:** And the media reports relating to Crown to which you've just referred are ones that occurred in around July and August of 2019?

MR SHEPPARD: That's correct.

MS SHARP SC: Now, you're aware, aren't you, that periodically the New South Wales regulator reviews the ongoing suitability of the casino licensee?

5 **MR SHEPPARD:** Yes, I am.

MS SHARP SC: And the last such review was the one conducted by Jonathan Horton QC in 2016; do you agree?

10 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: Did you read that report at the time it was published?

15 **MR SHEPPARD:** Yes, I did.

MS SHARP SC: Can I take you to one aspect of that report, please, Mr Sheppard. This is exhibit B at tab 146, INQ.016.001.0050. And you will see, Mr Sheppard, I'm showing you the front cover of Dr Horton's 28 November 2016 report?

20 **MR SHEPPARD:** Yes.

MS SHARP SC: Could I take you now to pinpoint 0132. And could I direct your attention, please, to paragraph 254. If could I have that highlighted for you, please. Do you see it says:

25

"Junkets present a risk to the integrity of the casino, by virtue of very large amounts of money involved, the potential illicit sources of those funds, and issues relating to junket promoters and the nature of their business."

30 **MR SHEPPARD:** Yes.

MS SHARP SC: So you agree that you've been on notice, since at least the time of this report, that junkets do present a risk to the integrity of the casino?

35 **MR SHEPPARD:** Yes, I agree with that.

MS SHARP SC: And at that paragraph 254, it's also stated:

40 "They -"
That is, junkets:

"Also represent an important, and growing, part of the casino's business."

45 And you agree that as at November 2016, that proposition was correct?

MR SHEPPARD: Yes, I agree with that.

MS SHARP SC: And can I take you to the bottom of page 256 and over the page.

MR HENRY SC: I'm sorry to interrupt. May the witness in fairness, be also directed to paragraph 255?

5

MS SHARP SC: Yes. Would you like to read that to yourself, Mr Sheppard.

MR SHEPPARD: Yes, I've - I've read that. Thank you, Ms Sharp.

10 **MS SHARP SC:** Then could I take you over the page, please, to pinpoint 0133.

MR SHEPPARD: Is that paragraph 256 that I'm reading?

15 **MS SHARP SC:** Yes. I need to - I will ask the operator to take that down. Could we have pinpoint 0133 shown. Now, what I wanted to take your attention to is paragraph 257. If I could have that highlighted, please. And do you see it says:

"One of the most obvious risks that attend junkets is money laundering."

20 **MR SHEPPARD:** Yes, I do.

MS SHARP SC:

25 "But The Star has procedures to address that risk, as I have set out above. Another obvious risk relates to junket promoters. But again, The Star has procedures in place to vet them."

My question to you is that you well understood by the time of this report that one of the most obvious risks associated with junkets was money laundering?

30

MR SHEPPARD: Yes, I agree.

MS SHARP SC: And why was it you understood that money laundering was a risk of junkets at that time?

35

MR SHEPPARD: Essentially because of the very large amounts of money involved, the fact that the junkets were predominantly Chinese patrons and that there were restrictions on Chinese patrons taking their money out of China. So they would be some of the predominant risks.

40

MS SHARP SC: And may we take it you also agree that casinos are particularly vulnerable to money laundering and counter-terrorism financing because of the nature of their business?

45 **MR SHEPPARD:** Yes, I think any - any institutions which involve large flows of money fit into that category.

MS SHARP SC: And in addition to the fact that there are large flows of money, one of the matters that heightens the risk is that there are large flows of money between different jurisdictions; do you agree?

5 **MR SHEPPARD:** Yes.

MS SHARP SC: And in addition to that, another matter that heightens the money laundering/counter-terrorism financing risk for casinos is the fact that casinos are cash intensive business – (indistinct)?

10

MR SHEPPARD: I agree with that.

MS SHARP SC: And cash is a less transparent form - well, the ownership of cash is less transparent as compared with other forms of value; do you agree?

15

MR SHEPPARD: Yes.

MS SHARP SC: And another matter that heightens these risks are that particularly so far as the international rebate business is concerned, the financial transactions can be long and complex ones?

20

MR SHEPPARD: I'm just thinking about that - that question. Are you referring to the provision of credit-type facilities to - to - to the junket operators and players?

25 **MS SHARP SC:** Not only the provision of credit. I'm referring to the provision of credit, the - well - and I will come back to the restrictions on that. But for now, we will say the provision of credit, principally through cheque cashing facilities - so the redemption of those cheque cashing facilities, and also making available to the casinos front money?

30

MR SHEPPARD: Yes, I agree with that.

MS SHARP SC: And these risks - were these risks of which you've been aware for the entire period of time you've been a director at Star Entertainment?

35

MR SHEPPARD: Yes, I have.

MS SHARP SC: Now, I want to ask you some questions about your knowledge of the legal framework appertaining to the casino licence in New South Wales, Mr Sheppard. Are you aware that The Star must only have business associations with people of good repute having regard to character, honesty and integrity?

40

MR SHEPPARD: Yes, I am.

45 **MS SHARP SC:** Is that a matter that you have at all times been aware while you've been a director of Star Entertainment?

MR SHEPPARD: I believe so.

MS SHARP SC: And are you aware that The Star must not have dealings with people who have undesirable or unsatisfactory financial sources?

5 **MR SHEPPARD:** Yes.

MS SHARP SC: And are you aware that until recent legislative amendments, The Star generally could not provide credit to patrons unless a cheque cashing facility was used?

10

MR SHEPPARD: Yes.

MS SHARP SC: Now, you've previously agreed that it is important for the casino regulator to have confidence in the casino licensee. Do you agree that an important way of instilling that confidence is in ensuring that the casino licensee is at all times open and frank with the regulator?

15

MR SHEPPARD: Yes, I do.

20 **MS SHARP SC:** And do you agree that the casino licensee must, in particular - in particular, be prepared to frankly disclose to the regulator where things have gone wrong?

MR SHEPPARD: Yes.

25

MS SHARP SC: And do you agree that it is never appropriate for a casino operator to take a technical or evasive approach in answering the inquiries of the regulator?

30 **MR SHEPPARD:** I agree with that.

MS SHARP SC: And that requirement is, in fact, reflected in the code of conduct to the extent that it provides that Star Entertainment employees are expected to provide complete, honest and accurate information to any regulator who lawfully requires information; do you agree?

35

MR SHEPPARD: Yes.

40 **MS SHARP SC:** Could I take you, please, to INQ.012.005.0072. And I will have to have this marked for identification, Mr Bell. I'm taking you to Star Entertainment's compliance policy and framework with an effective date of 1 February 2021. Could I take you to pinpoint 0076. And do you see there's a heading 5.3, "Co-operating with Regulatory Authorities?"

45 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: And it states:

5 "Regulatory authorities play an important role in giving the community confidence that we are complying with our obligations. We are regularly requested by both State and Commonwealth regulatory authorities to provide information about various aspects of our business. Star Entertainment believes that a model of cooperative compliance best serves the interests of the company and various regulatory authorities. Star Entertainment will endeavour to provide regulatory authorities with complete, timely and accurate responses to any requests."

10 Now, this document has existed since February 2021. It couldn't be clearer, could it, Mr Sheppard, as to what Star Entertainment's expectations are in relation to dealings with regulators?

15 **MR SHEPPARD:** I agree.

MS SHARP SC: And, Mr Sheppard, while this document dates from February 2021, was it your expectation, as a director, that this was always the approach that Star Entertainment should adopt in its dealings with regulators?

20 **MR SHEPPARD:** Yes, it was.

MS SHARP SC: Mr Sheppard, have you had any training in anti-money laundering and counter-terrorism financing?

25 **MR SHEPPARD:** Yes.

MS SHARP SC: And what training is that?

30 **MR SHEPPARD:** There have been regular - well, not regular - occasional presentations to the - to the board and/or the risk committee on anti-money laundering and related compliance issues. There's a computer-generated training module which is generated by the - by the - by the company. And I would say the training has probably also included consideration of various external reports to the company on its anti-money laundering compliance issues.

35 **MS SHARP SC:** What level of familiarity would you say you have with Australia's anti-money laundering and counter-terrorism financing framework?

40 **MR SHEPPARD:** Reasonably good, of the fundamentals.

MS SHARP SC: So are you familiar with the idea of a reporting entity?

MR SHEPPARD: Yes.

45 **MS SHARP SC:** With the notion of designated services?

MR SHEPPARD: Yes.

MS SHARP SC: With know your customer?

MR SHEPPARD: Yes.

5 **MS SHARP SC:** With source of funds and source of wealth?

MR SHEPPARD: Yes.

10 **MS SHARP SC:** The requirements of enhanced customer due diligence and ongoing customer due diligence?

MR SHEPPARD: Yes, I am.

15 **MS SHARP SC:** And do you agree that given you are a director of a corporate entity that holds casino licences, it is important that you do have a high level of familiarity with Australia's anti-money laundering and counter-terrorism financing obligations?

20 **MR SHEPPARD:** Yes, I agree with that.

MS SHARP SC: And you agree, I take it, that the Australian system is a risk-based system?

25 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: And that means that the controls must be commensurate with the level of risk identified?

30 **MR SHEPPARD:** That's correct.

MS SHARP SC: And do you agree that some risks of money laundering and counter-terrorism financing are so high that the only appropriate control is not to deal at all with the person presenting the risk?

35 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: Has that always been your understanding, Mr Sheppard?

40 **MR SHEPPARD:** For as long as I can recall, yes.

MS SHARP SC: Would you accept that the international rebate segment of Star Entertainment's business was the highest risk segment in terms of money laundering and counter-terrorism financing?

45 **MR SHEPPARD:** Yes, I'd accept that.

MS SHARP SC: And do you agree that means that this is where the most vigilance was required on the part of Star Entertainment?

MR SHEPPARD: Yes, but I wouldn't necessarily agree that lesser vigilance is appropriate elsewhere in the business.

5 **MS SHARP SC:** Now, it's - as a general proposition, it's correct, isn't it, that in recent years, Star Entertainment has taken a number of steps to strengthen its anti-money laundering and counter-terrorism financing framework?

MR SHEPPARD: Yes, it has. It's a continuous journey.

10

MS SHARP SC: And one of the things it has done is rewrite the AML and CTF program?

MR SHEPPARD: On - on more than one occasion. Correct.

15

MS SHARP SC: And it has rewritten the transaction monitoring standard?

MR SHEPPARD: It has.

20 **MS SHARP SC:** It has rewritten the know your customer standard?

MR SHEPPARD: Yes.

25 **MS SHARP SC:** It has appointed Howard Steiner as the AML/CTF program director --

MR SHEPPARD: Yes.

30 **MS SHARP SC:** -- in January 2020 in order to assist with the preparation of those documents I've just mentioned?

MR SHEPPARD: Yes.

35 **MS SHARP SC:** And additional AML/CTF resources have been added to the staff of Star Entertainment?

MR SHEPPARD: That's correct.

40 **MS SHARP SC:** Do you agree, Mr Sheppard, that in addition to those documents I've referred to, and in addition to appointing additional resources, it is necessary that there be a culture of compliance with The Star's anti-money laundering framework?

MR SHEPPARD: Yes, I do.

45

MS SHARP SC: And do you agree that there is a tension that The Star faces, which is, on the one hand, driving the largest amount of turnover possible into the

casino and, on the other hand, being vigilant to ensure that money laundering risks are appropriately controlled?

5 **MR SHEPPARD:** I agree it's - it's - there's a risk of that tension arising, but it shouldn't be a tension because the two are inexorably linked.

10 **MS SHARP SC:** Well, what I was going to suggest to you - and tell me if you agree with me - that the way this tension is resolved is through inculcating a culture of compliance within the organisation.

MR SHEPPARD: Yes, I agree.

15 **MS SHARP SC:** Now, do you agree that The Star - or Star Entertainment needs to conduct due diligence of three broad kinds when it comes to assessing a relationship with a patron: One, insofar as it's sought to provide a cheque cashing facility to a patron, there's a need to conduct some due diligence to understand the credit risks a patron presents?

20 **MR SHEPPARD:** Yes.

MS SHARP SC: And I will call that the credit risk. Secondly, there is a necessity to identify any money laundering and counter-terrorism financing risks; do you agree?

25 **MR SHEPPARD:** Yes.

MS SHARP SC: And, thirdly, it is necessary to conduct due diligence to understand any - what I will call - integrity risks may present in terms of that patron?

30 **MR SHEPPARD:** Yes.

MS SHARP SC: And that goes to the requirement that the casino operator ensure that it only has business dealings with persons of good repute having regard to character, honesty and integrity?

MR SHEPPARD: Yes.

40 **MS SHARP SC:** So do you agree that at all times when the casino operator is dealing with patrons, it must have firmly in its mind credit risks, money laundering risks and integrity risks that may be presented by particular patrons?

MR SHEPPARD: I agree with that.

45 **MS SHARP SC:** And do you agree that while those matters overlap, they also raise some distinct considerations?

MR SHEPPARD: Yes, I do.

5 **MS SHARP SC:** Let me give you an example. The decision - and tell me whether you agree. A decision may be made in respect of a patron that any money laundering risk they present may be adequately controlled, but it is nevertheless determined that that patron is not of good repute and, therefore, The Star ought not deal with them; do you agree?

MR SHEPPARD: Yes, I do.

10 **MS SHARP SC:** Mr Bell, I'm about to move to a new topic. I wonder whether now would be - I'm happy either way, but if you wanted the mid-morning adjournment now.

15 **MR BELL SC:** Yes. Before we do, The Star compliance policy and framework dated February 2021 will be MFI60. And I will now adjourn for 15 minutes.

MS SHARP SC: Thank you.

20 <THE HEARING ADJOURNED AT 11:22 AM

<THE HEARING RESUMED AT 11:39 AM

MR BELL SC: Yes, Ms Sharp.

25 **MS SHARP SC:** Mr Sheppard, may we take it that you were aware of the arrests of 19 Crown staff in mainland China in October 2016 at around the time of that incident?

30 **MR SHEPPARD:** Yes, I was.

MS SHARP SC: And it's right that at that time, Star Entertainment also had staff members who conducted marketing activities in mainland China?

35 **MR SHEPPARD:** Limited marketing activities, is my understanding.

MS SHARP SC: The fact of the arrests of the 19 staff members of Crown was of some concern to you, may we take it?

40 **MR SHEPPARD:** Yes.

MS SHARP SC: And is it right that that highlighted a risk to you of the international rebate business?

45 **MR SHEPPARD:** Yes - yes, it did.

MS SHARP SC: You mentioned earlier the media allegations made principally against Crown in July and August of 2019?

MR SHEPPARD: Yes.

MS SHARP SC: Did you follow those allegations reasonably closely?

5 **MR SHEPPARD:** Well, I read - I read them.

MS SHARP SC: Did you make a point of endeavouring to read the articles about these allegations?

10 **MR SHEPPARD:** Yes.

MS SHARP SC: And did you watch the - I think it was a 60 Minutes broadcast?

15 **MR SHEPPARD:** I - I don't - I don't recall.

MS SHARP SC: You're aware, aren't you, that some of those allegations related to Crown's links with junket operators?

20 **MR SHEPPARD:** Yes, I am.

MS SHARP SC: And you're aware, aren't you, that some of those junket operators also did business with The Star?

25 **MR SHEPPARD:** Yes.

MS SHARP SC: For example, the Suncity junket?

MR SHEPPARD: Yes.

30 **MS SHARP SC:** And formerly the Chinatown junket?

MR SHEPPARD: Yes.

35 **MS SHARP SC:** And the Neptune junket, which is sometimes referred to as the Guangdong junket?

MR SHEPPARD: I'm - I'm not familiar with that name.

40 **MS SHARP SC:** And you're aware that allegations were also raised to the effect that Crown turned a blind eye to money laundering taking place in its casinos?

MR SHEPPARD: Yes.

45 **MS SHARP SC:** And you're aware, aren't you, that allegations were made that people had brought large bags of cash into Crown Resorts in Melbourne?

MR SHEPPARD: Yes.

MS SHARP SC: And in particular, they brought large bags of cash into the Suncity room in the casino in Melbourne?

MR SHEPPARD: Yes.

5

MS SHARP SC: So you - may we take it your understanding of risks associated with the international rebate business was enlivened in July and August of 2019?

MR SHEPPARD: Yes, that's correct.

10

MS SHARP SC: And you recall, don't you, that the Bergin Inquiry was announced in around August or September of 2019?

MR SHEPPARD: Yes, I do.

15

MS SHARP SC: And that inquiry ran throughout 2020, didn't it?

MR SHEPPARD: Yes, it did.

20 **MS SHARP SC:** And you were aware that there were a number of public hearings associated with that inquiry?

MR SHEPPARD: Yes.

25 **MS SHARP SC:** And those hearings were widely reported in the media?

MR SHEPPARD: Yes.

30 **MS SHARP SC:** At that time, did you stop to ask, "Is any of that happening here at Star?"

MR SHEPPARD: Yes.

MS SHARP SC: Who did you ask?

35

MR SHEPPARD: The board asked - it was only - not only me, it was the board asked management and particularly - I think it was the chief risk officer and also the head of the casino business, Mr Hawkins, to - actually, let me rephrase that. Certainly we asked the chief risk officer and management generally to prepare a report or some reports for the board to identify whether any of the activities which had been the subject of the report you just alluded to were relevant to Star.

40

MS SHARP SC: And in particular, are you there referring to a board report prepared by Ms Martin and Mr Hawkins dated 15 August 2019?

45

MR SHEPPARD: That would be correct, yes.

5 **MS SHARP SC:** I will come back to ask you about that paper a little later. Can I move forward now to early October of last year. Let me show you an email. I want to see whether you were ever made aware of this email. Could I call up exhibit B, tab 3136, STA.3401.0002.6254. Now, you will see there's an email, about point 2 of the way down, from journalist Nick McKenzie to The Star dated 6 October 2021?

10 **MR SHEPPARD:** Could you repeat that, Ms Sharp? What are you drawing my attention to?

MS SHARP SC: All I'm drawing your attention to is the fact that there is an email at this stage.

15 **MR SHEPPARD:** Okay.

MS SHARP SC: Do you see that there's an email from journalist Nick McKenzie to The Star dated 6 October 2021?

20 **MR SHEPPARD:** Yes.

MS SHARP SC: And what I would like to do is have you read this email now, and then I want you to tell us whether you were made aware of this email at the time.

25 **MR SHEPPARD:** I don't - I don't recall being made aware of it.

MS SHARP SC: Let me just take you - you've only read a little bit of it at this stage. If I can take you to the bottom of that email first - the bottom of that page.

30 **MR SHEPPARD:** Yes.

MS SHARP SC: And then, operator, could I please show Mr Sheppard the whole of the next page, which is pinpoint 6255. And I won't ask you to read the entirety of this document, Mr Sheppard, but I will just show you that it goes on. Operator, could I please show Mr Sheppard pinpoint 6256. Now, Mr Sheppard, you can take it from me that Mr Peter Jenkins was sent this email, and he forwarded it to Mr Theodore, Ms Martin, Mr Power and Mr Hawkins. My question is: were you ever made aware of this email?

40 **MR SHEPPARD:** I certainly don't recall seeing the email. I was probably made aware - or the board was probably made aware of media inquiries. But I don't recall seeing the email as such, no.

45 **MS SHARP SC:** And certainly what you can see from your glance at this document is that it comprises a very detailed list of questions?

MR SHEPPARD: Yes, I can see that.

MS SHARP SC: Now, this email is dated 6 October 2021. May we take it that you were made aware on this day or very shortly thereafter that Mr McKenzie was intending to report in relation to Star Entertainment?

5 **MR SHEPPARD:** Yes, I do recall being made aware of that.

MS SHARP SC: And how were you made aware of that?

10 **MR SHEPPARD:** I think it was at a board meeting.

MS SHARP SC: Can I take you - you're aware, of course, that 60 Minutes did a broadcast on Star Entertainment on 8 October last year?

15 **MR SHEPPARD:** Yes, this is what - this is what you've been referring to.

MS SHARP SC: Well, no, I'm now asking you about --

MR SHEPPARD: Yes, yes, yes. Yes, I am.

20 **MS SHARP SC:** Yes. Did you watch that at the time?

MR SHEPPARD: Yes, I did.

25 **MS SHARP SC:** Can I take you to a transcript of that broadcast that I understand was prepared by The Star - or Star Entertainment. Could I call up exhibit B at tab 3166, which is STA.3412.0013.1938. Have you seen this transcript before, by the way?

30 **MR SHEPPARD:** Not to my knowledge.

MS SHARP SC: I take it you watched the program with some care?

MR SHEPPARD: Yes.

35 **MS SHARP SC:** If I could take you to - I won't, of course, ask you to read the whole transcript now, but I just wanted to point a few matters out to you. Could you see - if we go to pinpoint 1939. And right at the bottom of that, there's an entry for Nick McKenzie. And do you see he refers to patron John Khoury?

40 **MR SHEPPARD:** Yes.

MS SHARP SC: And then if I take you over the page to 1940. At the top, do you see that, in the second paragraph, Nick McKenzie refers to - I beg your pardon - fourth paragraph, Nick McKenzie refers to patron James Mussillon?
45

MR SHEPPARD: I'm sorry. I'm just looking for that. I can see John Khoury.

MS SHARP SC: Yes. It's --

MR SHEPPARD: Yes, yes, yes. The - a famous Canberra restaurateur, yes.

5 **MS SHARP SC:** And then midway through the page, Nick McKenzie - and, operator, if we could scroll down, please. Nick McKenzie refers to independent reports prepared by accounting firm KPMG. Do you see that?

MR SHEPPARD: Yes, I do.

10 **MS SHARP SC:** And he then - if we go to pinpoint 1941. At the bottom of the page, the transcript refers to a statement of Ben Lee. And Ben Lee is recorded as saying:

15 "Star has been engaged in some of the practices that Crown was involved in. They have the same grey area transactions that Crown had."

And Nick McKenzie is recorded as saying:

20 "Grey transactions, why are they grey?"

And Ben Lee says:

25 "Because technically they are skirting the money laundering regulations and reporting requirements."

MR SHEPPARD: Yes.

30 **MS SHARP SC:** And then can you see, right at the bottom of that page, Mr McKenzie is reported to have said:

35 "It seems The Star went out of its way to attract any Chinese gambler with money, offering them a secret service too good to refuse. To help stop the prying eyes of government authorities, the government - I beg your pardon - the company lent - or let -"

And then if we go to the next page:

40 "Chinese gamblers use special Chinese banking cards to withdraw vast sums of money from their hotel lobbies."

MR SHEPPARD: Yes.

45 **MS SHARP SC:** And then a little further down the page, Nick McKenzie refers to Simon Pan. Can you see that?

MR SHEPPARD: Yes.

MS SHARP SC: Now --

MR SHEPPARD: Yes, yes.

5 **MS SHARP SC:** Yes. You will agree that this 60 Minutes broadcast referred to more allegations than merely allegations relating to the KPMG report?

MR SHEPPARD: Yes, I can.

10 **MS SHARP SC:** Now, I think you've already mentioned the board did have a meeting on 8 October 2021 to discuss the 60 Minutes program?

MR SHEPPARD: It had a meeting. I'll - I'll - I'll take your word for it that it was on 8 October.

15 **MS SHARP SC:** If I could take you to exhibit H at tab 469, which is STA.3029.0002.0063. And you would agree that I'm showing you minutes of a meeting of directors on Friday, 8 October 2021?

20 **MR SHEPPARD:** Yes.

MS SHARP SC: Do you see the time is 6.25 pm Sydney?

MR SHEPPARD: Yes.

25 **MS SHARP SC:** And you will agree that you're recorded as being present?

MR SHEPPARD: Yes.

30 **MS SHARP SC:** And you were, weren't you?

MR SHEPPARD: I believe so, yes - or was.

MS SHARP SC: Yes. The second half of the document says:

35 "Media matters, 60 Minutes report and press articles by Nick McKenzie."

MR SHEPPARD: Yes.

40 **MS SHARP SC:**

"October 2021."

And right at the bottom of that page - and I will have it enlarged for you - do you see the minutes record this:

45

"In Peter Jenkins', group executive external affairs, discussions with the journalist, Mr McKenzie, he noted in his view the allegations are based on sound knowledge of the circumstances; there is reason to believe integrity

issues exist within Star; and from speaking with the people at The Star they are concerned."

Now --

5

MR SHEPPARD: Yes.

MS SHARP SC: -- does that accord with your recollection of what Mr Jenkins said at the meeting?

10

MS RICHARDSON SC: I – I object. I think it should be made - it should be explored with the witness as to whether that's describing what Mr McKenzie said was his view or whether it was Mr Jenkins' view.

15

MS SHARP SC: Well I - I'm going to do that, Mr Bell. But there's nothing, with respect, wrong with the question I asked.

MR BELL SC: Yes. I will allow the question. I'm sure you will explore the question that Ms Richardson raises as well in due course.

20

MR SHEPPARD: Could you repeat the question?

MS SHARP SC: Yes. That part of the first page of the minutes I've just read out to you, does that accord with your recollection of what was discussed at the meeting?

25

MR SHEPPARD: Yes, it - yes, it's consistent with the matters that were discussed at the meeting.

30

MS SHARP SC: And can you assist us: was Mr Jenkins expressing his own view that the allegations are based on sound knowledge of the circumstances, or was he expressing the view that Mr McKenzie, the journalist, said that the allegations are based on sound knowledge of the circumstances, or do you not remember either way?

35

MR SHEPPARD: I don't remember the precise words that he said, but I read this minute to very clearly state that it's Mr McKenzie's view that is being expressed here.

40

MS SHARP SC: Well, what's your recollection? Did Mr Jenkins express to you at this meeting any concern he held that the allegations were based on sound knowledge of the circumstances?

MR SHEPPARD: No.

45

MS SHARP SC: Now, it's correct, isn't it, that following this 60 Minutes broadcast, there were a number of articles in the newspapers making the same and further allegations?

MR SHEPPARD: Yes, there were.

5 **MS SHARP SC:** And may we take it that you endeavoured to read those articles carefully at the time?

MR SHEPPARD: Yes, I did.

10 **MS SHARP SC:** One of these is a 10 October 2021 article in the Sydney Morning Herald which I will show to you, which is exhibit B at tab 3155, which is INQ.014.001.0001. And that's an article entitled "No Knowledge": Gambling Watchdog Unaware of Criminal Infiltration of Star Casinos. Do you recall reading that article at the time?

15 **MR SHEPPARD:** I - I believe I did, yes.

20 **MS SHARP SC:** And I will show you another one of the same date. Operator, could I call up exhibit B at tab 3156, which is INQ.014.001.0005. And, operator, you can put down the first article, please. Do you see this is another article also dated 10 October published in the Sydney Morning Herald entitled "The Fallen Star: Sydney's Cleanskin Casino Caught in "Dirty" Company?"

MR SHEPPARD: Yes, I did read that.

25 **MS SHARP SC:** Now, you will agree that this article referred to more than simply allegations about the KPMG report?

MR SHEPPARD: Yes, it did.

30 **MS SHARP SC:** Do you agree it referred to a number of allegations?

MR SHEPPARD: Yes.

35 **MS SHARP SC:** Traversing a variety of topics?

MR SHEPPARD: Yes.

40 **MS SHARP SC:** Now, could I take you, please, to exhibit H at tab 471, and this is STA.3029.0001.1491. Now, I'm showing you an email that was sent by the chairman, John O'Neill, to you and other directors dated 10 October 2021; do you see?

MR SHEPPARD: Yes.

45 **MS SHARP SC:** And in a nutshell, Mr Bekier is forwarding you and other directors an email that he has received from Inside Asian Gaming. I will show you the second page, pinpoint 1491. Do you see that? Do you recall reading that at the time, Mr Sheppard?

MR SHEPPARD: I - I - I don't recall, but I'm sure that I did.

5 **MS SHARP SC:** And if I can just take you to what the Inside Gaming representative, Andrew Scott, says. If we start at the bottom of the first page, he refers to this:

10 "Casinos are such an easy target. They really beat it up, trotting out 'industry expert' Ben Lee who will say what he knows they want him to, and reporting it breathlessly with the spooky background music as if it is the end of the world -"

And then I will take you over the page:

15 "With having any understanding that much of what goes on is standard operating procedure for casinos around the world. The simple fact is that all casinos throughout Asia dealt with junkets, and those few that didn't, wanted to."

20 Now, did that accord with your understanding at the time?

MR SHEPPARD: Which - which - which particular aspect, Ms Sharp?

25 **MS SHARP SC:** That, really, casinos all over the world - or throughout Asia have dealt with junkets, and those few that didn't, wanted to?

MR SHEPPARD: I'm not sure that that was my view. I was certainly aware that junkets - many casinos around the world dealt with junkets.

30 **MS SHARP SC:** Can I take you to another email now. Before I do, it's correct, isn't it, that The Star Entertainment Group released an ASX release on 11 October 2021 in relation to these allegations in the media?

35 **MR SHEPPARD:** I believe that's correct, yes.

MS SHARP SC: And if I take you to an email. Let's go to exhibit H, tab 481, which is STA.3412.0086.4486. And I'm showing you an email from you to Ms Martin and your fellow directors dated 11 October 2021?

40 **MR SHEPPARD:** Yes.

MS SHARP SC: And you express the view that you approve the ASX release; do you agree?

45 **MR SHEPPARD:** Yes.

MS SHARP SC: And you say:

"You are using pretty constrained language, given some of the allegations -"

I think there must be an "are":

5 "Much more than 'misleading', more like outright wrong, but tone at this stage is probably right."

Now, why was it you thought these allegations were outright wrong at this particular time?

10

MR SHEPPARD: Well, in particular, I felt that the allegations relating to the KPMG report used language which was highly exaggerated and incorrect.

15 **MS SHARP SC:** And what about the myriad of other allegations raised by that point in time, to your knowledge?

MR SHEPPARD: Based on what I knew at the time, some of those people had already been excluded from The Star casino. So I thought some of those allegations were incorrect as well.

20

MS SHARP SC: And what had you done, if anything, to form your view that these allegations were outright wrong?

25 **MR SHEPPARD:** Well, I was very familiar with the --

25

MS RICHARDSON SC: Sorry. I object to that question. It has been framed as "these allegations", presumably encompassing all of the allegations, where the language in the email is "some of the allegations". It should be put more accurately to the witness, in my submission.

30

MS SHARP SC: I will withdraw the question. Which allegations had you intended to label as outright wrong when you said "some of the allegations"?

35 **MR SHEPPARD:** Primarily the allegations about the KPMG report.

35

MS SHARP SC: When you said "primarily", did you intend to include other allegations, or are you just referring to the KPMG report?

40 **MR SHEPPARD:** I don't recall, but it was probably focused on the KPMG report.

40

MS SHARP SC: But you did understand by this time, didn't you, Mr Richard, that there were many more allegations in the media than those concerned with the KPMG reports?

45 **MR SHEPPARD:** Yes, I did.

MS SHARP SC: Now, could I take you to the ASX release that you approved. If we could call up exhibit H, tab 473, which is INQ.003.006.0539. And this is the 11 October 2021 release that you approved, isn't it?

5 **MR SHEPPARD:** Yes.

MS SHARP SC: All right. And do you see it says:

10 "The Star is concerned by a number of assertions within the media reports that it considers to be misleading."

MR SHEPPARD: Yes.

15 **MS SHARP SC:** You will agree that that does not restrict itself to the KPMG allegations?

MR SHEPPARD: No, not necessarily, but I think there were actually a number of assertions about the KPMG report. But I accept that this refers to a wider group of assertions.

20 **MS SHARP SC:** Yes. Well, this release cannot fairly be read as relating only to the KPMG assertions, can it?

25 **MR SHEPPARD:** No, I accept that.

MS SHARP SC: All right. What were the other assertions that you considered to be misleading at this particular time in time, and I mean aside from the KPMG assertions?

30 **MR SHEPPARD:** I think there - there were assertions about The Star's relationship with particular individuals where I was aware - or I had been told that we had, in fact, been working closely with law enforcement agencies about some of these individuals, and I didn't think that had been addressed in the media reports.

35 **MS SHARP SC:** Anything else?

MR SHEPPARD: I think they're the main issues.

40 **MS SHARP SC:** Do you accept that this statement, that The Star is concerned by a number of assertions within the media reports that it considers misleading, is somewhat overstated?

45 **MR SHEPPARD:** No.

MS SHARP SC: Well, had you done anything to satisfy yourself that anything other than assertions related to KPMG were what you regarded to be misleading?

MR SHEPPARD: Yes, I had been involved in some discussions.

MS SHARP SC: And what were they, Mr Sheppard?

5 **MR SHEPPARD:** What were the discussions?

MS SHARP SC: Yes.

10 **MR SHEPPARD:** I - I - I don't - I think they were probably telephone calls at the time. There may have been a meeting.

MS SHARP SC: Do you think this - as you look at this ASX announcement today, is there anything you would modify if you had your time again?

15 **MR SHEPPARD:** No, I think it's accurate.

MS SHARP SC: And just to be clear, you're basing that on your view that aspects of the reporting about KPMG report is misleading; is that right?

20 **MR SHEPPARD:** Yes.

MS SHARP SC: Anything else?

25 **MR SHEPPARD:** Well, as I've said, I - I - I thought that it didn't objectively deal with some of the individuals that were mentioned.

MS SHARP SC: Well, one of the individuals it dealt with was John Khoury, and one of the allegations was that while he was excluded at The Star in Sydney, he continued to play at The Star in Queensland for many years?

30

MR SHEPPARD: Yes.

MS SHARP SC: Now, that's right, isn't it?

35 **MR SHEPPARD:** I believe it was, yes.

MS SHARP SC: So that's not a misleading allegation. And the media allegation related to Simon Pan as a junket representative and - asserted to the effect that he was an inappropriate person to have business relations with; do you agree?

40

MR SHEPPARD: That the media asserted that? I believe so, yes.

MS SHARP SC: And that's right too, isn't it?

45 **MR SHEPPARD:** Yes.

MS SHARP SC: So a number of the media allegations were correct, to your understanding?

MR SHEPPARD: I believe so, yes.

5 **MS SHARP SC:** That's not what this ASX announcement conveys, is it?

MR SHEPPARD: Well, what it's saying is The Star was concerned by a number of assertions within the media reports that it considers misleading.

10 **MS SHARP SC:** It doesn't say anything about agreeing that a number of the assertions were correct?

MR SHEPPARD: No, but it says a number of the assertions. It doesn't say all of the assertions.

15 **MS SHARP SC:** Is that a sharp way of reading this document, Mr Sheppard?

MR SHEPPARD: No, I don't think so. I think it's an accurate document.

20 **MS SHARP SC:** Well, isn't this release to the market, as possibly a price sensitive piece of information, refuting the media allegations?

MR SHEPPARD: It's saying that a number of the assertions are misleading.

25 **MS SHARP SC:** Well, wouldn't it have been fairer to say, "And by the way, a number of the assertions are accepted to be correct?"

MR SHEPPARD: Possibly.

30 **MS SHARP SC:** Well, what's the correct position?

MR SHEPPARD: I think some of the media assertions probably were correct.

MS SHARP SC: Well, why didn't you say that in the ASX announcement?

35 **MR SHEPPARD:** Because the ASX announcement states that we're concerned by a number of assertions that are misleading.

40 **MS SHARP SC:** Is the ASX announcement itself somewhat misleading, Mr Sheppard?

MR SHEPPARD: No, I don't think so.

MS SHARP SC: Are you sure about that?

45 **MR BELL SC:** Were you concerned by some of the allegations which you believed to be accurate?

MR SHEPPARD: Look, I - I didn't have - I wasn't - didn't have detailed knowledge of a number of the individuals. I was in the process, along with the board, of making inquiries about those individuals. Without remembering the details, the answers I got indicated that quite a few of those assertions were misleading. If that answers your question, Mr Bell?

MR BELL SC: Well, it doesn't really. Were you concerned about some of the media allegations which you believed to be accurate at the time?

MR SHEPPARD: Yes, I was generally concerned about the whole - the body of allegations. Yes.

MR BELL SC: Wouldn't it have been more appropriate to reference those matters as well?

MR SHEPPARD: Probably, yes.

MR BELL SC: Yes, Ms Sharp.

MS SHARP SC: Well, I suggest to you the terms of this ASX announcement were quite inappropriate. Do you agree or disagree?

MR SHEPPARD: No, I disagree.

MS SHARP SC: And you say that with the benefit of hindsight and with reflection?

MR SHEPPARD: Yes, because I think there were more - there were a number of assertions which were, in fact, misleading.

MS SHARP SC: And how many of them can you point to in addition to the KPMG report allegations?

MR SHEPPARD: I - I don't know that.

MS RICHARDSON SC: I object to that question. In fairness to this witness, the article should be put to him so that he has the opportunity to identify them if this line of questioning is to be persisted with.

MR BELL SC: Ms Richardson, I understood counsel assisting took the witness to a number of specific matters, both in the 60 Minutes transcript and in the Sydney Morning Herald article. So is that not correct?

MS RICHARDSON SC: Well, the witness was not given the opportunity to read the entire transcript or read the article, and now it's being put to him in a rolled up, conclusory way that he's being asked to identify which matters were thought to be misleading or not. In my submission, it's not a fair approach.

MR BELL SC: Well, Ms Sharp, what I understand the witness to be telling me is that he was concerned about the reporting of the KPMG report, and he was concerned about the reporting about some individuals that The Star had dealt with in circumstances where they had been excluded and The Star was liaising with law enforcement authorities. So that's my understanding at the moment about this witness's concerns. I think you're entitled to check whether my understanding about that is correct or not.

MS SHARP SC: Is the understanding that Mr Bell has just conveyed correct, Mr Sheppard?

MR SHEPPARD: Yes, that's a fair summary.

MS SHARP SC: Well, I suggest to you that the terms of this announcement were inappropriate. Do you agree or disagree?

MR SHEPPARD: I disagree.

MS SHARP SC: Now, can I take you to STA.3029.0001.1910, exhibit H475. Now, I'm showing you an email from you dated 11 October 2021 to John O'Neill, Matt Bekier and Peter Jenkins; do you agree?

MR SHEPPARD: Yes, I do.

MS SHARP SC: And you're referring to a consultant who you had spoken with about the media allegations; is that right?

MR SHEPPARD: Yes. Yes.

MS SHARP SC: And is it right that, at this stage, your response was very much focused on managing the media allegations that had been made against Star Entertainment?

MR SHEPPARD: I think my response was the media allegations had raised a whole lot of issues which we needed to address and that Peter Jenkins might - might welcome some assistance.

MS SHARP SC: I will just ask my question again. Is it right that, at this stage, your response was very much focused on managing the media allegations against Star Entertainment?

MR SHEPPARD: In this - this email, yes.

MS SHARP SC: And at this stage, what, if any, consideration were you giving to the question of whether there was substance in this large number of allegations?

MR SHEPPARD: Well, this was around October 2021. I was asking quite a few questions about the substance of the allegations.

MS SHARP SC: And who were you asking those questions of?

MR SHEPPARD: At - at - at board meetings.

5

MS SHARP SC: Other than at board meetings, were you asking any questions?

MR SHEPPARD: Possibly, but I don't recall.

10 **MS SHARP SC:** Now, can I take you to exhibit H, tab 489, which is STA.3433.0005.0066. And what I will do is take you to pinpoint 0067. And if I could have you look, Mr Sheppard, at your email dated 11 October 2021 to John O'Neill and Matt Bekier?

15 **MR SHEPPARD:** Yes.

MS SHARP SC: You're sharing some thoughts with them about the appropriate response to these media allegations, aren't you?

20 **MR SHEPPARD:** Yes.

MS SHARP SC: And do you see in the second paragraph, you say:

25 "Know you're both incredibly busy, but just want to reiterate my view that we need to do at least three things really urgently."

MR SHEPPARD: Yes.

MS SHARP SC: And one of them is:

30

"Prepare a list of every allegation made against us and our response."

And (2) is:

35

"Prepare a response we can get into the press one way or the other."

MR SHEPPARD: Yes.

MS SHARP SC: And there you focus on a number of allegations; is that right?

40

MR SHEPPARD: Yes.

MS SHARP SC: And (3), you say:

45

"Prepare detailed letter to ILGA."

MR SHEPPARD: I can't see (3).

MS SHARP SC: I'm sorry. I will have that - pardon me, Mr Sheppard. I will have that --

MR SHEPPARD: Yes.

5

MS SHARP SC: Now, just going back to your suggestion for (2), preparing a response to the press, one of the matters you dot point there is the:

10 "Accusation, China UnionPay debit and credit cards used for gambling and to hide funds used for gambling, response along the lines no laws broken, no credit cards, discontinued in 2020, reported to the regulator, etcetera."

MR SHEPPARD: Sorry. Where is that, Ms Sharp? I can't see it.

15 **MS SHARP SC:** If you have a look - there are - see number 2? Do you see it says:

"Prepare a response we can get into the press."

20 **MR SHEPPARD:** Yes.

MS SHARP SC: Now, if I could take your attention down - you will see there are a number of dot points.

25 **MR SHEPPARD:** Yes.

MS SHARP SC: If I could direct your attention, please, five dot points down.

MR SHEPPARD: Yes.

30

MS SHARP SC: And you see it says:

"Accusation, China UnionPay debit and credit cards used for gambling and to hide funds."

35

MR SHEPPARD: Yes.

MS SHARP SC: So is it right that, at this time, you thought you had a good answer to the media allegations about China UnionPay cards?

40

MR SHEPPARD: No.

MS SHARP SC: Well, why are you suggesting that you get this into the paper?

45 **MR SHEPPARD:** I think the media was suggesting that we - we ascertain the facts before we did any of that sort of thing.

MS SHARP SC: Well, isn't it - haven't you just said at (2):

"Prepare a response we can get into the press one way or the other along the following lines."

5 **MR SHEPPARD:** Yes, but that was after point 1, which is:

"Prepare a list of every allegation made against us and our response."

10 **MS SHARP SC:** So you say (1) and (2) are to be read cumulatively; is that right?

MR SHEPPARD: I think so, yes.

15 **MS SHARP SC:** So you did or didn't have confidence in the assertions you made about China UnionPay at the time in this email?

MR SHEPPARD: This - what was the date of this email?

MS SHARP SC: The date of this email was 11 October 2021.

20 **MR SHEPPARD:** No, I - I - I viewed China UnionPay as a serious issue, but we had been advised that no laws had been broken. And - and I'm simply saying there we need to do the work to understand the accusations and the detailed information about each one.

25 **MS SHARP SC:** Could you help me with this, please, Mr Sheppard. A few further dot points down, you state:

"More generally Star board commissioned independent reports ex Bergin to review all activities in light of Bergin."

30

MR SHEPPARD: Yes

MS SHARP SC: What are the independent reports you're referring to there?

35 **MR SHEPPARD:** The board had asked for a number of independent reports on a range of matters, which included China UnionPay, governance, the use of overseas bank accounts and some other matters.

40 **MS SHARP SC:** Was this as part of what's called Project Zurich?

MR SHEPPARD: Yes, it was. Yes, that's what it was called.

MS SHARP SC: And what, in this context, do you mean by "independent"?

45 **MR SHEPPARD:** Well, Project Zurich - the board asked an external legal firm to prepare those reports.

MS SHARP SC: I understand that, but what do you mean by "independent"?

MR SHEPPARD: Independent of The Star.

5 **MS SHARP SC:** And is a report independent of The Star if it is settled and edited by internal lawyers at The Star?

MR SHEPPARD: No, it wouldn't be entirely independent.

10 **MS SHARP SC:** Would a report be entirely independent if it was written by somebody who had advised on certain transactions as they were being effected?

MR SHEPPARD: I think that could still be seen as independent.

15 **MS SHARP SC:** Not a situation --

MR SHEPPARD: Certainly independent of The Star.

20 **MS SHARP SC:** Yes. Does it have a flavour of marking your own homework at all?

25 **MS RICHARDSON SC:** Well, I object to this line of questioning. It's entirely abstract. Which transaction is my learned friend referring to that it be advised on that is the subject of later reports? It's not fair to roll it up in this way, in my submission.

MS SHARP SC: I'm happy to put more detailed questions about it. Now, it was Anthony Seyfort from HWL Ebsworth who provided these independent reports, wasn't it?

30 **MR SHEPPARD:** Yes, it was.

MS SHARP SC: Were you aware that he had advised on the form of contract with Kuan Koi when the interim liquidity arrangement was brought into play in early 2018?

35 **MR SHEPPARD:** Yes, I was aware that he was one of a number of legal firms that had advised on those arrangements.

40 **MS SHARP SC:** And he had prepared the - or advised on the contract between Kuan Koi and The Star. Did you know that?

MR SHEPPARD: Not specifically.

45 **MS SHARP SC:** Does that give rise to any independence concerns for you, Mr Sheppard?

MR SHEPPARD: It could do.

MS SHARP SC: And did you know that he advised Star in 2018 about AUSTRAC reporting requirements in relation to the EEIS bank accounts, including whether IFTIs were required to be lodged?

5 **MR SHEPPARD:** I was aware that he was an advisor to The Star about those arrangements, not - not the specific matters that he advised on.

MS SHARP SC: Does that call you to question how independent he was in terms of preparing reports for you on the patron bank accounts?

10

MR SHEPPARD: It doesn't cause me to question his independence from The Star, but you point out that he was involved in some of the advice. I accept that.

15 **MS SHARP SC:** So does that give you a - or give us a bit of a flavour of marking your own homework?

MR SHEPPARD: Possibly.

MS SHARP SC: It's not a matter you've considered before today?

20

MR SHEPPARD: No. I regarded it as an independent report on those matters.

MS SHARP SC: Now, can I take you to the first page of this document, which is pinpoint 0066. This is a further email from you. If we go back and up the email chain. Do you see there's another email from you dated 12 October 2021 to Mr O'Neill and Mr Bekier?

25

MR SHEPPARD: Yes.

30 **MS SHARP SC:** And you say:

"Thanks John. No need at all to revert on this. And apologies if this is straying a bit over the line into management."

35 Was it? Isn't that what the board should be doing?

MR SHEPPARD: Not in the actual preparation of detailed information.

MS SHARP SC: And do you see it said - you said:

40

"But frustrating watching the news reports after our meeting knowing we have good responses to most or all of the issues."

MR SHEPPARD: Yes.

45

MS SHARP SC: Now, were you referring to all of the media allegations that had aired at that time in October 2021?

MR SHEPPARD: I don't recall what I - probably, but I don't recall exactly what I was referring to in that email.

5 **MS SHARP SC:** Well, did you think at the time that The Star had good responses to most, if not all, of the media allegations aired in October --

MR SHEPPARD: No, not - not all of them.

10 **MS SHARP SC:** So might this email have overstated things a little bit?

MR SHEPPARD: It could have.

15 **MS SHARP SC:** Can I take you, please, to exhibit B, tab 3176, which is STA.3411.0001.7109. I'm showing you a further ASX announcement by Star Entertainment dated 12 October 2021. Now, you had a role in approving this, didn't you?

MR SHEPPARD: Yes, I would have.

20 **MS SHARP SC:** All right. I will come back to this. I want to show you the relevant board minutes for the 12 October 2021 meeting where this release was approved. Could we go to exhibit H at tab 488, which is STA.3029.0002.0031. Do you see I'm showing you minutes of a directors' meeting on 12 October 2021?

25 **MR SHEPPARD:** Yes.

MS SHARP SC: And you're recorded as being present?

30 **MR SHEPPARD:** Yes.

MS SHARP SC: And you were present?

MR SHEPPARD: Yes.

35 **MS SHARP SC:** And --

MR SHEPPARD: Well, it - it was a video conference, but I was present via video.

40 **MS SHARP SC:** And can I take you to the second half of the page. There's an entry for media coverage. Do you see that?

MR SHEPPARD: Yes.

45 **MS SHARP SC:** And in the third paragraph - I will have it enlarged for you - it says:

"Management noted that the key matter at the core of the ongoing media, including in particular the press articles today and a radio interview this afternoon by Mr McKenzie, is the KPMG reports from 2018 and the company's response to those reports."

5

MR SHEPPARD: Yes.

MS SHARP SC: Was that really the key allegation at the time, Mr Sheppard?

10 **MR SHEPPARD:** Well, there were a whole range of allegations. That - that was certainly a substantive part of the report.

MS SHARP SC: There were also very serious allegations about the use of CUP cards at The Star at this time; do you agree?

15

MR SHEPPARD: I believe there were in the report, yes.

MS SHARP SC: And - well - yes. And do you agree there were also serious allegations about Phillip Dong Fang Lee's use of the CUP card?

20

MR SHEPPARD: I don't - I don't recall.

MS SHARP SC: And do you agree that there were also allegations at this point in time that Star had relationships with a number of patrons who were said to be unsuitable people for whom The Star dealt with?

25

MR SHEPPARD: Yes, those allegations were part of the report.

MS SHARP SC: I'm just wondering why, in those circumstances, the KPMG reports are identified as the key matter. Are you able to assist us in understanding that?

30

MR SHEPPARD: This records - this records what management told the meeting.

35 **MS SHARP SC:** So this is what you were led to believe; is that the position?

MR SHEPPARD: No, this records what management told the meeting. I think "led to believe" is probably an overstatement.

40 **MS SHARP SC:** Yes. Well, you've had the opportunity to read the media articles and watch the 60 Minutes program for yourself, haven't you?

MR SHEPPARD: Yes, I have.

45 **MS SHARP SC:** So you were well aware by this time that the media allegations extended well beyond the KPMG reports?

MR SHEPPARD: Yes, yes.

MS SHARP SC: Now, can I return you to that ASX release on 12 October 2021. Operator, if we go back to exhibit H at tab 488. And, Mr Sheppard, I gather that in giving your approval for this release, you considered the information in it was correct at the time you gave the approval?

MR SHEPPARD: Yes, I did.

MS SHARP SC: And can I direct your attention to the heading Summary. It says that:

"Recent media reports have asserted that reports prepared by KPMG in 2018 were kept secret and not adequately acted on."

MR SHEPPARD: Yes.

MS SHARP SC:

"These assertions are incorrect."

MR SHEPPARD: Yes.

MS SHARP SC: So the fair reading of this is to say that it's not correct to say the KPMG reports were kept secret?

MR SHEPPARD: Correct.

MS SHARP SC: But they were, weren't they?

MS RICHARDSON SC: I object to that question. My learned friend should indicate what she's referring to as the premise of that question.

MR BELL SC: I will allow it. Yes, Ms Sharp.

MS SHARP SC: They were kept secret, weren't they?

MR SHEPPARD: Well, not that I'm aware.

MS SHARP SC: So are you saying that no one in management made you aware that AUSTRAC repeatedly asked for the KPMG reports to be provided to it and The Star repeatedly refused to, claiming legal professional privilege applied to the reports?

MR SHEPPARD: No, I wasn't aware of that. I - I - I assumed that the KPMG report was provided to the - to AUSTRAC.

MS SHARP SC: And - well, did management tell you that it had been provided to AUSTRAC?

MR SHEPPARD: No.

5 **MS SHARP SC:** Well, why did you make that assumption rather than querying with management whether this allegation was correct?

MR SHEPPARD: Because it was a report about AML compliance, and I simply assumed that it would be given to AUSTRAC in the normal course of events.

10 **MS SHARP SC:** So is it correct that you permitted an ASX announcement to be released even though you had not established for yourself that an allegation was incorrect but you were prepared to assert that it was incorrect?

MR SHEPPARD: I certainly didn't think the report had been kept secret.

15

MS SHARP SC: Well, it's a bit careless, releasing it in these terms, isn't it?

MR SHEPPARD: I don't think - no, it was - it was certainly not kept secret internally. All right. I - I take your point, Ms Sharp.

20

MS SHARP SC: And the KPMG report was never provided by The Star to the New South Wales casino regulator, was it?

MR SHEPPARD: I don't know.

25

MS SHARP SC: So you didn't check that either?

MR SHEPPARD: No.

30 **MS SHARP SC:** So it was a bit careless approving this in these terms that are wrong, isn't it?

MR SHEPPARD: Possibly on my part, but it was certainly not represented to me that it had been kept secret.

35

MS SHARP SC: You see, under the heading "Summary", it goes on to say:

"Details of the review and the resulting reports were shared with the AML/CTF regulator, AUSTRAC."

40

That's just wrong.

MS RICHARDSON SC: I object to that question.

45 **MR BELL SC:** Yes, Ms Sharp. I think there's an element of an unfairness in that question.

MS SHARP SC: I withdraw that. They were ultimately shared with AUSTRAC after AUSTRAC pushed back on at least two occasions. Are you aware about that?

MR SHEPPARD: That's my understanding, yes.

5

MS SHARP SC: Well, may I suggest it's a little bit sharp to say that the resulting reports were shared with the AML/CTF regulator, AUSTRAC, without disclosing that that followed quite the dispute about whether the reports were subject to legal professional privilege.

10

MR SHEPPARD: Well, I certainly wasn't aware of that at the time.

MS SHARP SC: And can I draw your attention, please, Mr Sheppard, to the bottom of that page, which refers to the most recent regular independent review of The Star's AML program being commenced in 2020?

15

MR SHEPPARD: Yes.

MS SHARP SC: And it says that:

20

"The first stage of this review included, but was not limited to, examining the program of work completed in the response to the 2018 review."

MR SHEPPARD: Yes.

25

MS SHARP SC:

"This stage was completed in July 2021."

30

MR SHEPPARD: Mm-hmm.

MS SHARP SC: Are you able to say why the next stage of the review had not been completed by that time?

35

MR SHEPPARD: This was the BDO report. I think the next stage of the work was focused on the - the TransVia - system that had been implemented, and they were doing further work on that.

MR BELL SC: Mr Sheppard, I just want to make sure I'm clear on something. When you approved this release, are you telling me that you were not aware that on a number of occasions Star Entertainment had refused to provide the KPMG reports to AUSTRAC on the grounds of legal professional privilege?

40

MR SHEPPARD: That - that's correct, Mr Bell.

45

MR BELL SC: You were totally unaware of that?

MR SHEPPARD: Yes.

MR BELL SC: And did you seek some assurance from management that this ASX release was accurate before you approved it?

5 **MR SHEPPARD:** Of course.

MR BELL SC: And I take it Ms Martin was at this meeting, was she, when you approved this ASX release?

10 **MR SHEPPARD:** I believe so.

MR BELL SC: And she didn't tell you that she had repeatedly caused The Star to refuse to provide the KPMG reports to AUSTRAC on the grounds of privilege?

15 **MR SHEPPARD:** No, I was unaware of that.

MR BELL SC: Yes, Ms Sharp.

20 **MS SHARP SC:** Now, I'm moving to a different topic now, Mr Sheppard. You will agree that the significance of the international rebate business to Star increased in the period late 2016 until the time of the COVID pandemic?

MR SHEPPARD: Yes.

25 **MS SHARP SC:** And Star's increase in that market shared - or paralleled the growth of that market in Macau; do you agree?

MR SHEPPARD: I don't know. I don't have that information available.

30 **MS SHARP SC:** And do you agree that the board was regularly briefed on the international rebate business?

MR SHEPPARD: Yes, I do.

35 **MS SHARP SC:** And certainly the brief was - I beg your pardon. Certainly the board was briefed in sufficient detail about the international rebate business that it ought to have been curious about the performance of the international rebate business?

40 **MR SHEPPARD:** Yes.

MS SHARP SC: And it's right, isn't it, that the performance of the international rebate business underpinned certain projects that Star Entertainment had embarked upon, including the Gold Coast property?
45

MR SHEPPARD: No, I don't think "underpinned" is the correct word. It was certainly one of the sort of inputs into the evaluation.

MS SHARP SC: Is it fair to say that the performance of the international rebate business was an important matter supporting the development of The Star hotel on the Gold Coast?

5 **MR SHEPPARD:** Yes, it was an - an element. The capital expenditure project on the Gold Coast followed a period of substantial underinvestment in - in what had been the old Jupiters casino. And the board embarked upon a capital expenditure program, including the - the Gold Coast - the - the hotel that you alluded to, to reposition the whole property in the market.

10

MS SHARP SC: And it's right, isn't it, that the performance of the international rebate business underpinned the renovation of the Sovereign and Rivers rooms in Star Sydney?

15 **MR SHEPPARD:** Yes, that was an important element in the Sovereign Room.

MS SHARP SC: And it's right, isn't it, that the revenue from the international rebate business got up to about 12 per cent of the overall revenue at Star Entertainment a couple of years ago?

20

MR SHEPPARD: That would be right, net of - net of the rebates associated with that business.

25 **MS SHARP SC:** So it's fair to say that the international rebate business was a significant aspect of Star Entertainment's overall business?

MR SHEPPARD: Yes, that's fair.

30 **MS SHARP SC:** Now, it's correct, isn't it, that in 2016, in the aftermath of the arrests of the Crown employees in mainland China, the board requested a briefing from management on the international rebate business?

35 **MR SHEPPARD:** It - it probably - I'm not sure of the dates. But the board, from time to time, got regular briefings on most of the businesses, including the IRB business.

MS SHARP SC: Is it right that you yourself endeavoured to understand the metes and bounds of the international rebate business?

40 **MR SHEPPARD:** Yes, it is.

MS SHARP SC: Can I take you, please, to exhibit B, tab 435, which is STA.5002.0003.1476. Do you see I'm showing you a board paper dated 26 September 2017 from Matt Bekier and John Chong?

45

MR SHEPPARD: Yes, I do.

MS SHARP SC: And it's called "International Rebate Strategy Update?"

MR SHEPPARD: Yes.

5 **MS SHARP SC:** We may take it that you received and read this document at about the time?

MR SHEPPARD: That's correct.

10 **MS SHARP SC:** Can I take you to the presentation that was covered by this board paper. If we go to pinpoint 1491. Now, there's a heading here, Historical and Forecast Financial Results. It's right that in this part of the paper, the board was briefed on some of The Star Entertainment Group's key junkets?

15 **MR SHEPPARD:** Yes, it was.

MS SHARP SC: And from dot point 2, you were aware that Suncity was The Star's largest junket customer, weren't you?

20 **MR SHEPPARD:** That's correct.

MS SHARP SC: And you were also made aware of a junket called the Guangdong junket, weren't you?

25 **MR SHEPPARD:** Yes, in this paper.

MS SHARP SC: And are you aware of the fact that that's another name for the Neptune junket?

30 **MR SHEPPARD:** Not - no, I'm not.

MS SHARP SC: And you were also briefed on the fact that one of the junkets with which Star then dealt was the Chinatown junket?

35 **MR SHEPPARD:** Yes.

MS SHARP SC: And another person associated with the junket you were briefed about was Mr - I will say Sixin - Qin, Q-i-n?

40 **MR SHEPPARD:** That's - that's probable. The Chinatown junket, by the way, I think we had discontinued some time earlier.

MS SHARP SC: And to your knowledge, that was because Tom Zhou was involved in an altercation at The Star casino and was excluded in 2016?

45 **MR SHEPPARD:** I - I believe that's correct, yes.

MS SHARP SC: And that's what brought an end to the relationship with the Chinatown junket, wasn't it?

MR SHEPPARD: I - I think so. I'm not across the detail of that. All I know that - well, I know that he was excluded. I know there were altercations. I don't know whether there were other reasons.

5

MS SHARP SC: And having regard to the last dot point here, Mr Sheppard, you will agree that you were told in financial year 2018 that management were focused on the strengthening relationships with all major junkets?

10 **MR SHEPPARD:** Yes.

MS SHARP SC: And could I take you to pinpoint 1497. Do you see there's a dot point at the bottom that says:

15 "The Chinese Government launched Operation Chain Break in late 2015 which sought to stop the flow of funds into foreign casinos."

MR SHEPPARD: Yes.

20 **MS SHARP SC:** So that was a matter upon which the board was briefed at that time; do you agree?

MR SHEPPARD: Through this presentation, yes.

25 **MS SHARP SC:** Yes. And then if I take you to pinpoint 1499. You will agree with me, having regard to the first dot point, that the directors were told that The Star had increased its share of the Australia/New Zealand international rebate business market from 29.7 per cent in financial year 2013 to 48.9 per cent in financial year 2017?

30

MR SHEPPARD: Yes.

MS SHARP SC: So there had been a period of significant growth; do you agree?

35 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: And that was a matter of which you were aware, as a director?

MR SHEPPARD: Yes.

40

MS SHARP SC: Now, can I take you to pinpoint 1502. You will agree that the board was told that:

45 "The Chinese Government focus on cracking down on gaming appears to be moderating in respect to Macau casinos, but not foreign operators."

MR SHEPPARD: Yes.

MS SHARP SC: Now, you understood from that that there were certain risks, didn't you?

MR SHEPPARD: Yes.

5

MS SHARP SC: And do you see the third dot point says:

10 "Global focus on AML continues to intensify, with direct and indirect implications (indirect including banks tightening their internal controls and customer risk assessments)."

MR SHEPPARD: Yes.

15 **MS SHARP SC:** What did you understand to be the direct implications of the global focus on AML continuing to intensify?

20 **MR SHEPPARD:** What I understood from that was that, globally, any money laundering was increasingly a major issue for regulators and others. And it was - there was increased risk and, therefore, increased controls associated with that.

MS SHARP SC: And that tightening of AML focus globally had an impact on the flow of funds to Star Entertainment, didn't it?

25 **MR SHEPPARD:** Yes. Well, as - as you pointed out, that the market share had been increasing, so it had had some impact.

30 **MS SHARP SC:** Did this information provided to you cause you to connect or draw any connections between the international rebate patrons and risks of money laundering?

MR SHEPPARD: Yes.

35 **MS SHARP SC:** And what connections were they?

MR SHEPPARD: Really associated with the transfer of money out of China.

40 **MS SHARP SC:** And tell us a little bit more about that and why that created a money laundering risk, to your understanding.

MR SHEPPARD: Well, the Chinese Government had imposed tighter controls, so there was the risk that patrons would potentially seek to circumvent those controls.

45 **MS SHARP SC:** And that's what gave rise to money laundering risks, wasn't it?

MR SHEPPARD: Yes.

MS SHARP SC: Because, amongst other things, underground banking networks might be used?

MR SHEPPARD: Potentially, yes.

5

MS SHARP SC: Now, if I just direct your attention, please, Mr Sheppard, to pinpoint 1503. You will agree, won't you, that the management briefed the board on further details of Operation Chain Break?

10 **MR SHEPPARD:** Yes, that is correct.

MS SHARP SC: And you will agree that what the board was doing there was alerting the board to certain risks associated with the flow of funds from high-value patrons to the casinos in Australia?

15

MR SHEPPARD: Well, certainly alerting the board to the change in regulations, yes.

20 **MS SHARP SC:** And could I take you, please, to pinpoint 1506. And do you see there's a heading "Key Strategies Overview"?

MR SHEPPARD: Yes.

25 **MS SHARP SC:** And can I direct your attention, please, to the north Asian junket business entry?

MR SHEPPARD: Yes.

30 **MS SHARP SC:** And you will agree that the board was briefed by management on a proposal to activate EEI Services (Hong Kong) Limited?

MR SHEPPARD: That's correct.

35 **MS SHARP SC:** Can I take you now to exhibit B, tab 442, which is STA.0025.0001.0922. And what I'm showing you is the managing director and CEO report for October 2017 that was provided to the board at around that time. Now, I take it you read the CEO's reports in preparing for your board meetings, did you, Mr Sheppard?

40 **MR SHEPPARD:** Yes, I did.

MS SHARP SC: And you took some care in reading them to understand everything set out in them?

45 **MR SHEPPARD:** Yes.

MS SHARP SC: Can I take you to pinpoint 0926. Now, appended to this board report was a presentation on the cheque cashing facility process dated 6 December 2017?

5 **MR SHEPPARD:** Yes.

MS SHARP SC: Do you recall reading this document?

10 **MR SHEPPARD:** At the time, yes, I would have.

MS SHARP SC: And I will show you just the first and second page quickly. So I'm showing you pinpoint 0927, with an agenda. This is a summary of what's set out in that paper; do you understand?

15 **MR SHEPPARD:** Yes.

MS SHARP SC: So you agree that the board was briefed on each of these matters with the October 2017 report of the CEO/managing director?

20 **MR SHEPPARD:** I'm not sure this paper was part of the managing director's report, but - but it was briefed in - in this paper, yes.

MS SHARP SC: And it was briefed to the board?

25 **MR SHEPPARD:** Yes.

MS SHARP SC: And as a paper that was briefed to the board, may we take it that you read it carefully in preparing for the board meeting?

30 **MR SHEPPARD:** Yes. (Indistinct) at the time, yes.

MS SHARP SC: Now, I will also take you to pinpoint 0942, which is part of this paper. And you will agree, won't you, that this page identifies the top 20 junkets with which The Star dealt at that time?

35 **MR SHEPPARD:** That's correct.

MS SHARP SC: So you, as a director, were aware that one of the junkets that Star dealt with was the Suncity junket?

40 **MR SHEPPARD:** Yes.

MS SHARP SC: And you can see there, from the facts and figures, that it was one of the largest junkets with which Star dealt by way of turnover?

45 **MR SHEPPARD:** Yes, it was.

MS SHARP SC: And you will see, about midway down that page, there's an entry to a junket operator, Minmin Shen?

MR SHEPPARD: Yes.

5

MS SHARP SC: And do you see that the cheque cashing facility holder is identified Sixin Qin?

MR SHEPPARD: Yes. Yes, I do.

10

MS SHARP SC: And Sixin Qin is also identified as one of the largest junkets - I withdraw that. So these were all matters that management briefed to the board at the time; do you agree?

MR SHEPPARD: Yes, it was in this paper.

MS SHARP SC: And could I take you to pinpoint 0950. And do you agree with me that in this paper, the board was provided with a brief of The Star's relationship with Sixin Qin?

20

MR SHEPPARD: Yes, I do.

MS SHARP SC: And the board was told that while Mr Qin had historically been one of Crown's major customers, much of the business had shifted over to Star in the past six months?

25

MR SHEPPARD: Yes, that's what this says.

MS SHARP SC: I will move to a different topic now, Mr Sheppard. When were you first made aware that CUP cards were used at Star?

30

MR SHEPPARD: I think there had been some incidental references to it in some CEO-type reports, simply saying - one line type references saying that some of our patrons used China UnionPay. So I was, from that, aware that - simply that some of our patrons used China UnionPay cards. I certainly wasn't aware of the way in which they were used at that particular point. In or about July of 2021, there was - the board again commissioned a series of papers arising out of the Finkelstein Inquiry into Crown Resorts, and one of those papers identified China UnionPay as - as - as one of the issues that had been identified in Finkelstein. And that paper said, from memory, Star uses China UnionPay cards, but it does not use them in the way that Mr Finkelstein has been concerned about with Crown, but we are preparing a report for - for - for the board for the next meeting. Then I think in the next meeting, which was September of 2021, the board received a report from HWLE, to whom you referred earlier, Mr Seyfort, outlining the way in which the China UnionPay card had been used at Star.

35

40

45

MS SHARP SC: And is it right there was then a response of management that was prepared by Mr Bekier and tabled at a board report?

MR SHEPPARD: That's correct.

5 **MS SHARP SC:** Can I go back to what you said that there may have been some incidental reference to the CUP card usage in managing director/CEO reports. Are you able to indicate which reports they were in, or is that just an assumption you're making?

10 **MR SHEPPARD:** That's just a broad recollection. In fact, it may not have been a - let me correct that. It may not have been a managing director's report; it might have been on one of the - the occasional papers given to the board on the VIP business. And I remember one paper which - I remember one paper which identified a number of cards which were used in the casino, and it said CUP, Mastercard, Visa. And it was simply a list of cards that were used in the casino,
15 nothing more than that.

MS SHARP SC: Can I ask you this, Mr Sheppard: is that something you recall reading at the time that particular paper was provided to you, or is it something that you've become aware of in preparing to give evidence more recently?
20

MR SHEPPARD: I think more the latter.

MS SHARP SC: So is it fair to say that prior to the Finkelstein report, you didn't have any real sense, or any sense at all, that CUP cards were being used at The Star's casinos in New South Wales and Queensland?
25

MR SHEPPARD: That is correct.

30 **MS SHARP SC:** Can I ask you about the following documents. You may or may not be able to assist me. Let me show you an agenda, first of all, which is STA.3412.0019.4680. What I'm showing you is an appointment record for an appointment on 11 June - I will ask you to assume 2017 - of a meeting between Nicole Lawler and Andrew Power. Now, I'm not suggesting you've seen this document before, Mr Sheppard, but do you see there's an attachment there that
35 says, "New South Wales Risk Identification, Andrew Power"?

MR SHEPPARD: Yes.

40 **MR HENRY SC:** Excuse me for interrupting, Mr Bell.

MS RICHARDSON SC: Sorry --

MR HENRY SC: There's an assumption that has been put that it's a 2017 document, and on its terms it refers to 2018.
45

MR BELL SC: Yes.

MS SHARP SC: It does, too. I'm sorry. I've made a mistake. I will withdraw the assumption I asked you to make, Mr Sheppard. And, in fact, you don't need to assume. You can see from the document that the appointment was to take place on 11 June 2018. And you will see that it refers to an attachment called New South
5 Wales Risk Identification?

MR SHEPPARD: Yes.

MS SHARP SC: Now, I want to ask you about that attachment. But just to give
10 you some context, do you see that this appointment record says:

"In progressing our risk management maturity, we will be commencing a quarterly cycle of reporting to each property's managing director and via the managing director up to the board on operational risk."

15

Now, can you tell us: were risks reported to the board of The Star Pty Ltd, or were risks reported to the board of Star Entertainment Limited - Star Entertainment Group Limited?

MR SHEPPARD: Well, I'm on the board of Star Entertainment Limited, and risks were reported to that. I don't - I can't tell what you reports went to the board of other entities.

MS SHARP SC: Let me show you the attachment to this document now. And for the operator's benefit, this is an Excel spreadsheet. It is - just before we depart, can I have this marked for identification, please, Mr Bell?
25

MR BELL SC: It will be MFI61.

MS SHARP SC: Now, operator, could we go to the Excel document, which is STA.3412.0019.4682. And I am showing you a document that says New South Wales Operational Risk Register. Do you recognise this type of document, that is, an operational risk register?
30

MR SHEPPARD: Not really.
35

MS SHARP SC: So is it right that this is not the type of document that is provided to either the board's audit subcommittee or its risk and compliance subcommittee?
40

MR SHEPPARD: I think it's unlikely. I - I - I don't really recognise this format.

MS SHARP SC: That's all I needed to ask you about this document, Mr Sheppard.
45

MR BELL SC: Does that need to be marked for identification, Ms Sharp?

MS SHARP SC: Yes. Yes, if I could have it marked for identification. Thank you.

MR BELL SC: MFI62.

5

MS SHARP SC: Now, Mr Sheppard, you're aware now that Mr Finkelstein made some very serious findings adverse to Crown about its use of the CUP card?

MR SHEPPARD: Yes, I am.

10

MS SHARP SC: And you're aware now, aren't you, that the CUP card was used at Star, both in New South Wales and in Queensland, in the period 2013 to May - I beg your pardon - March 2020?

15 **MR SHEPPARD:** Yes, I am now.

MS SHARP SC: And are you aware now that approximately \$900 million moved through this payment channel?

20 **MR SHEPPARD:** Yes, I am.

MS SHARP SC: And you are aware now that there are a large number of serious compliance and risk and money laundering issues associated with the use of the CUP card at The Star?

25

MR SHEPPARD: Potentially, yes. I mean, at - at the time, we - we had a report which said that there were no negative AML implications of using the CUP card.

30 **MS SHARP SC:** All right. I will ask that same question again without the AML question. You're aware now that there are a large number of serious compliance and risk issues associated with the use of that card?

MR SHEPPARD: Yes.

35 **MS SHARP SC:** Now, in view of that, is it acceptable to you, as a director of Star Entertainment, that as a director you were not briefed on the use of the China UnionPay card before receiving that report from Mr Seyfort late last year?

40 **MR SHEPPARD:** Is the question, is it unacceptable? The answer is yes.

MR BELL SC: Ms Sharp, is that a convenient time?

MS SHARP SC: Yes, it is. Thank you, Mr Bell.

45 **MR BELL SC:** I will now adjourn for one hour.

<THE HEARING ADJOURNED AT 1:02 PM

<THE HEARING RESUMED AT 2:01 PM

MR BELL SC: Yes, Ms Sharp.

5 **MS SHARP SC:** Mr Sheppard, you understand now, don't you, that the China UnionPay card channel at The Star was a method by which the Chinese Government restrictions on capital flight could be flouted; is that right?

MR SHEPPARD: Yes.

10

MS SHARP SC: And do you understand now that the use of the China UnionPay cards to purchase gaming chips at The Star was contrary to UnionPay International's scheme rules?

15 **MR SHEPPARD:** Yes, I do.

MS RICHARDSON SC: I object - no, I object to that question.

20

MR BELL SC: It has already been answered, Ms Richardson.

MS RICHARDSON SC: Well --

MR BELL SC: What was your objection, Ms Richardson?

25 **MS RICHARDSON SC:** I'm happy to do this in the absence of the witness, but I have taken objections with respect to multiple witnesses about the fact that - the proposition that it's a breach of scheme rules of China UnionPay with the arrangements that were in place at The Star is not accepted, and it has never been articulated what the breach of those rules is.

30

MR BELL SC: Well, I think - whether there's going to be a debate about that from The Star's point of view as a matter of law is one thing. But I think Ms Sharp is perfectly entitled to ask the witness about his understanding. And for what it's worth, my understanding of where the breach is - is that the China UnionPay rules prohibited the cards being used for gambling, and The Star was using the cards for gambling. That's my understanding. In any event, I allow the question.

35

MS SHARP SC: Mr Bell, it was answered, so I won't ask it again. Do you accept that creating a procedure whereby the CUP cards were swiped at the hotel but then used to purchase gaming chips was inherently deceptive?

40

MR SHEPPARD: Yes, I do.

45 **MS SHARP SC:** And do you accept that the creation of dummy invoices, that is, invoices which purported to be in the name of patrons and purported - I withdraw that. I will put it again. Do you accept that the process of creating dummy invoices - and by that I mean invoices for patrons which represented that they had

stayed at the hotel when they had not, in fact, stayed at the hotel - was also inherently deceptive?

MR SHEPPARD: Yes, I do.

5

MS SHARP SC: Do you understand that the NAB merchant terms which formed part of the contractual relationship between Star Entertainment and NAB picked up and applied the UnionPay scheme rules insofar as it defined those scheme rules as part of the relevant laws?

10

MR SHEPPARD: No, I haven't seen those - those details.

MS SHARP SC: Well, I will show them to you now, Mr Sheppard, if I could. Can I bring up exhibit B at tab 2925, STA.3401.0003.6907. I'm showing you the merchant agreement which was part of the contractual terms between Star Entertainment and NAB. Have you seen these merchant term - this merchant agreement before, Mr Sheppard?

15

MR SHEPPARD: I don't believe so.

20

MS SHARP SC: Is it your expectation, based on your long experience in the banking industry, that where EFTPOS machines are made available to organisations that there are contractual relationships between the bank making available the EFTPOS facility and the organisation to whom EFTPOS facility is given?

25

MR SHEPPARD: Yes, I believe so.

MS SHARP SC: If I could take you, please, to pinpoint 6931. Do you see midway through that page, Mr Sheppard, there's a term called "card schemes" in bold?

30

MR SHEPPARD: Yes.

MS SHARP SC: And do you see it says:

35

"Card schemes means (b) for the remainder of this agreement, Visa, Mastercard, EPAL and China UnionPay."

MR SHEPPARD: Yes.

40

MR BELL SC: Ms Sharp, I would like to raise something with you in the absence of the witness. I wonder if we could go into private mode in the absence of Mr Sheppard, please, operator.

45

<THE HEARING IN PUBLIC SESSION ADJOURNED AT 2:07 PM

<THE HEARING IN PRIVATE SESSION RESUMED AT 2:07 PM

<THE HEARING IN PRIVATE SESSION ADJOURNED AT 2:09 PM

<THE HEARING IN PUBLIC SESSION RESUMED AT 2:10 PM

5 **MR BELL SC:** Ms Sharp.

MS SHARP SC: Mr Sheppard, I'm going to show you a document. I'm not suggesting it's your document, but what I want to know is whether you consider the matters canvassed in that document to be matters that ought to have been made
10 known to the board of Star Entertainment at the time. Could I ask, operator, you to bring up exhibit B at tab 397, which is STA.3402.0008.1057. And, sadly, I have called up the wrong document. If I could now call up exhibit B at tab 3095, STA.3401.0006.6254. I'm showing you some email exchanges between Oliver White, one of the group counsel at The Star, and external lawyers, King & Wood
15 Mallesons. Could I show you the next page, please, Mr Sheppard, which is pinpoint 6254. Now, if I could direct your attention, please, Mr Sheppard, to an email from Oliver White dated 3 May 2017 to King & Wood Mallesons. After the dot points, you will see that Mr White says:

20 "As I am sure was conveyed, the most material question on which we need advice here is whether transactions which have previously been settled could be unwound in some way by UnionPay were it to find out that a merchant facility was operated in breach of its rules. I know that The Star has agreed to indemnify NAB in relation to claims against NAB for breaches of the scheme
25 rules, but could this be used as a mechanism to unwind transactions and if so, would there be any limit on the time period covered by an unwind?"

Now, do you agree that Mr White is raising a very significant risk?

30 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: Is it correct that this risk was never made known to you?

MR SHEPPARD: Yes.

35 **MS SHARP SC:** And so far as you're aware, it was never made known to the board more generally?

MR SHEPPARD: Correct.

40 **MS SHARP SC:** This risk, that NAB has been indemnified by The Star and there may be claims for breach of the scheme rules is this the kind of risk that ought to have been raised with the board?

45 **MR SHEPPARD:** Yes.

MS SHARP SC: And what is your comment on the fact that, so far as you're aware, this risk was not notified to the board?

MR SHEPPARD: Well, it's a breach of the - it's a breach of the risk arrangements.

5 **MS SHARP SC:** And would you agree a very serious risk of - breach of those arrangements?

MR SHEPPARD: Potentially, yes.

10 **MS SHARP SC:** Now, you can take it from me, Mr Sheppard, that one of the early questions when the CUP cards were first introduced in 2013 was whether The Star needed to wait until funds had cleared in its accounts from those CUP debits before advancing chips to the patrons whose accounts were debited. This was an issue because ILGA took the view that where chips were provided in
15 absence of cleared funds in The Star's account, The Star was providing credit to its patrons. Now, The Star implemented what I might describe as a workaround where a temporary cheque cashing facility was implemented. This was supposed to cover the period of time between when the chips were advanced to the patron following a CUP swipe and when the funds cleared into The Star's accounts. Now,
20 you, of course, were never made aware of this issue as a director, were you?

MR SHEPPARD: No.

25 **MS SHARP SC:** Do you agree that a director ought to be made aware of any situation where there is a real risk that The Star may, through the procedures it implements, put itself into breach of the rules restricting the provision of credit?

MR SHEPPARD: I agree with that.

30 **MS SHARP SC:** Can I show you a document - and again, I'm not suggesting that you were a party to it. But if I can bring up exhibit F at tab 54, which is STA.3034.0001.0591. I am showing you a memorandum from Oliver White to John Redmond, the then CEO and managing director of Star Entertainment, and Matt Bekier, then the chief financial officer, copied to Paula Martin, then group
35 general counsel. And can you see that it relates to China UnionPay and cheque cashing facilities?

MR SHEPPARD: Yes.

40 **MS SHARP SC:** Now, can you see under the heading Background, it says:

"It is ILGA's view that a patron using CUP can only access the funds for which they have transacted once those funds have cleared in The Star's bank account."

45

So that rule is not stated to be qualified or ambiguous in any way, is it?

MR SHEPPARD: No.

MS SHARP SC: And - pardon me for one moment - can I take you to pinpoint 0592. And I will have this - there's a heading Proposed Workaround. If I can have that section highlighted to you, Mr Sheppard. Now, it there states:

5

"A potential workaround is to allow a cheque cashing facility to be drawn by a patron with overseas bank accounts, but without a supporting blank cheque, on the basis that the 'approved' confirmation on the use of the CUP is confirmation that funds will arrive to clear the cheque and accordingly there is no provision of credit prohibited under the Casino Control Act."

10

So you do understand from this that Mr White is proposing a workaround to solve this problem about funds taking a period of time to clear?

15 **MR SHEPPARD:** Yes.

MS SHARP SC: And do you see that Mr White says:

"The issues to be considered in relation to this solution are."

20

And then the first dot point is:

"ILGA's stated view on the position of CUP transactions to date which might suggest that they would form the view that the use of cheque cashing facility in this circumstance is a prohibited provision of credit. Echo/The Star would argue that their view is not correct but this has not been raised/challenged to date."

25

And if I can then take you to the next page, please, Mr Sheppard. There's another dot point, second one down:

30

"Whilst it is unlikely that ILGA will investigate this matter unless it ends up --"

35 **MR BELL SC:** I don't think we can see that yet, Ms Sharp. I'm sorry. I don't think the operator has taken us to the next page yet. I do apologise.

MR SHEPPARD: I can see it on the bottom.

40 **MR BELL SC:** I've got it too.

MS SHARP SC:

"Whilst it is unlikely that ILGA will investigate this matter unless it ends up in a position of default (i.e., the CUP approved transaction is not honoured by payment and accordingly the house marker is banked and dishonoured) it is possible that this will be flagged as an issue during a routine audit of house markers/cheques held by the cage, which will happen annually."

45

Now, you agree, do you, that there is a clear risk identified here that the proposed workaround is inconsistent with ILGA's view of when credit is provided?

5 **MR SHEPPARD:** I can't - I can't see those words, but it - it is certainly saying it will be - it's possible that this will be flagged as an issue.

MS SHARP SC: Well, I just wonder - and you can read - if it assists, read the whole section to yourself under the heading:

10

"The issues to be considered in relation to this solution are."

And then four dot points follow. My question is: in view of these risks, was this an appropriate workaround for the then CFO and then - I beg your pardon - the then CEO and then CFO to approve?

15

MR SHEPPARD: What I would say from reading this, Ms Sharp, is that the writer of this, who was - is that Oliver White?

20 **MS SHARP SC:** Yes.

MR SHEPPARD: Is saying that these are issues to be considered. And then he - then he's talking about ILGA's stated view, which might suggest that they would form the view. So there's - I'm just making the comment that you've asked me for an opinion on this, but there's lots of ifs and unlikely and maybes in - in this letter, which I'm reading for the first time ever. So you're asking me if it's a risk, and I think I'm saying yes, probably, but I just need to understand the conversations that were going around all of these maybes and whys and ifs.

25

MS SHARP SC: Well, I might put it a different way, Mr Sheppard, to assist. You will agree, won't you, that Mr White clearly identifies a risk that ILGA would view this proposed workaround as a breach on the rule against providing credit?

30

MR SHEPPARD: I agree he's identifying a possible risk, yes.

35

MS SHARP SC: And you will agree that Mr White suggests in that last dot point that it's unlikely that ILGA will investigate the matter unless certain conditions are satisfied?

MR SHEPPARD: Well, he's saying it's unlikely, but it's possible that this will be flagged as an issue during a routine audit - a routine audit of house checks held by the cage. So that - I - I agree that's what he is saying.

40

MS SHARP SC: Given there was a risk that the regulator would think that Star would breach the Act by implementing this temporary workaround, could it ever be appropriate for the then CEO and then CFO to approve this arrangement?

45

MR SHEPPARD: I think it would have been appropriate for them to discuss the issues with - with Mr White before they formed a view on that.

5 **MS SHARP SC:** And assume for a moment that they did, and that those risks were identified to them. Could it ever be appropriate for them to approve this arrangement?

MR SHEPPARD: If - if the discussion confirmed those risks, I would say no.

10 **MS SHARP SC:** Is this the kind of matter that ought to have been elevated to the board for decision in view of the risk clearly highlighted?

MR SHEPPARD: I think so, yes.

15 **MS SHARP SC:** Now, you can take it from me that this temporary CCF workaround was introduced in 2014, and there is no evidence at all to suggest that it was disclosed to the regulator at any time in 2014. Do you have any comment about that?

20 **MR SHEPPARD:** Only - my only comment is that on reading the letter you have me - the memorandum you have in front of me, it almost suggests - and I'm not sure whether this is the case or not, but it seems to be suggesting that the approval is being sought just on one transaction.

25 **MS SHARP SC:** And that's a fair analysis, but what I will ask you to assume is that, based upon this advice, a decision was taken to introduce the temporary CCF as relating to every single CUP transaction at The Star. Do you understand that?

MR SHEPPARD: Yes, I do.

30

MS SHARP SC: Should this have been disclosed to the regulator?

MR SHEPPARD: I think so, yes.

35 **MS SHARP SC:** And --

MR SHEPPARD: In my view - in my view, if there's any doubt whatsoever, you just tell the regulator everything. That's my view on these matters.

40 **MS SHARP SC:** And the - would you agree that the vice of this proposal and this workaround that was approved is that it put The Star at risk of contravening the section 74 prohibition on credit each and every time chips were advanced to a patron after they had swiped their CUP card?

45 **MR SHEPPARD:** I think that's a risk, but I'm unable to - it really depends on some of the answers to these "ifs and buts" that I mentioned that are in the memorandum. I agree it's a risk. Had I been approving - had I been asked to approve something like this, I would have entered into a pretty detailed

conversation about those risks and probably sought some external advice. And then, as you mentioned, if it was to apply to a large number of transactions, sought board approval.

5 **MS SHARP SC:** Well, as we know now, it applied to about \$900 million of transactions; do you agree?

MR SHEPPARD: I - what was the date of this memorandum?

10 **MS SHARP SC:** This document is back in February of 2014.

MR SHEPPARD: Okay. Well, if it was that early, it certainly applied to a very large number of transactions. I agree with that.

15 **MS SHARP SC:** Now, it's right, isn't it, Mr Sheppard, that neither in Mr Seyfort's review on the CUP process, nor in Mr Bekier's management response paper of late last year, did either of those people raise with the board the prospect that section 74 of the Casino Control Act had been breached every time gaming chips had been advanced to a patron before the funds had cleared following a CUP debit?

20 **MS RICHARDSON SC:** I object to that question.

MR BELL SC: Yes. Perhaps you could put the – put the question slightly differently so that it doesn't necessarily assume that there was a breach. I think --

25 **MS SHARP SC:** Yes. I'm happy – I'm happy to do that.

MR BELL SC: Put it in terms of there being a material risk of breach.

30 **MS SHARP SC:** Mr Sheppard, do you agree that neither Mr Seyfort, nor Mr Bekier in his management response, raised with the board a material risk that section 74 of the Casino Control Act had been breached every time a patron was advanced gaming chips following a swipe on their CUP card before the funds had cleared in The Star's accounts?

35 **MS RICHARDSON SC:** I also object to that question on the same basis. The question has been put that - it's certainly in terms of material risk, but the phrasing my learned friend has used is that it had been breached as opposed to a risk or an issue. It's very much in issue whether there was a breach at all.

40 **MR BELL SC:** Yes. I thought I had made that clear. I thought the question was directed to whether the witness received advice that there was a material risk that there had been a breach.

45 **MS SHARP SC:** That's what I said, Mr Bell.

MR BELL SC: I will allow that question.

MR SHEPPARD: The answer to - to that, certainly not in the case of Mr - as I recall, in Mr Bekier's response. In relation to the Seyfort paper, no, it didn't raise a risk. In fact, my memory is that, quite the contrary, it - it actually - it actually stated that there was no breach of the Casino Control Act, is my recollection of that paper.

MS SHARP SC: Your recollection is correct, I can tell you. But is this a matter that you consider should receive the further attention of the board?

MR HENRY SC: I'm sorry. Is that - I just object, Mr Bell. Is that a question now or at a prior point in time? It's just a bit unclear what the timing is.

MR BELL SC: Perhaps you could make the question a little more precise, Ms Sharp.

MS SHARP SC: Do you agree that the board should now consider the question of whether this temporary CCF that was established in relation to the CUP breached section 74 of the Casino Control Act as it stood at the relevant time?

MR SHEPPARD: Well, if you're casting doubt on Mr Seyfort's legal opinion that he has given to the board, we should certainly eschew whether that opinion that he has given is correct.

MS SHARP SC: And has it been suggested to you that doubt has been cast on Mr Seyfort's opinion in the review report?

MR SHEPPARD: Not until now.

MS SHARP SC: Now, are you aware that the regulator was not notified in 2013 that the CUP card would be swiped at the hotel rather than at the casino?

MR SHEPPARD: No, I'm not aware of what notifications were or were not provided to the regulator. I - I know, again, from Mr Seyfort's report that he says the regulator was informed. But I can't be precise about exactly what that means.

MS SHARP SC: Well, let me show you the document that the regulator did issue to The Star in 2013. If I could call up exhibit B at tab 29, which is STA.3008.0004.0869. Now, this is the approval that The Star have relied upon in asserting that ILGA approved the use of the CUP cards at The Star; do you understand?

MR SHEPPARD: Yes.

MS SHARP SC: Now, can you see that what ILGA advises the then managing director of The Star in the 5 June 2013 letter before you is that ICM, that is, internal control manual, 15 will be amended? That's in paragraph 2.

MR SHEPPARD: Yes, I can see that.

MS SHARP SC: And it says that the - number 2:

5 "Amending control 15, to make a specific reference for patron funds that are transferred via electronic fund transfer to The Star account."

Yes.

10 **MS SHARP SC:** Now, you agree, don't you, that this approval makes no reference whatsoever to the CUP card?

MR SHEPPARD: I agree with that.

15 **MS SHARP SC:** And you agree, don't you, that this approval makes no reference to the CUP card being swiped at the hotel?

MR SHEPPARD: I agree with that.

20 **MS SHARP SC:** And you agree that this approval makes no reference to the China UnionPay scheme rules prohibiting the cards being used to purchase gaming chips?

25 **MR SHEPPARD:** Yes. I'm just being hesitant because I haven't - this refers to a submission from Mr Graeme Stevens, and I haven't seen that submission. So I don't know whether I should read this letter in the context of the submission or not.

MS SHARP SC: Would it assist you to see that submission?

30 **MR SHEPPARD:** Yes.

35 **MS SHARP SC:** Could you pardon me for one moment. I don't want to take time now looking for that document. I will come back to that. But you can take it from me it makes no reference to a CUP card being swiped at the hotel or to the prohibition in the UnionPay rules.

40 **MR BELL SC:** I think it's STA.3027.0001.0003. Operator, can you please call that document up. Yes. Mr Sheppard, that's the submission that Mr Stevens wrote to the authority on 6 May. If you just read that and let Ms Sharp know when you've done so.

MR SHEPPARD: Yes, I've - I've read that.

45 **MS SHARP SC:** Now, reading that submission and the approval I just took you to, it's right, isn't it, that you have little confidence that the regulator did approve the CUP process which involved a swipe at the hotel at this time?

MS RICHARDSON SC: I object to that question. I object. I think I should do this in the absence of the witness.

5 **MR BELL SC:** Look, I think I will reject that question. And perhaps you could rephrase the question, Ms Sharp.

10 **MS SHARP SC:** On the basis of the submission to The Star - to the regulator and the regulator's approval, do you have any confidence at all that, in 2013, the regulator approved a process of swiping the CUP card at the hotel in order to make funds available for gaming?

15 **MR SHEPPARD:** I agree with you, that these - this correspondence doesn't refer to CUP or the swipe process. I - I agree with that. Your question is, I think, do I have any confidence that - that the regulator knew what he was approving? Is that the - the question?

MS SHARP SC: Do you have any confidence that the regulator approved using the CUP card at the hotel to make funds available for gaming?

20 **MS RICHARDSON SC:** I object to that question, and I will need to deal with it in the absence of the witness.

25 **MR BELL SC:** Yes. Operator, can you take us into private mode in the absence of Mr Sheppard.

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30 <THE HEARING IN PRIVATE SESSION ADJOURNED AT 2:44 PM

<THE HEARING IN PUBLIC SESSION RESUMED AT 2:44 PM

35 **MR BELL SC:** Yes, Ms Sharp. I think you're on mute, Ms Sharp.

40 **MS SHARP SC:** Mr Sheppard, you can take it from me that Star never disclosed to the New South Wales casino regulator that the UnionPay scheme rules prohibited CUP cards being used to purchase gaming chips. Should The Star have disclosed that matter to the casino regulator?

MR SHEPPARD: I - I would think so, yes.

45 **MS SHARP SC:** And do you have any comment on the fact that this matter was not disclosed to the regulator?

MR SHEPPARD: Well, my comment is the same as before, that my view on dealing with regulators is that you should disclose absolutely everything to them.

MS SHARP SC: And do you have any comment on the fact that the executive acting under your watch did not do that?

MR SHEPPARD: Is this Mr Stevens?

5

MS SHARP SC: Anyone at The Star.

MR SHEPPARD: Well, if that's the case, it would be inappropriate.

10 **MS SHARP SC:** Now, can I take you to exhibit B, tab 124, which is STA.3009.0009.0058. I'm showing you a memorandum of legal advice which was prepared by Mr Andrew Power and which he says he provided to Ms Martin and Mr Bekier at the time; do you understand?

15 **MR SHEPPARD:** Yes.

MS SHARP SC: And do you see he has identified China UnionPay as an issue?

MR SHEPPARD: Yes.

20

MS SHARP SC: And do you see he says:

25 "Whether CUP transfers for gambling purposes are permitted and the potential for the service to be used as a means of circumventing restrictions imposed by the Chinese Government on Chinese nationals withdrawing funds from China. More specifically, whether (a) CUP policy supporting practice of converting CUP credit through the SR lounge by swiping CUP card on NAB EFTPOS (and attributing an amount to a hotel room and creating a temporary cheque cashing facility for gambling) is permitted or known; (b) issue is
30 whether the Star is circumventing China laws and creating a reputational risk and taking active steps to conceal this practice (noting NAB email); (c) use by a prominent customer under certain self-imposed operational restrictions that are not defined or documented and are able to be influenced by commercial objectives."

35

Have you seen this document before, Mr Sheppard?

MR SHEPPARD: Not to my knowledge.

40 **MS SHARP SC:** You will agree that it clearly calls out very significant risks?

MR SHEPPARD: Yes.

45 **MS SHARP SC:** Is this the kind - are these the kinds of risks that ought to have been made known to the board?

MR SHEPPARD: Yes. Yes, I think so - I agree.

MS SHARP SC: Does it --

MR BELL SC: Mr Sheppard, what sort of responsibility do you say the board bears for the fact that this information was not provided to it?

5

MR SHEPPARD: The first thing I'd say is that the board has set up a process by which, through the risk committee and to the board, senior management is to make representations in relation to compliance and risk matters. And that includes that the company - and this is required at each risk committee, that the company is operating within its risk appetite. So the board - the board's policies, which require that the board has put in place policies which require that - and if - if this sort of thing is not reported, that would be a breach of the board's policy.

10

MR BELL SC: You would agree that this is identifying a reputational risk to the organisation?

15

MR SHEPPARD: I agree with that.

MR BELL SC: It's quite plainly a serious risk; do you agree?

20

MR SHEPPARD: Yes.

MR BELL SC: And I understand you to say that management ought to have brought this to the attention of the board; correct?

25

MR SHEPPARD: Yes.

MR BELL SC: And I understand you also accept that the board has to have systems and processes in place to make sure that it's getting the correct information that it needs?

30

MR SHEPPARD: That - that's what I'm saying yes.

MR BELL SC: Yes. And what I need to understand from you is what responsibility you say the board bears for the fact that this information didn't get to the board?

35

MR SHEPPARD: Well, the responsibility of the board is that in this case, the processes that are put in place didn't work.

40

MR BELL SC: Have you reflected on why that has happened?

MR SHEPPARD: I - yes, I have. I think - and this is based on the issues coming before the inquiry. This is not an isolated example. And my reflections are that there has been a cultural issue affecting a significant part of the senior management team which has caused them to make decisions to either try to address these things by themselves without escalating them or to avoid escalating bad news to the board. So I think, based on that, that is a systematic cultural issue.

45

MR BELL SC: And what responsibility does the board bear, in your opinion, for that cultural problem?

5 **MR SHEPPARD:** Well, the board is ultimately responsible for these matters, even in circumstances where it's put in place procedures for these things to be elevated, even in - even in circumstances where it has put in place a code of conduct which requires these things to be elevated. If these things don't ultimately work, the board has to bear responsibility.

10

MR BELL SC: Yes, Ms Sharp.

MS SHARP SC: So if I can now take you to another document, which is exhibit B at tab 167, STA.3401.0003.6859. I am showing you an email from Oliver White dated 16 January 2017 to Mr Barton, Mr Theodore, Mr McWilliams, Ms Martin and Mr Hornsby, amongst others. I will have it enlarged for you a little bit. Do you see Mr White attaches some articles in the press:

20 "Relating to China UnionPay and tightening of use, both relating to casinos, one about Macau and the other about Singapore."

And then a little further down, Mr White says:

25 "We should be aware of this and considering our potential exposure should CUP be shut down as a payment method for The Star Entertainment Group or CUP is both shut down as a payment method and CUP refuses to clear one or more of the approved transactions."

Now, I gather that none of this was made aware to the board at the time?

30

MR SHEPPARD: That's correct.

MS SHARP SC: And you agree, don't you, that the risk that CUP is both shut down as a payment method and CUP refuses to clear one or more of the approved transactions is a very serious risk?

35

MR SHEPPARD: Yes, I - that is a risk, yes.

MS SHARP SC: And you see that many members of senior management were party to this email?

40

MR SHEPPARD: I do.

MS SHARP SC: Now could I take you to exhibit B, tab 397, which is STA.3402.0008.1057. And we've moved forward about six months to 28 July 2017. Do you see that?

45

MR SHEPPARD: Yes.

MS SHARP SC: And this is an email from Andrew Power to Ms Martin, and they're both senior managers; is that right?

5 **MR SHEPPARD:** Absolutely.

MS SHARP SC: And can I take you - and I will have it enlarged - point 2, China UnionPay. Do you see it says:

10 "The risks associated with CUP are well known."

You're nodding?

MR SHEPPARD: Yes. Yes.

15

MS SHARP SC: Of course, they weren't well known to the board, were they?

MR SHEPPARD: No.

20 **MS SHARP SC:** And do you see he says:

25 "Earlier in the year an instruction had been given to hotel staff to start issuing 'dummy' rooms to international guests (for example, by issuing them with an uninhabitable room or a dirty room, a room that had not been cleaned, in the knowledge that the guest would not be occupying the room). This instruction was corrected, but it highlights a risk that the use of CUP for international guests may well have exceeded the intended scope of this service, which may call into question the arrangement we have in place with The Star's bank (NAB)."

30

Now, once again, I'm showing you an email from senior members of management that acknowledges clear risks associated with CUP; do you agree?

MR SHEPPARD: Yes, I do.

35

MS SHARP SC: And once again, this risk is not made known to the board, is it?

MR SHEPPARD: I agree.

40 **MS SHARP SC:** So do you agree with me that it is a period of many years over which the senior management has been well aware of risks associated with CUP but has refused to - I beg your pardon - refrained from escalating the risks to the board?

45 **MR SHEPPARD:** I agree with that.

MS SHARP SC: And are you aware that members of senior management held concerns from at least 2015 that NAB did not know that CUP cards were, in fact, being used to purchase gaming chips?

5 **MR SHEPPARD:** Well, I'm unaware of what concerns senior management had at that period.

MS SHARP SC: Are you aware at this stage that senior management had any concerns in 2015 that NAB did not know that, in fact, the CUP cards were being used to purchase gaming chips?

MR SHEPPARD: Am I aware now, or was I aware then?

15 **MS SHARP SC:** Are you aware now?

MR SHEPPARD: Unless I've seen it somewhere in the reports of the inquiry, I don't think I am specifically aware of specific concerns in 2015.

20 **MS SHARP SC:** Well, let me take you to a document, which is exhibit B at tab 92, STA.3412.0151.0080. And what I'm showing you is an email exchange between Paula Martin, Oliver White and Andrew Power of 22 October 2015. And do you see the subject heading of the email is China UnionPay NAB Queries?

25 **MR SHEPPARD:** Yes.

MS SHARP SC: And can I take you to the forwarded email from Deborah Waterson dated 22 October 2015. And can I draw to your attention that Ms Waterson says that she received a phone call from Neil Williams at NAB, and she recounts:

30 "Neil was enquiring about the volume and expected value figures, he asked if we were aware that China UnionPay transactions were not to be utilised for gaming purposes and then advised that as part of the merchant approval assessment, questions had been raised in regards to the proposed coding of these transactions (hotels, motels and resorts) and the dollar value of the transactions. His exact comment was, 'That makes for a very expensive hotel room'."

40 **MR SHEPPARD:** Yes.

MS SHARP SC: Now, your position is that at no point until today have you been made aware that senior members of management held concerns that NAB may not have known the true substance of the transactions?

45 **MR SHEPPARD:** There was a reference in the Anthony Seyfort report, which we've mentioned before, that there were some email exchanges on - on that subject.

MS SHARP SC: Yes. Because Mr Seyfort rather suggested in his report that NAB knew the true substance of the transactions, didn't he?

MR SHEPPARD: I think he said (indistinct).

5

MS RICHARDSON SC: I object that question. I object to that object.

MR BELL SC: Ms Richardson, do you want to deal with this in the absence of Mr Sheppard?

10

MS SHARP SC: I withdraw the question. Mr Sheppard, what I will do is take you to Mr Seyfort's China UnionPay review paper. If I can call up exhibit B3103 at STA.3002.0009.0292. And you see there's a heading Conclusions?

15

MR SHEPPARD: Yes.

MS SHARP SC: May I highlight the last paragraph for you, please, Mr Sheppard. And do you see in the third line there, Mr Seyfort says:

20

"On a thorough examination of the document and extrinsic materials, it is possible to conclude that NAB contractually intended that CUP be not made available for gambling expenditure. However, executives of The Star believed that NAB was acquiescent to the types of use that were planned and in fact occurred."

25

MR SHEPPARD: Yes.

MS SHARP SC: Is that what you were referring to a moment ago?

30

MR SHEPPARD: I believe so, yes.

MS SHARP SC: And could I take you, please, to pinpoint 0296. 0296. Thank you, operator. Do you see there's a heading "Who Was Misled?"

35

MR SHEPPARD: Yes.

MS SHARP SC: And do you see there's a paragraph that says:

40

"UPI -"

That's UnionPay International:

45

"And NAB might have been misled, but whether they were depends on what each actually knew or perceived about the use of the CUP cards at The Star."

MR SHEPPARD: Yes.

MS SHARP SC:

5 "Each knew that the approved principal purpose of The Star's acceptance of
CUP cards was for hotel expenditure, and that gambling expenditure was a
contractually prohibited category. Each knew that often large transactions of
up to \$100,000 were processed as card transactions, an amount that is
massively disproportionate to even extravagant hotel occupancy. Each almost
inevitably knew that there was a practice of holders of CUP cards using them
to fund gambling, at least in Macau and elsewhere outside Australia. This has
10 been generally known among the payments industry and reported in the
media. In this context, it is possible that UPI and NAB knew but did not
admit to knowing."

15 Now, what conclusion did you draw in relation to the question of whether NAB
was misled when you read the Seyfort review?

MR SHEPPARD: I drew the conclusion that it was likely that misleading
information had been provided to the NAB.

20 **MS SHARP SC:** Did you draw the conclusion that NAB, in fact, knew what the
CUP cards were being used for?

MR SHEPPARD: No. I - I - I'd have to put myself in the minds of the NAB to do
that. I - I don't know.

25 **MS SHARP SC:** Can I take you now to exhibit B at tab 3095, which is
STA.3401.0006.6254. And I'm showing you an email exchange between Oliver
White and lawyers from King & Wood Mallesons over the - well, this time on 4
May 2017. Could I draw your attention, please, Mr Sheppard, to point 4. And I
will have that highlighted for you. Do you see it says:

30 "It is not clear based solely on the documents you have provided to us that
NAB has understood that it may have endorsed or permitted behaviour by
The Star that could potentially breach the scheme rules. Rather, it appears
from the email chain alone that NAB was considering the most appropriate
35 merchant code for the hotel packages transaction, such as 'membership
accounts' or possibly 'lodging'. It would be helpful if you could provide any
other communications you have had with NAB on this topic."

40 **MR SHEPPARD:** Yes, I see that.

MS SHARP SC: Now, I take it that you weren't made aware at any time before
today that King & Wood Mallesons was raising with Star's internal lawyers the
question of whether NAB knew the true purpose of the transactions?

45 **MR SHEPPARD:** I - I don't believe so, no.

MS SHARP SC: Just can I return to an answer you gave a moment ago in relation to your views to when you read the Seyfort report. Did I understand you to say that you had concluded that NAB had been misled?

5 **MR SHEPPARD:** Had likely been misled, yes.

MS SHARP SC: And did you have a view, when you read the Seyfort report, about who had likely misled NAB?

10 **MR SHEPPARD:** No.

MS SHARP SC: Well, given that you thought that NAB had likely been misled, why did you not take immediate steps to understand who it was who had likely misled NAB?

15

MR SHEPPARD: We did. We asked for a management response within a short period of time.

20 **MS SHARP SC:** And once you received that management report, did that change the views you had formed after reading --

MR SHEPPARD: No, it didn't.

25 **MS SHARP SC:** So did you maintain the view that NAB had likely been misled?

MR SHEPPARD: Yes.

30 **MS SHARP SC:** At that point, did you understand who it was within The Star who had likely misled NAB?

MR SHEPPARD: No.

35 **MS SHARP SC:** Did you make any effort to understand for yourself at the time of Mr Bekier's management report who it was who had likely misled NAB?

MR SHEPPARD: Not at the time, but it was anticipated that these emails would surface in the - in the request for information from the inquiry and that that information would come to light before much time had passed.

40 **MS SHARP SC:** Mr Sheppard, once you, as the director, formed the view that the bank had likely been misled, wasn't it necessary for you, as a director, to take immediate action about that?

45 **MR SHEPPARD:** It could have been done more quickly, yes.

MS SHARP SC: Well, has any action been taken about it as yet?

MR SHEPPARD: Yes.

MS SHARP SC: And what action is that?

5 **MR SHEPPARD:** The emails that you're talking about surfaced. I had a discussion with Mr O'Neill - and I'm not sure when that was, maybe around Christmas time - when he said that these emails - he had become aware of some emails which - which would - had potentially come from senior members - members of the management team and that there would need to be some consequences. And those consequences have now occurred.

10

MS SHARP SC: And Mr O'Neill told you this last year, did he?

MR SHEPPARD: It was around Christmas. Whether it was early this year or late last year, I can't recall.

15

MS SHARP SC: Did he show you the emails?

MR SHEPPARD: No.

20 **MS SHARP SC:** Did you ask to look at them?

MR SHEPPARD: No.

MS SHARP SC: Why were no consequences taken at that time?

25

MR SHEPPARD: Because we felt that - because of the public inquiry, that the executives concerned should be given the opportunity to provide evidence.

MS SHARP SC: Well, why is that the case, Mr Sheppard?

30

MR SHEPPARD: Well, that was my judgment.

MS SHARP SC: Well, wasn't the only appropriate action for a director to take, having that knowledge that a senior manager had likely misled the bank, to take immediate steps to part company from that senior manager?

35

MR SHEPPARD: Well, that was one possibility. But we also felt that in order to fully cooperate with the inquiry, that we should allow all of the executives to provide evidence.

40

MS SHARP SC: Well, there was nothing stopping you taking immediate action and allowing the executive to give evidence.

MR SHEPPARD: I - I - I accept - I accept that view, but that's the course we took.

45

MS SHARP SC: Well, do you see now that there may be a problem with the course you took?

MR SHEPPARD: I can see the point you're making.

5 **MS SHARP SC:** Well, it doesn't say much about the good management by the directors of senior executive, does it?

MR SHEPPARD: Well, that was the judgment that we took.

10 **MS SHARP SC:** Well, doesn't it send a message that the directors are prepared to tolerate the senior executive misleading a bank?

MR SHEPPARD: No, I don't think it does send that message. The directors, under no circumstances, are prepared to tolerate that.

15 **MS SHARP SC:** But you tolerated it for months afterwards, Mr Sheppard.

MR SHEPPARD: I've - I've - I've answered the circumstances under which we did that.

20 **MS SHARP SC:** Do you think that is an acceptable answer, the one you've just given?

MR SHEPPARD: Yes, but I can understand the point you're making.

25 **MS SHARP SC:** I will give you some of the examples of the emails that were sent by senior managers to the NAB. Can I start with exhibit B, tab 1594. Can I just stop here: is it the position that you've never seen the emails that the senior managers of The Star sent to NAB?

30 **MR SHEPPARD:** No, I've seen them as part of the evidence that has been presented to the inquiry.

MS SHARP SC: And when did you first see them?

35 **MR SHEPPARD:** When I was provided with packs of - a pack of information, which is submissions made to the inquiry, containing those emails.

MS SHARP SC: And, sorry, when in time was that?

40 **MR SHEPPARD:** Probably a month or two ago.

MS SHARP SC: Well, I am showing you now exhibit B, tab 1594. This is STA.3002.0010.0004. Let me show you first the question that NAB asked The Star. If I could have the bottom of this screen enlarged please, operator. Do you
45 see a representative from NAB, Mr Meldrum, says:

"Could you please provide the following at your earliest convenience: (1) explain the business scope of the relevant merchants; (2) explain the types of

goods or services did the cardholder purchase; (3) provide the supporting documents for the attached transactions."

5 And now can I take you to the response, please. If I can take you to the top of the page. You see there's an email from Ms Dudek at The Star?

MR SHEPPARD: Yes.

10 **MS SHARP SC:** And it's sent to Mr Meldrum at NAB?

MR SHEPPARD: Yes.

15 **MS SHARP SC:** And it's copied to Ms Scopel at The Star and Ms Arthur at NAB?

MR SHEPPARD: Yes.

20 **MS SHARP SC:** Dated 28 August 2019, and it's in relation to the use of CUP cards. Do you see Ms Dudek says:

"(1) The merchant operates integrated resorts in Australia, consisting of hotels, restaurants and other facilities; (2) the cardholder purchased hotel accommodation services with the transactions in question; (3) invoices for the relevant transactions are attached."

25 Now, let me take you to one of those invoices. If we can call up STA.3002.0010.0006. Do you see there's an - well, it's said to be an invoice, but there's a document on the Treasury Casino and Hotel letterhead that refers to a room number, an arrival date, a departure date and says:

30 "Transfer to customer's account."

MR SHEPPARD: Yes.

35 **MS SHARP SC:** Isn't this answer to NAB utterly misleading?

MR SHEPPARD: I agree.

40 **MS SHARP SC:** But that's the first time you've been made aware of this particular misleading response?

45 **MR SHEPPARD:** I can't recall whether I've seen this response in the folders that I just mentioned. I certainly saw some email responses, which I considered misleading, over the past month or so.

MS SHARP SC: And you can take it from me that this was a stock standard response that was provided to NAB on a number of occasions. Was that something made known to you?

MR SHEPPARD: At the time?

MS SHARP SC: Well, in the course of your review in the last month or so.

5

MR SHEPPARD: Yes.

MS SHARP SC: Now, can I take you to another example. If we can go to exhibit B at tab 1802, which is STA.3002.0010.0434. And you can take it from me that the question asked by NAB on behalf of UnionPay related to the nature of these transactions. This is an email from Ms Dudek to NAB dated 4 November 2019 into which Ms Scopel, then from The Star, is copied. And do you see that Ms Dudek says:

15 "(1) Previously advised transactions. Certain very high end premium guests at The Star Entertainment Group's integrated resorts incur expenses at the hotel, across a range of entertainment venues within the resort, as well as travel expenses (for example, limousine transfers, flights) and external expenses."

20 Then a little further along:

 "Such expenses are consolidated within the guest's personal account, which is linked to the guest's hotel accommodation, and cleared with a transfer from the hotel accommodation account, as noted in the receipt. (2) New transaction requests -"

25

And then you can read the rest of that to yourself. Now, this is also an utterly misleading email to the NAB, isn't it?

30 **MR SHEPPARD:** I agree.

MS SHARP SC: Is this an email you've seen before?

MR SHEPPARD: I think it's likely that I've seen this one, yes. Recently.

35

MS SHARP SC: Can I take you, please, to exhibit B at 1834, which is STA.3401.0005.1453. And I will have to take you to the - excuse me - further down that email chain. If I could take you to pinpoint 1454. Now, can I draw your attention, Mr Sheppard, to Ms Tanya Arthur from NAB's email to Ms Scopel dated 6 November 2019?

40

MR SHEPPARD: Yes.

MS SHARP SC: And I will have that enlarged for you, Mr Sheppard. What NAB advises there is that:

45

 "UnionPay have provided us notice indicating they are considering issuing NAB a directive to cease provision of UnionPay card acceptance to The Star.

5 UnionPay can fine NAB as an acquirer and terminate acceptance if we don't
comply with their directives. From our conversation with local UnionPay
representatives, China's central bank (i.e., the People's Bank of China, similar
to our RBA) is not satisfied with UnionPay's explanations received from The
Star (via NAB) for previous irregular transaction investigation requests.
10 People's Bank of China has observed individual cardholder spending more
than 20 million at The Star which they believe includes gambling and are
struggling to see how this level of expenditure could be made on a
non-gambling entertainment."

10 Now, pausing there, do you agree that by this time, NAB are passing on to The
Star requests from both UnionPay and the People's Bank of China?

15 **MR SHEPPARD:** Yes, this is what - I agree that's what this says.

15 **MS SHARP SC:** And if I could take you to the next page, pinpoint 1455. Do you
see that Ms Arthur says:

20 "Could you please provide additional information."

20 And then at the third dot point:

25 "Written confirmation that no transaction via the merchant facility includes a
gambling component."

25 **MR SHEPPARD:** Yes.

MS SHARP SC: So it couldn't be clearer what NAB was asking for, could it?

30 **MR SHEPPARD:** No. I agree.

MS SHARP SC: And exhibit B, tab 1828 - if we can go to that
now - STA.3105.0011.5300. You can take it from me that this is the answer that
Star provided. I'm showing you an email from Ms Scopel to Ms Arthur at NAB,
35 copied to Mr Theodore, dated 7 November 2019?

MR SHEPPARD: Yes.

40 **MS SHARP SC:** Do you want to just read that to yourself? And let me know if
you need it enlarged.

MR SHEPPARD: No, it's okay. Could you just scroll it up, please, operator. Yes,
I've read that.

45 **MS SHARP SC:** And you agree, don't you, that this is an utterly misleading
response?

MR SHEPPARD: I do.

MS SHARP SC: In fact, it's a deceptive response, isn't it?

MR SHEPPARD: It's certainly misleading. Deceptive, yes.

5

MS SHARP SC: It is deceptive, isn't it?

MR SHEPPARD: In the sense that it deceives, yes.

10 **MS SHARP SC:** Now, are you aware that both Ms Paula Martin and Mr Harry Theodore and Mr Greg Hawkins reviewed this response before it was sent to NAB?

15 **MR SHEPPARD:** I've heard that Paula Martin and Harry Theodore reviewed it. I - I wasn't aware that Greg Hawkins had reviewed it.

MR BELL SC: Did you mean Mr Hawkins, Ms Sharp, or did you mean Mr White?

20 **MS SHARP SC:** No, I meant Mr Hawkins. I will go - just lest there be any doubt, could I go, please, to exhibit B at tab 1806, STA.3006.0003.0358. Do you see this is an email from Mr Theodore to Mr Bekier, copied to Mr Hawkins and Ms Martin?

25 **MR SHEPPARD:** Yes.

MS SHARP SC: And you can see that Mr Theodore says:

30 "We have been getting more requests for detail from CUP on the transactions going through our NAB terminals over recent weeks. CUP are asking about the nature of the transactions and seeking a more detailed breakdown of specific customer accounts."

35 **MR SHEPPARD:** Yes.

MS SHARP SC: Now, it's certainly the case that Mr Hawkins was made aware of that matter, given he is copied into this email; do you agree?

40 **MR SHEPPARD:** Yes.

MS SHARP SC: Now, I withdraw the proposition that he saw the draft response sent to NAB, but you agree he was aware that these questions were coming from NAB?

45 **MR SHEPPARD:** It certainly would appear from this, yes.

MS SHARP SC: And indeed, Mr Bekier was made aware that these questions were coming from NAB?

MR SHEPPARD: Yes.

5 **MS SHARP SC:** Now, you can take it from me that Ms Martin and Mr Theodore both reviewed that response from Ms Scopel I've just taken you to. What do you say about the fact that a number of senior members of management were prepared to collaborate in providing this response to NAB?

10 **MR SHEPPARD:** It's extraordinarily surprising and disappointed. It's very serious. It's a breach of the Code of Conduct. And it raises questions that I alluded to before about culture and which Mr Bell rightly asked me to what extent the board accepted responsibility.

15 **MS SHARP SC:** Does it suggest to you that there is a culture in senior management that is rotten to the core?

20 **MR SHEPPARD:** I think the - I think "rotten to the core" is - is an overstatement because this management team, in my experience, had been, across a range of matters, honest and diligent to deal with. But in relation to this, seriously misleading is an absolutely correct description.

MS SHARP SC: Now, are you familiar with a high-value patron at Star Sydney named Philip Dong --

25 **MR BELL SC:** I'm sorry, Ms Sharp, before we leave this document. There is another element to this that I want to discuss with you, Mr Sheppard. Ms Scopel - and if we go back, please, to the email from Ms Scopel to Ms Arthur, which I think it might have been exhibit B1828. That's it. Thank you. Mr Sheppard, another aspect of this is that both Ms Scopel and Ms Dudek told me that
30 they knew that this communication was wrong, but they didn't feel able to challenge senior management about it. Can you make the assumption that that evidence was given?

35 **MR SHEPPARD:** Yes.

MR BELL SC: And obviously the Code of Conduct required employees to challenge senior management where they believed that unethical behaviour was occurring?

40 **MR SHEPPARD:** Yes.

MR BELL SC: So would you agree that this is another dimension of the cultural problem that this communication demonstrates?

45 **MR SHEPPARD:** Yes, I do. If that's the view that they genuinely took, I - whether they did or not, I - I mean, I'm not questioning their evidence. I'm just saying if that's the view they generally took, it is an issue. And to me, there's an additional issue, and that is the company had in place whistleblowing procedures.

And as Ms Sharp has pointed out over the past hour or so, there was a systematic failure over a long period of time - and it's a major disappointment to me - that under the whistleblowing procedures, not one person identified it and - and took advantage of those procedures. And that includes Sarah Scopel and Tanya Arthur.
5 Those procedures were available to them. They did not have to elevate it to their - to their reports - the people they reported to. There was another avenue available to them, and that didn't happen either. So that's another dimension of this.

10 **MR BELL SC:** So I take it that as you've told me earlier, you would accept that the board bears responsibility for these cultural problems?

MR SHEPPARD: Yes. Well, it has to. The - notwithstanding that we put into place a Code of Conduct communicated across the organisation, notwithstanding
15 that we had very specific procedures for regular representations to the board about compliance and notwithstanding that we had whistleblower procedures which we communicated widely around the company were available to them. So all of those things. And notwithstanding that, these failures occurred. So you do have to ask yourself why. I think it's a complex question. And I think in the case of China
20 UnionPay, possibly - possibly the management team convinced themselves they weren't doing anything wrong. I find that hard to believe because I think these are deliberately deceptive communications. And I find it, as a director, incredibly disappointing and, indeed, very surprising, as I found out about these things, that nobody - nobody - put their hand up.

25 **MR BELL SC:** You rightly point out that there are a number of steps that the board did take to communicate the culture that it expected.

MR SHEPPARD: Yes.

30 **MR BELL SC:** What I don't understand is how the cultural settings miscarried so spectacularly.

MR SHEPPARD: In my view - I think the board probably made a few mistakes
35 with appointments, in retrospect. I think it was possibly - probably - a mistake to combine the chief risk officer and the chief legal officer roles into one role. This had been a team that had been together for a long period of time and I think, in retrospect, it would have been good to introduce some fresh eyes in - into the team. But having said that, in other places where I've been involved in those
40 appointments, we've - we've made those appointments from people who have been with the corporation for a long period of time, and it's worked entirely satisfactorily. So I think they're all obvious questions. The answers are more difficult than the questions.

45 **MR BELL SC:** Yes, Ms Sharp.

MS SHARP SC: Could I just go back to one aspect of your last answer, Mr Sheppard. You gave evidence that Ms Scopel and Ms Arthur were aware of the

whistleblower protections. Did you, in fact, intend to refer to Ms Scopel and Ms Dudek who was involved?

5 **MR SHEPPARD:** Yes. I'm sorry. I'm sorry, that was a mistake.

MS SHARP SC: Mr Bell, I'm moving to a slightly different topic now. Would it be convenient to have the mid-afternoon adjournment at this time?

10 **MR BELL SC:** Yes. I will adjourn for 15 minutes.

MS SHARP SC: Thank you.

<THE HEARING ADJOURNED AT 3:29 PM

15 **<THE HEARING RESUMED AT 3:44 PM**

MR BELL SC: Yes, Ms Sharp.

20 **MS SHARP:** Mr Sheppard, are you familiar with a high-value patron, Phillip Dong Fang Lee?

MR SHEPPARD: Only to the extent that I've read about him in the press and - and - and some of the papers that I got given as a result of preparation for the commission.

25 **MS SHARP SC:** So you weren't aware that he was using the China UnionPay card facility in 2015, 2016 and so on, at the time?

MR SHEPPARD: No. Well, I wasn't aware that anybody was using the facility.

30 **MS SHARP SC:** Of course. Can I show you a document, please, exhibit B at tab 66, STA.3014.0002.1906.

MR SHEPPARD: Yes.

35 **MS SHARP SC:** Now, what I'm showing you is what we understand to be a temporary cheque cashing facility receipt associated with CUP. Can you see it's dated 4 April 2015?

40 **MR SHEPPARD:** Yes.

MS SHARP SC: And do you see the limit change is from \$500,000 to \$12.3 million?

45 **MR SHEPPARD:** Yes.

MS SHARP SC: Now, you can take it from me that receipts sit behind this showing that about \$11 million was swiped on one particular day in relation to the

CUP card, and you can also take it from me that one of the approval signatures you see here is that of Ms Martin.

MR SHEPPARD: Okay.

5

MS SHARP SC: Now, would you agree, as a director of a casino operator, that allowing somebody to swipe \$11 million on a debit card on one particular day rings all sorts of alarm bells?

10 **MR SHEPPARD:** It's certainly very unusual. I agree.

MS SHARP SC: Well, let me show you another document. Can you see the date there is 4 April 2015?

15 **MR SHEPPARD:** I've - I've still got the 4th of the 4th '15 in front of me.

MS SHARP SC: Yes. That's right. Can you see that's the date there, 4 April --

MR SHEPPARD: Yes. Yes.

20

MS SHARP SC: Now I want to show you a different document, which is exhibit B, tab 73, which is STA.3014.0002.1932. I'm now showing you a document -- the 6 April 2015. Do you see that the cheque cashing limit has gone up from \$12.3 million to \$23.3 million?

25

MR SHEPPARD: Yes.

MS SHARP SC: You can take it from me that a further \$11 million was swiped by Mr Dong Fang Lee on 6 April 2015. Now, can you also accept from me that this document is approved, and there are signatures by both Ms Martin and Mr Bekier?

30

MR SHEPPARD: Okay. Yes, I'll - I'll assume that. I can't recognise the signatures.

35

MS SHARP SC: Right. Well, you can assume they've both confirmed that their signatures appear on this page.

MR SHEPPARD: Okay.

40

MS SHARP SC: So what I'm showing you is documentation that shows that in a three-day period in April 2015, Mr Dong Fang Lee swiped \$22 million on his CUP card at The Star. That is just an extraordinary level of debit, is it not?

45 **MR SHEPPARD:** I agree.

MS SHARP SC: And it is plainly an abuse of the process, isn't it?

MR SHEPPARD: Well, I mean, if it had me - been me asking to sign this, I would have said, "What the hell is going on?"

5 **MS SHARP SC:** And you can take it that the evidence of Mr Bekier and Ms Martin is that they did not ask that question. Can I add a further fact for your consideration, which is that Mr Lee was a local player and not even eligible on The Star's own rules to use the CUP process. Did you know that?

10 **MR SHEPPARD:** Is this because he's a local player, not an international player?

MS SHARP SC: Yes. And at this time, that is, in 2015, Star's rules around the CUP card was it could only be availed of by international rebate program members. Did you know that?

15 **MR SHEPPARD:** I do now. I wasn't aware at the time.

MS SHARP SC: Now, you won't have been aware of this at the time, but have you since been made aware that at around the time - or a few months prior to this \$22 million debit, numerous staff members had been expressing concerns that
20 Mr Lee's level of debit swipes was not commensurate with his level of play at The Star?

MR SHEPPARD: Yes. I've seen some reference to that, again in - in the papers given to me for the hearing.

25 **MS SHARP SC:** And indeed - I won't take you to the documents, but at exhibit B at tab 54, we have the manager of credit and collections at the time, Adrian Hornsby, saying in a 4 January 2015 email that CUP is not to be used as Mr Lee's personal money changer, For example. We also have an email from David Procter
30 dated 6 January 2015 at exhibit B, tab 60 that says:

"He should not be allowed to swipe until we have an explanation on where his money has gone \$2.2 million in casino cheque, nearly \$5.5 million is not accounted for."

35 Now, aren't there obvious money laundering risks attendant upon Mr Lee's enormous level of debits on the CUP cards?

40 **MS RICHARDSON SC:** I object to that question.

MR BELL SC: Is this an objection you would like to pursue in the absence of Mr Sheppard?

45 **MS RICHARDSON SC:** Yes, it is.

MR BELL SC: Operator, can we please move to private mode in the absence of Mr Sheppard.

<THE HEARING IN PUBLIC SESSION ADJOURNED AT 3:50 PM

<THE HEARING IN PRIVATE SESSION RESUMED AT 3:51 PM

5 **<THE HEARING IN PRIVATE SESSION ADJOURNED AT 3:53 PM**

<THE HEARING IN PUBLIC SESSION RESUMED AT 3:53 PM

10 **MR BELL SC:** Yes, Ms Sharp.

MS SHARP SC: Mr Bell, can I just raise this: the last matter was objected to, and successfully objected to, but an answer appears. Can I ask that that answer be struck from the transcript?

15 **MR BELL SC:** Yes. Thank you. That will be done.

MS SHARP SC: Now, Mr Sheppard, can I ask you this question: firstly, in view of the fact that \$22 million was debited from Mr Lee's CUP card over a three-day period in April 2015 and (b) a number of staff members were raising concerns that
20 Mr Lee's debits on CUP were not commensurate with his level of play, aren't the risks of money laundering apparent here?

MR SHEPPARD: I - I agree there's a whole range of unusual things about these transactions, and - and money laundering would be one risk. Now, I don't - I've
25 read in the newspapers that Mr Lee is a billionaire, so maybe he can afford, you know, \$20 million here and there on his debit card. But the answer is yes. And I would have assumed that these transactions would have set off a whole range of threshold transaction reports and suspicious matter reports to AUSTRAC.

30 **MS SHARP SC:** Of course, you have no way of knowing whether that, in fact, did occur?

MR SHEPPARD: No, I don't. I mean, I - I have frequently asked for information about suspicious matter reports - or from time to time anyway - particularly in
35 recent times, and I've always been told that I'm - it would be not legal to provide me with that information.

MS SHARP SC: Who told you it was not legal to provide you with that information?
40

MR SHEPPARD: Company (indistinct).

MR BELL SC: Ms Sharp - I'm sorry - I would like to raise something with you in the absence of the witness, please. Can we move to private mode, please.
45

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MR BELL SC: Ms Sharp.

10 **MS SHARP SC:** Operator, could I please call up exhibit B, tab 3103, which is STA.3002.0009.0292. I'm showing you the report prepared by Mr Seyfort of HWL Ebsworth dated 12 September 2021 in relation to the China UnionPay card. Now, I've already taken you to this. But just for the abundance of clarity, do you see under the heading "Conclusions", Mr Seyfort states that:

15 "The practices of The Star did not involve any regulatory contraventions but arguably represented questionable commercial conduct."

MR SHEPPARD: Yes.

20 **MS SHARP SC:** Now, do you agree that if evidence before this review suggests that there may well have been regulatory contraventions, it would be appropriate for the board to conduct or have conducted further analysis on the usage of the China UnionPay cards by Star?

25 **MR HENRY SC:** I object. That would depend upon knowledge that hasn't been the subject of any addressing in the question.

MR BELL SC: I reject the question, Ms Sharp.

30 **MS SHARP SC:** On the assumption that there is evidence that there have been regulatory contraventions of the Casino Control Act in relation to the so-called temporary cheque cashing facility, does the fact that Mr Seyfort has advised that the practice of The Star did not involve any regulatory contravention cause you to think it may be prudent to obtain a further review of the use of the CUP card at The Star?

35

MS RICHARDSON SC: I object to that question. I object to the assumption that's the premise of the question.

40 **MR BELL SC:** I'm not sure how much I'm going to be assisted by the answer, Ms Sharp, but I will allow the question.

MS RICHARDSON SC: Well, could I be heard in that respect, please, Mr Bell?

45 **MR BELL SC:** Yes. Well, operator, take us into private mode again.

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MR BELL SC: Ms Sharp.

MS SHARP SC: Is it the board's intention to conduct further analysis of the usage of China UnionPay cards at Star in the period 2013 to March 2020?

10

MR SHEPPARD: Is it the board's intention? That's not a decision that the board has made at this stage.

MS SHARP SC: Can I ask you, in that event, whether you have any intention of raising with the board the proposition that there should be a further look-back at the ways in which the UnionPay cards facility has been handled by The Star?

15

MR SHEPPARD: I think it's something that I would consider.

MS SHARP SC: Can I take you now to the management response that was provided by board paper from Mr Bekier on 1 October 2021, which is exhibit B at tab 3117, STA.3411.0002.1796. Now, it's right, isn't it, that you read this paper at about the time it was brought into existence?

20

MR SHEPPARD: Yes, I did.

25

MS SHARP SC: Were you satisfied with management's response as outlined in that paper?

MR SHEPPARD: I'd say it was work in progress. I - I - and I'd say neither satisfied nor unsatisfied, still considering the response. And certainly information has emerged since which has given me cause for further consideration.

30

MS SHARP SC: And that leads into my next question. Do you consider, based upon information now known to you, that it would be appropriate for Star to engage in further reflection about the use of the CUP card at Star?

35

MR SHEPPARD: I can assure you, Ms Sharp, that the board is engaging in reflection about not only CUP but the full range of matters that have emerged in this commission.

40

MS SHARP SC: And in your capacity as the director of an organisation whose subsidiary holds a casino licence, do you see any money laundering risks that were associated with the use of the UnionPay card at Star?

45

MR SHEPPARD: Well, not on the basis of Mr Seyfort's report. His report was that AML procedures had been complied with. But I can agree with you that the

use of the card in the way that it was used does raise questions of money laundering risk.

5 **MS SHARP SC:** Now, it's right, isn't it, that ultimately the CUP payment channel, which involved around \$900 million at The Star, involved a deliberate flouting of mainland China controls on capital flight; do you agree?

10 **MR SHEPPARD:** Certainly provided a flouting. Deliberate? Yes, probably on the part of some of the people involved in it. Maybe not all of them.

MS SHARP SC: And the use of the card at Star was contrary to the prohibition in the UnionPay scheme rules?

15 **MR SHEPPARD:** I believe (indistinct) --

MS RICHARDSON SC: I object to that question. I object to that question. I have objected to this question repeatedly.

20 **MR BELL SC:** You have indeed. I think perhaps you can slightly modify the question, Ms Sharp.

MS SHARP SC: Well, the document says "fully prohibited", Mr Bell. I will use the words of the document. You will agree that the use of the UnionPay card was inconsistent with the words of the UnionPay scheme rules that said:

25 "The CUP card being used to purchase gaming chips was fully prohibited."

MS RICHARDSON SC: I object to that question on the basis I have objected to it before.

30 **MR BELL SC:** Operator, can you take us to private mode, please, in the absence of the witness.

35 <THE HEARING IN PUBLIC SESSION ADJOURNED AT 4:08 PM

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<THE HEARING IN PRIVATE SESSION ADJOURNED AT 4:10 PM

40 <THE HEARING IN PUBLIC SESSION RESUMED AT 4:10 PM

MR BELL SC: Yes, Ms Sharp.

45 **MS SHARP SC:** Mr Sheppard, the use of the CUP card at The Star in the period 2013 to March 2020 involved each of the following risks or problems: firstly, it was a deliberate flouting of Chinese controls on capital flight; secondly, the UnionPay scheme rules prohibited CUP cards being used to purchase gaming chips; thirdly, sham documentation was created in the course of these transactions,

including dummy invoices; fourthly, NAB and UnionPay International were misled as to the true substance of the transactions; fourthly, there is an as yet unquantified risk that The Star breached its merchant agreement with NAB in relation to the ways in which the CUP card was used; fifth, there is a risk that the creation of the temporary cheque cashing facility exposed The Star to a breach of section 24 of the Casino Control Act --

MR BELL SC: 74, Ms Sharp.

10 **MS SHARP SC:** Yes. Sorry. Section 74. Sixthly, there was a failure to be transparent with the New South Wales casino regulator; and four, there was a disregard of money laundering risks in relation to the use of these cards. In all of these circumstances, for all of these years, the board did not know a thing about the China UnionPay process at The Star. What should we conclude about the board's supervision of an important payment channel at Star?

15 **MR HENRY SC:** I object. Is what -is what being – is what is being put on the basis that Mr Sheppard should make assumptions about each of those matters? There's a catalogue of issues that have been put to him in one question. And if it's put on the basis that he should assume the truth of all those things, that's one thing. But if it's not, then the question is just not fair.

20 **MR BELL SC:** Ms Sharp, I understood you to be putting those matters as risks which were not drawn to the board's attention. Am I right?

25 **MS SHARP SC:** Yes.

MR BELL SC: Well, perhaps you could put the question again and making that abundantly clear to all concerned.

30 **MS RICHARDSON SC:** I just would note, in some respects, a number of those integers were not put as risks; they were put as propositions, for example, that fourthly - sorry. I don't know the number of it, but that the money laundering risks had been ignored in relation to CUP. There are a number of assumptions I would take issue with.

MS SHARP SC: I'm going to withdraw the question and approach it a different way.

40 **MR BELL SC:** Let me see if I can ask you a question, Mr Sheppard. It would appear, would it not, that there are a number of risks about the use of the CUP payment channel which the board was not aware of; correct?

45 **MR SHEPPARD:** Correct.

MR BELL SC: We know now that this was a payment channel involving \$900 million; correct?

MR SHEPPARD: Correct.

5 **MR BELL SC:** So - so what does the board's lack of awareness of this payment channel, and the risks attendant to it, say about the board's supervision of this organisation?

10 **MR SHEPPARD:** It - first of all, it says it's a failure to be aware of important pieces of information about the business. Second, it says - if I could put it this way - the board probably trusted the management too much. Now, in my case, speaking for myself, in the - certainly in the earlier years on the board, I felt that there was a good basis to put trust in the management. Why? Because there had been a number of independent reports on issues like anti-money laundering and then also the 2016 review of - of the licence, and those and other reports were highly complimentary about the management team.

15 So that certainly influenced my degree of trust in the management team, as did my interaction with the team and my observation of some of the good things that they did with the business, including the construction program and things like that, that were mentioned before. But at the end of the day, that trust to escalate matters and to comply with the code of conduct, including acting ethically, was an error. So I think that's what it says about the board's responsibility.

MR BELL SC: Yes, Ms Sharp.

25 **MS SHARP SC:** And do you accept any personal responsibility for the failures associated with CUP at The Star?

30 **MR SHEPPARD:** To the - I don't - I don't accept responsibility for the actual failures of - of - of the CUP process because I knew nothing about it. But I accept responsibility for the matters that I just summarised to Mr Bell.

35 **MS SHARP SC:** I'll move to a different topic now, Mr Sheppard. Can I take you to exhibit B at tab 495, which is STA.0025.0001.0067. Now, I'm showing you a document relevant to the 6 December 2017 meeting of the board; do you agree?

MR SHEPPARD: Yes. Yes.

40 **MS SHARP SC:** And can I take you to - sorry. Just pardon me for one moment. Could I take you to pinpoint 0089. And can you actually read that?

MR SHEPPARD: I - I can read most of it.

45 **MS SHARP SC:** Yes. Could I just ask you to have a look at the second entry relating to Suncity?

MR SHEPPARD: Yes.

5 **MS SHARP SC:** And this is a document I showed you a bit earlier today, which was a board paper provided to the 6 December 2017 meeting which outlined the cheque cashing facility process. In that context, there's this entry in relation to Suncity. Can you read across to the right-hand side of the document? Do you see it says:

"Fixed room in Salon 95 (Rivers) expected to be completed by 1 January 2018 in order to further cement and secure business."

10 **MR SHEPPARD:** Yes.

MS SHARP SC: So you agree with me, don't you, that the board was made aware that Star intended to enter into an agreement with Suncity to make a fixed room available to it?

15

MR SHEPPARD: I'm not sure that the board was aware in the - the words that you just used, that there was an actual agreement with Suncity. This just says:

"Fixed room in Salon 95 expected to be completed."

20

And it has it under Suncity. So I - I accept that Suncity was given a room.

MS SHARP SC: And you accept that you were notified of that via this paper that you read --

25

MR SHEPPARD: Yes.

MS SHARP: -- for the purpose of preparing yourself for the December 2017 board meeting?

30

MR SHEPPARD: Yes.

MS SHARP SC: So you do accept you were notified that some kind of special arrangement had or would soon be entered with Suncity?

35

MR SHEPPARD: Well, I accept they were notified. This is in pretty small print. It's not - what I don't accept is that there was some sort of complete proposal to the board outlining the arrangements in any degree of detail at all. So - but I accept that this is a notification.

40

MS SHARP SC: Now, could I take you, please, to exhibit B at tab 2124, which the STA.3417.0005.7927.

MR SHEPPARD: Yes.

45

MS SHARP SC: And this is a board paper prepared by John Chong, the president of international marketing, dated 15 February 2018?

MR SHEPPARD: Yes.

MS SHARP SC: May we take it you would have read this board paper at around the time?

5

MR SHEPPARD: Yes.

MS SHARP SC: Could I take you, please, to the "Background" heading?

10 **MR SHEPPARD:** Yes.

MS SHARP SC: And do you see it explains that:

15 "Chau Cheok Wa is the CEO of Suncity, the world's largest and most compliant junket."

MR SHEPPARD: Yes.

MS SHARP SC: And do you see it says:

20

"Initially approved to \$20 million, the Chau Cheok Wa/Suncity cheque cashing facility increased to \$30 million in February 2014 and then to \$50 million in March 2017."

25 **MR SHEPPARD:** Yes.

MS SHARP SC: And do you see in the fourth paragraph there, it says:

30 "Management have also recently established Salon 95 in Sydney (Rivers) as a permanent area for Suncity patrons which has enabled the junket to implement a more structured approach to their operations at The Star and drive higher volumes to Sydney."

35 **MR SHEPPARD:** Yes, I see that.

MS SHARP SC: So on two separate occasions in around late 2017/early 2018, you agree that the board was made aware that a special arrangement has or was to be entered with the Suncity junket?

40 **MR SHEPPARD:** Yes, that's what these memos say.

MS SHARP SC: Are you aware that Graeme Stevens has admitted to this review that he provided misleading information to the New South Wales regulator about the establishment of a service desk in Salon 95?

45

MR SHEPPARD: I'm not sure I'm aware specifically of - of that. I'm - I'm aware - I mean, I would have gone to one of the briefings that we alluded to earlier

about the evidence that various people have given. Can I recall that piece of evidence specifically? No.

5 **MS SHARP SC:** I will take you to the transcript, if I can. If I could call up the transcript for day 8 at page 906. And you understand that Graeme Stevens at the time was the regulatory affairs manager for The Star Entertainment --

MR SHEPPARD: I - I - I believe so, yes.

10 **MS SHARP SC:** And that he had principal responsibility for dealing with the regulator at that point in time on behalf of Star?

MR SHEPPARD: That's my understanding.

15 **MS SHARP SC:** Now, can I direct your attention, please, to line 43, which is towards the bottom. And Mr Bell is recorded as saying:

"Mr Stevens, there's absolutely nothing in this email to suggest to the authority that cash transactions are occurring in Salon 95, is there?"

20

Mr Stevens says:

"No."

25 And Mr Bell said:

"And in that respect, your email was misleading, wasn't it?"

And I will take you to the next page, please. And Mr Stevens says:

30

"Yes, I do know I had a phone conversation with Mr Bucktowonsing prior to sending that email in relation to there -"

And so on. And then Mr Bell says:

35

"And you accept, do you, that it was misleading in that regard?"

And Mr Stevens said:

40

"Yes."

Now, I take it you accept it is entirely inappropriate that the regulatory affairs manager in New South Wales misled the regulator as to the purpose of the service desk in Salon 95 in late 2017?

45

MR SHEPPARD: In my view, it's always inappropriate to mislead a regulator.

MS SHARP SC: Now, were you aware in 2018 that Mr Hawkins had issued a warning letter to Suncity in relation to activities in the Salon 95 room?

MR SHEPPARD: No.

5

MS SHARP SC: Are you aware of that now?

MR SHEPPARD: Yes.

10 **MS SHARP SC:** Is that a matter that ought to have been made known to the board at the time, given the board was informed that a fixed room was being made available for Suncity's use?

15 **MR SHEPPARD:** The answer is yes. In relation to the board being informed that a fixed room was being made available for Suncity's use, the board wasn't informed that that included some form of cash transactions facility. My assumption, to the extent I had even turned my mind to it at that time, was that Suncity was being given a room for their patrons to play in which I wouldn't have thought - which I wouldn't have regarded as - as particularly exceptional - unusual,
20 if I could put it that way, or inappropriate. But that my assumption would have been, and always was, that anybody in the casino had to use the casino cage for cash transactions.

25 **MS SHARP SC:** And, Mr Sheppard, do you see any problem with a junket operator operating a cash desk?

MR SHEPPARD: Yes, I do.

MS SHARP SC: And what problem is that?

30

MR SHEPPARD: Lack of control, that the whole - the whole point of having a cash desk in the casino - a cash cage in the casino is that the casino can control the cash transactions, and there are very specific operating procedures which regulate that.

35

MS SHARP SC: And, indeed, you need a casino licence to operate a casino, don't you?

MR SHEPPARD: Of course.

40

MS SHARP SC: Is it the case that you also see any money laundering and counter-terrorism financing concerns associated with the junket operating a cash desk in the casino?

45 **MR SHEPPARD:** Yes, there would be.

MS SHARP SC: Can I take you, please, to exhibit C at tab 49, which is STA.3427.0018.3096. Now, I'm not suggesting you saw this email, but I want to

make you aware of its contents. If you look at the bottom of that first page, you will see an email from Andrew McGregor dated 14 May 2018 to Andrew Power and Kevin Houlihan. Now, you know who both of those gentlemen are, don't you?

5 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: And are you aware Andrew McGregor is a senior investigator, or was at that time, at The Star?

10 **MR SHEPPARD:** Yes. Well, I - I probably wasn't aware at that time. I'm certainly aware now.

MS SHARP SC: And can I take you to something Mr McGregor said at pinpoint 3097. If I could highlight the second-last paragraph. He says:

15

"Today's activities with Suncity have been very strange, we have an entity within our four walls which is totally non-compliant to reasonable requests for basic information. I'm going to call it out early, Suncity is operating a business model under our noses which is problematic for Star Entertainment with regards to AML/CTF laws."

20

MR SHEPPARD: Yes, I see that.

MS SHARP SC: Have you been made aware of this email before now?

25

MR SHEPPARD: I believe I saw it in the documents that I was given over the last month or so, as part of the inquiry.

MS SHARP SC: Do you agree the board should have been made aware of the non-compliances of Suncity and the risk that it was operating a business model which was problematic in terms of AML/CTF laws?

30

MR SHEPPARD: Yes, that is the sort of thing that the board should have been made aware of.

35

MS SHARP SC: Can I show you this document, please. It's exhibit B at tab 805, STA.3412.0018.7211. Now, this is a document dated the next day, 15 May 2018. Do you see it's called Operation Money Bags?

40 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: And it's relating to Suncity Pit 95?

MR SHEPPARD: Yes, I do.

45

MS SHARP SC: And if I can just direct your attention to the summary. Could you just read that to yourself, please.

MR SHEPPARD: Yes, I've read that.

MS SHARP SC: And could I just show you the next few pages. I'm not asking you to read them; I just want to show you the length of the document.

5

MR SHEPPARD: Yes, I can see that.

MS SHARP SC: And, operator, could you keep turning, please. So you would agree it's a reasonably lengthy document?

10

MR SHEPPARD: Yes, I do.

MS SHARP SC: Now, this document has never been notified to the board, has it?

15

MR SHEPPARD: No, it hasn't.

MS SHARP SC: Can I show you another document, please, exhibit B, tab 790, STA.3411.0010.3560. Now, what I'm showing you is an email that Andrew Power, the general counsel at Star, sent to Greg Hawkins on 15 May 2018. And do you see the next day, Greg Hawkins emailed that to Matt Bekier?

20

MR SHEPPARD: Yes, I do.

MS SHARP SC: Now, could I just enlarge for you what Mr Power says. He says:

25

"I have now been briefed on conduct occurring in Pit 95 (the salon the subject of an exclusivity arrangement with the Iek junket group) and reviewed available footage and reports received from those gaming staff. The focal point of concern relates to cash transactions occurring in those areas."

30

And then a little further down, Mr Power says:

"In my opinion, the junket group's conduct has exposed The Star to an unacceptable level of risk and constitutes a breach of the agreement, of applicable laws or otherwise amounts to casino operations. In particular, (1) cash for chip (and vice versa) transactions taking place at the service desk; (2) withdrawal of cash (terms unknown) by non-junket participants at the service desk and other locations."

35

40 Now, do you agree that the chief casino officer and the CEO ought to have made the board aware that general counsel had advised that the Salon 95 arrangement exposed The Star to an unacceptable level of risk?

MR SHEPPARD: Yes, I do.

45

MS SHARP SC: Can you account in any way for why that did not occur?

MR SHEPPARD: Well, I don't know what was in the minds of the people at the moment. It's - it's an obvious thing - had I been in that position, I would have wanted to report - to - to elevate. But a possible explanation is that they valued the commercial relationship with Suncity.

5

MS SHARP SC: Above the unacceptable risk to which that arrangement exposed The Star?

MR SHEPPARD: Yes. No, I'm not saying that is the explanation. I'm just saying - you've asked me to speculate on - on why it wasn't escalated, and that is - is a plausible possibility. That's a possibility.

10

MS SHARP SC: Now, I take it you were never made aware of the advice given in this email?

15

MR SHEPPARD: No.

MS SHARP SC: Is this the first time you've seen this email?

MR SHEPPARD: Again, I saw some information about Suncity and these incidents in the pack of documents that I've received over the past month, but not before that.

20

MS SHARP SC: Now, are you aware that on 5 June 2018, Mr Hawkins issued a second warning letter to Suncity in relation to Salon 95?

25

MR SHEPPARD: I wasn't then; I am now.

MS SHARP SC: When were you made aware of that?

30

MR SHEPPARD: Again, in the last month or so.

MS SHARP SC: Wasn't the only appropriate course for Mr Hawkins to take at that time to shut the room down?

35

MR SHEPPARD: Well, that's what I would have done.

MS SHARP SC: In fact, are you aware that on 21 June 2018, The Star entered into a further win/loss rebate and exclusive access agreement with Suncity in relation to Salon 95?

40

MR SHEPPARD: Yes.

MS SHARP SC: And what's your view on entering into that further exclusivity agreement in view of the various transactions of concern of which you are now aware in Salon 95?

45

MR SHEPPARD: What the appropriateness - the appropriateness of - of that? Is that what you're --

MS SHARP SC: Yes.

5

MR SHEPPARD: Okay. Well, I think it was inappropriate. But what I - the information that I don't have is whether the breaches, which were serious breaches - and I've told you how I would have responded to them - whether the team thought the response to the breaches satisfied them as to whether the conduct had - had been rectified on a permanent basis. Now, I don't know that.

10

MS SHARP SC: Well, in fact, what the senior investigator was saying was that Suncity would not cooperate with his investigations.

15

MR SHEPPARD: Was that the - what was the memo you took me to earlier, was it?

MS SHARP SC: Yes.

20

MR SHEPPARD: Okay. Well, I've - I've told you what I would have done.

MS SHARP SC: Now, are you aware that on 23 May 2019, Mr Graeme Stevens conducted an audit and said that Suncity was now compliant with the cash desk requirements imposed upon it?

25

MR SHEPPARD: Again, I - I believe I'm - I'm aware now but wasn't at the time.

MS SHARP SC: Are you aware now that in the - later, May and June 2019, evidence of various non-compliances emerged?

30

MR SHEPPARD: I don't think so.

MS SHARP SC: Well, I will take you to exhibit G at tab 671, which is STA.3428.0034.3626. Now, I'm showing you a document which has a lot of blue shade on it. Could you please treat that information as confidential and don't read it out in this public hearing. Do you see, though, it's an information note authored by Andrew McGregor, and it is dated 3 June 2019?

35

MR SHEPPARD: Yes, I do.

40

MS SHARP SC: Now that's at a time after the 23 May 2019 audit. Can you read for yourself the summary, please.

MR SHEPPARD: Yes, I can see that.

45

MS SHARP SC: And can you read the first paragraph under the heading Background, please.

MR SHEPPARD: Yes, I can see that.

MS SHARP SC: And, operator, could we put the whole page in view, please. Could you read the balance of that page under the heading Details, please.

5

MR SHEPPARD: Yes, I've read that.

MS SHARP SC: Again, I will take you over the page, if I can. And can I take you to the next page. Now, I gather none of that was made known to you at the time?

10

MR SHEPPARD: No.

MS SHARP SC: Can I take you, please, to exhibit G675, which is STA.3427.0018.3538. Do you see this is dated a few days later, on 5 June 2019? It's another information note.

15

MR SHEPPARD: Okay. It looks like the one I just saw, but it's - it's a later one. Okay.

MS SHARP SC: And can you just read under the heading "Background."

20

MR SHEPPARD: Yes. I see that.

MS SHARP SC: And may I take it that none of that was made known to you at the time?

25

MR SHEPPARD: That's correct.

MS SHARP SC: Could I take you, please, to exhibit B, tab 1437, which is STA.3418.0011.0621. I am showing you an email from Ian Tomkins to Skye Arnott, copied to Graeme Stevens, on 24 June 2018. The blue shade indicates confidential information that I would ask you not to read out, Mr Sheppard. Could I ask you to read that email to yourself.

30

MR SHEPPARD: Yes, I've read that.

35

MS SHARP SC: Do you agree that it appears to refer to seven separate incidents occurring in Salon 95 during May of 2019?

MR SHEPPARD: It appears to, yes.

40

MS SHARP SC: And may I take it you were not made aware of any of those matters at the time?

MR SHEPPARD: That is correct.

45

MS SHARP SC: Could I take you, please, to exhibit H at tab 226, which is STA.3427.0037.8992. Do you see this is an email from Greg Hawkins to Matt Bekier, copied to Ms Martin, dated 22 July 2019?

5 **MR SHEPPARD:** I do.

MS SHARP SC: And do you see reference is made in the third paragraph to:

10 "Suncity were singled out in the Chinese media as an example of a business presenting gambling experience to mainland Chinese which is in direct contravention of Chinese law. Suncity have denied this activity."

MR SHEPPARD: Sorry, Ms - Ms Sharp. Where is that?

15 **MS SHARP SC:** Yes. I will have that highlighted for you, Mr Sheppard. It's the third paragraph of this email.

MR SHEPPARD: Thank you. Yes. I've got it.

20 **MS SHARP SC:** And could I then take your attention to Sydney Suncity Personnel Exclusions. If I can have that part of the document shown to you. Do you see it's stated:

25 "We recently received correspondence from the Police Commissioner in New South Wales advising of a number of exclusions. This in itself is not abnormal, but in this instance six of them were people associated with Suncity."

30 **MR SHEPPARD:** Yes. Yes.

MS SHARP SC: And I gather that was not made known to you at the time?

MR SHEPPARD: I agree.

35 **MS SHARP SC:** Salon 95 and Suncity were just out of control at this time, weren't they?

MR SHEPPARD: Well, there was certainly a large number of incidents. I agree.

40 **MS SHARP SC:** Yes. They were out of control, weren't they?

MS RICHARDSON SC: I object to that question. What does that phrase mean?

45 **MR BELL SC:** I reject the question.

MS RICHARDSON SC: What is the forensic purpose?

MS SHARP SC: There were, you are now aware, an extensive number of incidents suggesting that Suncity related people had been involved in money laundering, including in Salon 95; do you agree?

5 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: But is it your position that as a director of Star, you were made aware of none of this in 2018 and 2019?

10 **MR SHEPPARD:** That is correct.

MS SHARP SC: What comment would you make about the board's supervision of management in this respect?

15 **MR SHEPPARD:** I think I would just repeat the comments that I made earlier, that there had developed a culture of non-escalation of issues to the board, which may have been motivated by business objectives or may have been just carelessness or even something worse. But clearly a cultural issue and, therefore, the same sort of factors that I alluded to when we were talking about CUP.

20 **MS SHARP SC:** Now, Mr Sheppard, do you agree that these incidents occurring in relation to Suncity, including in Salon 95, go to the core of concerns about the proper conduct of a holder of a casino licence?

25 **MR SHEPPARD:** Yes, they're very concerning incidents.

MS SHARP SC: Because one of the very objectives of the New South Wales Casino Control Act is to prevent criminal infiltration at the casino, isn't it?

30 **MR SHEPPARD:** Yes, it is.

MS SHARP SC: And does it suggest to you that there has been any lapse on the part of the board in the fact that it had no awareness of these issues?

35 **MR SHEPPARD:** Yes, it - it - it does suggest that something is going wrong with the information flow.

MS SHARP SC: And there is one document that I wish to take you to, Mr Sheppard. It's exhibit B at tab 753 at STA.5002.0004.1675.

40 **MR SHEPPARD:** Yes.

MS SHARP SC: And I'm showing you the report to the board of the managing director and CEO of May 2018?

45 **MR SHEPPARD:** Yes.

MS SHARP SC: Now, you can take it from me that this - well, you don't need to take it from me. I will take you to the document. I will come back to that. Could I show you exhibit B at tab 1011, which is STA.5002.0004.1047. Do you see I'm showing you minutes of the directors' meeting on 26 July 2018?

5

MR SHEPPARD: Yes.

MS SHARP SC: And you will agree that you're recorded as being present at that meeting?

10

MR SHEPPARD: Yes, I do.

MS SHARP SC: So you were present at that meeting, weren't you?

15 **MR SHEPPARD:** I believe so, yes.

MS SHARP SC: Can I take you to pinpoint 1049. Do you see, midway down, there's a reference to the managing director and CEO report?

20 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: And do you see it says that that report of May 2018 was taken as read?

25 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: Now, I will take you back to that report, if I may, which is exhibit B at tab 753, STA.5002.0004.1675. And could I take you now to pinpoint 1696. Now, could I take you to the third dot point on that page, which is Salon 95 Service Desk. And I will have that enlarged for you.

30

MR SHEPPARD: Yes, I can see that.

MS SHARP SC: And it states:

35

"In May, concerns emerged around certain activities undertaken at the junket service desk in Salon 95."

MR SHEPPARD: Yes.

40

MS SHARP SC:

45

"At present function is at the service desk are limited pending the roll out of detailed processes for junket representatives in that salon. It is expected that training will be completed by 8 June, with regular ongoing compliance monitoring function -"

I beg your pardon:

"Ongoing compliance monitoring following resumption of services at the service desk."

5 **MR SHEPPARD:** Yes.

MS SHARP SC: So you will agree that some issue was raised with the board around activities undertaken at the junket service desk in Salon 95?

10 **MR SHEPPARD:** I - I agree that what - what's said here was raised with the board, yes.

MS SHARP SC: Now, I appreciate it's a very long time ago, but did you ask anything about that at the board meeting?

15

MR SHEPPARD: I can't recall, Ms Sharp. There's a large number of matters in that CEO report. I - I just don't recall.

20 **MS SHARP SC:** Can I take you to a document that's dated May 2019. If I can go to exhibit B at tab 1376, which is STA.5003.0004.1512. Do you see I'm showing you the minutes of the risk and compliance committee of the board dated 21 May 2019?

25 **MR SHEPPARD:** Yes, I do.

MS SHARP SC: Can you see that you're recorded as being present?

MR SHEPPARD: Yes.

30 **MS SHARP SC:** So we may conclude that you were present?

MR SHEPPARD: Yes.

35 **MS SHARP SC:** And can I take you to pinpoint 3068 - hang on, I think I've given you the wrong pinpoint. Operator, could you go to the next page, please. And the next page. And the next page. I might have to - I can't find the reference I wanted to take you to. But as a matter of fairness, I do need to take you to it. So I will come back to that momentarily. Pardon me for one moment, Mr Bell. I will come back to that matter, Mr Sheppard. I will take you to one other document, if I can,
40 at - well, what I - in fact, there's no reference anywhere in this document to Suncity or Salon 95 as at 21 May 2019, but you will recall that I took you to a number of documents in June indicating that there had been a series of concerning transactions in May of 2019. But we may take it that the absence of any reference to those transactions of concern in the May 2019 minutes means they were not
45 discussed at that meeting?

MR HENRY SC: I object. That document appears to be a draft. It's not signed. I don't know if there's a signed version.

MS SHARP SC: It says "final" at the bottom, Mr Bell, but I don't --

5 **MR BELL SC:** Is it an issue, Mr Henry, as to whether it was discussed at the meeting?

10 **MR HENRY SC:** I don't know the answer to that, but I'm just raising it because the way the question is put is it's assuming that this is an accurate set of the minutes. And questions have previously been asked about the importance going to accuracy of minutes, and I just don't know what the position is. But I object to the question because what is put is these are a set of minutes, and they appear to be a draft set.

15 **MR BELL SC:** Well, Ms Sharp, you're perfectly entitled to ask the witness to assume that there was no discussion about the matter at the May 2019 board meeting and ask what flows from that fact.

20 **MS SHARP SC:** Look, I withdraw the question. I will find the document and come back to it tomorrow. Could I take you, please, Mr Sheppard, to exhibit B, tab 1056, which is STA.5001.0003.3063.

MR SHEPPARD: Yes.

25 **MS SHARP SC:** And can you see I'm showing you a compliance assurance process document prepared for the audit committee dated 16 August 2018?

MR SHEPPARD: Yes.

30 **MS SHARP SC:** Now, may we take it you read that document at about the time?

MR SHEPPARD: I did.

35 **MS SHARP SC:** Can I take you, please, to pinpoint 3068. And, I'm sorry, I've got the wrong page number here. Could you go to the second page of this document, operator, and then the page after that. It looks like I will have to come back to this document too, Mr Bell. I won't take time with it now.

MR BELL SC: Yes.

40 **MS SHARP SC:** Could I take you now to this document, Mr Sheppard, which is exhibit B at 1378, which is STA.5003.0004.0531.

MR SHEPPARD: Yes.

45 **MS SHARP SC:** And this is a paper prepared by Ms Paula Martin. It's a risk and compliance committee paper dated 21 May 2019?

MR SHEPPARD: Yes.

5 **MS SHARP SC:** And is it right that if risks had been identified in Salon 95 or relating to Suncity, they would have been set out in this paper which is entitled Regulatory Matters Update and which was provided to the risk and compliance committee?

10 **MR SHEPPARD:** It wouldn't have been necessarily in the regulatory matters update. It - it might have - it would either be there or in the compliance report to that committee. Both - both reports are made to every risk and compliance committee meeting.

MS SHARP SC: Thank you. And can I take you to pinpoint 0533. And do you see there's a dot point that says:

15 "Regulatory reviews."?

MR SHEPPARD: Yes.

20 **MS SHARP SC:** And do you see there's a second dot point underneath that that says:

"Salon 95 Suncity processes, no significant issues found."?

25 **MR SHEPPARD:** Yes.

MS SHARP SC:

30 "Suncity have been transacting all transactions through The Star's cage providing a much higher level of oversight."

MR SHEPPARD: Yes.

35 **MS SHARP SC:** Now, can you take it from me that in the period - for the balance of the period May to August 2019, nothing further was notified to the risk and compliance committee in relation to Salon 95. Now, in view of the various documents I took you to dated June 2019 about transactions of concern in Salon 95, are you concerned that no further update was provided to the risk and compliance committee?

40 **MR SHEPPARD:** Can I just clarify: what - what's the date of this report that's in front of me? Is this May or June?

MS SHARP SC: Yes. Certainly. I will take you back to the first page. It's 21 May 2019.

45 **MR SHEPPARD:** Okay. And then you're saying the incidents occurred over May and June, I think, from the previous discussion?

MS SHARP SC: Yes. So I've taken you to that, and I've asked you to assume that there's no further reference in risk and compliance committee documents for the balance of 2019 to incidents of concern in Salon 95.

5 **MR SHEPPARD:** Yes.

MS SHARP SC: And does that concern you?

10 **MR SHEPPARD:** Well, yes, it does. I mean, as I've - as I've said previously, there was a failure to escalate serious incidents in Salon 95 in circumstances where these types of reports - that - that is their purpose.

15 **MS SHARP SC:** Now, could I - I will take a step back for a moment. We discussed earlier today that you were aware of a number of media allegations made principally against Crown Resorts in the period late July to August 2019?

MR SHEPPARD: July to August, yes. Yes.

20 **MS SHARP SC:** And you also agreed with me earlier today that Mr Hawkins and Ms Martin prepared a briefing paper to the board about those media allegations?

MR SHEPPARD: Yes. Correct.

25 **MS SHARP SC:** And you're aware, aren't you, that some of those media allegations related to Suncity?

MR SHEPPARD: Yes.

30 **MS SHARP SC:** And are you aware that one of those allegations relating to Suncity was that a report of the Hong Kong Jockey Club had raised serious integrity concerns in relation to Alvin Chau and Suncity?

MR SHEPPARD: Yes, that was in the media.

35 **MS SHARP SC:** Now, could I take you to a 15 August 2019 board paper of Mr Hawkins and Ms Martin. This is exhibit B at tab 1538, which is STA.5002.0005.2241.

40 **MR SHEPPARD:** Yes.

MS SHARP SC: And I take it you read this document with interest at about the time it was brought into existence and provided to you?

45 **MR SHEPPARD:** I did.

MS SHARP SC: And can I show you, please, the second page, which is pinpoint 2242. And do you see that Ms Martin and Mr Hawkins say, midway down:

"The Crown allegations can be summarised into two basic issue areas."

Dot point:

5 "Wilful disregard of anti-money laundering and counter-terrorism related risk associated with the transactions and activity of casino customers."

And dot point 2:

10 "Systemic disregard for the suitability of individuals with whom Crown was trading and the conduct being displayed by those people."

MR SHEPPARD: Yes.

15 **MS SHARP SC:** Now, is it correct that you, as a board member, wished to understand whether the same allegations could be levelled against Star at this point in time, given that Star was dealing with some of the same junket operators?

20 **MR SHEPPARD:** Yes, it is. That's why the board asked for this paper.

MS SHARP SC: And do you see a little further down, there's a heading Contact From Regulators?

25 **MR SHEPPARD:** Yes.

MS SHARP SC: And do you see it says:

30 "Liquor and Gaming New South Wales has written to The Star (attachments 3 and 4)."

MR SHEPPARD: Yes, I do.

35 **MS SHARP SC:** So you agree, don't you, that you, as a director, were provided with the two written inquiries that the regulator made to Star at about this time in light of the Crown media allegations?

MR SHEPPARD: Yes.

40 **MS SHARP SC:** And can I take you, please, two pinpoints further to pinpoint 2244. And do you see there's a heading Key Junket Adversely Named? And it says:

45 "The Crown allegations name a number of individuals, some of whom are associated with currently active junket operators (i.e., Suncity and Simon Pan). The Chinatown group was historically associated with The Star, however, the arrangements ceased on 2 December 2016 following the exclusion of Zhou (Tom) Juiming."

MR SHEPPARD: Yes.

MS SHARP SC: Now, did you understand what the relationship was between Zhou (Tom) Juiming and Chinatown?

5

MR SHEPPARD: Not - not the detail. I think the answer to that is, no, not - not in detail.

MS SHARP SC: But you did understand, may we assume, that there was some sort of relationship between Tom Zhou and Chinatown when you read this paper?

10

MR SHEPPARD: Yes, that's fair.

MS SHARP SC: Can I take you, please, to the first attachment to this document, which is pinpoint 2245.

15

MR HENRY SC: Might I just inquire when you propose to adjourn, Mr Bell? And I raise it in particular because the witness has been in the witness box since 10 o'clock this morning, and I can rather understand from the questioning that it's not as if he's going to be finished with today.

20

MR BELL SC: Well, the normal hours, as you will know from the procedural guidelines, are for us to finish at 5 pm. I was just allowing Ms Sharp to finish any particular line that she wanted to proceed with at the moment. Did you want to finish leading with this document?

25

MS SHARP SC: I will come back to it tomorrow.

MR BELL SC: All right. Now, I just wanted to make sure everyone understands that on Wednesday - we won't be sitting until 2 pm on Wednesday, but I will now adjourn until 10 am on Tuesday.

30

<THE HEARING ADJOURNED AT 5:04 PM