



INDEPENDENT LIQUOR AND GAMING AUTHORITY OF NSW

INQUIRY UNDER SECTION 143 OF THE CASINO CONTROL ACT 1992 (NSW)

**THE HONOURABLE PA BERGIN SC
COMMISSIONER**

**PUBLIC HEARING
SYDNEY**

**WEDNESDAY, 26 FEBRUARY 2020
AT 9.59 AM**

Continued from 25.2.2020

DAY 4

Any person who publishes any part of this transcript in any way and to any person contrary to an Inquiry direction against publication commits an offence against section 143B of the *Casino Control Act 1992 (NSW)*

MS N. SHARP SC appears with MR S. ASPINALL as counsel assisting the Inquiry

MR N. YOUNG QC appears with MS C. HAMILTON-JEWELL of counsel for Crown Resorts Limited and Crown Sydney Gaming Pty Ltd

5 **MR T. O'BRIEN appears of counsel appears for CPH Crown Holdings Pty Ltd
MR S. FINCH SC of counsel appears for Melco Resorts & Entertainment Ltd**

10 COMMISSIONER: Yes, Ms Sharp.

MS SHARP: Good morning, Commissioner. Can I start by tendering a small number of supplementary documents.

15 COMMISSIONER: Yes.

MS SHARP: You should have before you, Commissioner, a supplementary index dated 26 February, 2020.

20 COMMISSIONER: Should I?

MS SHARP: You should. I can hand up my copy of that index, Commissioner.

COMMISSIONER: Thank you. All right. Yes, thank you.

25 MS SHARP: Commissioner, you will see there are five documents on that index, some of which were referred to in the evidence from previous witnesses. Can I tender that as exhibit – well, each of those documents as part of exhibit D.

30 COMMISSIONER: Yes, of course. Any objections or any statements about them?
No. Yes, they will become exhibits D1 to D5.

EXHIBIT #D1 TO D5 DOCUMENTS

35 MS SHARP: Thank you, Commissioner. For the sake of clarity, I should note that I understand that these documents are, as we speak, being uploaded to whatever they're uploaded to in order to make them available to the interested parties.

40 COMMISSIONER: Yes, thank you. These are the documents referred to in the evidence in any event.

MS SHARP: Yes.

45 COMMISSIONER: Yes, thank you Ms Sharp.

MS SHARP: Commissioner, the first witness this morning is Ms Jessica Lin. She will be appearing by video link from Las Vegas.

COMMISSIONER: I see. Good morning, Ms Lin.

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MS LIN: Good morning, Commissioner.

COMMISSIONER: Ms Lin, thank you for making yourself available to assist us. I understand that you wish to make an affirmation to give your evidence; is that correct?

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MS LIN: Yes, that's correct.

COMMISSIONER: All right. Then I will administer that affirmation now. Are you ready?

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MS LIN: Yes.

20

<JESSICA LIN, AFFIRMED

[10.01 am]

<EXAMINATION BY MS SHARP

25

COMMISSIONER: Yes, thank you, Ms Lin. Yes, Ms Sharp.

MS SHARP: Ms Lin, could you tell the commission your full name, please

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MS LIN: Yes, Jessica Lin.

MS SHARP: And your address is known to those who are assisting this inquiry?

MS LIN: Yes.

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MS SHARP: Now, I wanted to start by asking you about your training and experience and something about your work history. Let me start with your curriculum vitae. It's correct that you have provided a curriculum vitae to this inquiry?

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MS LIN: Yes, that's correct.

MS SHARP: Could we pull up document INQ.500.001.1622. Commissioner, that's exhibit A251.

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COMMISSIONER: Thank you.

MS SHARP: Ms Lin, do you have before you the first page of your two-page CV?

MS LIN: I do, yes.

5 MS SHARP: And that's the one that you provided to this inquiry?

MS LIN: Yes.

10 MS SHARP: And we may take it that that correctly states your experience and work history?

MS LIN: Yes, that's correct.

15 MS SHARP: Now, just to go through that in a little bit more detail – and we can take the document down now, thank you – you're an attorney in the United States.

MS LIN: Yes, I am licensed in California and Colorado.

20 MS SHARP: That means that you've been admitted to the Californian State Bar and the Colorado State Bar.

MS LIN: Correct.

25 MS SHARP: You have a law degree from the University of Denver.

MS LIN: Yes.

MS SHARP: And incidentally, you speak Mandarin, don't you?

30 MS LIN: I do, yes.

MS SHARP: Are you fluent in Mandarin?

35 MS LIN: I am, yes; I can speak, read and write.

MS SHARP: Now, you're also a certified anti-money laundering specialist, aren't you?

40 MS LIN: Correct.

MS SHARP: And what organisation do you have that certification from?

45 MS LIN: That certification is issued by the Association of Certified Anti-Money Laundering Specialists.

MS SHARP: Is that known as ACAMS?

MS LIN: Yes, that's correct.

MS SHARP: And that's an international organisation?

5 MS LIN: Yes.

MS SHARP: In order to receive that certification, do you need to undertake specialised training in anti-money laundering and counterterrorism financing?

10 MS LIN: Yes. So the exam itself is a three hour multiple choice exam and then I believe the recertification process is 60 continuing education credits.

MS SHARP: And, of course, you need to undertake some training in order to undertake that exam?

15

MS LIN: Yes.

MS SHARP: Now, from 2013 to 2014, you were an anti-money laundering compliance analyst at Western Union, weren't you?

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MS LIN: Yes, I am – or I was.

MS SHARP: Is it right that Western Union is a very large international currency remitter?

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MS LIN: Yes.

MS SHARP: And what were your key responsibilities as the AML compliance analyst at Western Union?

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MS LIN: So as analyst my primary responsibility was investigating cases. So I was looking at a lot of transactional data and using, you know, third party database or public sources to conduct due diligence.

35 MS SHARP: Now, after you completed your work at Western Union, you came to work at the Las Vegas Sands Corporation, didn't you?

MS LIN: Yes, I did.

40 MS SHARP: And you worked there from 2014 until 2019, firstly, as compliance counsel and later as the director of anti-money laundering operations?

MS LIN: Yes, that's correct.

45 MS SHARP: Now, did you work just in respect of Sands Casinos in Las Vegas or in respect of its casinos globally?

MS LIN: So as compliance counsel I was part of the corporate compliance department. So that did assist our Singapore and Macau operations. As director of AML operations it was oversight responsibility for just the two Las Vegas properties.

5 MS SHARP: And the two Las Vegas properties are The Venetian and The Palazzo?

MS LIN: Yes, that's correct.

10 MS SHARP: It's right that Sands also operates The Venetian in Macau?

MS LIN: Yes.

MS SHARP: And Sands operates the Marina Bay Sands in Singapore?

15 MS LIN: Yes.

MS SHARP: Now, I don't want you to give me any confidential information in answer to this, but can you explain the circumstances in which you came to work for the Sands Corporation?
20

MS LIN: Yes, so in 2013 the Department of Justice concluded a criminal investigation and decided not to indict Las Vegas Sands because the organisation was very cooperative in the anti-money laundering investigation. What the Sands needed to do, however, was to return close to \$50 million for alleged – for funds that
25 allegedly came from a drug trafficker.

MS SHARP: And was part of the reason you came to be working at – I will just call it the Sands, because the Sands was required to improve its anti-money laundering procedures.
30

MS LIN: Yes.

MS SHARP: Now, can you tell us what exactly your role involved while you worked at the Sands?
35

MS LIN: Yes. So as part of compliance counsel, initially it was to build the program and create – develop a lot of enhanced policies and procedures as well as, you know, just kind of tracking our improvement and assisting with audits for the next two years. As director of anti-money laundering operations, my responsibility
40 was to oversee the day-to-day operations so that included ensuring that the currency transaction reports are filed on time, any suspicious activity reports that we need to file are also filed on time, and any sort of investigation that leads up to the reporting, as well as due diligence for all incoming payments.

45 MS SHARP: Did you also play a role in developing an anti-money laundering and counterterrorism financing compliance program?

MS LIN: I did, yes.

MS SHARP: And did you also play a role in conducting a risk assessment with respect to anti-money laundering and counterterrorism financing?

5

MS LIN: Yes, I was involved in that process as well.

MS SHARP: And may we take it that in doing those two things which I've just identified, you took the time to identify what best practices were with respect to compliance programs and with respect to risk assessment?

10

MS LIN: Correct, yes.

MS SHARP: Now, since you have left your employment at the Sands Corporation, you have come to do some contract work for ACAMS, haven't you?

15

MS LIN: Yes, I have.

MS SHARP: And that has been in the role of training in anti-money laundering and counterterrorism financing procedures?

20

MS LIN: Yes. So my role was to serve as a subject matter expert to help with content development for a certificate course.

MS SHARP: And what was the subject matter in which you were identified as an expert?

25

MS LIN: So for AML – or AML in casinos. The certificate course itself did not delve into kind of how to build policies and procedures but it was mainly to – what an AML program would require, some of the AML obligations that are required, and how to identify those typologies and red flags.

30

MS SHARP: And this is in the specific context of casino operations, is it?

MS LIN: Yes.

35

MS SHARP: And tell me, are you currently preparing some training for junkets in Macau?

MS LIN: That was part of the general awareness training course that I was working on.

40

MS SHARP: And are you able to tell us any more about what ACAMS is doing with respect to junkets in Macau?

45

MS LIN: Sorry, as far as the risks or - - -

MS SHARP: Yes, with the AML, that is the anti-money laundering training, what are you doing with respect to junkets in Macau as part of that training?

5 MS LIN: So it was primarily to understand the risks that are involved with junkets.

MS SHARP: And have you delivered any of that training to junkets in Macau as yet?

10 MS LIN: I didn't personally do any delivery of the training. I was a contractor with ACAMS so they would be the one who ends up doing any sort of delivery, or the course could be accessed online.

15 MS SHARP: So just so I understand, your role was limited to identifying the risks of money laundering and counterterrorism financing that junkets in Macau may present?

MS LIN: Yes.

20 MS SHARP: Are you able to share with us what conclusions you reached in relation to those risks?

25 MS LIN: So generally speaking, as far as Macau goes, licence, you know, are licensed – junkets are licensed but the type of risk they present is they act as an intermediary that brings customers to casinos and so the primary risk is understanding who these customers are and where these sources of funds are coming from.

30 MS SHARP: And have you reached the conclusion that there are risks of money laundering with respect to junkets in Macau?

MS LIN: Yes, there's general risks that are associated with junkets.

35 MS SHARP: Now, just so I understand, it's right that you have an in-depth understanding of anti-money laundering laws in the United States?

MS LIN: Yes.

MS SHARP: And also in Macau?

40 MS LIN: Primarily in the US. Macau is not exactly my area of expertise. I have some general knowledge but it's not something that I've delved very deeply into.

45 MS SHARP: Is it also correct to say you have an in-depth understanding of various money laundering techniques and methods used in casinos in Nevada?

MS LIN: Yes.

MS SHARP: Now, in the questions I'm going to ask you now, Ms Lin, I intend to restrict my questions to what is happening in casinos in Nevada, unless I say otherwise. I just want to clarify something at the beginning. Junkets in Nevada are known as independent agents, aren't they?

5

MS LIN: Yes, that's correct.

MS SHARP: And they are registered by the state regulator.

10 MS LIN: Correct. The Nevada Gaming Control Board.

COMMISSIONER: I'm sorry?

MS LIN: They're registered with the Nevada Gaming Control Board.

15

COMMISSIONER: Thank you.

MS SHARP: And is it the case that under the law of Nevada, independent agents are not permitted to provide credit to junket patrons?

20

MS LIN: That's correct.

MS SHARP: Now, independent agents stand in marked contrast to gaming promoters, otherwise known as junkets, in Macau?

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MS LIN: They serve similar functions, because at the end of the day, they essentially introduce high rollers to casinos. That's their role as a third party contractor.

30 MS SHARP: But, in contrast to independent agents, gaming promoters in Macau do provide credit to junket participants?

MS LIN: Yes. So yes, that would be the difference, yes.

35 MS SHARP: I just wanted to work through the meaning of certain terms with you, if I could, Ms Lin. Can I start with this term. What is a VIP player?

MS LIN: A VIP player is synonymous with a high roller and typically these are players that game at a very high credit limit and they usually typically would game in a private gaming salon. And so depending on the casino, the high roller could be defined differently, but based on enforcement action, the most recent one against an resort in Las Vegas, a private gaming salon player comes in about \$300,000, US dollars, in credit line or as deposit into their front money account. I know prior to the financial recession it was as high as 1 million dollars for that kind of invitational entry. But I would say nowadays it's probably around 500,000.

45

MS SHARP: And to participate in high roller gambling in a casino in Nevada, is it necessary for the high roller to either deposit front money or obtain a line of credit from the casino?

5 MS LIN: Yes, that would be the prerequisite.

MS SHARP: And is that what gives the VIP or the high roller access to the VIP salons?

10 MS LIN: Yes.

MS SHARP: And that's organised in advance of the VIP attending at the casino?

15 MS LIN: Yes. So the VIP could be identified either by a marketing host that works for the casino operator directly, or it could be introduced through an independent agent. But once this customer is identified, this patron would have to set up his or her own casino profile and apply for credit directly with the casino operator.

20 MS SHARP: I will come back to ask some more questions about that moment material. In the meantime, are you able to give us an indication of what the minimum bets are for baccarat at casinos in Nevada, catering to VIPs?

25 MS LIN: So for the VIP private salon again it would depend on the casinos, but typically it would be a minimum of 5000 and above. There is kind of – this is for the private gaming salon – there is also what we call a high limit salon that's open to the public but generally the wagers are a little higher than your main floor. Those could range from, you know, 100 to – actually 500 to 5000 on a, you know, weekend night whereas the main floor could be a minimum of 25 to 500.

30 MS SHARP: Can I just ask you to assume something for me. Assume there's a casino in Australia and assume that casino has a minimum bet of 30 Australian dollars for a hand of baccarat. Does that sound like a high roller bet to you?

35 MS LIN: What's the exchange rate between Australian dollars?

MS SHARP: I think about 20 US dollars.

MS LIN: Yes, that would just be a main floor patron.

40 MS SHARP: Can you explain to us what markers are?

45 MS LIN: Markers is essentially a negotiable instrument. The Gaming Control Board has very prescriptive procedures for issuing this, but it's an extension of credit. And what happens is that, let's say I have a credit line of 100,000. I go to a baccarat table. I can take out a \$10,000 marker. So I don't have to use up my credit line at once at any given time, but I can draw down on my credit line, let's say for the 10,000. If I finish playing and I leave town, I decide not to pay my marker, after the

casino attempts to collect on it, on the marker a few times and it's unsuccessful, they can actually deposit this marker as a cheque and if the cheque bounces, let's say because I have insufficient funds in the chequing account that I had used to set up this credit line, then it goes through a bad cheque unit process. So it's a criminal
5 offence in Nevada to not pay your casino gambling debt.

MS SHARP: So a marker has a lot of affinity with the cheque?

MS LIN: Yes.
10

MS SHARP: Can you explain to us what the theoretical win is?

MS LIN: The theoretical win is the mathematical formula and I don't know if all the casinos uses this one single formula but essentially it's a combination of the time
15 a patron plays, the average bet that he or she wagers, and the what they call the hold and that's kind of the house advantage for a given game.

MS SHARP: I just wanted to ask another question about independent agents. How would they typically remunerated by Nevada casinos?
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MS LIN: How are they typically, sorry?

MS SHARP: Remunerated. Paid.

MS LIN: I believe it's on a commission basis, and I'm not sure if they're paid off of the theoretical, I guess theoretical win from the casino's stand point or the actual win. Because I know for – there's a distinction because when it comes to complimentary patrons, sometimes – it's mostly calculated off of the actual win for the casino and not off of the theoretical. So from what I understand, there's two
30 ways and two different contexts depending on the situation.

MS SHARP: We have heard some evidence that independent agents in Nevada are remunerated by way of a per head basis, that is per head of members of the junket. But you're saying there's a commission basis. Is there any circumstance in which an independent agent is remunerated on the basis of a head count of how many junket players there are?
35

MS LIN: That's really not my area of expertise. But from what I understand, I think it's a contract between the independent agent and the casino operator. So
40 theoretically they can choose to use a per head count basis for payment or they can use a commission off of the theoretical or actual win.

MS SHARP: Now, you've mentioned in some of your evidence that there are VIP salons. I want to ask you a little bit more about those. Have you been in the VIP
45 salons at the Venetian and the Palazzo in Las Vegas?

MS LIN: Yes, I've done a walk through when there wasn't any players in action.

MS SHARP: Sorry, when there are players in action?

MS LIN: When there's no player in action.

5 MS SHARP: Have you ever done a walk through when there have been players in action?

MS LIN: Have not.

10 MS SHARP: And have you been to any other casinos, VIP salons in Las Vegas?

MS LIN: No, I wouldn't be qualified for entry.

15 MS SHARP: Are you able to tell us, based upon your walk throughs in the Venetian and the Palazzo, what they're like?

MS LIN: It's – so the private gaming salon at the Venetian Palazzo is called the Paiza Club. It's on, I believe, the 50th, 52nd floor maybe, but it's pretty high up. It has a good view. They have a full service restaurant and bar and then there are
20 several table games where there is kind of room dividers that can accommodate, you know, different groups at any given time. So if there's, you know, three distinctive group of patrons they don't all have to sit at the same table or sit at a table directly next to each other.

25 MS SHARP: What capacity does this VIP salon have, how many people can be in there gambling at any one time?

MS LIN: I don't know in terms of a health code standpoint how many occupancy maximum but typically you really don't get more than a handful at any given time.
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MS SHARP: So what did you say the name of that VIP salon was?

MS LIN: It's called the Paiza Club.

35 MS SHARP: The Paiza Club.

MS LIN: P-a-i-z-a Club.

40 MS SHARP: Now, within this VIP salon, is there a cage or a pit or are cash transactions done at the tables or how does it work?

MS LIN: So the Paiza Club does have its own cage, but typically for a high rollers, the casino has an interest to keep them in action. So that just means keep them playing for as long as possible. So the transaction works slightly different because
45 these VIP players are typically have a high credit line. And so in order to draw down on the credit line, the casino issues a marker and that's to be complying with the Nevada Gaming Control Board regulations. But markers take time to process. So

there is a different procedure that the GCB prescribes and that's the use of lammer and rim. So a lammer is essentially what is described as a call bet or a vocal bet. So the player will be sitting at the table and let's say they run out of the chips from the first marker that they drew. So they tell the dealer "I want to bet \$10,000 for my
5 next hand" and so a lammer is issued indicating that the patron has requested another \$10,000 in credit or to draw down another 10,000 from their credit line. And then that would be then be recorded on what we call a rim card and that's essentially a running total of all the markers that the patron has taken out.

10 MS SHARP: And so when you say an lammer is issued how do you spell that?

MS LIN: It's hammer with an L.

15 MS SHARP: Hammer with an L. Now you said that the dealer issues the lamer. Is that to be contrasted with someone in the cage issuing a lamer?

MS LIN: Yes, so the lammer is a gaming instrument, kind of like a chip that sits at the table. So the dealer would be the one issuing that and I believe there would be a pit supervisor. Again there are very specific procedures that the GCB prescribes, that
20 I can't speak to but generally it will be issued by the dealer and then the pit supervisor will make the proper records.

MS SHARP: Could you just explain what a pit is?

25 MS LIN: A pit is the centre area that is surrounded by table games.

MS SHARP: Is that the same as the cage?

MS LIN: No. The cage is usually would be kind of off from the main casino floor.
30

MS SHARP: So is the role of the pit to supervise transactions that are occurring on the tables?

MS LIN: Yes, and to monitor for, you know, any sort of cheating in the game itself.
35

MS SHARP: So the pit does not engage in the financial transactions. The pit just supervises and monitors?

MS LIN: To the extent that they're involved in financial transactions, it would be to
40 process any sort of chip buying. So if the patron comes up with cash, and wants to exchange it for chips that would be the extent, generally speaking, of a table games dealer or a pit supervisor.

MS SHARP: Does the casino operate the VIP salon in Nevada casinos?
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MS LIN: Yes.

MS SHARP: Does the casino operator operate the cage and the pit in the VIP salons?

MS LIN: Yes.

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MS SHARP: And the casino operator, I take it, operates the tables and the dealers?

MS LIN: Yes.

10 MS SHARP: Just while we're discussing VIPs in Nevada casinos, where do they come from? Are you able to give us any general observations about their demographics?

15 MS LIN: Yes, so typically they would come from mainland China and then as far as, I guess, if you really want to get technical, some of them would hold Hong Kong passport or Macau passport but they're generally Chinese patrons.

20 MS SHARP: Just back to the VIP salons for a moment, obviously the point of the VIP salon is to play a game. Am I right in thinking that it's mostly baccarat that's played in the VIP salons?

MS LIN: Yes.

25 MS SHARP: Now, a game of baccarat occurs quite quickly, doesn't it? If doesn't take a long time to play a hand?

MS LIN: Right.

30 MS SHARP: Is there somebody from the casino who monitors each hand that's being played?

35 MS LIN: So at the VIP front – in the private gaming salon and in the high limit salon each hand will be tracked by a pit supervisor, and they're able to do that because there's less customer, you know, per pit supervisor. On the main floor it's almost impossible for a pit supervisor to track every single hand of every patron at every given time because they're overseeing, you know, anywhere from six to eight tables at any given moment.

40 MS SHARP: So returning to the VIP salon for a moment, is it the case that the pit supervisor stands at the table and watches the play, or does the pit supervisor do this remotely, for example, by using CCTV?

MS LIN: The pit supervisor would be in the – at the table in person.

45 MS SHARP: And does the pit supervisor keep a record of every single hand?

MS LIN: Yes.

MS SHARP: And does the pit supervisor keep a record of what the bet was, what the result of the game was and who won what or lost what?

MS LIN: Yes.

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MS SHARP: Can I move now to ask you some more general questions about money laundering. What is money laundering?

MS LIN: Money laundering is the process in which funds from an illegal source is transformed into a clean source.

10

MS SHARP: Do you agree that money laundering is often said to proceed through three stages, being placement, layering and integration?

MS LIN: Yes, that would be the three stages of money laundering.

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MS SHARP: Are you able – could I take you through each of those concepts and have you briefly explain them to us? If we start with placement, what's that?

MS LIN: So placement in a casino would be the introduction of funds into the casino. So that could – that's generally in the form of transforming cash into chip. So you use chips as an intermediary to then kind of transform the appearance of the – or kind of transform the source of the funds.

20

MS SHARP: Now, the next stage in money laundering is commonly referred to as layering. What's that?

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MS LIN: Layering is essentially the process in which you – in which you attempt to disguise the source of the funds. So in the casino sense that could be from, you know, a patron purchasing chips and then depositing into their front money account, potentially then using that front money account to pay the marker of another patron.

30

MS SHARP: And the last stage is often called integration, what's that?

MS LIN: So integration would be after you've introduced the funds, you've obscured the source of it and you integrate it back into the normal financial system and the appearance of those funds are now legitimate.

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MS SHARP: Would one example of integration be a situation where a casino patron takes – has had a very successful day at the casino and takes their chips and cashes them in and gets a cheque?

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MS LIN: Yes.

MS SHARP: And is it right that that cheque would be endorsed winnings?

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MS LIN: Yes.

MS SHARP: So it looks to all intents and purposes as though the patron has won the money in the cheque from a successful day at the casino?

MS LIN: Yes.

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MS SHARP: A legitimate source of funds?

MS LIN: Correct. That would be the money laundering at the casino at its simplest form, yes.

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MS SHARP: Now, it's the case that casinos, in fact, provide a range of financial services to patrons, isn't it?

MS LIN: Yes, they do offer banking-like services.

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MS SHARP: And when you say banking-like services, for example, they issue cheques?

MS LIN: They would issue cheques if you won and you had, you know, funds on deposit. But kind of, again, starting from the initial stage of a patron coming in, they could come in with cash and – or actually, one of the services, they could come in with a personal cheque and receive cheque cashing services up to a certain limit. They could do currency exchange in order for a patron to either fund their front money account or to pay off any outstanding markers. They could wire funds into an account that the casino operator controls and that's designated for customer payment. So wire cheques and then cash, yes.

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25

MS SHARP: And, of course, they grant credit.

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MS LIN: Yes.

MS SHARP: Now, is it fair to say that casinos, as institutions, are vulnerable to money laundering?

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MS LIN: Yes.

MS SHARP: What is it that makes casinos vulnerable to money laundering?

MS LIN: So with casinos they're still very cash intensive, even with, you know, services like the extension of credit. So theoretically you can have a patron who comes in with hundreds of thousands in cash and decides they want to attempt to game. And so the vulnerability and the risk is that there is funds that are potentially from illegal sources that are being introduced into the casinos and unless you do proper due diligence, you don't know. It could be legitimate but you don't know.

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45

MS SHARP: Are there also timing issues that make casinos vulnerable to money laundering?

MS LIN: Can you clarify your question as far as timing issues.

MS SHARP: Well, for example, would it be expected that a casino or a bank would get more opportunity in terms of time to do their due diligence on, say, a VIP player?

5

MS LIN: Yes. I see what you're saying. So, with casinos, they operate 24/7. So, you know, you obviously have more time for a – to be exposed to that risk, and again the casino operators are in the business of hospitality and so your objective is to have a patron be in action for as long as possible. So you can't – you try to minimise the time that you hold up doing due diligence and clearing the patron for play.

10

Obviously, based on a risk-based program, there are times where you would have to halt action until you know who this customer is and where their sources of funds are from. But typically, you know, we're not going to ID every single customer that comes in and puts \$10 in a slot machine.

15

MS SHARP: And is the very volume of activity at a casino something that makes a casino vulnerable to money laundering?

MS LIN: Yes. With just the sheer volume of patrons coming in and playing at various levels, again, you don't have the resources to track every single patron, every single hand. If I can add to that, typically most of the efforts would be focused on the high rollers because there's a greater volume of funds coming in that puts the casino at a greater risk.

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MS SHARP: We spoke a moment ago about the kinds of financial services that a casino provides to its patrons. Is one of those providing safety deposit boxes?

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MS LIN: Yes.

MS SHARP: And can you just explain how that works?

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MS LIN: So the safety deposit boxes would typically be at the cage. A patron can go up and request to have a safety deposit box. There's certain procedures that are governed by the Nevada Gaming Control Board in terms of what you need to – what information you need to obtain from the customers. That's typically name, permanent address, an ID, and there's an application that you fill out. And then the cage would issue a key to the safety deposit box to the patron, but after that, the casino operator really isn't involved in checking what's in the box.

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So one of the risks that could come with safety deposit boxes is generally structuring. So you may have a patron who has more than \$10,000 in chips that they put in the box and then maybe they take out a little bit of a time and keep that under the reportable threshold.

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MS SHARP: Are chips the only things that go into the safety deposit boxes?

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MS LIN: I would say generally yes, but, again, you know, the casino operator isn't monitoring everything that comes in, so it's hard to say.

5 MS SHARP: What I would like to do now is spend some time talking with you about how money flows into the casino. Obviously – now, the starting point, it's right that in casinos in Nevada, you can only conduct your wagers in chips.

MS LIN: Yes.

10 MS SHARP: Now, that means that in order to wager in a Nevada casino in some way the patron has to acquire for him or herself, chips?

MS LIN: Correct.

15 MS SHARP: And one of the ways that the patron will do this is through cash?

MS LIN: Yes.

20 MS SHARP: Bringing cash into the casino?

MS LIN: Correct.

25 MS SHARP: Are you able to give us any indication, based on your experience of how much, in the high roller space, how much of these transactions for the purchase of chips is done by people physically bringing cash into the casino?

30 MS LIN: Again, based on my experience, most high rollers will exercise a credit line, or they will fund their front money account prior to arriving at the casino. Occasionally we will see cash being used to purchase chips but that's pretty rare in Nevada.

35 MS SHARP: Now, when cash is brought into the casino to buy chips, is it the patron, him or herself, who needs to bring in the cash or can a third party do that for the patron?

40 MS LIN: So generally speaking, if someone brings in cash and purchased chips obviously the casino would log that transaction and indicate who the currency transaction report would – should be filed on. But once the chips are purchased, you can't – you may not know who the chips have been given to. If the cash is coming in and placed into a front money account, then that will always be able to be tracked to the specific person that brings in the cash. So if it's a purchase of chips, it could potentially be an agent.

45 MS SHARP: And would you agree that that does introduce some risk of money laundering?

MS LIN: Absolutely. I think that's, you know, the Vancouver model is probably the best way to kind of summarise that. You have a loan that's made outside of China but the loan has been repaid in China, and so when the loan has been made outside of China, the person making the loan procures cash. Generally, you know, it's from drug proceeds and so the cash are just put in plastic bags, hockey bags and given to the patron. And so you don't know who this fund is from or where these funds are coming from. But then the loan is paid back in China so the money never really crossed border.

10 MS SHARP: And when you refer to the Vancouver model, are you referring to the model developed by Dr John Langdale?

MS LIN: Yes.

15 MS SHARP: And that's the model that is discussed in some detail in, for example, Peter German's report into money laundering in British Columbia?

MS LIN: Yes.

20 MS SHARP: And you're familiar with that report?

MS LIN: Yes.

MS SHARP: Called Dirty Money, I think.

25

MS LIN: Sorry?

MS SHARP: I think it's called Dirty Money, isn't it?

30 MS LIN: Yes.

MS SHARP: Now, you mentioned that, in fact, it's not the most common thing to bring cash into a casino to purchase chips, and that, in fact, organising a line of credit is a more popular way of doing that. I just want to understand a bit more about the mechanics of how that works. If you organise credit, does it mean that the casino creates a bank account for the player or what happens?

35

MS LIN: So it would be – I guess it would be typically an accounting journal ledger because casinos are a non-bank financial institution. So there's really no account in the banking sense, even though, from what I understand, most casinos who do open up front money account for casinos, we do follow pretty, you know, strictly what the customer identification program that the banks use.

40

MS SHARP: So when the casino is extending credit, this will be done by journal or ledger entries?

45

MS LIN: Yes.

MS SHARP: Now, what about a situation where a patron is not seeking credit but wishes to use their own money but doesn't want to bring cash into the casino. What do they do then to get the money into the casino?

5 MS LIN: So if they don't want to utilise – so they don't want to apply for credit but they also don't want to bring in physical cash, is that your question?

MS SHARP: That's right, yes.

10 MS LIN: Okay. So then they could bring in money orders. They could bring in cashiers cheques. They could bring in a personal cheque, but typically because of a credit risk, casinos would probably have limits as to how much they could cash out a personal cheque. But a negotiable instrument. Wires would again be limited to a front money account.

15

MS SHARP: I will come back to wires in the front money account. With the money orders or the cashier's cheque or in the rare instances the personal cheque, does the casino actually bank those things or does it hold those things?

20 MS LIN: They typically hold on to the negotiable instruments until the end of the trip.

MS SHARP: And at the end of the trip if sadly it has not been a successful one for the patron, what happens to that negotiable instrument?

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MS LIN: Then they will deposit it.

MS SHARP: And if it has been a happy and successful trip for the patron, perhaps not so happy and successful for the casino, what happens to that negotiable instrument?

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MS LIN: Then the same negotiable instrument will be returned to the patron and if the patron is very successful and there's additional winnings on top of that, then there will be a casino issued cheque for winnings.

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MS SHARP: Now, you have also referred to wiring money in. By that you mean an electronic fund transfer?

MS LIN: Yes.

40

MS SHARP: And is it the case that it's only where front money is being established that a patron may wire money into the casino?

MS LIN: So the wire could come in to fund a front money or it could be used to pay off an outstanding marker for a credit patron.

45

MS SHARP: I just want to understand a little bit more about the logistics of how the money is wired in. Is the patron allowed to wire in the money from anywhere in the world?

5 MS LIN: So not anywhere in the world because defence and financial enforcement, financial crimes enforcement network has a 311 list. So those are countries are prohibited banks from various countries. And so those are banks that we can't accept wires, the casinos wouldn't be able to accept wires from, so it's not a blanket policy where you can wire from anywhere in the world.

10 MS SHARP: So if you're not on a banned list, if the institution is not on a banned list, generally the money can be wired in from anywhere in the world?

MS LIN: Correct.

15 MS SHARP: Now, does the outgoing account need to be one that's held in the name of the patron or can it be a third party account?

MS LIN: The outgoing wire – so if a patron has winnings and wants to wire it to someone else, is that the question?

MS SHARP: No, not quite that specific. So in the event that a patron wants to fund their front money or they wish to pay off their marker, or they wish to otherwise pay off any debt because they've received credit in the past, do they need to make that transfer from an account in their own name or can they make the transfer – or can a third party make the transfer on their behalf?

MS LIN: I got you. So third party payments aren't prohibited but again it's based on your risk-based program. So depending on your know your customer procedures and your customer due diligence procedures, if you feel comfortable based on your investigation that this, let's say it's a wife paying off a husband's account, then there's less risk of dirty money. But if it's just associate or a friend or a business payment, then there should – then you may want to have procedures in place to make sure that it's not an unrelated party or embezzlement from a business account. So there's no blanket prohibition, it's based on your gamer program. The thing to think about is whether or not to file suspicious activity reports based on your due diligence. And a lot of casinos struggle with whether to file a suspicious activity report on a third party payment that has been accepted, because now you have kind of an inherent contradiction. You think it's suspicious but your accepting the money but that will depend on a casinos AML program, how they deal with that issue.

MS SHARP: Is there one challenge that casinos face in this respect: the fact that shelf companies can be used to wire the money into the casino?

45 MS LIN: Yes, it's possible. That typically would be treated as a third party type payment and again you have to make the determination, based on your due diligence

and KYC procedure whether or not you want to accept that risk. But again that's not strictly prohibited.

5 MS SHARP: In the space of money laundering in casinos, is there a recognised risk of shelf companies from Hong Kong being used to wire money into casinos?

10 MS LIN: I would say yes, among other offshore jurisdictions that are typically associated with being a tax haven. But there's always that risk with really any business payment so you just have to make sure you go through a robust due diligence protocol.

MS SHARP: Are there circumstances in which a casino in Nevada would determine not to accept a wire payment?

15 MS LIN: You mean what circumstances?

20 MS SHARP: You mentioned a little earlier that sometimes there can be a tension that a casino faces when it's determining whether to file a suspicious matter report because it accepted the money. So are there circumstances where the casino operator would determine not to accept the money in the first place?

25 MS LIN: It would be based on your AML program and policies and procedures. Sometimes there may be policies in place that says we will not accept wires if it comes from your parents or your siblings. But husband and wife is okay. Or if you come across a due diligence for a business payment and the person making the payment is, let's say a partner at a law firm. So those would typically be strictly prohibited by policy. Does that answer your question?

30 MS SHARP: Yes, thank you. Tell me this: in the state of Nevada, is there an offence of money laundering or dealing with the proceeds of crime?

35 MS LIN: Anti money laundering used to be governed by the Nevada Gaming Control Board's regulation 6A but that was replaced with the US Treasury FinCEN AML regulation. I believe it's 2011 but don't quote me on that. It has been a while.

MS SHARP: When you say FinCEN, is that the United States Treasury financial crimes enforcement crimes network?

40 MS LIN: Yes that's correct.

MS SHARP: And that's the agency that's charged with monitoring transactions for money laundering purposes?

45 MS LIN: Correct.

MS SHARP: Tell me, is money laundering an offence – we've spoken at state level, is it also an offence at the federal level?

MS LIN: Yes, it's – in Nevada it will be solely governed by the federal regulations.

MS SHARP: Now, we were talking about wiring money into the casino to either pay off a debt or to – being a marker or an advance in credit or to establish front money. Now, that wiring can occur either from outside the United States or within the United States; correct?

MS LIN: Yes. You could have domestic or international wires coming in.

MS SHARP: Is another way of paying the front money or paying off a debt for a patron or someone acting on their behalf to deposit money in a casino's overseas account and then leave it to the casino to set off with its Nevada partner?

MS LIN: So for casinos in Nevada, Sands, Wynn, Macau that has operations in Macau they have what we call branch offices and I believe the Gaming Control Board also have some regulation governing that space. But in practice, these branch offices are a brick and mortar kind of marketing type office that are overseas. And in strategic locations, other strategic locations and so those are offices where the patron can come in with funds to make the usual transactions that you just mentioned, either to pay off a marker debt or to fund their front money account.

MS SHARP: And just so I understand, when paying money in that way, does the patron himself have to do it or can a third party make the payment on behalf of the patron?

MS LIN: An agent could make the payment on behalf of a patron. The key is to make sure that's properly recording and it involves currency transaction report, that you capture both the agent and the patron who would be the subject on the currency transaction report. Or if it's by policy, a casino operator could theoretically decide it's too risky and they don't want agents making those transactions.

MS SHARP: So if a branch – and I will use Sands just as an example – if an overseas branch of Sands, for example in Macau accepted a payment from patron, would a Sands casino in Las Vegas automatically accept that transfer coming from its overseas branch into the account in Nevada?

MS LIN: Generally, yes, unless it's flagged by compliance for – once the payment comes in, and there's certain due diligence that the compliance department will do. If there's some reason to reject it based on adverse media or negative news then potentially those funds could be returned.

MS SHARP: Is it the case that the money laundering laws which apply in the state of Nevada do not apply to the Nevada casinos branch overseas, say, in Macau.

MS LIN: No, the US regulations would also apply to branch offices overseas because the casino operators oversees those branch office. Those would be employees of the casino operators.

MS SHARP: And the scenario I've just discussed which is a patron, or somebody on their behalf, paying money into an overseas branch, be a means by which money laundering can take place?

5 MS LIN: Potentially, yes, especially if it involves an agent and it's in cash because, again, there's just a little less visibility into who was making the payment and where the payment is coming from.

10 MS SHARP: Now, I've spent a lot of time asking how money can move into a casino either to buy chips or obtain a front money account or to pay off debts. Have I missed anything? Is there anything else we should know about?

15 MS LIN: I think the only thing – the other thing I meant to add when you asked about negotiable instruments coming in, I forgot to mention that the casino cage can also accept what we call foreign casino cheques. So if a patron has a winning from other casinos and they wish to – you know, they decided to go to a different casino to try their luck, then they could bring their winnings cheque from different casinos.

20 MS SHARP: And is it right that if they brought the winnings casino cheque in from the overseas casino you would have no way of going behind the source of the funds used to gamble in order to produce those winnings?

25 MS LIN: Yes. So when the – so first I need to clarify, when we say foreign casino cheque, it doesn't necessarily mean overseas; it's just foreign to, let's say, the casino you work with, so it could be domestic. But as far as verification of those winnings, all we – you know, a given casino can verify is whether or not the cheque was from winnings, but, you know, that added layer of how that winnings cheque came to be, we may not be able to determine that.

30 MS SHARP: And just to confirm when we have been talking about a foreign casino, that means in another state in the United States or overseas?

35 MS LIN: It could be in another state, it could be overseas, let's say a cruise line or it could be Sands receiving a winning cheque from Caesars. So it could be a casino that's right next to them.

MS SHARP: Caesars?

40 MS LIN: From Caesars, yes.

45 MS SHARP: So I've spent some time with you understanding how money comes into the casino. Now, I want to look at how money goes out of the casino. Now, one of the things a patron can do is cash in their chips. If they cash in their chips do they have to be paid in cash or what else can happen?

MS LIN: Usually it would be in cash or a cheque. Winnings can be wired but it would have – it would typically go to the same bank account that a patron had

initiated in an incoming wire. So for most casinos on the Strip now, I would say they have pretty good practices. So money typically won't go to a different bank account from the one that was used for the incoming payment.

5 MS SHARP: Is that because that introduces a risk of money laundering if you're putting a whole lot of money into the casino through one account and then trying to take it out through a wholly different account?

MS LIN: Absolutely.

10

MS SHARP: And you say that winnings are generally paid by cash or cheque. Can they, on occasion, be very, very large denominations of cash? Or sorry - - -

MS LIN: Absolutely. Yes, so winnings cheques could be in the millions of dollars.

15

MS SHARP: What about cash? Could that be - - -

MS LIN: Typically, patrons wouldn't want to carry, you know, millions of dollars of cash for their own security purposes.

20

MS SHARP: Just while we're talking about cash, if a person brought in, say, a bag of \$200,000 in cash and sought to buy chips, would that be a red flag for money laundering or would that just be another day at the casino?

25 MS LIN: So I think in terms of that \$200,000 amount, I would say it would be risk-based and based on certain thresholds. So for some casinos, 200,000 might be typical but for others that could be a really, really big red flag. So I would say, yes, there is some threshold that determines when cash coming in for chip purchases are going to be deemed suspicious and would generally result in an automatic kind of
30 initiation of suspicious activity reporting.

MS SHARP: I digressed there; I was looking at the way cash moves out of the casino, and you mentioned that a common way of it moving out was via a cheque. Is the cheque endorsed in any way if it's the cash-out of chips?

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MS LIN: Yes. So it would be issued and endorsed by the casino operator to the patron.

MS SHARP: And is anything written on the cheque, for example, winnings or cash in or cash out?

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MS LIN: Typically, yes. Winnings is pretty common on these cheques. If it's not a winning then the casino may make a note that says, you know, front money withdrawal.

45

MS SHARP: Sorry, what was that note?

MS LIN: Front money withdrawal.

MS SHARP: And that would show us that, in fact, the cash or cheque that you were issuing was not based on a successful day at the casino?

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MS LIN: Or the fact that the patron never even played.

MS SHARP: Can I ask now about chips. Is it possible to leave the casino with a bag full of chips?

10

MS LIN: Absolutely. And on the FinCEN SAR filing form in their last iteration – update to the filing form itself they added chip walk as a category of suspicious activity to file on. The risk there is that it could result in structuring. So typically, in terms of some of red flags or typology that would involve chip walk, the typical scenario is a patron coming in, they buy the chips. They game minimally, so they barely play. They play – or they play only a small percentage of what they bought in for. They walk away with the chips and then either they have other people cash out for them under the reportable threshold or they cash out themselves over time under the reportable threshold.

20

MS SHARP: And the sting in the tail here is that when they start cashing in those cheques they're flying under the radar of the reportable threshold.

MS LIN: Correct.

25

MS SHARP: Are there any ways – is there any way that the casino can monitor chip walk?

MS LIN: Yes. So usually suspicious activity detection at a casino occurs in two ways. The first is more kind of real time or near real time observation by the frontline staff. So that would be your cage cashiers, our table games supervisors or your slot attendants. Or you can do a post-trip – what we call post-trip transaction analysis. So you could, depending on what kind of casino management system a casino has in place, you could pull certain data based on the player rating, how much the patron bought in for, and then do some calculation to determine whether or not the patron fully gamed. If they minimally game and how much chips they walked away with and whether or not they cashed out those cheques.

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MS SHARP: Are there any technological methods for tracking chips?

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MS LIN: Yes. So it would be a reconstruction from the rating details, typically. I think some of the more sophisticated transaction monitoring system may be able to do that but those are also based typically on a reconstruction of rating details.

45

MS SHARP: And chips are, of course, issued in various denominations.

MS LIN: Yes.

MS SHARP: What's the highest chip denomination that's issued in Nevada, for example?

5 MS LIN: That, I'm not sure. I know the \$5000 chip denomination, most casinos would always verify where that chip comes from and whether or not there's verified play. I'm not sure how, you know, what the largest denomination is.

10 MS SHARP: Are there little indications on the chips so you know exactly which chip it is, like a serial number or something on it?

MS LIN: Yes. So they would have – they would be differentiated based on colour or denomination, yes. So I think, from what I have seen chips as large as 100,000 but I don't know if it goes beyond that.

15 MS SHARP: You mentioned a concept called structuring in your last answer. Could you tell us what that is?

20 MS LIN: So structuring is essentially a term that means you're evading a legally reportable threshold, and so that involves – typically involves cash transactions. In the United States over \$10,000 in cash, and that's differentiated by cash in versus cash out. So you can't mix the two types of transactions. So if you have more than \$10,000 in cash in or more than \$10,000 in cash out, that needs to be filed by a currency transaction report to FinCEN. And so for people who want – so for people who don't want to be filed on, they would try to cash out at smaller intervals.

25 MS SHARP: And so one method of structuring may be to cash out \$3000 of chips one day, and then come back another day and cash out 5000, and then a few days after that, cash out 6000?

30 MS LIN: Correct.

MS SHARP: And that way you would avoid that, hitting that threshold of \$10,000?

35 MS LIN: Yes.

MS SHARP: But is it right that while you avoid the threshold transaction report, it may, in the circumstances, give rise to a suspicious matter report if you think that structuring is going on?

40 MS LIN: Yes. We do see that quite a bit, yes.

MS SHARP: I just want to talk with you now, if I can, about independent agents in Nevada and whether they can expose casinos to additional money laundering risks.

45 MS LIN: So I would say in Nevada, the risks are lower than junket operators in Macau because (a) the independent agents are registered with the Nevada Gaming Control Board so typically they would at least go through some form of background

check, and (b) they're not involved in facilitating of credit. So again, you don't have issues with transparency in terms of source of funds coming in and how those funds are distributed. The flip side of that is that behind closed doors, if the independent agent engages in what we consider, you know, illegal junket operation or kind of – or
5 illegal money transmission business where, again, kind of going back to where money is being lent to Chinese customers outside of China, but then the debt has been paid in China, then that does expose – that does present a risk. But unless the casino can actively detect it or actively observe it, the casino itself may not be exposed to that risk.

10

MS SHARP: Is one of the reasons why registration is required to guard against independent agents who may engage in these inappropriate practices of giving credit to their junket players?

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MS LIN: I think when it comes to the Nevada Gaming Control Board, I think it's more about typically their regulations focus on preventing cheating or nefarious action from a representational stand point. I'm not sure registering an independent agent was targeted to preventing money laundering.

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MS SHARP: How does one money launder using slot machines?

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MS LIN: So typically for slot machines, the typology is termed bill stuffing. And that's essentially a form of minimal gaming. The typically scenario would be your drug trafficker coming in with small denomination bills. They go sit at a slot machine. Feed in the \$20 bills and maybe place one penny bet and takes their thousands of dollars in \$20, go to a kiosk and then exchange that for \$100 bills.

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MS SHARP: So they have traded up, in a sense. They have swapped over their lower denomination bills for higher denomination bills.

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MS LIN: Yes, so you essentially change the nature of the funds that have been introduced.

MS SHARP: Don't you lose a bit of money when you do that?

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MS SHARP: I will come to that now. Baccarat has a low house advantage, doesn't it?

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MS LIN: I've never played baccarat but my understanding is it's a quick game. The house takes – they take a commission but I don't believe that the advantage is as high as, you know, some of those Texas Holdem or roulette type games.

MS SHARP: So it's a low house advantage, there's less prospect the casino will win over time?

5 MS LIN: I believe so, because based on my general knowledge of the game you can actually push half the time where there's no banker winning or the player winning and so you're kind of just sitting there and you can play for a long time because you don't lose very quickly but you don't win very quickly either.

10 MS SHARP: So we found baccarat, there are three bets that a player can make. They can bet on the player, they can bet on the dealer or they can bet on the tie. That's right, isn't it?

MS LIN: Yes, that's correct.

15 MS SHARP: But it would be pretty unusual to bet on the tie, isn't it?

MS LIN: I would think so, because, you know, most people play to win. So you're not really playing for a push.

20 MS SHARP: Yes and it's a very high house advantage on the tie?

MS LIN: That, I can't speak to, I'm not sure.

25 MS SHARP: So when the player, sorry, I will use different language here. When the patron bets on the player and wins, the patron gets back the same amount as they bet. So if they bet \$100 for example, they will win \$100?

MS LIN: I believe so, yes.

30 MS SHARP: And when they bet on the banker and win, they also get, I think it's called even money – they also get the same amount they bet back but a little commission is taken away.

MS LIN: That's my understanding, yes.

35

MS SHARP: What are the red flags for money laundering in baccarat that you're aware of?

40 MS LIN: So for baccarat, from the transaction side, what we're typically looking for is minimal gaming. So we will see a player buy in, let's say baccarat table 1 and then maybe they will play two hands and then they will go over to baccarat table 2, play two hands and then go to baccarat table 3 and come back to baccarat table 1. And so that could be a form of minimal gaming where they buy in but they're not really gaming. But what we have quite a few understand from operations is that
45 people could be chasing trends too because a lot of baccarat tables have one of those LED screens where they track all the hands that has been handed out or been dealt,

and so people like to chase trend, even though technically, the odds of black and red coming out each time is going to be the same. But people like to chase trends.

5 MS SHARP: What about where players, someone is betting for – I will use the terminology – patron, when one patron is betting for the dealer and the other patron does a matching bet for the player. Are there any regular flags there for money laundering purposes?

10 MS LIN: Yes. So a subset of minimal gaming is what we call offsetting bets. And offsetting bets could occur in the scenario you just described where a patron and an associate puts in the same amount on banker and player. That can occur on roulette where a patron bets on black and then his or her friends places the same amount on red and again the idea is that, you know, they – one of them will double their money and one of them will lose the money and at the end of the day they might walk out
15 with still 95 per cent of the initial buy-in.

MS SHARP: But when they walk out it looks like it's winnings from the casino?

20 MS LIN: Correct.

MS SHARP: And that's a, I think, a layering technique, is it, to use money laundering language?

25 MS LIN: Yes. Yes.

MS SHARP: Can I ask you a little bit about chip sharing, does this happen in casinos?

30 MS LIN: Yes. So chip sharing again is not prohibited by any sort of laws and – or AML laws or regulations. The risk is there is that there's a transfer of value from one person to another. So in kind of the more extreme case, like let's say you have a politically exposed person playing with an associate and, you know, the bribe is essentially been given in the forms of chips, that this politically exposed person can then cash out. Chip sharing or suspicious chip sharing has been cited as part of the
35 latest enforcement action by FinCEN was against Caesars and so that was also called team play. Essentially, you have one primary person who has the credit line or has the funds on front money. They are the one who draws down the credit or front money or draws down the marker and chips and then they're handing it out to their associate or people that they've brought into the private gaming salon. So the risk is
40 either the chips are being shared with people who cannot get credit on their own because of negative views or otherwise they can't pass due diligence or they just want to game anonymously. So from the casino stand point is you don't know who these people are.

45 MS SHARP: Is there anything as a practical matter that can be done to prevent chip sharing?

MS LIN: Sure, you know, in the private gaming salon, theoretically a table game supervisor could basically ID every patron that comes into the private gaming salon, whether they're the one with the high credit limit or if it's an associate of a high roller patron. And so you can track everything, kind of going back to what we have
5 talked about earlier, you know, a supervisor is tracking each hand. So what you can theoretically ask for identification from each person that comes into the private gaming salon and if chips are shared, that's also tracked as part of the rating details.

MS SHARP: Are you familiar with a term shills?
10

MS LIN: Sorry what was that.

MS SHARP: The term shills?

MS LIN: I've heard about that, yes. I believe that came in – I think that came in – I'm not sure if this was ever part of an enforcement action or maybe – it might have been part of an investigation. But shills would be someone who I believe is essentially the front person who is providing the credit to associates and eventually either they're also engaging in loan sharking because again we don't know what the
20 payment terms are.

MS SHARP: What I'm going to do here is take a chance, I'm going to take a chance that a document has been uploaded this morning and show it to you. Could I call up INQ.130.003.1701. Now, Commissioner, that's exhibit D4.
25

COMMISSIONER: Thank you.

MS SHARP: Now, have you got a document in front of you, Ms Lin?

MS LIN: No, I don't see it yet. I think it's loading. Okay, yes.
30

MS SHARP: Is that a document that's entitled Special Report – Casino's Attempt to Collect Debt Exposes World of Chinese High Rollers?

MS LIN: Yes. That rings a bell now.
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MS SHARP: Is this – I was just going to ask, this is a report from Reuter, from September 2016. Is this the report you were thinking of when you mentioned a report in your last answer?
40

MS LIN: Yes.

MS SHARP: And this is a report that does use the terminology shill. I'm trying to find it. I can't find it presently. What I might do, if we scroll down to the second part of that first page, you will see that there's a reference there to women who were not – right up the top are Yang and Sun who weren't high stake gamblers but were
45 local house keepers, recruited with Sands as it happened to take out millions of

dollars in credit in their names and sit near players as they gambled with borrowed chips. What I'm asking is whether these women who took out credit in their names but in fact didn't gamble with it, they're the shills, are they?

5 MS LIN: Yes.

MS SHARP: And this is one device that can be used to obscure the source of funds that is available to the high roller patron?

10 MS LIN: Correct. But typically it's also to circumvent currency controls because at any given time, a patron can only – assuming they're from China and they only have bank accounts in China, they can only take out 50,000 US dollar equivalent in any given year. But if they are coming here and they want to game at the 500,000 level, the million dollar level, you know, at some point they're going to either have to
15 utilise credit line from the casino or try to get – obtain funds elsewhere.

MS SHARP: A little earlier, I asked you whether there were any risks of money laundering when independent agents were involved in organising junkets. Are you aware of any recent examples where independent agents in Nevada have been
20 implicated in money laundering?

MS LIN: I'm not aware of registered independent agent being investigated but there has been a recent Department of Justice investigation where you have two patrons that are here, or local – well not patrons, actually they are patrons, so two local, I
25 guess Nevada residents who are also patrons at various casinos, and basically they would solicit or offer to loan, make extensions of loans to other patrons who are crunched for cash. So once they have exhausted their credit line, these defendants would offer to get them more money. And again that's very similar to the Vancouver model where they will – these two defendants will provide cash to
30 gamblers who want to play more but then the funds are settled in China via like mobile payments.

MS SHARP: Over here, Ms Lin, it's 11.30 am in the morning. I just wanted to inquire with the Commissioner, is this a convenient time for an adjournment,
35 Commissioner?

COMMISSIONER: Yes, it is. Just before I adjourn can I just ask you a question, Ms Lin, about the reports that you have spoken about for filing in respect of both the limit, the 10,000 limit and the suspicious transaction. Can you tell me with whom
40 those reports are filed in Nevada, Las Vegas.

MS LIN: So it will be filed by the casino operator to the US Treasury FinCEN. And the subject would be the person who actually conducted the transaction.

45 COMMISSIONER: And when the reports are filed with the Treasury agency, does the casino ever hear back from the agency?

MS LIN: Yes and no. So a lot of these filings are done electronically so we will get a confirmation that the submission has been filed successfully. So unless – so unless it evolves into some form of further investigation and we receive a subpoena, then that would be how we would hear back.

5

COMMISSIONER: So you spoke a little earlier about the struggle, as you called it, of the casino dealing with – accepting the cash but also making the suspicious transaction report. If a suspicious transaction report is filed with Treasury, and you receive the notification that you’ve actually filed it, and if there is no action taken by Treasury or the Department of Justice, is it the case that the casino operator may never hear again about that?

MS LIN: Yes. So there’s a couple of scenarios that could transpire from that scenario you just described. So let’s say a suspicious activity report was filed on a third party payment that the casino deemed to be not fully legitimate. So either you file it once and the patron never pays in that sort of form, or makes that sort of form of payment again and we don’t hear back from the Treasury, then that’s a non-issue. However, if the patron continues to use that same form of payment and the casino operator continuous to file suspicious activity reports, then it’s up to the casino operator now to think about at which point do you tell the patron, “Hey, please stop paying off your credit in this manner. We need you to pay it from a personal bank account or from a, you know, verified cashier’s cheque”.

COMMISSIONER: Apart from discharging its obligations under the legislation to notify Treasury, there’s another layer of responsibility, you say, that tips the casino into a position of obligation to get rid of the patron or to stop the patron doing what you have just described?

MS LIN: Yes. So kind of as part of the risk-base program, yes.

30

COMMISSIONER: Yes. As Senior Counsel Assisting has just said, we are going to take a 10 minute break and I will just adjourn for that period. Thank you, Ms Lin, I will adjourn now.

MS LIN: Thank you.

35

ADJOURNED

[11.34 am]

40

RESUMED

[11.48 am]

COMMISSIONER: Yes, Ms Sharp. Yes, Ms Lin. Thank you.

45

MS SHARP: Ms Lin, can you explain to us how currency exchanges at the casino may be exploited by people seeking to launder money?

MS LIN: It would be similar to exchanging cash for chips except you're exchanging cash for different currency. But typically the casinos would have – would only provide services up to a certain limit just because the cage – at the end of the day, they're not a bank. And so at any given time they may not have, let's say, the
5 equivalent of \$500,000 in Japanese yen or Australian dollars or British pounds, yes.

MS SHARP: So is it possible to go to a casino in Nevada and merely exchange, say, Australian dollars for US dollars and do nothing else?

10 MS LIN: You could, but typically the casino's objective is for you to use the funds to game. So I think a lot of times they would have to make sure that you have some sort of verified play before they would provide that service.

MS SHARP: And what about when you're cashing out your chips; say, I'm playing
15 in a casino in Nevada, can I cash out my chips and say "I would like those in yen, please"?

MS LIN: Again, most casinos' policy would only allow for that exchange up to a certain limit. So your initial cash out would still be in US dollars but then you could
20 take that US dollars and ask for a different currency but that would only be up to a certain threshold because a casino cage would only have so much foreign currency at any given time.

MS SHARP: I just wanted to return to the idea of chips themselves being used in
25 money laundering arrangements. To the best of your knowledge, is it the case that sometimes people use chips as currency outside of the casinos?

MS LIN: They can, and that's where the chip walk typology became a suspicious activity type that FinCEN encourages casinos to file on because once the chip leaves
30 the casino operator they can be used for other purposes, either as payment for drug purchases or they take it to another casino and exchange, let's say, a Sands chip for a Bellagio chip. So there's many things that they can use because it has – it's a stored value.

35 MS SHARP: And is another way chips can be used to launder money by a patron purchasing chips off another patron, a clean patron, and perhaps - - -

MS LIN: Yes, that's - - -

40 MS SHARP: I was going to say and perhaps purchasing those chips for more than their value.

MS LIN: It's possible. But usually the casino operator themselves will have the
45 visibility into that.

MS SHARP: Is that the case in the VIP salon or in the main floor, or both?

MS LIN: I think it can occur at both the main floor and the VIP salon. So from a compliance standpoint, the AML obligation is to understand the source of the chip. So if a patron comes in, let's say the patron has historically been a slot player and all of a sudden they – he or she comes up to a baccarat table with a \$5000 chip, the
5 casino has an obligation to understand where that chip came from.

MS SHARP: Could I show you a document, please, Ms Lin. Can I bring up INQ.130.001.2034. This is exhibit A56, Commissioner.

10 COMMISSIONER: Thank you very much.

MS SHARP: You've now got a document in front of you, Ms Lin?

MS LIN: I do, yes.
15

MS SHARP: And is that the FATF report entitled Vulnerabilities of Casinos and Gaming Sector dated March 2009?

MS LIN: That's correct.
20

MS SHARP: And FATF stands for Financial Action Task Force?

MS LIN: That's correct.

25 MS SHARP: and in broad terms this is an international organisation that deals with money laundering prevention strategies.

MS LIN: Correct so they issue best practices and they conduct mutual evaluation reports.
30

MS SHARP: In fact it's an intergovernmental agency.

MS LIN: That's correct.

35 MS SHARP: Have you seen this report before?

MS LIN: I've read it but I can't recite detail off the top of my head.

MS SHARP: Sure. There's just one aspect of it I wish to take you to. If I can take
40 you to – it's page 31 of the report which is pinpoint 2064. Have you got that document in front of you? Perhaps I could direct your attention to the bottom half of that document under the heading Indicators of ML, that is, money laundering, Using Casino Value Instruments. Now, Ms Lin, could I ask you just to read through those dot points and then tell me when you have done that and I will have you look over
45 the page.

MS LIN: Okay.

MS SHARP: And if I can now have Ms Lin shown the second page, which is pinpoint 2065. We might show you the top half first and once you have read that, let us know and we will take you to the bottom half.

5 MS LIN: Okay.

MS SHARP: And is it fair to say that each of these items that are dot pointed are red flags for money laundering?

10 MS LIN: Yes.

MS SHARP: And these are all red flags with which you are familiar?

15 MS LIN: Most of them, yes, I've seen.

MS SHARP: All right. In other words because of your experience in anti-money laundering and compliance, you are aware that these are things that might send out an alarm bell that somebody is engaging in money laundering in a casino?

20 MS LIN: That's correct.

MS SHARP: Could I just ask you about one of these things. I'm not quite sure what it means and I'm hoping you might be able to help me. On pinpoint – the second page which was pinpoint 2065, if you look to the second half of that document, there's a dot point that says:

CPV, TITO, ticket or voucher dated prior to date of redemption.

30 Are you able to explain to us what that means?

MS LIN: So I don't know what CPV stands for, but TITO is abbreviation for ticket in, ticket out, and that is a ticket that you would receive after playing at a slot machine. And so this particular red flag is essentially saying that – let's say, I went – from a money laundering scenario standpoint, you're a drug trafficker who goes up to a slot machine. Puts in the \$20 bills and, you know, places a minimum bet and then now he or she has a TITO ticket that is then sold to someone else, and that person redeems the TITO further down the line. And the idea is that if you're gambling to – either for entertainment, you're in it to kind of, you know, make a little – add a little cash from the gambling, the idea is that you would want to cash out your TITO ticket either the same day or at least at the end of the trip. And so if there's a long time lag, then that's something that the casino operator should probably look into, reconstruct the play history to see how this TITO came to be.

45 MS SHARP: Could CPV stand for chip purchase voucher?

MS LIN: Possibly. TITO is essentially some voucher, so yes.

MS SHARP: Now, those 20 or so dot points I've taken you to which are red flags for money laundering or indicia that money laundering could be taking place. Are those matters that are well known within the casino industry in Nevada?

5 MS LIN: I would say so. I would say most of the list are things that I've observed.

MS SHARP: So certainly when you read through each of those dot points there were no surprises for you?

10 MS LIN: No.

MS SHARP: Can I move on to ask you a little bit more about the situation where casino operators in Nevada provide credit to their patrons. Let me start with this: what types of customers are usually or typically provided with credit in Nevada casinos?
15

MS LIN: Sorry, I didn't hear you, what types of what?

MS SHARP: What types of patrons are usually or typically provided with credit in Nevada casinos?
20

MS LIN: Typically it would be patrons who have good credit scores. So the credit department's primary objective is to make sure that any extension of credit that they give to a patron there is not going to be any sort of risk of collection issue down the road. So that the repayment – there's no repayment risk and then, secondarily, the AML responsibility would kick in, and that would be based on the documentation or on identification information that is obtained by the customer, and then the preliminary customer due diligence that the credit department would do and, in certain cases, in-house due diligence that the back office would do.
25
30

MS SHARP: Is credit only provided to VIP players by casinos in Nevada, or can mass market players also obtain credit?

MS LIN: Anyone can seek to have a credit line. It's no different than applying for a credit card.
35

MS SHARP: Are different categories of customers – I withdraw that, I will put it more clearly. Are VIP players subject to different requirements than are mass market players when determining whether a casino operator will advance credit to them?
40

MS LIN: No. The starting point is running a – kind of like a credit report but that's unique to the casino industry. So what that report typically would show is if you have any outstanding credit with other casinos, and then there would be some indicators of your bank account levels and that usually is some of the factors that goes into whether or not you're given credit.
45

MS SHARP: I just want to understand a bit more about the timing of these applications and how long it takes to process them. If I am a patron and I walk in to the casino in the middle of the day, can I ask for credit there and then and have that credit advanced to me that very same day?

5

MS LIN: It can. So the credit decision can be pretty straightforward; it's not something that takes a week. So anyone can go up to the credit desk. It's open 24/7 just like the casino floor is. You send in your application. They run the reports. And unless it triggers some sort of AML investigation, then it could potentially take a few more days because now it's escalated to the back office and typically some of those triggers would be as your identification is, or your name, the patron's name is run through a third party database that screens for negative news, adverse media, enforcement action or politically exposed persons or sanctions nationals, I guess, too, so an alert comes up or if a potential hit comes up then that would be an escalation that could delay the credit application.

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15

MS SHARP: When you refer to third party checks are you referring to databases like World-Check, for example.

20 MS LIN: Yes, World-Check, WorldCompliance. Yes.

MS SHARP: You also mentioned the term "politically exposed people"; what's that a reference to?

25 MS LIN: So those are people who have held, you know, more substantial governmental positions and so, again, the risk is that you don't want them to be embezzling public funds for gambling purposes.

30 MS SHARP: Now, does the time it takes to determine whether to provide credit vary depending on how much credit is sought?

MS LIN: I don't believe so because, again, a lot of these initial checks are very database-driven. So they're pretty data driven. I guess what could potentially delay or extend the credit investigation – so this is not pertaining to the AML part – so the credit investigation is if you have a foreign patron whom you can't really – whose information you can't easily pull up from a database, so let's say a Chinese patron, and you know, typically everyone is engaged in real estate, everyone is a financial director, everyone is engaged in export/import. So if they come in and they want, you know, a million dollar, usually that would initially come about because of some referral from a marketing house or independent agent indicating that this player gambles at this high of a level.

40

But from the credit department's standpoint they need additional documentation or information to make that determination. So that potentially could be from, you know, a business card or trying to, you know their business. If it's a very successful real estate venture business then, you know, maybe there would be a

45

website that you can look into or if it's a publicly traded company on the Hong Kong stock exchange then that's information you can use to make those decisions.

5 MS SHARP: Just returning to your example. If, say, a VIP from mainland China requested credit from a casino in Nevada, and was advanced that credit and ended up losing and having a large debt to the casino, how would the casino enforce that debt?

10 MS LIN: So as I mentioned earlier, not paying your gambling debt is a criminal offence. And so from a legal procedure, the debt could be sent to the bad cheque unit at which point a warrant would be issued, and this is regardless of whether it's a domestic or international customer. For an international customer, if a warrant is issued and the patron has left the United States, a warrant is issued. The next time they come back in, this patron could theoretically be held up at customs. So that's a legal recourse the casino can go down. But typically from a marketing standpoint or
15 a hospitality standpoint, they would try to work it out with the customer just because you don't want to really chase away a customer and have them, you know, once they do repay the debt or find the money to repay the debt to go to a competitor some time down the road.

20 MS SHARP: Do you happen to know which legislative provision in the state of Nevada makes it a crime to fail to pay for a gambling debt?

MS LIN: I can't tell you the actual reg number. It's just as part of the collection effort I know that this legal recourse exists.
25

MS SHARP: Can I move now to a different topic. Can I show you a document which is INQ.130.001.5174, which is exhibit A95, Commissioner.

30 COMMISSIONER: Thank you.

MS SHARP: Ms Lin, do you have before you a document from the American Gaming Association called Best Practices for Anti-Money Laundering Compliance 2019 – 2020?

35 MS LIN: Yes, I do.

MS SHARP: And this is a document that you reviewed earlier today; is that right?

40 MS LIN: Yes.

MS SHARP: Before today, have you come across this document?

45 MS LIN: Yes. I believe the first version came out in 2014 or 2015, and I believe this is the third edition – third or fourth, they try to update it once a year.

MS SHARP: Is this a document or one of its previous versions you relied upon when developing a compliance – an anti-money laundering compliance procedure at the Sands.

5 MS LIN: Yes.

MS SHARP: Can I ask you just to start with, what's the American Gaming Association?

10 MS LIN: So it's a – I believe it's a non-profit but it has a lot of – it's a non-profit organisation that researches gaming-related regulations and informs on best practices. And so they have a lot of white papers, not just on anti-money laundering but, you know, responsible gaming. They track legislation for the development of sports betting. So I know they engage in a lot of research so they're more academic
15 in nature.

MS SHARP: And you indicated that you had had regard to this document or an earlier version of it, when you were working on the Sands anti-money laundering compliance policies. How do you regard this publication; is it a good publication?
20 Do you think it's consistent with best practice?

MS LIN: Yes, I think it matches up with – it aligns with all the FinCEN regulations. It does incorporate a lot of the enforcement actions that has been levied against casinos so it makes sure – it incorporates a lot of the gap analysis they've conducted
25 as part of reviewing their enforcement action. So I wouldn't say Sands itself, when I was there, we relied heavily on it, just because as part of rebuilding our AML program, we had pretty much met with not exceed the best practices outlined in the publication.

30 MS SHARP: When you talk about a gap analysis, what are you referring to?

MS LIN: So a gap analysis is every time an enforcement action comes out, the idea is that you would review the findings and benchmark that with your existing program. So let's say if a casino in an enforcement action, let's say the FinCEN had
35 cited, let's suspicious chip sharing for the very first time, you want to take a look at your program and say is there a risk of the same activity occurring at your property?

MS SHARP: Can I just take you to a particular page of this document. It's page 37, which is pinpoint reference 5213. And is it right that what you have before you
40 appendix A, anti-money laundering program questionnaire?

MS LIN: Yes.

MS SHARP: And do you see in the second column there's a heading B, Risk
45 Assessment?

MS LIN: Yes, I do.

MS SHARP: Now, my first question is this: in order to get the right money laundering compliance settings within the casino, it's very important, isn't it, that you correctly identify the risks?

5 MS LIN: Absolutely.

MS SHARP: Because if you don't correctly identify the risks, you don't get the right policy settings?

10 MS LIN: Right. If you don't know what the risks are, you're not going to know what to defend against.

MS SHARP: Could I ask you just to read to yourself paragraph 12, which is do your risk-based assessments consider, and then there are a number of matters, (a) through
15 to (k) on the next page which when you are ready, I will have that shown to you.

MS LIN: Okay.

MS SHARP: And can I just show you over the page to subparagraph (j) and (k).
20 Do you agree - - -

MS LIN: It's not showing up.

MS SHARP: Is it there?
25

MS LIN: Yes, now it is.

MS SHARP: Do you agree that these are all important risks that should be assessed when conducting your risk assessment?
30

MS LIN: Yes, all of them, yes.

MS SHARP: Is there anything you would add to that list?

35 MS LIN: No, I think this is a pretty comprehensive list, at least tailored to Nevada or to domestic casinos. I mean, the only thing I may add is for casinos with a bigger junket presence, because that just presents a very unique risks on its own.

MS SHARP: And sorry, why is that?
40

MS LIN: Again, at least in Nevada there's no junket operator but for some of the things we discussed as far as risks of junket operations, if that's a big presence in Macau, Singapore or Australia, then that probably should be something that a casino considers.
45

MS SHARP: Can I just take you to – over the page, to page 38 at pinpoint 5214. Under the heading E, Transaction Monitoring, you will see one of the questions, question 21 is:

5 *Do you have a monitoring program for unusual and potentially suspicious activity?*

You would agree that that is very important to have a monitoring program.

10 MS LIN: So I know banks across the board all have transaction monitoring program or a vendor based transaction monitoring program. Casinos don't really have that across the board. Some do, and have implemented on their traditional banking-type tranches monitoring. But other casinos do more in-house data analytics on their rating details. So again depending on what you mean by transaction monitoring,
15 there's always going to be some sort of suspicious activity detection system in place but that may not be a vendor-based transaction monitoring program.

MS SHARP: And if you look a little further down, you will see there's paragraph f which is Preventive Measures. Now is it important that a casino has preventive
20 measures in place?

MS LIN: Yes, absolutely.

MS SHARP: Can I take you through their preventive measures highlighted here
25 from paragraphs 23 to 30. Are each of these preventive measures which you consider to be good practice?

MS LIN: Yes, all of them.

30 MS SHARP: Are there any other preventive measures that you can think of now that aren't in this list, that you would consider best practice?

MS LIN: I would say minimal gaming would be another one because F23 only
35 addresses bill stuffing. So minimal gaming, there's a lot of things you can do with rating details. You can also risk all your customers based on the factor criteria that you decide on, you can – yes, I think risk is probably the only other one. Sorry, I'm thinking more of the post activity detection, but these are preventive. I would say yes, that's a pretty comprehensive list.

40 MS SHARP: So as an expert in anti-money laundering, you do agree that it's appropriate that a casino does play a preventive role as well as a detection role?

MS LIN: Yes, because there are certain controls that you can implement to prevent
45 money laundering and it's easy, because – and it aligns with the casino's objective to know more about their casino patrons so that they can market to them. So I think there's – it's not on this list, but so, you know, requesting identification from patrons to know who it is that you're dealing with. Casinos all have an interest in having you

sign up for their loyalty accounts. So they do have an interest to ask for your ID to begin with. Obviously, at certain threshold the patron can decide I don't want to be marketed to then that's a different story. But ID is your customer, pretty much aligns to casino objectives.

5

MS SHARP: Tell me in the law in the state of Nevada are there any limits imposed on the amount of cash that a patron can exchange in the casino?

MS LIN: As far as a foreign currency exchange or to purchase - - -

10

MS SHARP: I put that poorly. Are there any limits on buy-in, for example, cash buy-in?

MS LIN: Not that I'm aware of, there's no statutory limitation. You want to buy in with \$3 million in cash, you know, there's obviously going to be due diligence that needs to take place but it wouldn't be turned away.

15

MS SHARP: Is there any practice that you're aware of amongst any casinos in Nevada to put cash limits on the buy-in?

20

MS LIN: Theoretically at a table, so if a patron, let's say a high roller patron decides he feels like playing roulette on the main floor because he or she just happens to walk by and they want to play a million dollar on a main floor roulette. The table itself probably won't have that much in chips on the main floor. So at that point, it's more of a logistical limitation because they just don't have that much chips in the fill to give you a million dollars in chips so that's the only limitation I can think of.

25

MS SHARP: I understand that in British Columbia in Canada a requirement has recently been introduced when a patron brings over a certain level of, or brings to the casino a certain level of cash for a buy-in, they need to be able to prove the source of those funds. Have you heard of that?

30

MS LIN: I haven't heard about that specifically for British Columbia casinos but in other Nevada casinos they will set thresholds when you bring in cash.

35

MS SHARP: And what happens if you exceed one of those thresholds?

MS LIN: So they may give you a know your customer type questionnaire to have you kind of attest to where the source of funds come from, depending on the denomination of the cash itself, that might trigger a suspicious activity reporting investigation. But, again, there's no statutory limitation for the casino to turn away that cash.

40

MS SHARP: But there's no, in a sense, eligibility requirement imposed on the patron to prove the source of their cash before they're allowed to buy in with it?

45

MS LIN: Not proving in a convincing type of evidence legal type of way, no.

MS SHARP: To your knowledge, has a casino in Nevada ever refused to accept a large amount of cash when a patron has sought to buy in?

5

MS LIN: Not that I'm aware of.

MS SHARP: If someone was unknown to the casino and unknown to the cage operator, say with a bag of \$200,000 in notes, would that be accepted without question or would some kind of due diligence procedure take place?

10

MS LIN: So one of the controls in place would be the multiple transaction law. And so this is essentially a record keeping function that applies to cash transactions. It's not part of the FinCEN regulation but it's more of a holdover from the Nevada regulation 6A when the Nevada state was overseen, MTL. So at the time reg 6A had prescribed that any \$3000 cash transaction has to be logged in line with logging multiple or negotiable instruments. So once reg 6A was eliminated casinos still retain this function of MTL. So depending on the casino it could be anywhere from 3000 to 5000 so if you hit that threshold the casino needs to ask your identification in order for them to lodge the cash transaction and subsequently aggregate for the currency transaction reporting purposes. So you can't walk up with 200,000 and be unidentified.

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MS SHARP: On the point of requiring identification, have there been problems with people using false identification?

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MS LIN: We do see that, but it's pretty rare from my understanding.

MS SHARP: I wonder, is it more of a challenge where somebody is relying upon overseas identification than in relation to identification issued in the United States?

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MS LIN: So kind of going back to I guess verification of, in terms of validating whether this is a fake or legitimate identification, there is technology in place that will assist the casino to do that. So I think fake identification is a rare issue. The challenge with foreign customers is more of obtaining permanent address for certain transaction. So if they were to apply for a front money account, they need a passport is not going to have your permanent address on there. So there needs to be some other form or supporting documentation that can supply the address information.

35

MS SHARP: Now, the money laundering legal regime that governs casinos in Nevada, imposes a know your customer requirement, doesn't it?

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MS LIN: Yes.

MS SHARP: Can you just tell us what that is, in a nutshell.

45

MS LIN: So generally at the very basic level it's the identification requirement and it's obtaining a name, permanent addresses and in some cases a tax identifying number. It may trigger – and source of funds, if kind of for more preliminary screening. Enhanced due diligence could kick in and that usually requires more
5 source of wealth investigation. So it's beyond just screening for PEPs or adverse media but its source of wealth, what is the patron's occupation, does that line up with the level that they're gambling. So let's say if someone is an elementary school teacher but he or she has a 3 million credit line to the private gaming salon, we need to see if there's an independent source of wealth that's separate from the income as
10 an elementary school teacher. So that's when in-house due diligence would kick in so it's occupation pattern analysis of their historical gaming data.

MS SHARP: Is there any kind of tension in doing this enhanced due diligence that comes from the simple fact of timing? Let me give you an example. You have a
15 VIP player who wants to come over from mainland China and you get two days' notice that this person wishes to come over. Does that give you enough time to do enhanced due diligence?

MS LIN: Yes, compliance staff can work overnight or early mornings to make sure
20 that we have the due diligence in place to clear the patron for gaming.

MS SHARP: And - - -

MS LIN: So two days it's possible, yes.
25

MS SHARP: What if at the end of those two days the compliance officer feels that he or she does not have sufficient evidence to make a decision one way or the other?

MS LIN: So if the case escalates to a point where the chief compliance officer
30 determines this patron is not suitable for a credit line and the patron is in mainland China theoretically marketing would have to reach out to the patron and say hey, sorry we can't fly you on your private jet. Or alternatively, the patron can have an alternative method of funding their gaming. So let's say instead of being issued a credit, they bring their own money, let's say they are able to get a wire overnight into
35 the front money account. Then theoretically then they would be cleared for gaming and maybe a post activity review might be conducted.

MS SHARP: A lot of that happens, a lot of that sounds like it's focusing on whether
40 that patron is a credit risk. But does it trigger other things? For example, a consideration of whether the patron should be permitted to gamble at all in the casino, even if he or she comes up with his or her own front money?

MS LIN: Okay. So I guess maybe I wasn't clear with my response. So if the
45 investigation is now sitting with compliance, those are usually escalated from the credit department who only assess the credit risk of the patron. But at certain thresholds, this credit referral would be escalated to compliance and that would look

into more of the source of wealth, any sort of adverse media, negative news screen, is the patron a PEP. So that does get taken into consideration, yes.

5 MS SHARP: What happens if the patron fails the enhanced due diligence process?

MS LIN: Casinos could theoretically decide that they don't want to do patron with this customer and they could be on a banned list.

10 MS SHARP: And does that create tensions or difficulties for the casino, because on the one hand, the law requires that you take steps not to deal in the proceeds of crime, and you're required to conduct thorough due diligence. But on the other hand, this VIP patron stands to facilitate the casino making a lot of money, is there a tension there?

15 MS LIN: There's absolutely a tension, and I think it would depend on the culture of compliance that each casino has. So if you have strong leadership at the compliance and the board level and there is a culture in place, then there's less likelihood that you would succumb to kind of this revenue pressure.

20 MS SHARP: And so your evidence is that it's very important to have a culture of compliance?

MS LIN: Absolutely.

25 MS SHARP: And that is what will help manage this obvious tension?

MS LIN: Correct.

30 MS SHARP: And is it your evidence that the culture of compliance has to go all the way to the top?

MS LIN: Absolutely, yes.

35 MS SHARP: To the leadership, just to be clear.

40 MS LIN: Right. So that would include the board of director. That would include executive management all being on board to understand that anti-money laundering is a large risk and, you know, if you succumb to revenue pressures, that is going to expose yourself to, you know, longer term or larger costs down the road, not to mention that that FinCEN or the Department of Justice can hold the chief compliance officer personally liable for any sort of deficiencies. So generally speaking, it is in the interests of the casino to be complying with AML standards in a very robust fashion.

45 MS SHARP: Do you happen to know what that law is that holds the – I think you said the directors personally liable.

COMMISSIONER: The compliance officer.

MS SHARP: The compliance officer.

5 MS LIN: There's no – I don't believe there's an actual regulation. It's more from – enforced from enforcement actions.

MS SHARP: Now, was part of your role with you worked with the Sands corporation to inculcate a culture of compliance within the organisation?
10

MS LIN: Yes.

MS SHARP: How did you go about doing that?

15 MS LIN: So from a day-to-day operation standpoint it's making sure that all of our training of personnel that are filing the suspicious activity report, currency transaction report, for them to understand the importance of their job and, you know, all the reports we file has to be complete and accurate. It involves being – keeping
20 keeping track of enforcement actions so that we can do gap analysis. From kind of the corporate standpoint, it's really to collaborate with the operating department. And getting them – getting their buy-in so that they're more willing to, you know, speak up and escalate suspicious activity or other inquiries they might have about the program.

25 MS SHARP: You have indicated previously that in creating a culture of compliance it's very important that you get the buy-in from the leadership within the organisation. How do you inculcate a culture of compliance within the ranks of the leadership of the organisation?
30

MS LIN: I think a lot of it will come down to training, on helping them understand what it involves, you know, getting the resources to build and sustain a good AML program, understanding the risks of non-compliance, and how that will hurt the business, probably more down the road than to try to cut corners.
35

MS SHARP: I'm just wondering, is there a tension that can exist within casinos within, say, the marketing arm on the one hand, and the compliance people on the other?

40 MS LIN: There will always be tension so, again, it kind of just comes back to instilling that culture, so that marketing will push back a little less.

MS SHARP: And you've said that one of the important things that has to happen in inculcating a culture of compliance is staff training?
45

MS LIN: Yes.

MS SHARP: I will come to ask you a little bit about staff training now. So far as casinos in Nevada are concerned, is it the expectation that all casino staff will be trained in anti-money laundering and counterterrorism financing?

5 MS LIN: All staff that would engage in financial transactions. So let's say - - -

MS SHARP: So they're the people who receive the training, are they?

MS LIN: Sorry, can you repeat that.

10

MS SHARP: So it's people who are engaged in the financial transactions who receive the training and them alone?

MS LIN: Correct.

15

MS SHARP: What about people in the marketing departments?

MS LIN: Marketing are typically included in the training because they deal with staff and they could potentially be involved in financial transaction in the sense that if they were working out of a branch office and the patron comes into the branch office to make a payment on their outstanding marker, or to fund a front money account, so that they can't theoretically be involved in financial transaction, but from a broader standpoint it's just to educate them and have them be more willing to come forward and share what they know about the customers, because actually I forgot to mention, so from a FinCEN standpoint there's kind of the, you know, five pillars of an AML program. So you have your chief compliance officer, you have independent testing, you have policies and procedures, you have training, and you have customer due diligence.

20

25

30

For casinos specifically there's kind of an additional pillar and it's to use all available data. And what the regulations are trying to get at was a lot of information and data about customers resides with marketing. And so that's a - so as part of the training, marketing staff are encouraged to share that information with the rest - or with compliance staff mostly.

35

MS SHARP: And just returning to encouraging a culture of compliance to develop, is there a board of directors; should they be trained in anti-money laundering and counterterrorism financing?

40

MS LIN: From what I understand, a board of directors at casino operators or banks typically do get the same AML training.

MS SHARP: What about CEOs and the CFO and the COO?

45

MS LIN: Yes, because they're part of executive management.

MS SHARP: And when you were talking about people who deal in the financial transactions, I take it that means that, for example, cage operators and pit staff, staff at the pits, are trained in anti-money laundering and counterterrorism financing?

5 MS LIN: Yes, that's correct.

MS SHARP: And are there particular staff members who receive more training than other staff members, amongst that cohort who does receiving training at all?

10 MS LIN: I think different casinos do – conduct their training slightly differently. There are casinos who will use a vendor-based commercial developed training and it's the same training are for everyone who has – who is involved in the AML process. There are casinos who will develop their own training in-house so they will have specific and that's tailored to different operating departments because,
15 again, you know, cage may have certain functions that the credit department or table games won't do. So they – typically cage would probably have more advanced trainings, as would back office compliance staff or internal audit staffs.

MS SHARP: And how do you test if the staff have learned from the training?
20

MS LIN: So typically as part of the training there will be a record of attendance to at least show that training has been given. You can also – and so there would be attendance records to show that the staff has completed the training but sometimes there will also be a separate test. You know, it could be something multiple choice
25 or a group discussion, but something to test the staff's knowledge. But that's not a requirement. The requirement at a very fundamental level is just to make sure that training has been given.

MS SHARP: Would there be any merit in conducting random auditing of staff to see what they knew about anti-money laundering and counterterrorism financing compliance?
30

MS LIN: I haven't seen, you know, an internal audit go the cage and try to test the cashier on a specific point but I think it comes down to the general internal
35 periodic testing by – or periodic audits to test whether or not training has been given. And the primary responsibility really falls on, you know, staff – staff like me where I oversee a team and I make sure that the products or the protocol – or in the case of a cage, the protocol that they're engaging in is – adheres to policies and procedures and there has to be, you know, disciplinary procedures in place so that if a staff does
40 fail in the AML policies and procedures that corrective action or additional training is undertaken.

COMMISSIONER: Could I just ask you something about the marketing side of things just as you've referred to the desire to encourage marketing to share the data
45 with the compliance section of the casino. Is it the case that if they are not so encouraged they won't share, obviously?

MS LIN: Yes. And in practice, you know, most marketing hosts don't have some sort of paper file that they keep on the customer to know that, you know, their favourite wine is X, their – they like to gamble in this kind of environment. But the idea is that marketing knows more about the customer than any other department
5 within the casino, so again that encouragement then comes into play.

COMMISSIONER: In particular, I suppose, the VIP marketers?

MS LIN: Sorry, can you repeat that?
10

COMMISSIONER: In particular, I suppose, the VIP marketers?

MS LIN: Absolutely, yes.

15 COMMISSIONER: And just on that, if I may, do the casinos in your jurisdiction provide to the marketing staff incentives, bonuses, for results?

MS LIN: So bonus structure would be applicable to, you know, staff in any department to, I guess, encourage them or incentivise marketing in particular to share
20 or any other department to comply with internal procedures. There can be clawbacks of bonuses as a policy.

COMMISSIONER: Yes, I'm sorry to interrupt. Thank you very much for that clarification.
25

MS SHARP: I'm just wondering if somebody out in the pit observes suspicious transactions, they obviously would need to report those to their supervisors; is that correct?

30 MS LIN: Yes.

MS SHARP: So there will be various reporting lines that have to be followed?

MS LIN: Correct.
35

MS SHARP: In any sense, can these frontline staff observing these suspicious transactions be likened to whistleblowers?

MS LIN: Again, I think that goes back to the culture of compliance. I think if you
40 have a strong compliance culture in place, the idea is that you don't want a staff member to ignore what's going on on the floor. But, of course, you can't know what you don't know.

MS SHARP: Do there need to be incentives in place to encourage the frontline staff
45 to make these reports to their superiors in the first place?

MS LIN: Yes. So a lot of times in AML policies and procedures, you know, there will be some statement that indicate, you know, following internal procedures or the lack – lack or violation of AML procedures could result in disciplinary action. So that would be, I guess, the incentive for frontline staff to adhere to those procedures.

5

MS SHARP: So more of a stick than a carrot.

MS LIN: Right. It's more of a disincentive violation to not violate.

10 MS SHARP: Is it necessary to put any protective procedures into place so that the frontline staff who report do not suffer adverse consequences by reason of reporting?

MS LIN: Yes. So that would typically fall under more of a general corporate compliance, you know, code of ethics where there is an anti-retaliation clause or provision for any form of whistleblowing, not just limited to anti-money laundering.

15

MS SHARP: Tell me, does your regulator FinCEN play any role in training staff in anti-money laundering procedures?

20 MS LIN: No, not directly. But they will issue guidance occasionally to the public and so you can subscribe to their website and be alerted of those advisory and guidance as they come out.

MS SHARP: Does FinCEN play any role in auditing staff for their understanding of anti-money laundering requirements and rules?

25

MS LIN: So FinCEN is the federal regulator that oversees AML programs but as far as auditing casinos, that function is delegated to the Internal Revenue Service. So casinos auditor of their AML program is conducted by the internal revenue services, not FinCEN directly.

30

MS SHARP: If one of the front line staff, for example, the pit supervisor, detects a suspicious transaction, is there any kind of requirement to the effect that a direction must be given that play stops?

35

MS LIN: I guess it depends on what that situation is. So usually play could be completely stopped. Typically would be when a patron buys in or is about to buy in for more than \$10,000 and refuses to provide their Social Security number, at which point play has to be stopped. But other suspicious activity like minimal gaming may not be stopped right then and there.

40

MS SHARP: And lastly, in the state of Nevada, are there inspectors from I think you called it the gaming board, who are present at the casino at all times?

45 MS LIN: I'm not sure at all time, but we do get visits from the Gaming Control Board every now and then, yes.

MS SHARP: Those are my questions, Commissioner.

COMMISSIONER: Thank you, Ms Sharp, Mr Young, anything?

5 MR YOUNG: On this occasion, yes.

COMMISSIONER: Mr Young. Mr Young appears for one of the companies, the subject of the terms of reference of inquiry here. The Crown Resorts, limited.

10

<EXAMINATION BY MR YOUNG

[12.48 pm]

15 MR YOUNG: Ms Lin, early in your evidence, you agreed with a proposition from Ms Sharp - - -

COMMISSIONER: Could you move the microphone.

20 MS LIN: Sorry, could I ask you to speak up a little bit.

COMMISSIONER: Yes, I'm sorry.

MR YOUNG: I'm not sure they're turned on.

25 COMMISSIONER: Just make sure that you are wired, Mr Young. Yes, thank you.

MR YOUNG: Ms Lin, can you hear me now?

30 MS LIN: Yes, better.

MR YOUNG: Earlier enter your evidence you agreed with the following proposition from Ms Sharp: independent agents are not permitted to provide credit to patrons in Nevada.

35 MS LIN: Correct.

MR YOUNG: Can you identify the regulation or statutory provision that that view is based on?

40 MS LIN: That's more of a gaming control board regulation, and that's not in my area of expertise.

45 MR YOUNG: Yes. Now, one follow-up question. Later in your evidence, you identified a risk area for money laundering being that some locals in Nevada might make a loan to the foreign player. Is there any regulation or process in Nevada that would law the regulators to identify that sort of practice?

MS LIN: So that wouldn't be at the state level. That implicates more the same federal anti-money laundering regulation. So the particular case that I was discussing was a Department of Justice investigation that came out just a month ago, and so that implicated what is called a legal money transmitter regulation. So if you
5 want to engage in money transmission, there are certain licensing protocol that you have to complete as part of FinCEN regulation. I can't cite the actual statutes off the top of my head, but there's certain licensing. And so if you don't register with FinCEN and complete certain processes, then you are engaging in illegal money transmission. That was the finding of that department of justice investigation.

10 MR YOUNG: I thought your example didn't involve any money transfer rather it was a loan agreement made in Nevada between locals and the foreign player. The money was provided in Nevada and then subsequently the loan debt was settled in China. So if you assume that set of facts, is there any regulation or process in
15 Nevada that would detect that kind of arrangement?

MS LIN: Again, not at the Nevada level or at the state level. Money transmission or illegal money transmission is – implicates the FinCEN regulations.

20 MR FINCH: All right. Thank you, Ms Lin.

COMMISSIONER: Yes. Thank you, Mr Young. Mr O'Brien?

25 MR O'BRIEN: No. No questions, your Honour.

COMMISSIONER: And Mr Finch.

MR FINCH: No, thank you, Commissioner.

30 COMMISSIONER: Ms Lin, thank you very much for your assistance. I'm most grateful for the assistance you have provided, and what we will do now is terminate the link. Thank you very much.

35 MS LIN: All right. Thank you. Happy to help.

<THE WITNESS WITHDREW

[12.51 pm]

40 COMMISSIONER: Thank you. Yes, Ms Sharp.

MS SHARP: The next witness is one that we will have in person, Commissioner. That's Dr John Langdale. I propose to call him after the luncheon adjournment.

45 COMMISSIONER: Yes. All right then. I will adjourn until 2 pm, thank you.

ADJOURNED

[12.52 pm]

RESUMED

[2.00 pm]

5

COMMISSIONER: Yes, Ms Sharp.

10 MS SHARP: Commissioner, the next witness is Dr John Langdale appearing in person and standing near the witness box.

15 COMMISSIONER: Dr Langdale, please just step into the witness box. I want you to stand there. Thank you very much. Now, the reason I want you to stand there is because I wanted to – thank you very much for coming to us, but I would like to know whether you would prefer to take an oath or make an affirmation?

<JOHN LANGDALE, AFFIRMED

[2.01 pm]

20

<EXAMINATION BY MS SHARP

25 COMMISSIONER: Yes, Ms Sharp. Please take a seat. Yes

MS SHARP: Thank you. Dr Langdale, can you tell the Commission your full name, please.

30 DR LANGDALE: John Vivian Langdale.

MS SHARP: And your address is known to those assisting this inquiry?

DR LANGDALE: Yes.

35 MS SHARP: You are an honorary research fellow at the Department of Security Studies and Criminology at Macquarie University.

DR LANGDALE: That's correct.

40 MS SHARP: How long have you been there?

DR LANGDALE: A long time.

45 MS SHARP: Would you care to quantify that?

DR LANGDALE: Since 1970.

MS SHARP: You have provided a CV to this inquiry.

DR LANGDALE: Yes.

5 MS SHARP: Could I call up the document, INQ.500.001.1610, which Commissioner is exhibit A252.

COMMISSIONER: Thank you for that.

10 MS SHARP: Dr Langdale, is this the CV, the curriculum vitae that you provided to the inquiry?

DR LANGDALE: That's correct.

15 MS SHARP: And I take it this accurate and correct.

DR LANGDALE: Yes.

20 MS SHARP: Now – we can put that document down. Thank you. Your tertiary qualifications are as follows: you have a Bachelor of Science from Sydney University. You have a Master of Science from Pennsylvania State University, and you have a PhD from the University of Hawaii.

DR LANGDALE: That's correct.

25

MS SHARP: It's the case that you have previously worked for the Department of Foreign Affairs and trade?

DR LANGDALE: Yes.

30

MS SHARP: What were you doing there?

35 DR LANGDALE: I did a number of studies for the government. It was actually more from the Department of Industry, and I did a series of studies for the Department of Industry in conjunction with Telstra and with the Australian Research Council that funds the universities. So I did a series of consultancy studies for the then Department of Communications as well, and the Department of Industry, Telstra, and a series of research – pure research projects with the Australian Research Council.

40

MS SHARP: Dr Langdale, could I ask that you could possibly position yourself so you can see me but also see the Commissioner.

DR LANGDALE: Yes, certainly.

45

MS SHARP: Thank you.

COMMISSIONER: Thank you very much for that.

MS SHARP: Now, one of your research interests is transnational organised crime.

5 DR LANGDALE: That's right.

MS SHARP: How did you become interested in that topic?

10 DR LANGDALE: Without going into detail, the short answer; I'm interested in the interrelationships between the legal economy – the globalisation of the legal economy and the globalisation of the illegal economy. And I have attempted to pull together those two strands in my research and in the work that I've been doing most recently, and particularly in the illicit and licit finance area. So I'm struggling, I must say, in that area because I think it's extraordinary difficult to get a handle on the
15 speed of change that's taking place even in the licit economy, let alone the illicit economy. So that when you feel like you have published something on the – at a certain period of time, no sooner do you have than it's essentially redundant.

20 The criminals in particular, but also the – in the legal economy, the speed of technological change, the introduction of telecommunications, and new information technologies. The whole globalisation of the Asia-Pacific is changing so rapidly that it's very difficult to keep up with all of this, and particularly the role of China.

25 MS SHARP: Is it correct that your interest in transnational organised crime led you to become interested in money laundering.

DR LANGDALE: That's correct.

30 MS SHARP: And you have, in the past, presented the results of your research in relation to transnational organised crime and money laundering to AUSTRAC?

35 DR LANGDALE: Yes. I gave three presentations to AUSTRAC. One on – all three were about regional hubs, financial hubs. One was on Dubai, and its role in the Middle East in money laundering. The other two were on Southern China, Hong Kong, Guangdong province and Southern China in general. All three are interrelated. My general interest is in how do regional financial hubs operate in both the legal and the illegal economy. In the case of Hong Kong, much more complicated. Because of the size of the China economy and the size of the off-shore Hong Kong market and the role of Macau and the gaming industry, it's much more
40 complicated than – well, Dubai is complicated as well, but Hong Kong is a much bigger player and much more important. And particularly for Australia.

45 MS SHARP: Now, is it right that you have also presented to the New South Wales Police Force on the topic of the impact of Chinese transnational crime in Australia.

DR LANGDALE: That's correct, yes.

MS SHARP: And that was in 2017.

DR LANGDALE: Yes.

5 MS SHARP: You have also made two submissions to this inquiry, haven't you?

DR LANGDALE: Yes.

10 MS SHARP: Can we call up document INQ.500.001.0955. This is exhibit A231.

COMMISSIONER: Yes, thank you, Ms Sharp.

MS SHARP: I'll just have this document made available. Do you recognise this as
15 the submission you made to this inquiry in December of 2019?

DR LANGDALE: That's correct.

MS SHARP: And you then made a supplementary submission in January this year.

20 DR LANGDALE: Yes.

MS SHARP: I will just show you that. INQ.500.001.0966, that is exhibit A236.

25 COMMISSIONER: Thank you.

DR LANGDALE: That's correct, yes.

MS SHARP: You will see, you confirm that that is the submission you made in
30 January of this year.

DR LANGDALE: Yes.

MS SHARP: Do you adhere to the views you set out in those reports.

35 DR LANGDALE: Yes, yes.

MS SHARP: You made the submissions off your own bat, if I can put it that way.
You weren't first contacted by anyone from the inquiry.

40 DR LANGDALE: That's right. That's correct.

MS SHARP: And you made these submissions because you considered that you had
45 information relevant to developments in transnational crime and in money laundering
that might touch upon issues in casinos.

DR LANGDALE: That's correct.

COMMISSIONER: And I presume you made them on your personal behalf and not that of the university.

DR LANGDALE: That's right.

5

MS SHARP: Dr Langdale, we have been told that casinos are one place in which money laundering can occur. Are you able to tell us some other major areas where money laundering occurs throughout the world?

10 DR LANGDALE: The primary area of money laundering – well, there are many areas but the workhorse, if you like, is trade-based money laundering. And particularly in the Chinese situation and Hong Kong trade-based money laundering would be the major area. And that's essentially mis-invoicing of exports and imports, and falsifying documents. And it's very, very large in China. The Chinese
15 government is aware of it. Hong Kong government is aware of it. But the volume of trade is such that it is extremely difficult to get a handle on that for both governments, if you like.

MS SHARP: Dr Langdale, why does money laundering matter?

20

DR LANGDALE: It matters in the sense that it's essentially facilitating transnational crime, in particular illegal drugs, trafficking. It's facilitating a whole range ranging from endangered species, illegal timber trade, illegal fishing, people smuggling, sexual – people smuggling for sexual reasons, a whole range of areas.
25 And essentially by facilitating transnational crime, at the extreme you get to the, what's called the narco-state. And Afghanistan and Colombia have descended into what are referred to in the literature as narco-states where, essentially, the rule of law breaks down, and the judiciary and the whole government is corrupted by the – or intimidated, I suppose, by the extent of the narcotics and, you know, you get to virtually
30 a totally unstable situation where the standard of living declines, and a high level of outmigration and just the basic whole economy doesn't function. It functions around the narco, whether it be cocaine in Colombia or heroin in Afghanistan.

MS SHARP: Dr Langdale, how does money laundering facilitate crime?

35

DR LANGDALE: It's basically the grease, if you like, that facilitates the criminal activity. If you are trafficking illegal drugs, you've got to be able to, you know, get that money that you're receiving. If it is trafficked into Australia, then you have to get that money and then make use of it in the criminal organisation. You may use it
40 to pay off the drug mules in Sydney, for example. But then you might need to get it back to Hong Kong or China or wherever in the whole transnational chain, and that way you need to get it internationally. And that's the difficulty for the drug traffickers, that they have to launder that money through the chain on a global basis, whether it be just from Australia back to Hong Kong or China, or whether it be back
45 to Myanmar or wherever.

MS SHARP: Are you able, on the basis of your research, to give us any indication of how big the money laundering problem is world-wide?

5 DR LANGDALE: The usual figure is something like two to five per cent of global GDP, and that comes from the International Monetary Fund, the IMF. But I have a feeling that that figure is, you know, done very quickly and I'm not sure it's based on any real research. But it's very widely used and everyone uses it but nobody really knows the true figure. It's a large figure, whatever it is.

10 MS SHARP: Can I return now to the presentation that you gave to the New South Wales Police Force back in November of 2017. You've provided this inquiry with the slides you used during that presentation.

DR LANGDALE: Yes.

15

MS SHARP: Can I show those to you please. Can I bring up INQ.500.001.1030, and that's exhibit A188. I'm showing you the first page. Do you recognise these as the slides?

20 DR LANGDALE: That's it, yes. Yes.

MS SHARP: What we see, if we look at the second slide in the top row which is headed Outline of Presentation, what you say there is that you are going to focus on transnational crime from southern China which affects Australia. You were going to
25 look at, firstly, the supply side; secondly, the facilitators; and, thirdly, the alliances. Now, I want to take you, firstly, to the slide that you prepared regarding the supply side, which is the one we see in the left-hand column in the middle row, if I could – now, what are you trying to establish here?

30 DR LANGDALE: Essentially, Southern China and particularly Guangdong – and I actually could expand it to Fujian province. I mean, those two provinces would account for a large per cent. Fujian province is to the north of Guangdong province, and is very active in particular areas of transnational crime, people smuggling in particular. And also links to Taiwan. So the Taiwanese criminal gangs are often
35 ethnically Fujianese and relate to relate to the – Fujian. But in this presentation, not trying to make it too complicated, I focused on Guangdong province. And I was trying to establish it is a hot-bed of transnational crime in China. What I didn't say, I suppose, was that there are good historical reasons for this, and also contemporary reasons.

40

The historical reasons are that the bulk of ethnic Chinese that migrated to southeast Asia came from Guangdong and Fujian provinces, historically. So that the ethnic Chinese networks that are crucially important in understanding Asian business emanate from this region in particular. I'm not saying that these people are involved
45 in trans national crime but some of them are. So that they're primarily legal but there are potentially a number of illegal activities associated with those people.

Because of its rapid growth, Pearl River Delta in particular, which is part of Guangdong province, is – when Deng Xiaoping liberalised China in the 80s, the Pearl River Delta was one of the first regions to grow rapidly and the first investors were the ethnic Chinese people that came in from either Hong Kong, Taiwan or south-east Asia. And they established off-shore factories in this region and grew extremely rapidly. So it was low wage to begin with but since that time, very, very rapidly it's shifted into hi-tech. So Huawei is head quartered there now. And it's the low wage activities have tended to go either inland China or down into Cambodia, Vietnam and Bangladesh.

10 So that this region – I put trafficking of illegal drugs – at that stage we were getting – I mean, if you remember the Commonwealth Bank money laundering incident, a number of the intelligent ATMs, the money was being laundered back to Hong Kong and presumably then China. But at that stage a lot of the methamphetamines up to about 2015, 2016 were still coming from Guangdong. Since that time, and we might get on to this a bit later, the United Nations Office of Drugs and Crime, UNODC, has indicated that the methamphetamines, the Chinese government has had a crackdown on methamphetamine production in Guangdong province and there has been a displacement effect so that the meth production has shifted off to Shan State in Myanmar. So pretty rapid – I think even the UNODC was surprised by the speed with which that took place.

MS SHARP: If I could pause you there for a moment. You mentioned the UNODC. That stands for the United Nations Office on Drugs and Crime.

25 DR LANGDALE: That's correct, yes.

MS SHARP: If I can show you a document. If I can call up INQ.130.001.7206. This is exhibit A94.

30 COMMISSIONER: Thank you.

MS SHARP: You mentioned that the UNODC had identified methamphetamine trafficking as an issue, this is the report you were referring to.

35 DR LANGDALE: That's correct.

MS SHARP: So this is a 2019 report.

40 DR LANGDALE: Yes.

MS SHARP: What did this say about methamphetamine trafficking?

45 DR LANGDALE: To go back to their previous one, which was legal crime or transnational crime in Asia, east Asia region and Pacific region in 2013. I think they indicated that methamphetamine was about 15 billion US dollars turnover. By 2019 they're estimating for the south-east Asian region something like between 30 and 61

5 billion, a huge variation but doubling it – at the minimum, a doubling of the size of the market in the space of six years. So extraordinary growth in the meth market where as in heroin, I think the 2019 figures are about eight and a half billion. So heroin has stabilised or declining slowly at least in the Asia-Pacific region and methamphetamines for the Asia-Pacific region is growing very, very rapidly.

10 MS SHARP: Now, Dr Langdale, methamphetamine trafficking was, of course, one of the very big issues identified in this report. But what was some of the other sorts of crime perpetrated by transnational organised crime in south-east Asia?

15 DR LANGDALE: The other big one was counterfeit goods. And China, European Union and the Americans have identified something like 70 per cent of the counterfeit goods going into those respective regions coming from China. And quite a significant percentage of that amount would be coming from Guangdong province. And the reasons are that Guangdong province is a superb logistics network, very efficient container terminals, good production, good labour skills, and they have what's called a third shift. First two shifts are legal and the third shift is the illegal shift over in the evening.

20 But in actual fact there are just pure – there are counterfeit factories that are churning out not just low end consumer goods but high end. The Pentagon has actually done a study and found that quite a significant percentage of its defence procurement is counterfeits, coming from Shenzhen. So the Pentagon was quite shocked about this. But right through the industrial equipment, aircraft manufacture, parts are coming from basically counterfeits.

25 MS SHARP: What about counterfeit medicines?

30 DR LANGDALE: And counterfeit medicines. Particularly in developing countries, there are whole logistics change going into Africa, fake malarial drugs going into Indonesia which are either placebos, they don't do anything or they're actually bad for the person. It's a massive health problem for Africa, poorer countries of Africa and in south-east Asia.

35 MS SHARP: Did the UNODC report have anything to say about human trafficking?

40 DR LANGDALE: Yes, the two types, the human trafficking, as I mentioned probably historically is coming out of Fujian province. And in fact a number of the major deaths in had the UK and elsewhere, I think in the channel crossing recently, I think they came from Fujian province, I'm not entirely sure of that. But they would contribute a large number of human trafficking, the origin of the human trafficking people going into Europe, United States and, of course, the transnational criminal groups are unlike other areas of trafficking you want successful customers because you want referrals. So that the snake heads who are the organisers of the human trafficking work on referrals, positive referrals and they will get more people from the region. That's why you get particular parts of Fujian province that are very

heavily – will send children, young people over for the family and they will remit money back to the province.

5 MS SHARP: Now this UNODC report, did it also identify some trends with wildlife smuggling and timber smuggling?

10 DR LANGDALE: Yes, the wildlife is a major problem in the sense that you are getting pangolins, elephant tusks, rhinoceros, from very poor countries in Africa. They use, to extent – excellent report by the Environmental Investigation Agency – at great risk to their own lives got in and posed as traffickers, both in Africa and right through the logistics chain. And the strength of the environmental investigation report, I think it's Shuidong Global Trafficking Hub 2017, it's well worthwhile reading because they get into the role of underground banks. Most of the reports and particularly the UNODC are not very good on the logistics chains of both the getting 15 the illegal activity to market and then the money laundering back to wherever the trafficking organisation wants. And this environmental investigation agency actually looked at the role of Chinese underground banks in getting the money back to wherever they wanted the money in the chain. And I must say that as a result of that report, the Chinese government was forced to act and arrest the principals of the 20 syndicate. Normally they don't.

MS SHARP: Dr Langdale, this environmental organisation of which you speak, which jurisdiction does this come from?

25 DR LANGDALE: UK.

30 MS SHARP: We will come back to discuss underground banking in a little while. But in the meantime can I take you back to the slide presentation that you gave to the New South Wales Police Force. If we can bring up the whole of that document, and in fact if we could focus again on the middle slide on the left-hand side there's a dot point supply side, one of them is associated money laundering flows back to China and Hong Kong. Now, what do you mean by that in the context of this supply side analysis.

35 DR LANGDALE: Well, in the case of, well if it were to Australia then you would be wanting to launder the money back to either China or Hong Kong off-shore money markets so that you can make use of the money in international markets, deploy the money wherever you want to move it. So the idea is that you've got a series of shell companies, Hong Kong has very liberal shell company registration and 40 a lot of transnational criminals make use of those shell companies to launder their money and ship it into off-shore money markets.

45 MS SHARP: If I can stop you there, what is so attractive to money launderings about shell companies from Hong Kong as opposed anywhere?

DR LANGDALE: Anonymity.

MS SHARP: So that is that you can't track the people who have an interest in the company.

5 DR LANGDALE: That's right, very heavily used by North Korean sanction evaders. The UN security council do an annual report on sanctions, a very detailed report I might say on sanction of Asia. And Hong Kong I'm afraid gets quite a regular appearance in the UN Security Council commission of experts on sanction of Asia and again it comes back to the shell companies in Hong Kong and their shipping, their registration of shipping companies in particular but a variety of other
10 companies as well are registered, export impart agencies. The north Koreans are excellent in having front companies put up and they are able to get away with that through Hong Kong.

15 MS SHARP: Could I just clarify with you, Dr Langdale, what are shell companies?

DR LANGDALE: Basically a \$2 company. To give you an example, a number of years ago there were a tax on swift, well central banks, Bangladesh bank was the most notorious. But there was one in Ecuador and they got off with 15, 20 million dollars from the Ecuador Central Bank using the swift interbank transfer system.
20 The money was tracked back through Wells Fargo, I think it was, back to a shelf company in a grubby industrial district in Hong Kong. And when the investigators got there, they found there was like a night watchman there and virtually nobody there. So it was basically a \$2 company that means nothing. They were long gone by the time the investigators got to the address.

25 MS SHARP: So it's – another way of describing a shell company is as a front company.

30 DR LANGDALE: That's right, that's all.

MS SHARP: Now could I take you back to the slides, if we can have the whole page shown again. If you have a look at the second row on the right-hand side, that slide, if we can highlight that. You say:

35 *Transnational crime needs facilitators.*

And just to remind you your presentation was firstly the supply side, secondly the facilitators and thirdly the alliances. So we are going to the facilitators and you identify them as the bankers, the accountants and the lawyers. And you say that
40 Hong Kong is a key hub for these facilitators. Why Hong Kong?

DR LANGDALE: It has the greatest concentration of facilitators. People associated with the banking industry, I think financial services would be a better description, who have a long history of enabling flows of money both list it and
45 illicit. Hong Kong has had a long history, again to give you a brief history – I mean Hong Kong initially functioned as an off-shore centre for the south-east Asian ethnic Chinese. And because of the hostility to ethnic Chinese in a number of Malay based

south-east Asian countries, they wanted to stash their money, their wealth in a safe haven and Hong Kong was basically the safe haven. So Hong Kong early establishment was for facilitating offshore safe havens.

5 When China liberalised and opened it up, clearly China was going to be the dominant partner and once you have the liberalisation of China and both foreign investment going into China and foreign investment coming out, even though the capital account was, and is restricted, you have huge – well illicit capital flows going into and out of China. One example would be round tripping. Hong Kong is not the only centre in
10 the world doing round tripping. Dubai does it for India and other places.

MS SHARP: If I could just stop you there, what is round tripping?

15 DR LANGDALE: Essentially, it's pretending to be foreign investment. So money comes out of China, goes through Hong Kong and a financial intermediary. It goes off to the British Virgin Islands, for example, or it could be the Caymans. It comes back to Hong Kong, and then goes back into China as foreign investment. And the most recent figures I've seen indicate that the British Virgin Islands are the second largest foreign investors in China. So BVI accounts are very, very important in
20 China, and came out during the Panama Papers. You know, the whistleblower leak of Mossack Fonseca indicated that a significant number of wealthy Chinese and politically connected Chinese had BVI accounts and were engaged in offshore money transaction, quite illegal and certainly against Communist Party rules.

25 MS SHARP: Now, just returning to the proposition that Hong Kong is a key hub for these facilitators, you've already mentioned the role of shell companies in Hong Kong. What about the secrecy associated with the banking industry over there?

30 DR LANGDALE: It rates as – transparency – Tax Justice Network puts out an annual report on – a secrecy report. I think the most recent one indicates that Hong Kong is rated between the second and the fourth most secret location in the world. And so it's highly secretive and is a good place to – for offshore banking, essentially.

35 MS SHARP: Now, in the context of speaking about facilitators in your slide presentation, you identify Macau as being a secondary hub. Why is that?

40 DR LANGDALE: In terms of financial transactions, Macau doesn't rate as far as Hong Kong is concerned. Obviously, Macau is the dominant gambling – gaming centre, casino centre in the region, and Xi Jinping wants Macau to diversify and become more like Hong Kong. So the Macau government has been ordered to become less reliant on the casino sector and become a much more diversified centre, financial centre, entertainment centre, more integrated resorts but certainly more diversified financial services. So the Chinese government actually wants Macau to become more diversified in its orientation.

45 MS SHARP: So that's, I suppose, an aspiration for the future to have a more diverse economy in Macau, but what about its present role as a secondary hub?

DR LANGDALE: Its present role would be facilitating major financial flows through the casinos, and I would suspect – and I think you possibly have heard already from Mr Bromberg, that the junket operators would bring money in via trade-based money laundering perhaps through offshore money markets in Hong Kong, and then get it into the casinos that way. So TBML, to use the acronym, would be the key say. So that there would have to be some sort of financial services in Macau but the primary destination would be Hong Kong.

MS SHARP: Now, can I go back to the slides - - -

COMMISSIONER: Just before you do, if I can clarify, Doctor. When you say the TBML is the way in which they do it, that is getting the money offshore into the casino.

DR LANGDALE: Well, it's getting into Hong Kong offshore markets. Once you've got it into the offshore markets it's out of China, and then you can bring it back into the casinos.

COMMISSIONER: Thank you. And the trade-based part of the TBML, what's the relevance of the TB part of that and getting it out of China and into the money market in Hong Kong?

DR LANGDALE: Because the huge flows of trade coming out – or going out of and into China make it much easier to mis-invoice the trade transactions.

COMMISSIONER: So it's an erroneous or false description of the transaction.

DR LANGDALE: That's right.

COMMISSIONER: That's all that is?

DR LANGDALE: Yes.

COMMISSIONER: I see. Thank you. Yes.

DR LANGDALE: But there are actually more diverse means. There are publications on TBML that delve into a little bit but it's not my area of expertise.

COMMISSIONER: Thank you. Yes, Ms Sharp.

MS SHARP: Just going back to this slide presentation; if I can take you to the next slide on this page, which is the third row on the left-hand side. Here, you refer to alliances between Chinese and global criminal gangs, and the impact of transnational criminal activity in Australia. Now, what are you getting at here?

DR LANGDALE: Essentially the – to back off a little bit from your question, I don't like the term "triad". I mean, I prefer Chinese criminal groups or gangs

because criminal groups have – are very adept at forming flexible alliances with different other groups, whether Latin American, European or any other group that is suitable. So that they're essentially entrepreneurial and very flexible and very fast and very efficient. The best study on them is a bit dated but it's by Ning-Ning
5 Mahlmann from the FBI. It was done in 2015. I think I refer to it in one of my presentations. But that outlines the key flexibility, use of the Chinese diaspora, ability to react to technological changes, and they're probably the best – Nigerians would be flexible, Nigerian criminal gangs would be flexible but nobody – I would say the Chinese would be the most efficient that I've seen globally – in global
10 operations, and the ability to adapt to the different regions.

So that slide picks up the fact that they operate into Europe. They have got major operations – I refer to a money laundering case involving the Bank of China in the Prado region, the very region that's having the coronavirus at the moment – outbreak
15 – because it's got a large Chinese community there. There was another one, the Industrial and Commercial Bank of China which is probably the world's second largest bank by capitalisation in Spain. And that's still ongoing, that criminal case. And both involving Chinese criminal gangs, but not solely. They were working – in the case of the – the Italian case they worked with the camorra getting counterfeit
20 goods in through Naples, and they work with other Italian mafia gangs in other regions of China.

And in the case of the ICBC in Spain, they work with all – all criminal gangs in Europe were using them as a money laundering centre. So they were a hub for
25 European money laundering for illegal drugs, essentially.

MS SHARP: Dr Langdale, can I show you another document now. If we can bring up INQ.130.001.1417, which is exhibit A90. Now, what you will see before you is a report by Dr Peter German, QC, from Canada, called Dirty Money and dated March
30 2018. Are you familiar with this report?

DR LANGDALE: Yes. Yes, I am.

MS SHARP: Indeed, you liaised with Dr German when he prepared this report.
35

DR LANGDALE: Yes, that's right.

MS SHARP: I want to take you to a particular proposition in the report. It's at page 33 which is pinpoint 1452. And just to put this in context, this is a report that Dr
40 Peter German prepared for the Attorney-General of British Columbia, isn't it?

DR LANGDALE: That's right.

MS SHARP: And by way of broad overview, it's about money laundering in British
45 Columbia in Canada.

DR LANGDALE: In casinos.

MS SHARP: In casinos in Canada.

DR LANGDALE: Part 2 of the report was broadening it out to horseracing,
property, luxury cars. There was a fourth element, but I can't remember the other
5 one.

MS SHARP: Could we enlarge paragraph 97 on this page, please. Dr Langdale,
what you will see here is a proposition that:

10 *Chinese organised crime groups function like multi-national corporations,
using the transport and business networks of southern China, Hong Kong and
Macau to trade commodities such as methamphetamines, precursor chemicals,
counterfeit goods and illegal migrants for cash or commodities.*

15 Is that a proposition with which you agree?

DR LANGDALE: Yes, I think the illegal migrants are often done by specialist
outfits out of Fujian. So they want – as I mentioned earlier, they want repeat
business. They have got a specialised network of intermediaries right through
20 Europe – well, Central Asia and Europe, getting the migrants there. Generally, other
criminal groups might work on illegal migrants but I think – my understanding is that
there is a specialised area of criminal activity which specialises in illegal migrants.

MS SHARP: I just want to pick up on one aspect of the proposition I've just put to
25 you which refers to the transport and business networks of southern China. Now, are
you able to tell us quickly what the belt and braces initiative is.

COMMISSIONER: Do you mean the Belt and Road?

30 MS SHARP: It's getting late. The Belt and Road Initiative in China.

DR LANGDALE: It's something like a trillion dollars. I'm not sure per annum, but
certainly it's a massive amount of money. I refer to it as the BRI. It's essentially
transport, logistics networks, road, rail, sea transport and communication networks
35 which China will give concessional loans to countries around the world. So if you
sign up to the BRI program, you can – it facilitates your trade with China and,
unfortunately, it also loads you up with a lot of debt. And a number of the BRI
projects are not very commercially sound, but that's another story. But essentially,
particularly in Southeast Asia where I'm very interested in, Myanmar, Laos,
40 Cambodia, Vietnam and the Philippines as well have all signed up for BRI projects.

MS SHARP: What implications, if any, has the BRI had for Chinese transnational
crime?

45 DR LANGDALE: There was a good part and a bad part. The good part is that the
trade has increased for Myanmar and for Laos and for Cambodia so that there are
more tourists going into Cambodia than ever before. Foreign investment has

expanded into Cambodia. So that's the good part. The trade and tourism flows have expanded. The bad part is that it's also locked them into – well, high levels of debt, as I mentioned, but it has also locked them into Chinese criminals that are following a number of the trade transactions. So that those countries have relatively weak
5 governance structures and they haven't been enhanced by BRI projects that have facilitated more trade and flows back into – back with China.

MS SHARP: Moving to a slightly different topic now, it's correct, isn't it, that the Chinese government tightly controls the movement of currency beyond the borders
10 of mainland China.

DR LANGDALE: That's right. And it's become even tighter in the last few years. China is very worried about speculation on its capital account and – because it was haemorrhaging over a number of years, and the capital outflows got to be to the
15 extent that they were running down China's huge foreign investment – sorry, foreign currency reserves. So Xi Jinping has really cracked down on the leakage of Chinese capital flight out of the country. And particularly tightened on – down on underground banks. There have been a number of prominent arrests of people involved with underground banks. But generally it's just made it tighter to get
20 money out of China. And – for the very good reason that they want to keep control of their currency, and they don't want Chinese to speculate on the currency, and they don't want foreigners to speculate on the currency.

MS SHARP: Do the tightening of these restrictions have any implications for
25 organised crime?

DR LANGDALE: Yes. If I can just turn to capital flight, capital flight is a huge topic in China, and it's a major area of worry for the Chinese government. At one level it's perfectly legal. It could be just currency speculation. So if I want to
30 speculate against the Aussie dollar, I can speculate against it. I might come unstuck but anyway I can have a go. China is very worried about Chinese investors speculating and betting on the Chinese RMB, renminbi. It's going to depreciate in the future. So the Chinese are great gamblers, as we have seen, and they don't want to allow that to occur. The other point is perfectly legal in Australia, I might want to diversify my investment portfolio and get my money offshore into offshore
35 investments. So the Chinese want to do the same thing. They've got a lot of money. China is one of the most rapidly growing wealth – high net worth individuals in the world. It's going to get bigger in the future. So wealth in China is larger. Those people want to make a return on their money and they want to be able to get it into
40 offshore markets rather than be constrained to Chinese investments. But at the other end you have got quite illegal and corrupt activity taking place. Corrupt Chinese government officials want to get their money offshore because they see the net closing in on them or it could be a drug trafficker wanting to get the money offshore and needs to get that capital flight out of China. But really, capital flight is an
45 omnibus term that encompasses quite legal in Australian terms but illegal in Chinese currency terms through to straight out totally illegal activity, true money laundering. So you've got everything in between on those – in that spectrum, if you like.

MS SHARP: Now, it is the tightening of currency controls, what gives the opening to organised crime to flourish in terms of getting currency out of China?

5 DR LANGDALE: It would have been there before but certainly the tightening,
what happens is that the underground banks still operate, it's just that their
commissions are higher. So as the restrictions rise, the commissions that they charge
are higher and higher. There was a celebrated case, I think it was last year, where a
10 senior official in the Guangdong Communist Party offered undergrounds banks, any
underground bank, 50 per cent of his millions and millions of dollars, I can't
remember, 50 million or something like that, half of it to get the money offshore.
And not one would touch him because of the fear that this would bring down the
wrath of the Communist Party. So at that stage a huge percentage of – sum of money
and that person couldn't get the money offshore.

15 MS SHARP: Can I come to underground banking directly now. You have
mentioned it a few times. What is it?

DR LANGDALE: It's essentially historical and in some ways it's similar to the, I
don't know if it's come up, the Hawala.

20

MS SHARP: I was going to have you explain Hawalas.

DR LANGDALE: Hawalas originated in two regions of the world historically, one
in south Asia, India, Pakistan and the other in east Asia, China. In China it's often
25 referred to as flying money. It's perfectly legal and it's used to transfer money
outside the formal banking system. It's particularly important in developing
countries where let's say you're dealing with a worker in the Middle East who comes
from the Philippines and wants to transfer money back to a rural village in the
Philippines and only has a small amount of money for transfer. Hawalas does it
30 cheaply reliably and it will get the money back to his village, Western Union will
charge four times or more than four times the rate and won't go back to the village.
So the western financial institutions are not set up for the sorts of transactions that
Hawalas dealers do globally. And it operates right through the developing world.

35 One of the UN agencies, UNIDO, I think, has done a number of studies of Hawala
and the role in developing countries and it's a major – when Somalia was cut off
from Hawala because of the terrorism insurgency, it was very bad for the Somali
diaspora throughout the world because they couldn't get money back to their
relatives back in Somalia. So it's a very important way of surviving in developing
40 countries. Unfortunately it's used by terrorists. Al Qaeda used it in the September
11th bombing. And it's also been used extensively by money launderers in the
Afghan. There's a report done by one of the UN agencies on the Hawala dealers of
Kabul, and basically that would be the heroin trafficking.

45 MS SHARP: Dr Langdale, can I just concentrate for a moment on the mechanisms
that Hawala or other underground banks use to move money between countries. Is it

right that there's actually no physical movement of the money across countries?
How does it work?

5 DR LANGDALE: They net out the money just like a typical bank or financial
institution. They net the transactions from Hawala dealer to Hawala dealer. So for
every transaction there's not necessarily a flow from say the United Arab Emirates to
Philippines. They will do a netting out and settling up of the transactions at the end
of the month and there could be a variety of ways in which that is settled up. But it's
10 based on trust and it seems to work very effectively. Very few cases of dispute
amongst the Hawala dealers, and it greases the wheels of international – the
developing world, the poorer developing world I might say.

MS SHARP: Just let me contrast Hawala, say if I go and deposit some money with
15 Western Union, an international currency transmitter. Now, will Western Union go
and actually physically do a transfer of my money to an overseas country whereas
Hawala will net off without any - - -

DR LANGDALE: I think normal the banks will do a netting out anyway. Normally
20 the foreign exchange market they will net out the transaction so that the banks settle
up on a daily basis in Sydney and elsewhere, and I don't think they net out, you
know, the flows out and flows in. So there's not a settling up, unless it's a very large
transaction.

25 COMMISSIONER: So these are informal arrangements made with the Hawala
dealer who are unregistered, unregulated; is that right?

DR LANGDALE: In many countries they are unregistered and unregulated. In
Australia they are regulated by AUSTRAC and I think in most western countries
they are regulated. They are supposed to be regulated in China but I suspect quite a
30 few of them aren't and fly under the radar of the Chinese government.

COMMISSIONER: So they can be individuals or corporates?

35 DR LANGDALE: Sorry?

COMMISSIONER: They can be individuals or corporates.

DR LANGDALE: I don't think they're corporates.

40 COMMISSIONER: All right. So they're individuals only.

DR LANGDALE: And they might have family members in other countries. So that
they, the web of it's a diaspora working within – so you will go to a Chinese Hawala
dealer or an underground bank. If you are a Pakistani, you might go to a Pakistani,
45 so the trust is higher within the ethnic group.

COMMISSIONER: And you equate the word Hawala with underground bank.

DR LANGDALE: Yes, I think there are some differences but I think there's a difference between the south Asian and east Asian, the flying money, Chinese money. I think within the Chinese version I do equate that but I suspect I'm wrong in the sense that there probably are some variations but I'm not quite - - -

5

COMMISSIONER: But if they are regulated in Australia and have obligations to AUSTRAC, then they're not really underground, I suppose.

DR LANGDALE: That's true but I think AUSTRAC has difficulty, I haven't talked to them about that, I suspect they would have difficulty in tracking all of the Hawala dealers.

10

COMMISSIONER: Of course, yes. Thank you, doctor. Yes, Ms Sharp.

MS SHARP: Could I show you a document, please, Dr Langdale. If we can call up INQ.130.003.1041. Commissioner, this is exhibit C3.

15

COMMISSIONER: Thank you.

MS SHARP: You will see this is a publication, trends and issues by the Australian institute the criminology called underground banking, is this a document that you provided to this inquiry?

20

DR LANGDALE: No, that's something that you've - are - I know of it.

25

MS SHARP: We found it all by ourselves.

DR LANGDALE: Yes.

MS SHARP: You are familiar with this document?

30

DR LANGDALE: I have looked at it in the past, 2005 I'm not sure.

COMMISSIONER: A little old.

35

DR LANGDALE: I'm not sure I can remember it.

MS SHARP: Yes. Despite the age, could I take you to pinpoint 1042, which is the second page of the document and if I could highlight figure 1 and enlarge that, the Hawala process. What I would ask you to do, Dr Langdale is just have a look at this diagram and tell us whether, despite the age of this document it still accurately describes how money is transferred using a Hawala process.

40

DR LANGDALE: Yes, that's correct. There's another one that I might just refer you to, is even older than this, this is 1994 by the Drugs Enforcement Agency of the United States, which is solely on Chinese underground banking in the south-east Asian region. And it's actually quite good because they have physical examples,

45

photographs of the actual docket that the Hawala dealers have used in illegal drug transactions. And facilitating out of the golden triangle, at that stage it was the golden triangle, heroin in Thailand. So the USDEA report is still a land mark one for underground banking.

5

MS SHARP: Does underground banking, the Hawala process being one example of it, provide opportunities for laundering money?

10 DR LANGDALE: Definitely. This DEA report of 1994 would be that – it definitely changes in the – since the 1994 in the way in which the underground banking system works. But effectively it's still an interesting historical document, if you like and interesting in the sense that it sets the dimensions of the current underground banking network in China and how it's used in illegal drug transactions.

15 MS SHARP: And sorry, that's a 1994 report.

DR LANGDALE: 1994, I can send you – US Drugs – DEA, Drugs Enforcement Administration, it's on the net. You can download it.

20 MS SHARP: If you could provide us with a copy of that document, I would be grateful. This discussion brings is to the Vancouver model. That is a term that you point, isn't it.

DR LANGDALE: That's correct.

25

MS SHARP: What is the Vancouver model.

30 DR LANGDALE: Essentially the use by the Chinese underground bankers and – to facilitate transactions across the Pacific using Vancouver as a hub. So one avenue is that illegal drugs precursor chemicals come from southern China. They don't confine themselves to Chinese criminal gangs. They provide that service to Latin American cocaine gangs. So Vancouver was basically the sale point for some of the cocaine coming up from Latin America and for the precursor and fentanyl – synthetic opioids coming in from China. They're not so big on methamphetamines, the synthetic opioids are much bigger in North America, both the US and Canada. So
35 the illegal drugs were then being laundered into the Vancouver casinos.

MS SHARP: The drugs or the money from - - -

40 DR LANGDALE: Sorry, the money. And as you probably aware, the bags of cash were being carted up to casino cages. And the – David Ebie, the Attorney-General sort of showed a video from last EMP, I think it was, of people just walking up an Aldi bag full to the brim of Canadian large currency notes and getting – cashing in and then walking away without actually undertaking cashing out, without doing
45 many casino transactions. So it was – that was the one part. So illegal drugs coming in from wherever and being laundered into the casino. Part one of Peter German's report was basically the casino.

The other aspect to the Vancouver model was the capital flight that I mentioned from wealthy Chinese wanting to get their money offshore. They either wanted to gamble and/or wanted to invest in Canadian property, high end Canadian property. That has been a very controversial issue in British Columbia and still is because I think the BC
5 government has imposed a 15 per cent foreigner tax on housing in BC to discourage foreigners from investing because many of the houses aren't actually being occupied. So that – and Peter then pointed out that in fact the underground bank would often net out so it was getting a commission on the illegal drugs coming into Vancouver and it was getting a commission on the wealthy Chinese wanting to get into – either
10 become Canadian residents or invest in housing or wanting to be a high roller gambler in the Canadian casinos.

MS SHARP: Dr Langdale, when you are referring to the “it” getting commissions, are you referring to junkets?
15

DR LANGDALE: Yes, no, no, the underground banks.

MS SHARP: The underground banks.

20 DR LANGDALE: Yes, yes.

MS SHARP: Now, you discussed the Vancouver model with Dr Peter German in the course of him preparing his report on Dirty Money.

25 DR LANGDALE: Yes.

MS SHARP: Can I just show you an extract from his report. If we can call up INQ.130.001.1417. Again this is exhibit A90. I want to go to page 38 of this report, which is pinpoint 1457. You will see there's a heading The Vancouver Model.
30

DR LANGDALE: Yes.

MS SHARP: And you will see right at the top there of paragraph 125, it is attributed to you; perhaps we could highlight that. And what Peter German has said,
35 explaining your concept, is that:

In simple terms, it describes how organised crime adopted an old business strategy by clipping the ticket both ways, meaning that it would double its share of the profits by providing services at both ends of the same transaction.
40

Now, do you agree with that summary?

DR LANGDALE: Yes, yes, it's – that's right. Essentially, the – and Peter points out later on that they're often netting out the transaction. So they're gaining the
45 commission but they're actually not transferring the money. So from the point of view of the illegal drug trafficker, he or she has got the money into Canadian – clean

Canadian dollars and from the point of view of the high roller or the property investor, they've got their access to the money.

5 MS SHARP: I just want to break this down a bit to make sure I understand. On the one hand, in mainland China you have a VIP patron who wishes to take a lot of money out of China with which to gamble; correct?

DR LANGDALE: Yes.

10 MS SHARP: But there is a problem being the currency restrictions in China; correct?

DR LANGDALE: Yes.

15 MS SHARP: And it would be beneficial to that VIP patron if money were made available to him or her in the casino in Vancouver. On the other side, you have a drug trafficker who has sold a lot of drugs in Vancouver and has a whole lot of dirty money, right. Now that dirty money can be cleaned up if it's put through the casino.

20 DR LANGDALE: That's right.

MS SHARP: And a way it can be put through the casino is if it's made available to this Chinese VIP player - - -

25 DR LANGDALE: That's right.

MS SHARP: - - - to gamble with in China.

DR LANGDALE: That's right.

30 MS SHARP: So you're clipping the ticket at both ends because you're, as the underground banker, providing a money moving service - - -

DR LANGDALE: Yes.

35 MS SHARP: - - - to the VIP gambler; correct?

DR LANGDALE: Yes, yes.

40 MS SHARP: And on the other hand, you are laundering the process of a drug transaction in Vancouver.

45 DR LANGDALE: Just to fill it out, the Chinese high roller transfers yuan to the underground banker's account in China. So that then – that equivalent in Canadian dollars in this case is made available to the person in Vancouver when they arrive. So the Chinese high roller actually just puts the yuan in the underground banker's account in China. So that money stays there. And the underground banker makes

available to the person in Vancouver the amount that – the equivalent in Canadian dollars.

5 COMMISSIONER: Are you saying that the equivalent is from the drug trafficker?

DR LANGDALE: Yes.

10 COMMISSIONER: I see. So are you suggesting that the underground banker is acquiescing in that or has no knowledge of it, or what's the situation?

DR LANGDALE: Definitely acquiescing.

COMMISSIONER: I see. All right.

15 MS SHARP: And it may well be that the VIP player from China has no idea where the money has come from that's made available to him or her in Canada.

20 DR LANGDALE: They just want the money, and they want to gamble or they want to invest in – Vancouver is – capital flight in China is very geographically focused on particular countries and cities. Vancouver would be high on the agenda. Toronto is high. San Francisco, London, Singapore, Sydney, you know, those sort of cities. They want safe governments; governments that are not going to expropriate.

25 COMMISSIONER: Yes. Thank you.

DR LANGDALE: Yes. And they see property as a safe investment for them, given the uncertainties in China.

30 COMMISSIONER: Yes, I understand.

35 MS SHARP: Now, I want to take you back to your slide presentation to the New South Wales Police Force. If we can go back to INQ.500.001.1030 and if we could now – that's exhibit A188. If we can now go to pinpoint 1035 and if we can highlight the middle box on the left-hand column, which is case study 4, the Vancouver model. And what you're doing in this slide, Dr Langdale, is summarising the Vancouver model as you've just described it to us; right?

40 DR LANGDALE: Yes. It's probably – in my submission I say that given that the BC government has tightened regulations on the casinos since this furore – political furore, it's likely that the Vancouver model in its original formulation is redundant.

COMMISSIONER: I see.

45 DR LANGDALE: So I have no belief that as it was put forward in 2017 it's valid today. And in fact I speculate in my submission that the Oregon case study last year that the Department of Justice put against – the three Chinese involved have fled to China. So they won't be prosecuted.

COMMISSIONER: No.

DR LANGDALE: That was a variation of the Vancouver model. The difference was that casinos weren't used. They used illegal drugs sales in the United States. So
5 that part, the illegal drugs side, that gave them a cache of money, US dollars. They then used that – transferred that US dollars into Chinese or Hong Kong bank accounts and then purchased counterfeit goods in China with that money, and then sent the counterfeit goods off to, in this case, it was Mexico. So they were Latin American cocaine proceeds from Latin American cocaine gangs. The money then –
10 the problem for the Latin American cocaine gang was they had a surfeit of US dollars that they couldn't get into Mexico because the Mexican banks have AML restrictions.

MS SHARP: That's anti-money laundering.
15

DR LANGDALE: Yes. So that that they had to get the money offshore to China, buy the counterfeit goods, export them to Mexico, sell the counterfeit goods and realise that in pesos. And that's been replicated in Colombia as well, the same routine, and possibly in Peru as well. So that, Latin – it's a variation on the Black
20 Market Peso Exchange, the BMPE. So the BMPE has been adapted by the Asian criminal gangs, so it's covering illegal drugs. It's covering capital flight. It's covering counterfeit goods; all of the three areas that are growth areas for Chinese criminal gangs.

COMMISSIONER: So the process of using a casino compared to the innovative ways of the criminals seems rather crude.
25

DR LANGDALE: I think so. I think the casinos have a limited shelf life in that sense because the – the Latin American cocaine gangs, I haven't been able to get
30 hold of the actual sums of money but they're huge. We know that the Latin American cocaine gangs, the BMPE, Black Market Peso Exchange, is a massive financial transfer which has been going on for many years, laundering money from cocaine sales. And we know it's very large. The casinos could never handle the volume of transactions that were going through that. So you have to have other more
35 innovative ways, and counterfeit goods is a good way of moving the counterfeit goods, and the Chinese are very good at counterfeit goods.

COMMISSIONER: I suppose when I said rather crude, comparatively, of course, I haven't interposed or overlaid the new cryptocurrency world over that which is a
40 different thing altogether.

DR LANGDALE: The difficulty with cryptocurrencies is the volume is still very low, so that they are being used by – in selected criminal gangs. But one of my
45 contacts in the AFP indicates that Australian criminals are not using cryptocurrencies. They're much more traditional. Maybe in five years time they will be more used. So I'm not saying that they're not used. They are - - -

COMMISSIONER: Yes.

DR LANGDALE: - - - but not to the extent that you might expect.

5 COMMISSIONER: Yes, thank you, Doctor.

MS SHARP: Just returning to your slide presentation again, if we can now go to pinpoint 1036. And I just want to go to the very final slide marked Conclusions:

10 *Possible scenario: Sydney as a regional hub for Chinese transnational crime (the Vancouver model)*

And can you just explain what you were seeking to illustrate here?

15 DR LANGDALE: The Vancouver model, and reading Peter's two reports – Peter German's two reports indicates how complex the law enforcement situation and regulatory situation is in BC, and fortunately we don't have that complexity that the British Columbian government has or Canadian government. But there are elements of similarity. Certainly on the capital flight side, we would be equivalent in a sense
20 to Vancouver in the sense of being a desirable – we're not top of the pops as far as the Chinese are concerned but we would be up in the top five as far as a destination for capital flight.

25 As far as illegal drugs, we know that Australia – certainly in methamphetamines, the wastewater analyses that have been done by law enforcement agencies in Australia indicate that Australian usage of methamphetamines is very high. We are a significant illegal drug consumer from Asia, whether it be heroin or particularly methamphetamines, and we know from the Commonwealth Bank fiasco that our banks have been used for – the ATMs in Commonwealth Banks, the case for
30 laundering drug money. Drug mules were heading to various ATMs. They're not doing it now, presumably, but they were for a while.

35 MS SHARP: And are you suggesting in this slide that just as the casinos in British Columbia were being used to launder money so as to give effect to the Vancouver model, so it is that they may be being used in Sydney to give effect to the Vancouver model and launder money.

40 DR LANGDALE: It was more of a scenario. I wouldn't set myself up as an expert on money laundering into the Sydney casinos. That's not an area that I've really looked at so I'm sure there will be people coming before you that know a lot more than I do. I'm really setting up a scenario that we have similarities in terms of capital flight, illegal drugs that is similar to the Vancouver situation but whether or not they're actually doing that in terms of laundering money into the Sydney property market. There's a lot of speculation about the Sydney property market but a lot of
45 heat and not much good research. The Reserve Bank did a study a few years ago of the property market and it seemed to indicate that that it wasn't as big was what the historical press were indicating.

MS SHARP: Just while we are speaking about British Columbia, is it right that a royal commission has started there into money laundering?

5 DR LANGDALE: Yes, the Cullen Royal Commission. I've had some discussions with them, preliminary discussions. And they're – I think they've started, they have certainly started the hearings but this week, they're into more meaty areas, and so I think they're quite busy just at the moment.

10 MS SHARP: Do you happen to know whether they will be looking at casinos?

DR LANGDALE: I don't know. I think they are, but – I think it's a fairly comprehensive examination. They certainly were interested in talking to me about the Vancouver model and – but I just don't – I – we have had just one hook up telephone hook-up but they said they will get back to me, but exactly when, I don't know.

MS SHARP: Just one last topic I would like to explore with you is casinos in Cyprus.

20 DR LANGDALE: Yes.

MS SHARP: You have indicated that your area of expertise is not casinos but you do know about money laundering.

25 DR LANGDALE: Yes.

MS SHARP: Is it right that there's recently been a report on money laundering in Cyprus?

30 DR LANGDALE: Well, the European Commission has an outfit called Moneyval and they look at concerns in the European Union over money laundering issues. I might say, as a way of background, the Europeans have not covered themselves in glory in money laundering. The Pole Russian criminal gangs money laundering through Dankse Bank and a number of other Scandinavian banks have – were, you know, shocking and probably could bring a number of those – and I might say Deutsche Bank as well has been implicated. So Russian criminal gangs have been using European banks quite extensively, particularly northern European banks. They are also using Cyprus.

40 Cyprus has a rather undistinguished history of money laundering. In five years ago or so, the US put FBME, Cyprus, it's actually headquartered in Tanzania, would you believe. But it was actually a bank that was mainly functioning out of Lebanon. And Americans put it out of business – you know, cut it off from US currency under section 311 of the Patriot Act for laundering money for Hezbollah. FBME deny this but basically they haven't got back into business. But primarily Cyprus is functioning as a round tripping place for Russians as well as money laundering for Russian criminal gangs. So Cyprus has very strong tourism linkages. When Cyprus

got into trouble a few years ago, the Russians bailed them out when the Europeans wouldn't bail them out. They were bankrupt essentially and the Russian Central Bank bailed them out.

5 MS SHARP: Just to stop you there for a moment, is it right that a casino has comparatively recently been legalised in Cyprus?

10 DR LANGDALE: That's right, I gather Melco is in the process, I think it started a small casino and is in the process of expanding it. Integrated Resort diversified. It's possibly pitched at the – well, I would imagine, the Russians in particular, Russian gamblers, I know Melco was operating in Vladivostok for a while.

15 MS SHARP: Going back to that report by the council of Europe on money laundering in Cyprus, have you read that report?

20 DR LANGDALE: What I read was a summary of the Moneyval's recommendations. And Moneyval was concerned that Cyprus government hadn't really come to grips with the money laundering issues associated with a major casino. So it wasn't so much, from what I could gather, a full report as much as a preliminary report that was looking at the potential, the need for Cyprus government to lift its game, essentially, if it was going to get into this - - -

COMMISSIONER: Casino.

25 DR LANGDALE: This major casino.

30 MS SHARP: Could I just take you to that report for a moment. If I can bring up INQ.130.003.0302. Now, this December 2019 report, is this the one you were referring to.

DR LANGDALE: Yes. Yes.

35 MS SHARP: Can I just take you to page 17 of that report. I'm very sorry, I don't have the pinpoint number. Next page. You will see the third dot point from the bottom, if we can highlight that. It starts "Casino". Knew now, I I'm just wondering is this one of the things you became aware of that during the onsite visit it became clear to the assessment team that the AML/CFT compliance by the casino had weaknesses.

40 DR LANGDALE: That's right.

MS SHARP: And that was something that was expressed to be a concern by the investigative group?

45 DR LANGDALE: Yes. Yes but they haven't done as far as I understand it comprehensive study of the potential risks of casino, of money laundering in the casino area. Cyprus has, as I mentioned with FBME, they have got links to

Hezbollah, they are in a pretty rough part of the world and with a high level of illicit finance, not just Russia. So it's not for the faint hearted, really. So they would need a comprehensive – a similar situation has arisen in Malta, and they have been – the Maltese government has fallen recently over corruption, money laundering and very poor supervision on the part of the EU authorities. And the same thing would apply with Cyprus. The EU has not covered itself in glory in the whole money laundering area.

10 COMMISSIONER: A lot of the institutions about which you are giving evidence are very respected institutions. Some of the banks and others that you have referred to. It does seem that a combination of, on the one hand, regulation by the state or federal governments of the various places combined with the corporate governance of those institutions is the way to handle as opposed to outlaw or to catch them, money launders. Is that right?

15 DR LANGDALE: Well, in the case of the Estonian banks, the Scandinavian banks in general, it seems that Estonia was handling massive amounts of money from Russia.

20 COMMISSIONER: That's the one that collapsed recently.

DR LANGDALE: Yes, but the European regulators were really not aware of the massive amount of Russian criminal money that was coming through. The Russian laundromat as it was referred to, something between 20 and 60 billion dollars of US – sorry, Russian currency was floating through Estonia. I think it was Estonia and Latvia and then ended up in London and some actually ended up in Hong Kong.

30 COMMISSIONER: But if you come down to the microcosm of casino in a state, with a Federal Government, and you have structures within the state and federal jurisdictions that are in place to handle money laundering and to, on one view of it, outlaw it, what I'm putting to you is, from your observations of transnational crimes and the intricacies of getting money from one country to another, if you just look at the casino in the federal and states sphere, what I'm putting to you is the combination of the regulation by the state and federal governments combined with corporate governance of the company that runs the casino is a pretty good start, isn't it?

DR LANGDALE: Yes, but the counter is that the difficulty with an outfit like AUSTRAC are huge.

40 COMMISSIONER: Tell me about that?

DR LANGDALE: Well, they're getting massive amounts of – all the banks submit their financial information through AUSTRAC. They haven't revealed exactly what sort of pattern matching.

45 COMMISSIONER: I don't think they're allowed to.

DR LANGDALE: That's right. But there are software packages and pattern matching would be substantial. So I think technically they're excellent. Where I have – where I think they struggle and I am sympathetic, is that in understanding the, whether it be a southern China or – I keep coming back to China because that's the
5 key player.

COMMISSIONER: Yes.

DR LANGDALE: Understanding the trends that are taking place is very, very hard
10 for them, and to some extent if you have full cooperation from the Chinese government it would make it easier.

COMMISSIONER: Yes, I understand.

DR LANGDALE: But China, these are sensitive issues for China.
15

COMMISSIONER: Of course.

DR LANGDALE: And ideally we have more corporation and in fact the AFP does
20 have cooperation with the Chinese Ministry of State Security, and that's one of the reasons why we have been – AFP has been successful in getting some of the large methamphetamine drug laws because of the cooperation with the Chinese law enforcement - - -

COMMISSIONER: If I could just ask you to focus on that rather smaller target and
25 what I see from what you have said is that the resourcing problem in a federal sphere may be a situation that needs to be addressed. But so far as – so far as money laundering in a casino is concerned, it is the combination of regulatory supervision or regulatory imposition of penalties or whatever it might be, from the state or Federal
30 Government, whichever is the relevant enforcer, and then the corporate governance of the casino operator.

DR LANGDALE: Yes.

COMMISSIONER: Combining with those agencies that might just be the way
35 ahead.

DR LANGDALE: Yes.

COMMISSIONER: Yes?
40

DR LANGDALE: Yes.

COMMISSIONER: And so if you don't have the capacity for there to be some
45 information sharing and some capacity for the casino to get across it by whatever structure it has, it is then that the criminals will get in to launder the money.

DR LANGDALE: But if I - - -

COMMISSIONER: Please.

5 DR LANGDALE: Move aside from the casinos to use the Commonwealth Bank or Westpac, Commonwealth Bank – in both cases, the corporate – the breakdown of communication within the corporate – within the corporation itself and the communication of that information to AUSTRAC seemed to be disastrous.

10 COMMISSIONER: That seems to have been a problem but one would have to look at it in more detail.

DR LANGDALE: Yes, and I think what they're doing, I gather, now is working on that ability to get those suspicious transaction reports reported in a timely manner
15 - - -

COMMISSIONER: Yes.

DR LANGDALE: - - - to AUSTRAC and I would assume that the casinos would be
20 in the same situation.

COMMISSIONER: Yes.

DR LANGDALE: That it would be behoven to get those suspicious transaction reports in a timely manner to the – to AUSTRAC or to any law enforcement agency is - - -
25

COMMISSIONER: Yes. Thank you for that clarification. Yes, Ms Sharp.

30 MS SHARP: I don't have any further questions.

COMMISSIONER: Mr Young?

MR YOUNG: No, Commissioner. No thank you.
35

MR O'BRIEN: No thank you.

MS HILLMAN: No questions.

40 COMMISSIONER: Dr Langdale, thank you very much for making yourself available and the assistance you have provided to the inquire both by reason of – through your written submissions and your oral evidence today. You may step down.

45 DR LANGDALE: Thank you.

COMMISSIONER: Ms Sharp.

5

MS SHARP: Commissioner, there are no more witnesses today. I have one witness tomorrow. I expect he will take the good part of the day. His name is Mr Aub Chapman.

10 COMMISSIONER: And what area is Mr Chapman going - - -

MS SHARP: He will telling us about money laundering and anti-money laundering and counterterrorism financing compliance.

15 COMMISSIONER: In casinos?

MS SHARP: Yes.

20 COMMISSIONER: Perhaps this is a convenient time for me to make a couple of observations. So this week the inquiry has had the benefit of evidence thus far and no doubt from Mr Chapman tomorrow with witnesses with expertise in the various areas relevant to the wider investigation, the subject of the terms of reference. They have given their evidence as what might reasonably be described generally for the purposes of these observations as disinterested witnesses. They're here assisting us
25 with their expertise in the areas of money laundering and junkets and various other aspects of life in a casino.

The next aspect of this segment of hearings after tomorrow, as I am assisted by those assisting me will involve evidence pertinent to the regulation and operation of
30 casinos in this jurisdiction, New South Wales and more broadly in other states of Australia, and will include witnesses from the regulatory perspective and from the companies and casino operators, the subject of the Terms of Reference, who may reasonably be described generally once again for the purposes of these observations as interested witnesses. They being witnesses who have engaged or are presently
35 engaged in either the operational side of casinos or the regulatory aspects of casinos in this jurisdiction.

These witnesses include operational or compliance officers from Crown Resorts, from Melco Resorts and Entertainment and from The Star or Echo Entertainment.
40 The assistance from those officers and other regulatory witnesses that they have already provided to the inquiry is very much appreciated. At this juncture then it is appropriate to make mention of a New South Wales Supreme Court judgment delivered on 11 February in which the court held that section 17 (1) of the Royal Commissions Act 1923 did not apply to the inquiry. The Attorney-General of New
45 South Wales contends otherwise and contends that the provision does apply to the inquiry and as a matter of fact has brought an appeal against the judgment which is to

be heard so very promptly by the New South Wales Court of Appeal next Tuesday week, 9 March.

5 Matters relevant to the next group of witnesses therefore include not only the question of whether the section that the court found did not apply, whether it applies to the inquiry and that relates to taking the privilege opposition to the production of documents or the answering of questions, but it also relates to the extent of the protections provided to witnesses in giving their evidence. That is a significant matter for the witnesses to follow in this inquiry.

10 For instance, the applicability of section 17(2) of the Royal Commissions Act to the inquiry. In the circumstances, and with due respect to the appellate process and the need for clarity in respect of those witnesses and the further processes of the inquiry and the further hearings after tomorrow, those hearings will be adjourned for a short time. It is appropriate not to anticipate anything and only to fix a nominal date after 15 the appeal is heard on the 9th with respect to the Court of Appeal and that will be done and the witnesses will be notified in due course. It probably will be a nominal date somewhere around 16 March but counsel assisting will advise the relevant witnesses and parties who are authorised to appear. And so tomorrow we will finalise this part 20 of your first round of hearings, Ms Sharp and Mr Aspinall with Mr Chapman and then there will be an adjournment for a period.

MS SHARP: Yes, Commissioner.

25 COMMISSIONER: Thank you, Ms Sharp and thank you. I will adjourn until tomorrow.

30 **MATTER ADJOURNED at 3.32 pm UNTIL THURSDAY, 27 FEBRUARY 2020**

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